City of Hamilton
HAMILTON UTILITIES CORPORATION SHAREHOLDER AGENDA

Meeting #:	23-002
Date:	June 8, 2023
Time:	11:00 a.m.
Location:	Council Chambers Hamilton City Hall 71 Main Street West

Angela McRae, Legislative Coordinator (905) 546-2424 ext. 5987

Hamilton Utilities Corporation Annual General Meeting

June 8th , 2023

Hamilton Utilities Corporation®

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Agenda

- Introduction of Board Members, Management and Guests in attendance
- Hamilton Utilities Corporation (HUC) opening remarks from Board Chair
- HUC Corporate Structure
- Alectra Inc. Management Presentation
- Resolutions

Opening Remarks From HUC Board Chair

HUC Corporate Structure

City of Hamilton (CoH)

Hamilton Utilities Corporation (HUC)
(PILS, Federal Tax Exempt)

17.31%

Alectra Inc.

Alectra Utilities

HUC's role is to manage the City of Hamilton's 17.3% principal ownership in Alectra Utilities.

HUC Board of Directors

Laurie Tugman
Chair of Board

Greg McCamus
Independent Director

Julia Kamula
Independent Director

Councillor Tammy Hwang
Mayor Surrogate

Elizabeth DiDonato
Independent Director

Christa Wessel
Independent Director
Out-going

HUC Management

Jeffrey Cowan – President and CEO

Alectra Management Presentation

HUC Resolutions

- Receipt and Approval of the HUC Audited Consolidated Financial Statements – Year Ended December 31, 2022
- Appointment & Remuneration of the Auditor of the Corporation for 2023
- Appointment of Directors of Hamilton Enterprises Holding Corporation

Alectra Resolutions

- Receipt of the Alectra Inc. Financial Statements – Year Ended December 31, 2022

Hamilton Utilities Corporation

QUESTIONS

Alectra Inc.

2022 Year In Review

June 8, 2023
Hamilton Utilities Corporation Presentation

Glossary

The following acronyms and abbreviations may be used in this document

AUC	Alectra Utilities Corporation	**ICM**	Incremental Capital Module
AES	Alectra Energy Services	**IESO**	Independent Electricity System Operator
BPC	BPC Energy Corporation (prev. Borealis)	**IRM**	Incentive Rate-Setting Mechanism (distribution rates setting mechanism)
CapEx	Capital Expenditures	**LDC**	Local Distribution Company
CDM	Conservation Demand Management	**LU**	Large User (Customers)
CP	Commerical Paper	**MAADs**	Mergers, Acquisitions, Amalgamation and Divestitures (application)
DER	Distributed Energy Resource	**MIFRS**	Modified International Financial Reporting Standards
EDR	Electricity Distribution Rate	**MUSH**	Municipal (Government), University, School, Hospital (sector)
ESM	Earnings Sharing Mechanism	**OEB**	Ontario Energy Board
FIT	Feed-in Tariff	**OM&A**	Operating, Maintenance and Administrative expenses
FTE	Full Time Equivalent	**RFSP**	Ring-Fenced Solar Projects (previously PS solar generation business)
GS	General Service (Customers)	**USL**	Unmetered Scattered Load

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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 June 8, 2023 unless otherwise stated.

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Agenda

2022 Year in Review – Alectra Inc. (Video Conference)

1	Opening Remarks	Norm Loberg, Chair of Alectra Inc.	5
2	Presentations	Brian Bentz, President & CEO and Danielle Diaz, Executive Vice-President & CFO	6
3	Question & Answers		

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Opening Remarks

Norm Loberg - Chair, Alectra Inc.

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Alectra Update

Brian Bentz – President and CEO, Alectra Inc.

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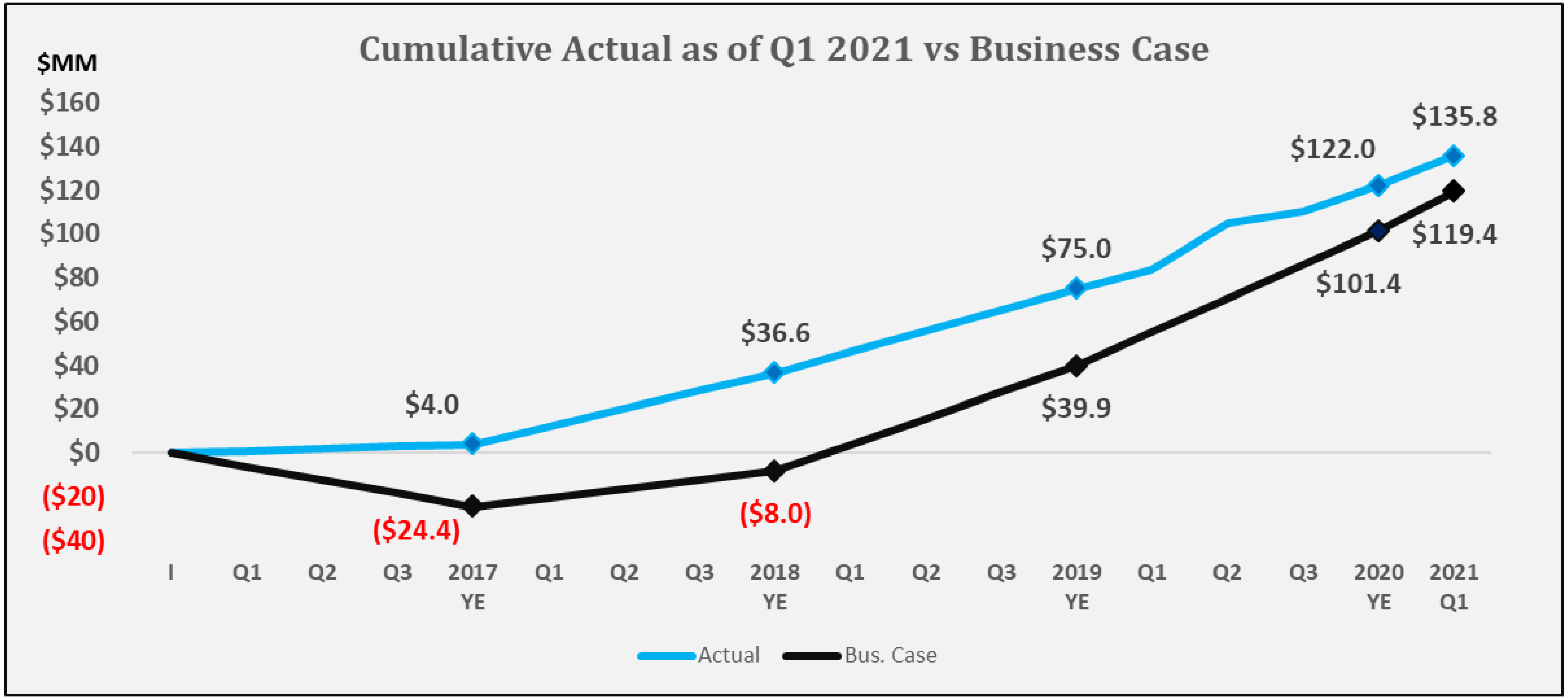
2022 Year in Review

- Stable Financial Performance and Incremental Value Creation
- Strong Competitive Metrics:
  - ✓ Affordability
  - ✓ Reliability
  - ✓ Sustainability
- Community Update
- Overview of Financial Results (Danielle Diaz, EVP & Chief Financial Officer)
- The Future of Electricity in Ontario
- Strategy 2.0 and Shareholder Engagement Process

Synergies – Alectra Inc.



Net Synergies achieved to date are $16.4MM above Alectra's business case:

- **Operating Net Synergies - $53.6MM above business case.**
- **Capital Net Synergies - $37.2MM below business case.**

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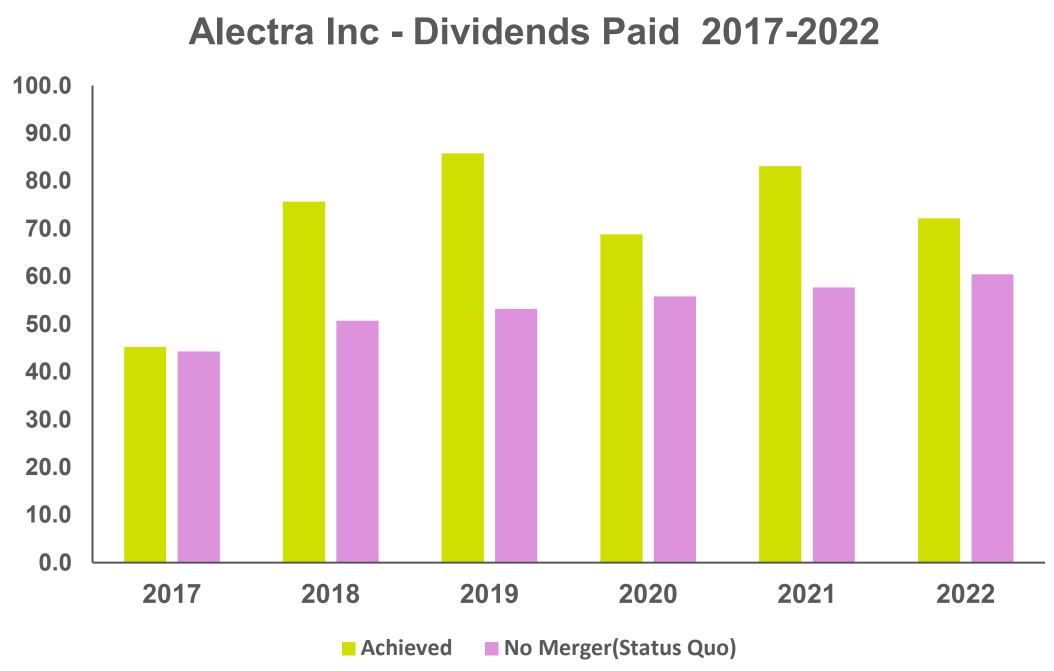
Dividends on Common Shares

In the first six years following Alectra merger, Alectra declared $430.8MM to the inaugural shareholder group.[1]

Without the merger the inaugural shareholders would have seen $322.1MM in standalone dividends.

The merger has provided dividends $108.7MM (34%) 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.*

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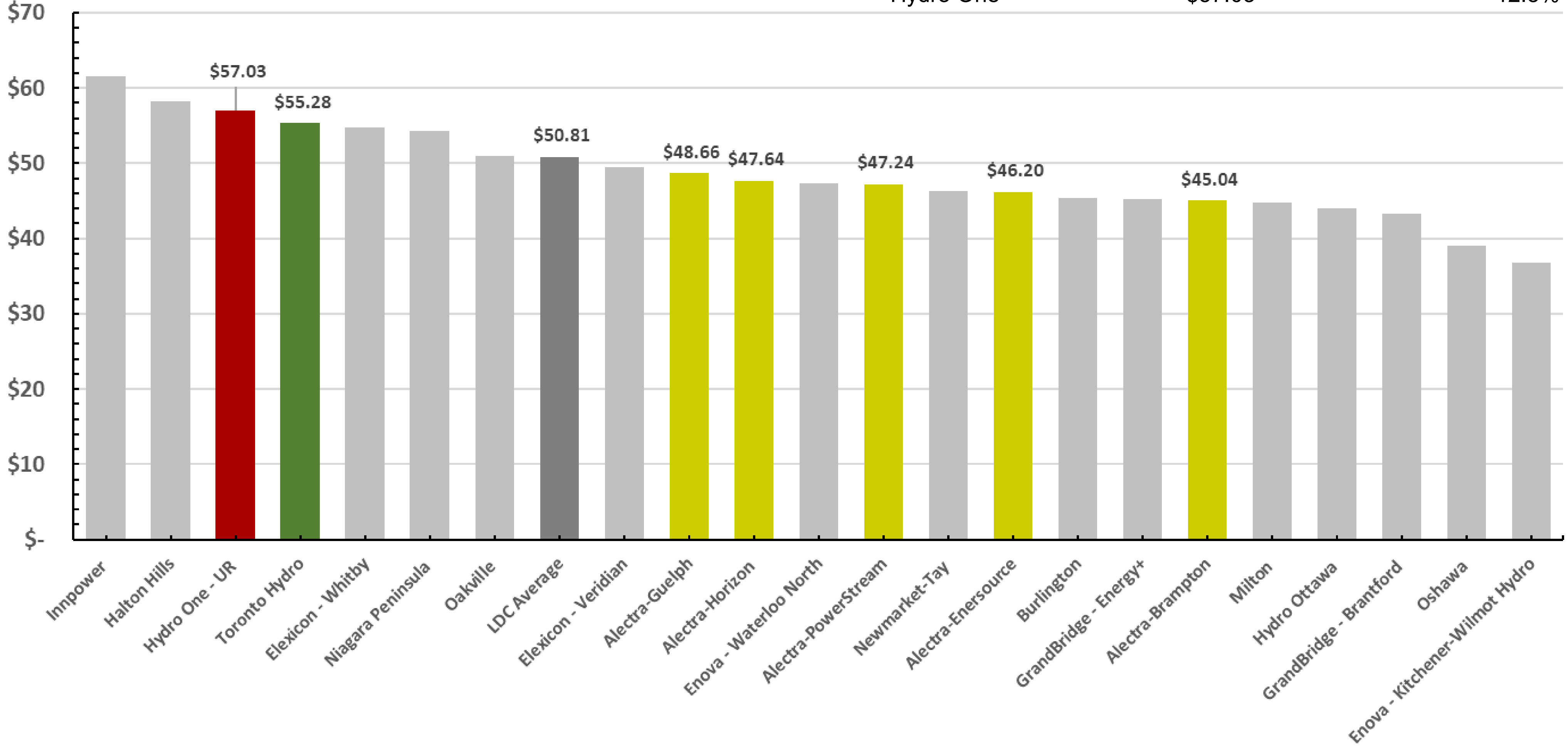
Affordability

Monthly Electricity Bill for Residential Customers

"Delivery" Component at 700 kWh/Month for January 31st, 2023

Average LDCs	$50.81	**Delivery Component** of Monthly Bill
Alectra	**$45.04 – 48.66**	**- 7.6% below average**
Toronto Hydro	$55.28	+8.8%
Hydro One	$57.03	+12.3%



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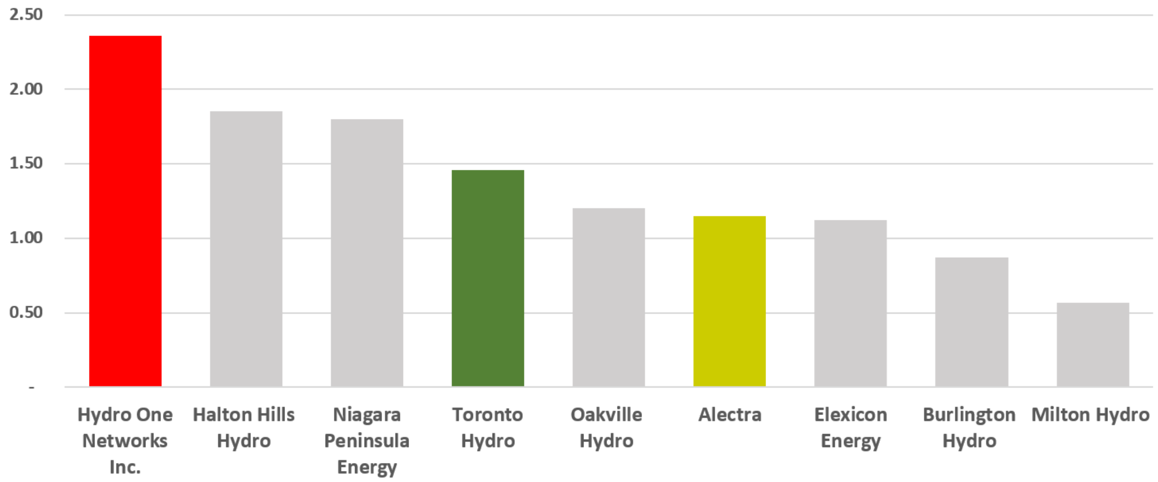
Source: OEB Bill Calculator – Jan. 31st, 2023

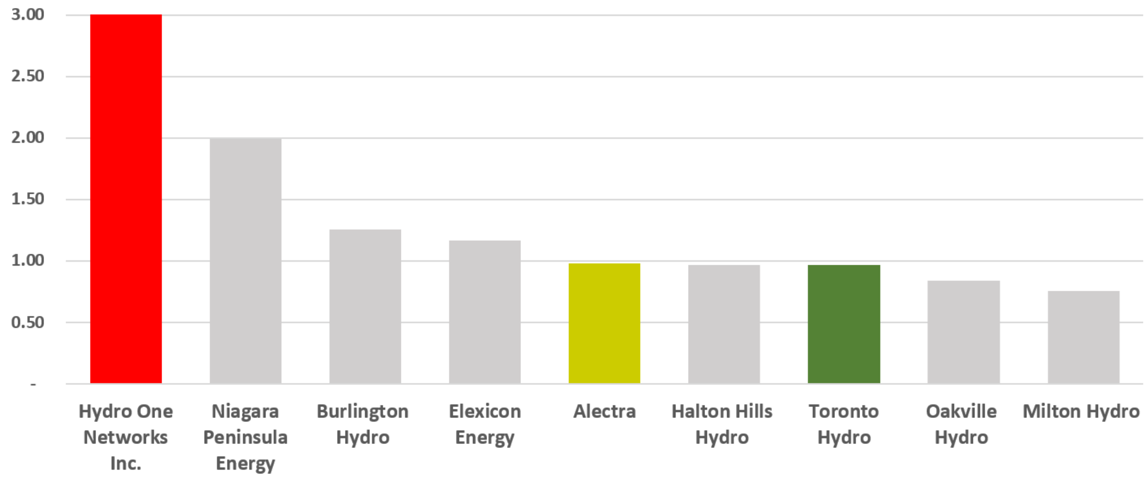
Reliability

SAIFI – Average # of Times Power to a Customer is Interrupted



Medium to Large LDCs	1.18 **times per year**	
Alectra	**1.15**	**- 2.3% below average**
Toronto Hydro	1.46	+24%
Hydro One	2.36	+100%

SAIDI – Average # of Hours Power to a Customer is Interrupted



Medium to Large LDCs	1.35 **hours per year**	
Alectra	**0.98**	**- 28% below average**
Toronto Hydro	0.97	- 28%
Hydro One	6.50	+380%

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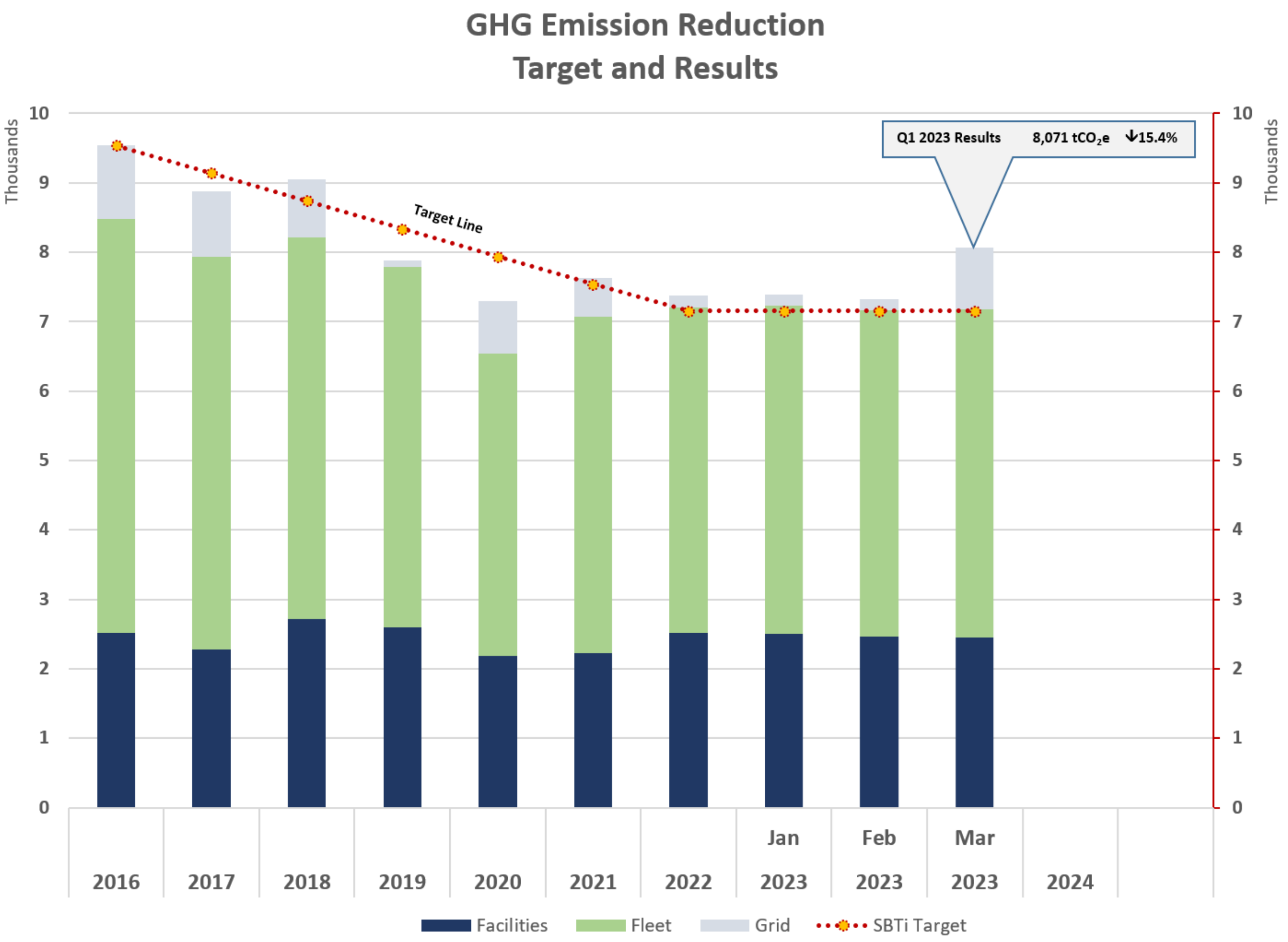
Source: OEB Scorecard for 2021 Performance – Oct. 31st, 2022

Sustainability

Net Zero by 2050



15.4%

March 2023

12-month rolling
GHG emission reductions result

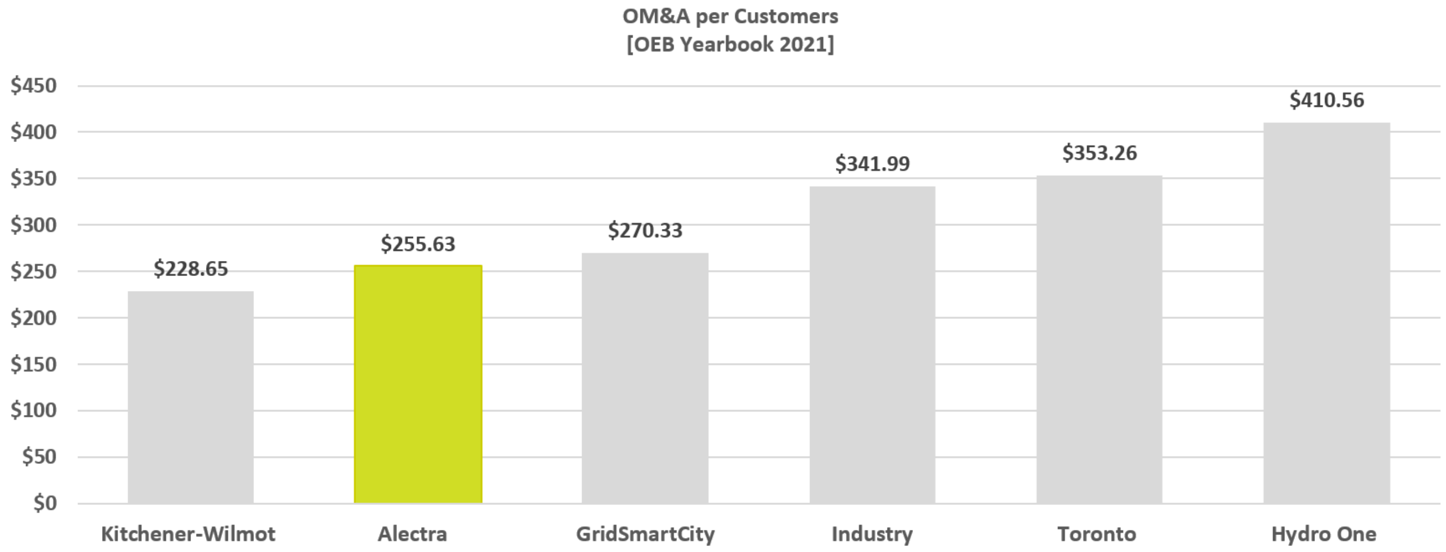
62% of 2023 Target

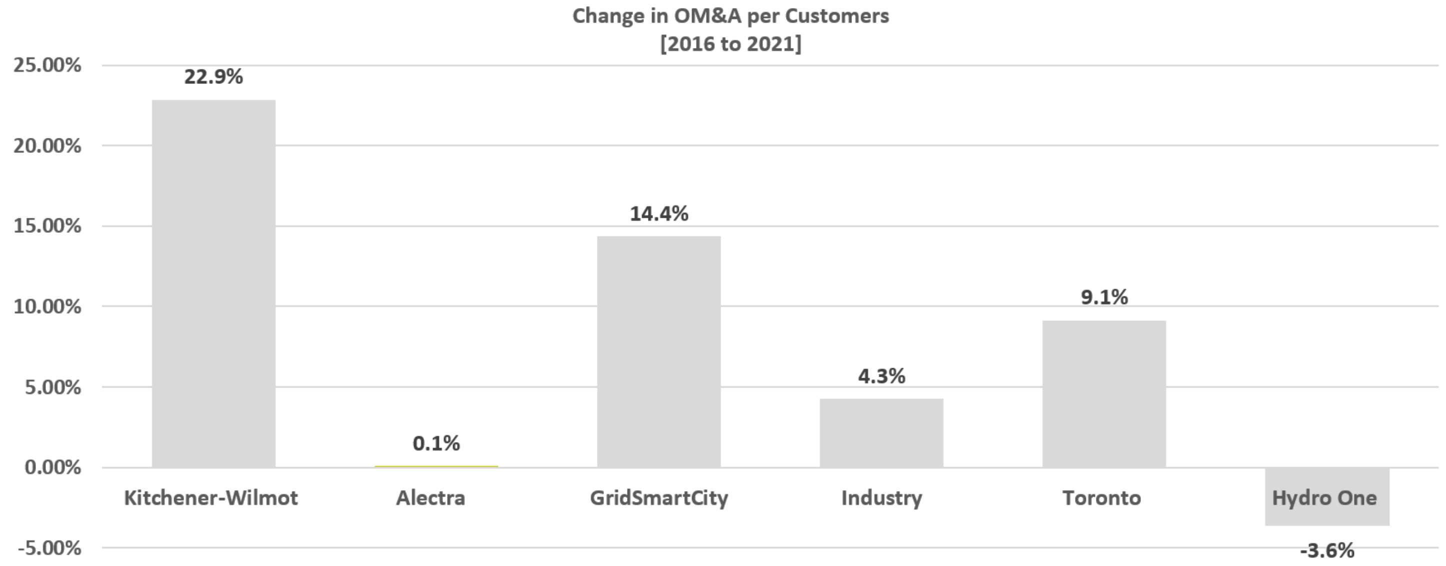
Quarterly results are based on a rolling 12-month average as compared to Baseline Year of 2016

Influencing Factors:

Fleet	piloting dynaCERT technology to reduce diesel fuel usage & GHGs
Facilities	greater fresh air input to buildings
Grid	**Q1 SF_6 gas releases**

OM&A / Customer





OEB Data (2021):

	OM&A / Customer	% change since 2016
KW	**$228.65**	**+22.9%**
Alectra	***$255.63***	***+0.1%***
GSC Avg.	**$270.33**	**+14.4%**
Industry Avg.	**$341.99**	**+4.3%**
Toronto	**$353.26**	**+9.1%**
Hydro One	**$410.56**	**-3.5%**

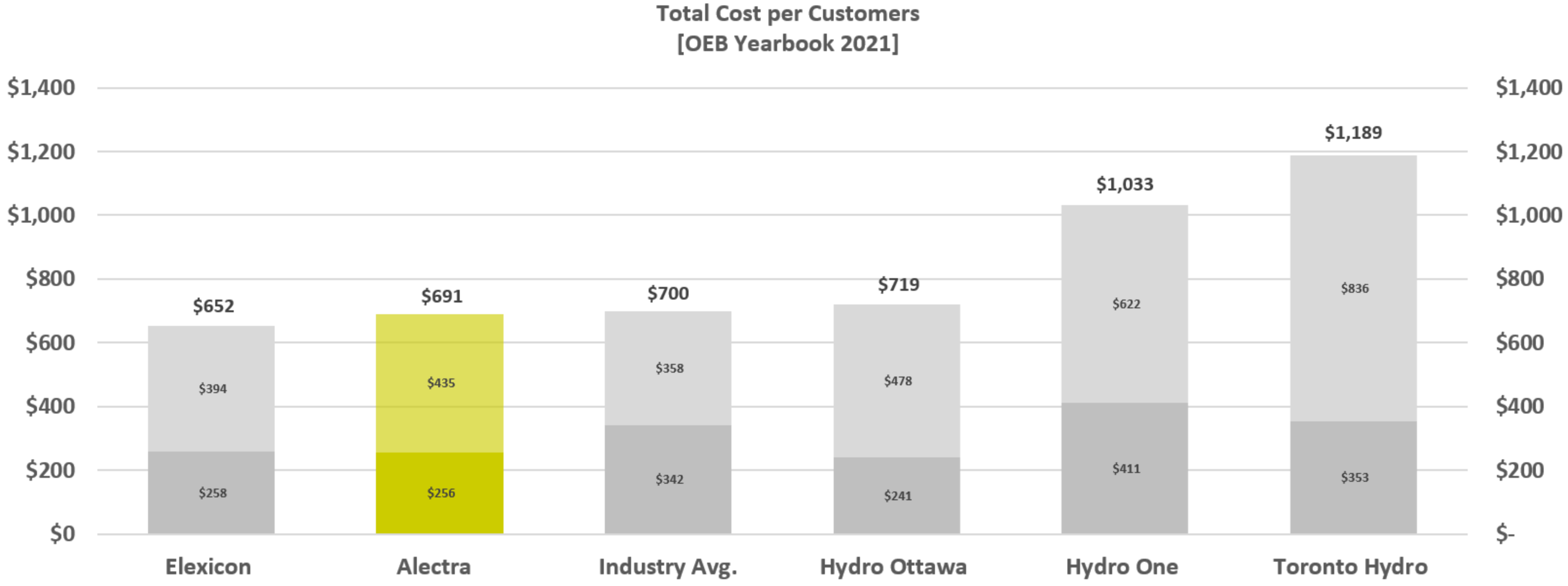
Alectra has one of the lowest $ OM&A / Customer values within the electricity sector

Alectra is at the same $ OM&A / Customer level when compared to 2016 (that is, a 0.1% change)

Note: GridSmartCity (GSC) is a cooperative of 13 mid-sized LDCs representing 785K customer across 40 communities

Reference: All data for all 57 LDC is obtained from the annual OEB Yearbook or the OEB's Open Access website

Total Cost / Customer



OEB Data (2021):

	<u>**Total Cost / Customer**</u>
Elexicon	**$652**
Alectra	***$691***
Industry Avg.	**$700**
Hydro Ottawa	**$719**
Hydro One	**$1,033**
Toronto Hydro	**$1,189**

Alectra has one of the lowest $ Total Costs / Customer values within the largest LDCs in the electricity sector

"Total cost is calculated as the sum of a distributor's capital costs and OM&A costs, including certain adjustments to make the costs more comparable between distributors, per reporting period. This amount is then divided by the total number of customers that the distributor serves"….OEB Scorecard – Performance Measure Descriptions

Reference: All data for all 57 LDC is obtained from the annual OEB Yearbook or the OEB's Open Access website

How does Alectra Compare?

Monthly Residential Bill [May 2023]

Large Urban Utility

TIERED	
Your Electricity Charges	
Electricity	
600 kWh @ 8.7 ¢/kWh	$52.20
100 kWh @ 10.3 ¢/kWh	$10.30
Delivery	$59.00
Regulatory Charges	$3.71
Total Electricity Charges	**$125.21**
HST	**$16.28**
Ontario Electricity Rebate	**(-$14.65)**
Total Amount	**$126.84**

Alectra (HRZ)

TIERED	
Your Electricity Charges	
Electricity	
600 kWh @ 8.7 ¢/kWh	$52.20
100 kWh @ 10.3 ¢/kWh	$10.30
Delivery	$48.06
Regulatory Charges	$3.74
Total Electricity Charges	**$114.30**
HST	**$14.86**
Ontario Electricity Rebate	**(-$13.37)**
Total Amount	**$115.79**

Delivery Charge for Alectra's HRZ Residential Customer using 700 kwh per month is: **$48.06 ($115.79 Total Monthly Bill)**

Delivery Charge for a large urban LDC Average Residential Customer using 700 kwh per month is: **$59.00 ($126.84 Total Monthly Bill)**

An annual Delivery Charge savings of:

$131.28

(or more depending on rate zone)

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 – May 2023

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Community Update – City of Hamilton

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Annual ESG Report

- Transitioned to an Annual ESG Report
- Report's structure **informed by 2022 Materiality Assessment** which gives perspectives on issues of greatest importance to stakeholder and Alectra leadership (grouped into 3 categories: Environmental, Social & Governance)

  Environmental
  - Kennedy Rd Operational Centre –Gold LEED Building
  - 88 Diesel Vehicles have DynaCERT^{TM} technology installed to reduce GHGs by 13%

  Social
  - Investments in local hospitals and health care

  Governance
  - Partnership with DeGroote School of Business – Alectra ED&I Scholarship
- Cover reflects optimism (post-COVID) and ties to Alectra's new Vision statement "we will be your trusted energy partner empowering **a sustainable and brighter future**"
- "**Discovering the possibilities**" theme continues - as we want our customers, our employees, our shareholders and our communities to continue the journey with Alectra
- Alectra's 2022 Annual ESG Report with its companion documents (external MD&A and Alectra's GRE&T Centre Report) will be **released in June 2023**

Capital Investment

Alectra Utilities is addressing increasing customer electricity demands by reinforcing its power grid in Hamilton.

- In 2022, Alectra invested $17.6 million in Hamilton to construct and renew infrastructure.

- In 2023, Alectra plans to invest $22.5 million in significant capital renewal projects impacting 31,000 customers

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Hamilton Region Decarbonization Hub

Opportunity

- To work with the City of Hamilton and Transition Accelerator* as well as other funding groups to launch Hamilton Region's Decarbonization Hub (HRDH)
- An integrated approach for a system level change, where solutions to decarbonize local industry can also decarbonize other sectors and emission sources such as transportation, buildings, and other industries (e.g. steel, manufacturing)

Participation in the Hub

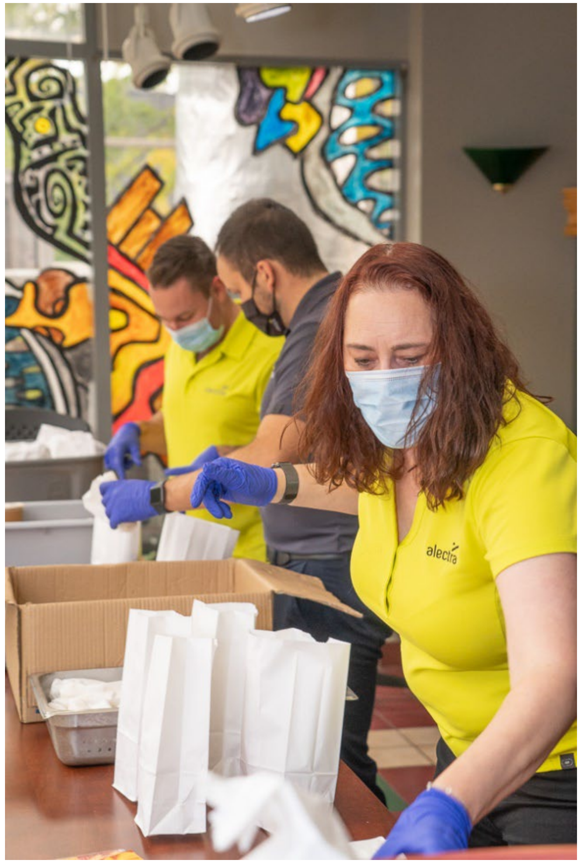
- Offers opportunity for direct investment in local industries and clean technologies

Discussions in June

- Blair Peberdy – Alectra's Senior Vice President, Regulatory, Government & Corporate Relations will be meeting with Cyrus Tehrani – Hamilton's Chief Digital Officer & Director of Innovation

Community Support Program Highlights

- ✓ Food4Kids Hamilton, High School Expansion Program
- ✓ Greater Hamilton Food Share, Food Acquisition & Distribution Program
- ✓ Wesley, Supportive Housing for Addictions & Mental Health, Autumn Harvest Dinner
- ✓ Interval House of Hamilton, Mobile VAW Counselor – Black Communities
- ✓ Living Rock Youth Resources, Rock Resources Program for Vulnerable Youth
- ✓ Good Shepherd, Family Centre Breakfast Program
- ✓ Nankind, Childcare Supports for Families Impacted by Cancer
- ✓ Habitat for Humanity Hamilton, Youth Build School Program
- ✓ Mission Services of Hamilton, The Good Food Centre
- ✓ The King's Way Outreach Centre, Parenting 101
- ✓ YWCA Hamilton, Women of Distinction Awards & Walk a Mile in Their Shoes
- ✓ Mealshare Aid Foundation, Expanding to Help End Youth Hunger
- ✓ Outward Bound, Urban Adventure Program
- ✓ McMaster, Directors College ED&I Scholarship at DeGroote School of Business
- ✓ NEW St. Joseph's Healthcare Foundation, Mobile Mental Health Nursing Clinic



Wesley Autumn Harvest Dinner for the homeless

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Overview of 2022 Financial Results

Danielle Diaz – Executive Vice-President and CFO, Alectra Inc.

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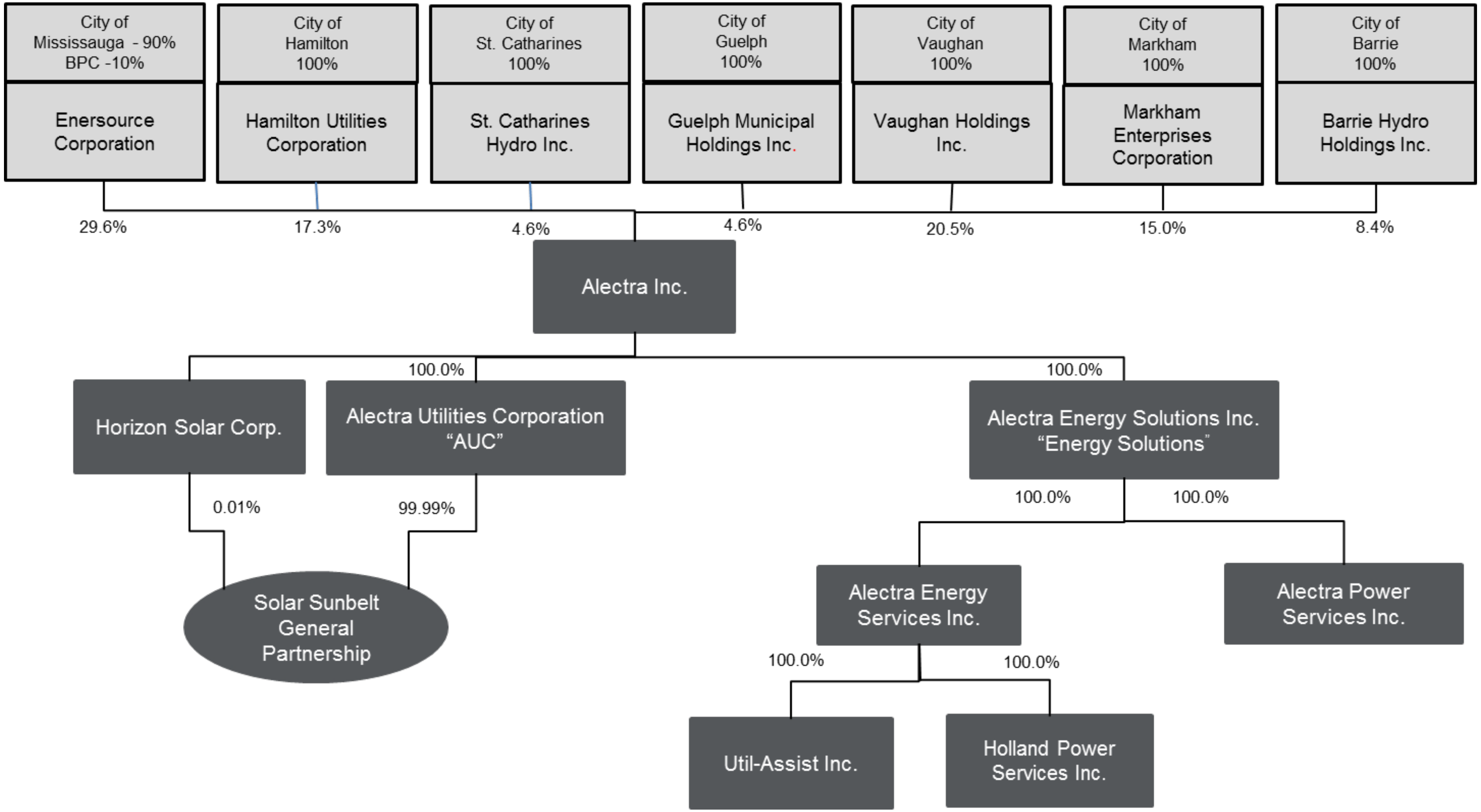
Principal Corporate Structure

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

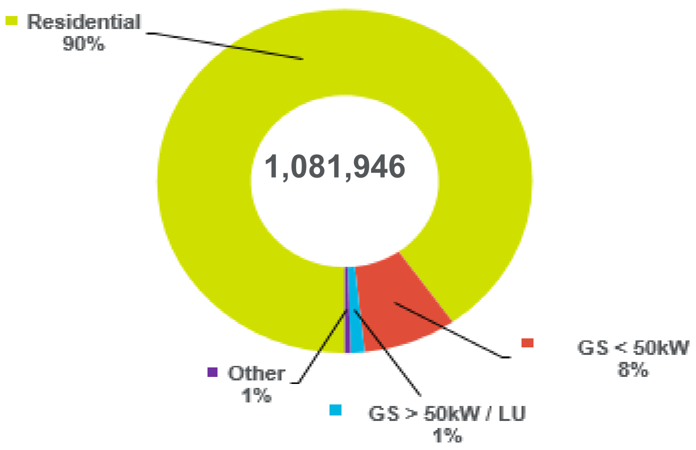


2022 Financial Highlights

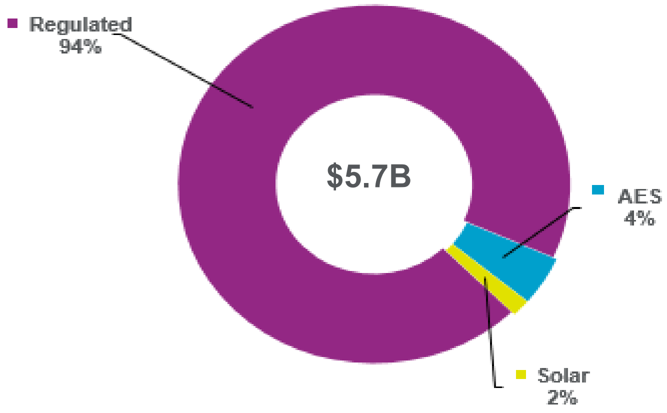
AUC is the largest municipally-owned Local Distribution Company ("LDC") in Canada providing service to over 1 million residential, commercial, industrial and institutional customers around the Greater Golden Horseshoe Area

- *Regulated business comprises* approximately 94% of total assets and approximately 88% 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

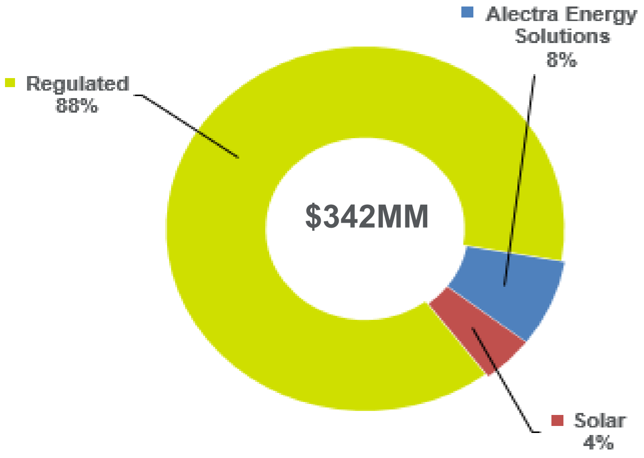
Total Customers [1]



Total Assets [2]



EBITDA [2]



1 - Number of customers is as of Dec.31, 2022
2 - Total Assets and EBITDA are based on 2022 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

17 communities served

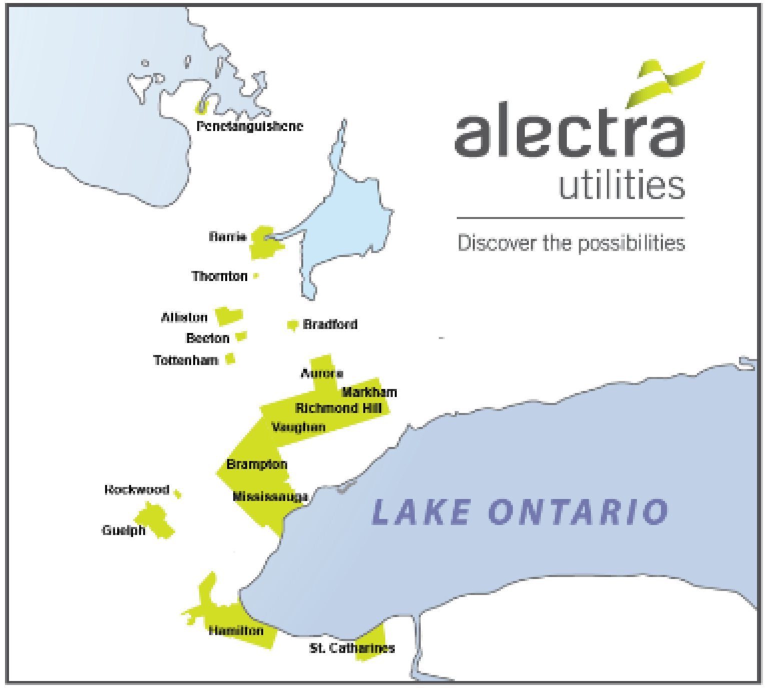
21,684 overhead and underground lines

1,924 square-km service territory

14 transformer stations

560 fleet vehicles

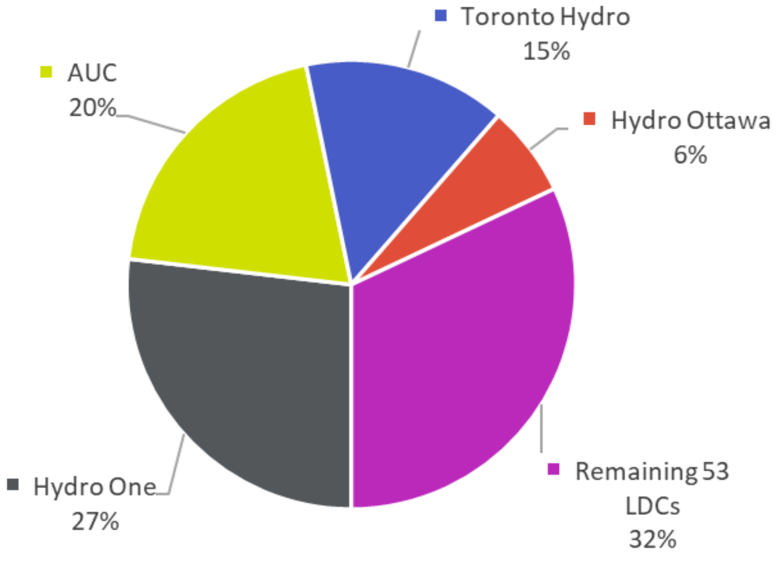
149 municipal substations



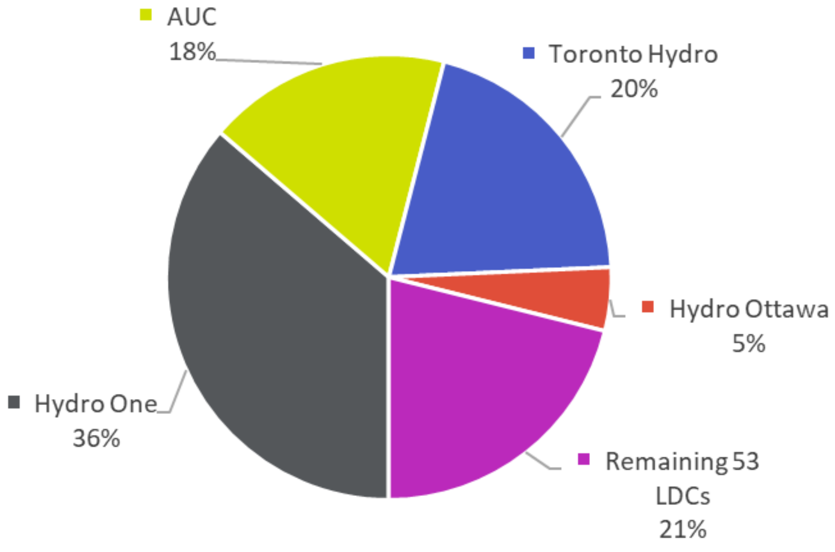
Peer Comparison

Ontario Electricity Sector

Customer Share [1]
(Total Ontario: 5.4MM)



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



Comparison of 2021 Operating Statistics[1]		
	LDC Average	AUC
Number of Customers[2]	94,165	1,069,683
Total GWh Delivered	2,265	26,401
OM&A per Customer	$322	$256
Distribution revenue per Customer	$762	$546

1 - Source - OEB, Yearbook of Electricity Distributors 2021
2 - Number of customers excludes Sentinel and USL customers
3 – Averages include Alectra Utilities

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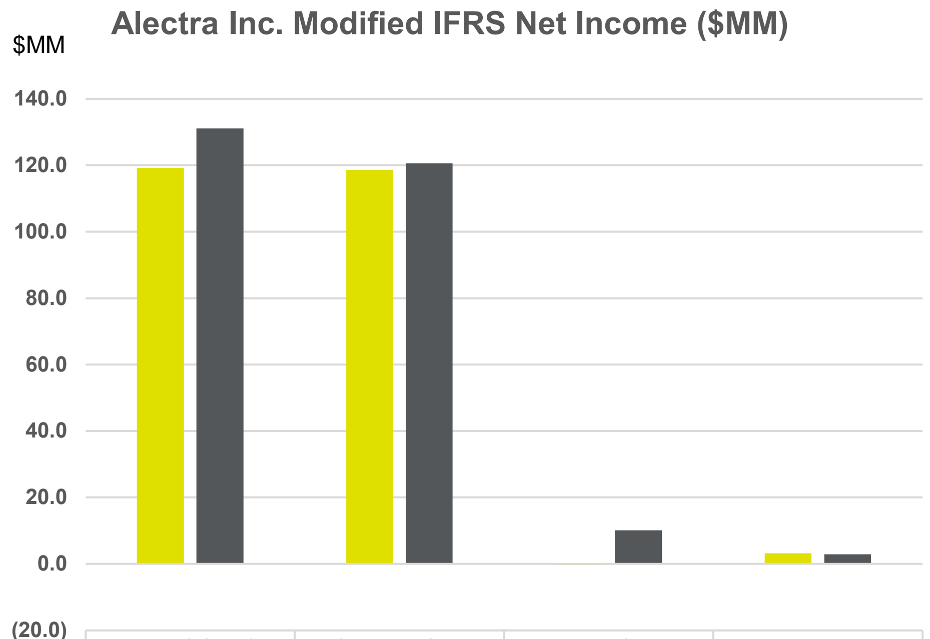
2022 Consolidated Results

- ✓ Alectra Inc. (shared) net income of $119.2MM (MIFRS) is below budget by $11.9MM:

Principal drivers are:

- loss on FV of contingent consideration $7.0MM;
- impairment loss $9.2MM;
- unfavourable net finance cost $5.1MM; partially offset by
- higher distribution revenue $6.8MM;
- higher other revenue $3.3MM

- ✓ Net capital expenditures of $292.2MM, $32.4MM lower than budget:
  - delays with the Kennedy Rd operations centre, IT and Guelph integration projects;
  - delays in the acquisition of natural gas generating asset partially offset by
  - higher capex in HPS



	Consolidated Shared	Alectra Utilities Shared (1)	Energy Solutions (2)	Ring-Fenced Solar
Actual	119.2	118.5	(0.3)	3.2
Budget	131.1	120.6	10.1	2.9

1) Alectra Utilities Shared includes Alectra Solar Partnership
2) Energy Solutions includes HPS Holdings Inc. (HPS)

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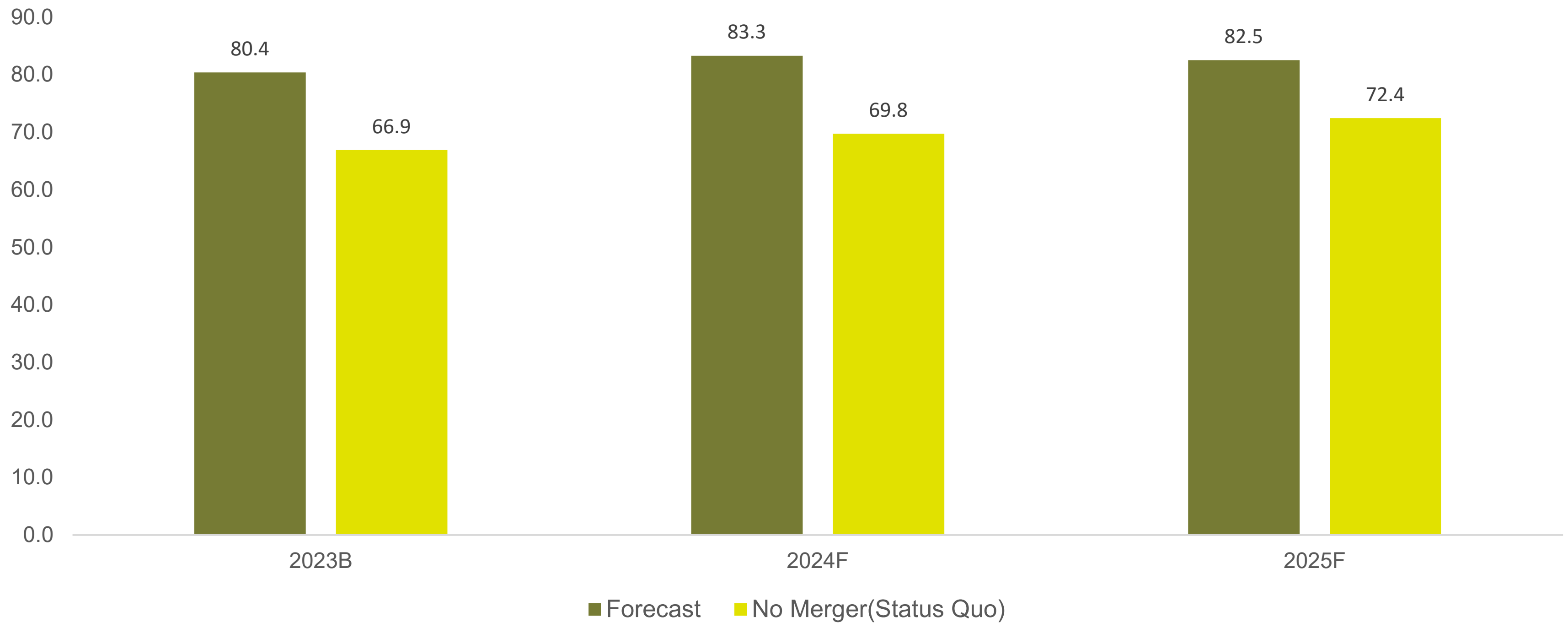
Common Shares Dividend Forecast

2023-2025 Dividend Forecast



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

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

In Summary

Successes achieved

- ✓ Integrated Customer Information and Billing system for +1 Million customers
- ✓ Integrated Financial Systems
- ✓ Integrated SCADA system
- ✓ Successful brand awareness of Alectra in all communities
- ✓ Sustained community involvement post merger in each community
- ✓ Moving towards an integrated corporate culture supportive of our values
- ✓ 94% customer satisfaction
- ✓ Set a net-zero target for Corporate Operations and achieved a 23% reduction in greenhouse gas emissions from 2016 baseline
- ✓ $292MM invested in capital infrastructure to support distribution and growth
- ✓ $620MM in distribution revenue

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The Future of Electricity in Ontario

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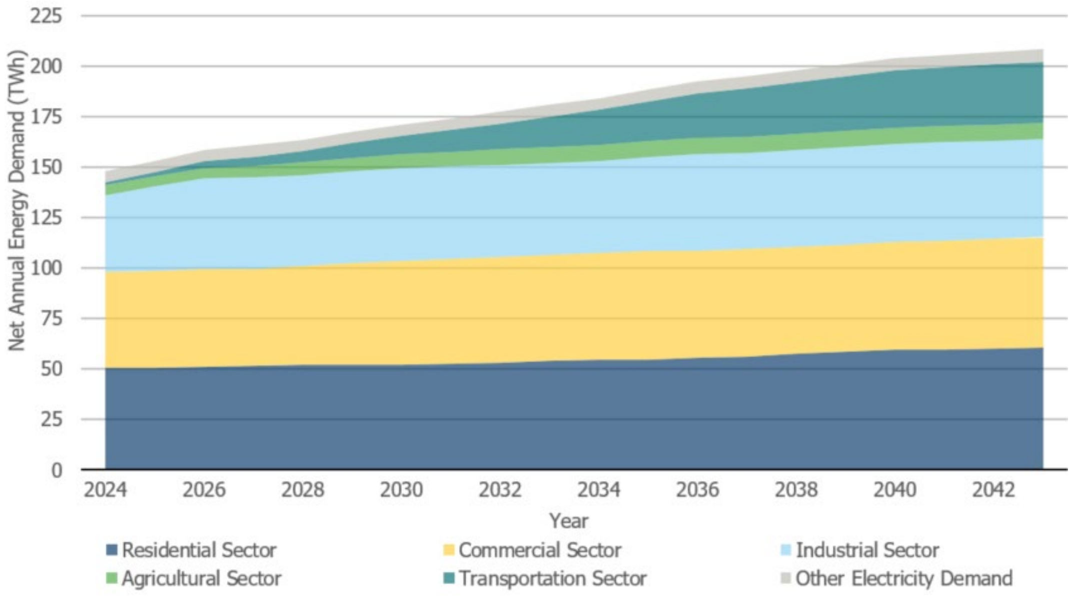
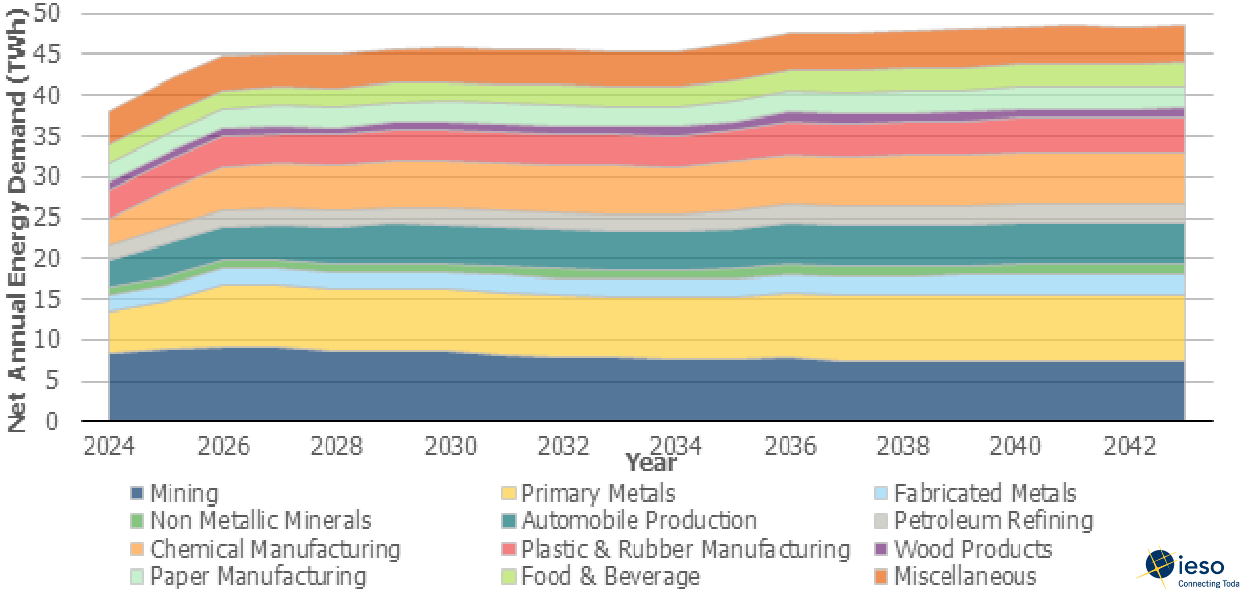
The Energy Transition and Decarbonization is Increasing Provincial Electricity Demand

APO: 20-Year Supply and Demand Forecasts



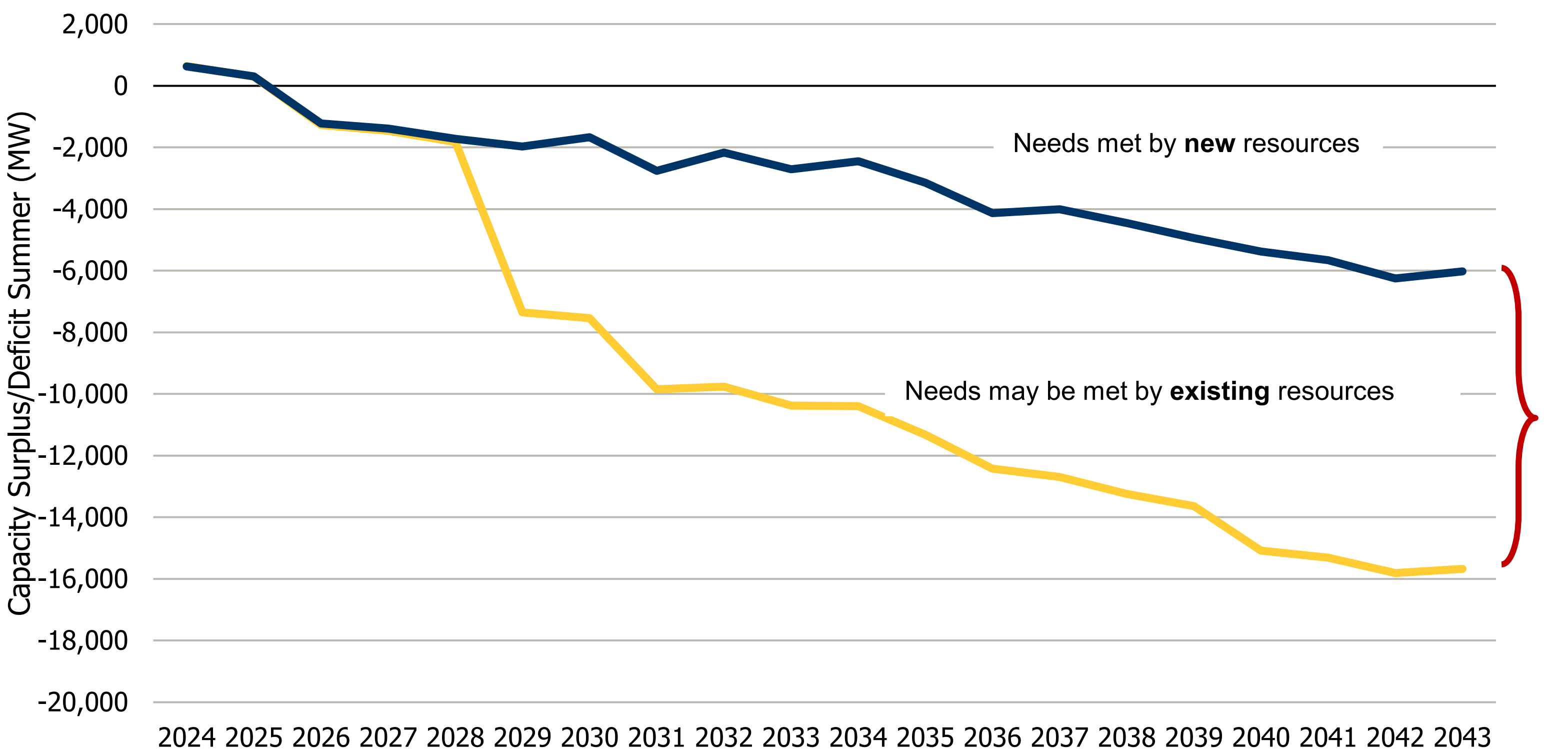
Industrial Sector - Net Annual Energy Demand Forecast



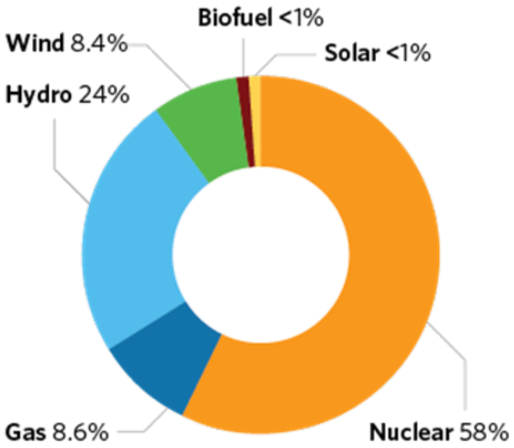
- After a decade of eroding electricity demand, recent forecasts from the IESO show that consumption will grow significantly in the years ahead. This is predominantly being driven by population growth, as well as the electrification of transportation and industrial processes.

- Electrification of building heat is typically contemplated in the context of "energy transition", and will be additive against these projections.

Ontario’s Resource Adequacy Challenge



16,000 MW risk over next two decades



Nuclear	83 TWh or 58%
Hydro	34.2 TWh or 24%
Gas/Oil	12.2 TWh or 8.6%
Wind	12 TWh or 8.4%
Solar	0.75 TWh or <1%
Biofuel	0.4 TWh or <1%

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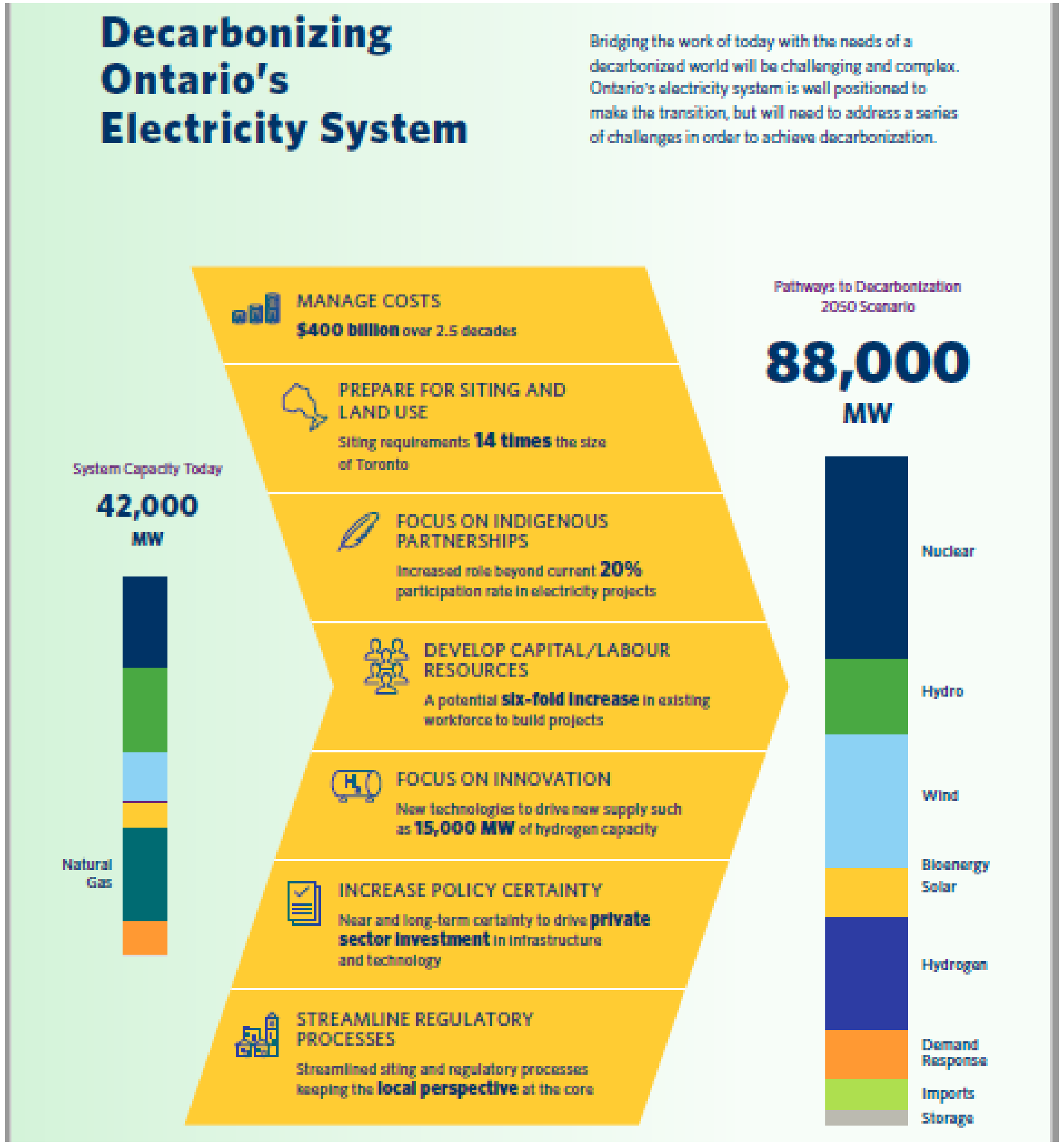
Pathways Report - IESO



Considerations for Alectra

- Emerging Themes
  - DERs
  - Technology Disruption
  - Electricity Demand
  - Customer Needs

- Opportunities bringing together emerging themes, changing landscape of Distributors, meeting Ontario's supply needs
  - Grid modernization – improve distribution visibility, enhance grid connections (e.g., EVs, DERs, etc.)
  - Aggregate DERs/NWAs – meet distribution needs, broader power system needs, value if Industrial Conservation Initiative (ICI) terminated in future
  - Non-emitting supply resources – meet Government policies, customer needs, supply needs
  - Customer choices – ESG targets, technological advances, non-emitting supply, cost-effectiveness

- Alectra has significant opportunities to grow by meeting multiple goals and objectives

Strategy 2.0

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Background

People are at the Centre of our Strategy

We are committed to:

- Investing in our **employees**
- Delivering value to our **customers**
- Generating long-term value for our **shareholders**
- Supporting our **communities** where we work

Employees	Customers	Shareholders	Community
~1500+ Individuals	~1,100,000 Customers	8 Shareholders	~4,000,000 People

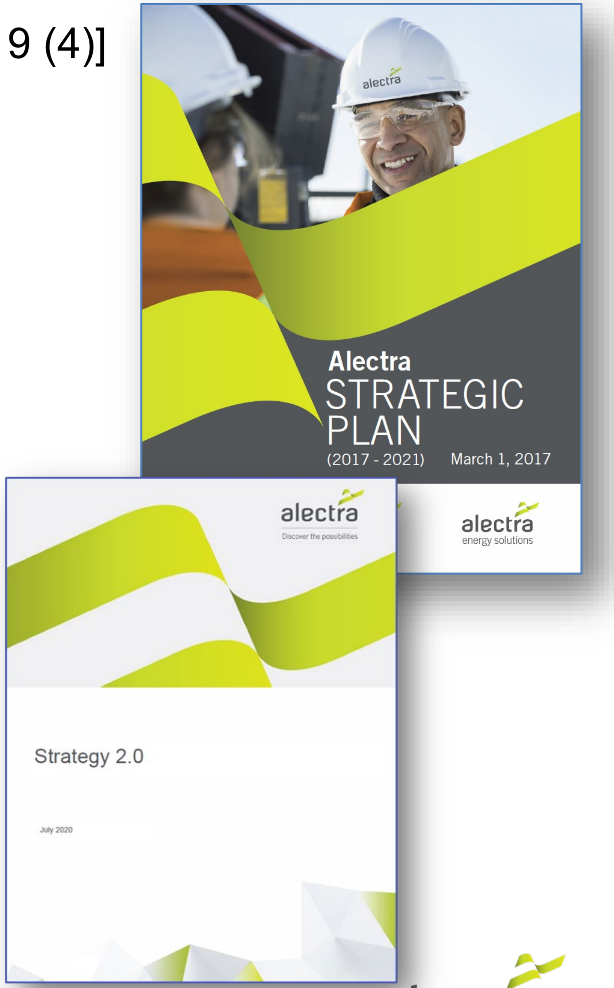
Unanimous Shareholder Agreement - USA

Initial Strategy (1.0)

- USA requires Alectra to update its Strategic Plan <u>every three years</u> [USA Section 2.19 (4)]
  Unanimous Shareholder Agreement (USA)

Updated Strategy (2.0)

- USA requires all subsequent material changes to Alectra's strategy would be subject to approval of no less than 66.66% of the Board of Alectra, with input from Shareholders. This is the process which was followed in 2020 with respect to the approval of Strategy 2.0



2023 Process

- The Board and Management of Alectra commenced a process of reviewing Strategy 2.0 at its April Strategic Planning Session
- Any material changes to Strategy 2.0 will be reviewed and endorsed by the Board and provided to Shareholders for input (at a Special Meeting, Fall 2023)
- Taking into account Shareholder input, the Board will approve revised Strategic Plan prior to year-end 2023

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Discover the possibilities

Alectra's Vision and Mission

VISION AND STRATEGIC INTENT

We will be your trusted energy partner empowering a sustainable and brighter future

MISSION AND POSITIONING STATEMENT

To provide innovative and reliable energy solutions which deliver lasting value for all

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Question & Answers

Thank You

HAMILTON UTILITIES CORPORATION
(the "Corporation")

RESOLUTIONS OF THE SOLE SHAREHOLDER OF THE CORPORATION

WHEREAS the City of Hamilton is the sole shareholder of the Corporation (the "Sole Shareholder");

NOW THEREFORE the Council of the City of Hamilton, acting in its capacity as representative of the Sole Shareholder, RESOLVES AS FOLLOWS:

1. AUDITED CONSOLIDATED FINANCIAL STATEMENTS – YEAR ENDED DECEMBER 31, 2022

BE IT RESOLVED that the Audited Consolidated Financial Statements of the Corporation for the year ended December 31, 2022 (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 SHREHOLDER REPORT – YEAR ENDED DECEMBER 31, 2022

BE IT RESOLVED that the Audited Consolidated Financial Statements of Alectra Inc. and Shareholder Report for the year ended December 31, 2022, 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 2023 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.

4. CONFIRMATION OF ALECTRA INC. DIRECTORS

BE IT RESOLVED that the following persons are confirmed as Directors of Alectra Inc. ("Alectra") as nominees of the Corporation, subject to their respective terms as determined by the process set out in Subsection 2.6(6) of Alectra's Unanimous Shareholders' Agreement dated January 1, 2019 (the "USA") or until their successors are elected or their resignations are received by Alectra, as provided for in the USA:

(i) Sean Donnelly; and,

(ii) Andrea Horwath.

5. NUMBER OF DIRECTORS OF THE CORPORATION

WHEREAS the Shareholder Direction and Unanimous Shareholder Declaration from the Sole Shareholder to the Corporation (the "USD") states in Section 6.04 that the Board of Directors of the Corporation shall be composed of six (6) Directors;

AND WHEREAS the term of Christa Wessel as a Director of the Corporation will expire on June 30, 2023 resulting in the Corporation having five (5) Directors as opposed to six (6);

AND WHEREAS following the retirement of Christa Wessel as a Director of the Corporation, it is proposed that the Corporation hereinafter have and proceed with five (5) Directors;

AND WHEREAS in order to give effect to the foregoing it is desirable to decrease the number of Directors that the Corporation may have to five (5) and to waive the requirement that the Corporation have six (6) Directors.

BE IT RESOLVED:

(i) that the number of Directors that the Corporation shall have is decreased to five (5); and

(ii) that the requirement in the USD stipulating that the Board of Directors of the Corporation be composed of six (6) Directors is waived so as to allow the Corporation to have five (5) Directors.

THE FOREGOING RESOLUTIONS are hereby consented to by the Sole Shareholder of the Corporation pursuant to the provision of the *Business Corporation Act* (Ontario).

DATED the 8th day of June 2023.

CITY OF HAMILTON

By: ________________________________
A. Horwath
Mayor

By: ________________________________
A. Holland
City Clerk

Hamilton Utilities Corporation®

Hamilton Utilities Corporation

Independent Auditor's Report to the Shareholder and Financial Statements

Year Ended December 31, 2022

Hamilton Utilities Corporation®

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KPMG LLP
Commerce Place
21 King Street West, Suite 700
Hamilton ON L8P 4W7
Canada
Tel 905-523-8200
Fax 905-523-2222

INDEPENDENT AUDITOR'S 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, 2022
- the statement of income and 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, 2022, 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 "***Auditor's Responsibilities for the Audit of the Financial Statements***" section of our auditor's 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 opinion.

KPMG

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.

Auditor's 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 auditor's 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.

KPMG

- 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 auditor’s 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 auditor’s 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 23, 2023

Hamilton Utilities Corporation®

Statement of Financial Position

As at December 31, 2022, with comparative information for 2021
(stated in thousands of Canadian dollars)

		2022		2021
Assets				
Current assets				
Cash and cash equivalents *[note 4]*	$	37	$	43
Other receivables		36		6
		73		49
Non-current assets				
Investment in Alectra Inc. *[note 5]*		350,426		356,107
Amounts receivable from related parties under common control *[note 10]*		16,212		16,212
Deferred payments in lieu of income taxes *[note 6]*		–		448
		366,638		372,767
Total assets	$	**366,711**	**$**	**372,816**
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	$	15	$	14
		15		14
Non-current liabilities				
Amounts due to related parties under common control *[note 10]*		3,241		3,241
Deferred payments in lieu of income taxes *[note 6]*		64,300		66,167
		67,541		69,408
Total liabilities		**67,556**		**69,422**
Shareholder's equity				
Share capital *[note 7]*		129,897		129,897
Accumulated other comprehensive loss		646		(3,681)
Retained earnings		168,612		177,178
Total shareholder's equity		299,155		303,394
Total liabilities and shareholder's equity	**$**	**366,711**	$	**372,816**

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

On behalf of the Board:

Director
JEFFREY COWAN
President & CEO

Director
Laurie Tugman - Chairman of the Board

Hamilton Utilities Corporation®

Statement of Income and Comprehensive Income

For the year ended December 31, 2022, with comparative information for 2021
(stated in thousands of Canadian dollars)

		2022		2021
Management fee income *[note 10]*	$	285	$	156
Total Income		285		156
Operating expenses		282		184
		282		184
Income (loss) from operating activities		3		(28)
Finance income *[note 8]*		26		7
Finance charges *[note 8]*		(6)		(6)
Equity income in Alectra Holdings Inc. *[note 5]*		6,427		17,668
Income before payments in lieu of income taxes		6,450		17,641
Payments in lieu of income taxes - recovery (expense) *[note 6]*		1,419		(1,509)
Net income		**7,869**		**16,132**
Other comprehensive income				
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		5,539		1,212
Tax impact on remeasurement of defined benefit obligation		(1,558)		(346)
Total other comprehensive income		**4,327**		**1,212**
Total comprehensive income	$	**12,196**	**$**	**17,344**

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

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Hamilton Utilities Corporation®

Statement of Changes in Equity

For the year ended December 31, 2022, with comparative information for 2021
(stated in thousands of Canadian dollars)

	Share capital	Retained earnings	Accumulated other comprehensive income (loss)	2022 Total	2021 Total
Balance at January 1	$ 129,897	$ 177,178	$ (3,681)	$ 303,394	$ 299,021
Net income	–	7,869	–	7,869	16,132
Other comprehensive income	–	–	4,327	4,327	1,212
Dividends	–	(16,435)	–	(16,435)	(12,971)
Balance at December 31	$ 129,897	$ 168,612	$ 646	$ 299,155	$ 303,394

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

Hamilton Utilities Corporation®

Statement of Cash Flows

For the year ended December 31, 2022, with comparative information for 2021
(stated in thousands of Canadian dollars)

	2022	2021
OPERATING ACTIVITIES		
Net income	$ 7,869	$ 16,132
Adjustments for:		
Equity income in Alectra Holdings Inc.	(6,427)	(17,668)
Management fee retained on dividends	(285)	(156)
Deferred payments in lieu of income taxes (recovery) *[note 6]*	(1,419)	1,509
Finance income	(26)	(7)
Finance charges	6	6
Finance charges paid	(6)	(6)
Finance income received	26	7
Change in other assets and liabilities *[note 9]*	(29)	24
Net cash used in operating activities	**(291)**	**(159)**
INVESTING ACTIVITIES		
Dividends received during the year	16,435	12,971
Net cash from investing activities	**16,435**	**12,971**
FINANCING ACTIVITIES		
Dividends paid during the year	(16,150)	(12,817)
Net cash used in financing activities	**(16,150)**	**(12,817)**
Decrease in cash and cash equivalents	**(6)**	**(5)**
Cash and cash equivalents, beginning of year	**43**	**48**
Cash and cash equivalents, end of year	**$ 37**	**$ 43**

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

Hamilton Utilities Corporation®

Notes to Financial Statements

For the year ended December 31, 2022
(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.

Hamilton Utilities Corporation®

Notes to Financial Statements

For the year ended December 31, 2022
(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 23, 2023.

(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, 2022
(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, 2022
(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.

Hamilton Utilities Corporation®

Notes to Financial Statements

For the year ended December 31, 2022
(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.

Notes to Financial Statements

For the year ended December 31, 2022
(stated in thousands of Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) 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.

(h) 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 any rights to or share in net assets and income or loss attributable to Class S shares of Alectra relating to RFSP.

Hamilton Utilities Corporation®

Notes to Financial Statements

For the year ended December 31, 2022
(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:

	2022	2021
Current assets	$ 706,000	$ 657,000
Non-current assets	5,014,000	4,851,000
Current liabilities	(934,000)	(962,000)
Non-current liabilities	(3,050,000)	(2,777,000)
Net assets (100%)	1,736,000	1,769,000
Ring Fenced Solar Portfolio Net Assets	(8,846)	(9,255)
Fair value bump	296,145	296,145
	2,023,299	2,055,890
Carrying value of investment in Alectra at 17.31% (2021 at 17.31%)	$ 350,426	$ 356,107

Investment in Alectra Inc.	2022	2021
Opening investment as at January 1	$ 356,107	$ 350,198
Share of income	6,427	17,668
Share of OCI	4,327	1,212
Dividends received	(16,435)	(12,971)
Ending investment as at December 31	$ 350,426	$ 356,107

On March 8, 2023, Alectra declared a final dividend with respect to 2022 to which the Corporation’s share is $4,930,589 and this will be recognized by the Corporation in the year of declaration being the year ended December 31, 2023.

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Notes to Financial Statements

For the year ended December 31, 2022
(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, 2022 and 2021.

	2022	2021
Revenue	$ 3,904,000	$ 3,834,000
Depreciation and amortization	(191,000)	(182,000)
Cost of power and operating expenses	(3,556,000)	(3,451,000)
Other (expenses) / income	(18,753)	14,000
Net finance expense	(79,000)	(74,000)
Income tax expense	(19,000)	(36,000)
Net income	40,247	105,000
Ring Fenced Solar Portfolio net income	(3,121)	(2,920)
Net income attributable to common shareholders	37,126	102,080
Share of income at 17.31%	$ 6,427	$ 17,668
Other comprehensive income attributable to common shareholders	25,000	7,000
Share of other comprehensive 17.31%	$ 4,327	$ 1,212

Notes to Financial Statements

For the year ended December 31, 2022
(stated in thousands of Canadian dollars)

6. PAYMENTS IN LIEU OF INCOME TAXES

Deferred and current payments in lieu of income taxes

		2022		2021
Deferred payments in lieu of income taxes (recovery):				
Origination and reversal of temporary differences	$	(1,419)	$	1,509
Payments in lieu of income taxes - (recovery) / expense	$	(1,419)	$	1,509

Reconciliation of effective tax rate

		2022		2021
Income before taxes	$	6,450	$	17,641
Canada and Ontario statutory income tax rates		26.5%		26.5%
Expected tax provision on income at statutory rates		1,709		4,675
Increase (decrease) in income taxes resulting from:				
Non-deductible expenses		(4,355)		(3,436)
Remeasurement of DBO, Alectra Inc.		1,085		304
Adjustment for prior years and others		142		(34)
Income tax expense (recovery)	$	(1,419)	$	1,509

Deferred tax balances

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

		2022		2021
Deferred payments in lieu of income taxes:				
Other	$	125	$	125
Non-capital losses		317		323
Investment in Alectra Inc.		(64,742)		(66,167)
Deferred payments in lieu of income taxes	$	(64,300)	$	(65,719)

Hamilton Utilities Corporation®

Notes to Financial Statements

For the year ended December 31, 2022
(stated in thousands of Canadian dollars)

7. SHARE CAPITAL

	2022	2021
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 $16.150 per share after deducting management fee of $285 (2021 - $12.971) on the common shares during the year, amounting to a total dividend paid of $16,150 (2021 - $12,971).

8. FINANCE INCOME AND CHARGES

	2022	2021
Finance income		
Interest income on bank deposits	$ 14	$ 7
Unrealized gain on foreign exchange	12	–
Finance income	$ 26	$ 7
Finance charges	(6)	(6)
Net finance income recognized in income	$ 20	$ 1

Hamilton Utilities Corporation®

Notes to Financial Statements

For the year ended December 31, 2022
(stated in thousands of Canadian dollars)

9. CASH FLOW INFORMATION

Net change in other assets and liabilities:

		2022		2021
Other receivables	$	(30)	$	18
Accounts payable and accrued liabilities		1		6
	$	(29)	$	24

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 income primarily from its investment in Alectra. Management fee of $285 (2021 - $156) was received from the City during the year. See note 7 for dividend transactions with the City.

(b) Transactions with corporations under common control

Outstanding balances with related parties are as follows:

		2022		2021
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

The Corporation paid management, administrative and legal fees to a corporation under common control in the amount of $258 (2021 - $156).

Notes to Financial Statements

For the year ended December 31, 2022
(stated in thousands of Canadian dollars)

10. RELATED PARTY TRANSACTIONS (continued)

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

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.

11. COMMITMENTS AND CONTINGENCIES

The Corporation has guaranteed debt of a related party under common control in the amount of $3,379, which is subject to a swap agreement, for the year ended December 31, 2022. Subsequent to year-end, the debt will only be secured by guarantee of another related party under common control, Hamilton Enterprises Holding Corporation.

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The carrying values of cash and cash equivalents, other receivables 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 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 other receivables, expose it to credit risk. Other receivables consist 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 other receivables have not been reduced for any loss allowance in 2022 or 2021.

Hamilton Utilities Corporation®

Notes to Financial Statements

For the year ended December 31, 2022
(stated in thousands of Canadian dollars)

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(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.

(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, 2022, shareholder's equity amounts to $299,156 (2021 - $303,394).

March 8, 2023

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, 2022

Please find attached the consolidated audited financial statements for Alectra Inc. for the year ended December 31, 2022 ("Annual Financial Statements"). This information is provided in compliance with Section 2.25 of the Unanimous Shareholders' Agreement dated January 1, 2019 governing Alectra Inc.

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

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

Section 2.25 of the USA requires that the Annual Financial Statements be provided within thirty days after their delivery to the Alectra Inc. Board of Directors (the "Board"). The Board received and approved the Annual Financial Statements at its meeting on March 3, 2023.

Alectra Inc. Shared Financial Results – Year Ended December 31, 2022

Net income on a consolidated shared basis for 2022, as reported under Modified International Financial Reporting Standards ("MIFRS"), was $119.2MM or $11.9MM below the budget of $131.1MM.

More information regarding the 2022 financial results is included in the 2022 Annual Financial Statements and associated Management Discussion and Analysis.

Final Dividends on Voting Shares in respect of 2022 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.

In January 2021, Alectra acquired 100% of the shares of Holland Power Services ("HPS"). The aggregate consideration for the acquired shares of HPS comprised of an initial payment of $52MM on closing ("initial share consideration") and additional contingent share consideration, if any, payable based on exceeding an agreed upon earnings target (EBITDA) in 2021 and 2022. In 2021, the earnings did not meet the agreed upon earnings target, and therefore, an earnout was not paid.

In 2022, HPS exceeded the earnings target resulting in a higher than expected earnout payable. Based on the earnings achieved in 2022, the contingent share consideration payable is $11MM and the increase in the value of the contingent share consideration of $7MM was recognized as an unbudgeted expense in the income statement. Contingent consideration is a component of the share purchase price and therefore the shared consolidated net income has been adjusted by $7MM for the purposes of calculating dividends in respect of the 2022 fiscal year.

More information regarding HPS's financial performance is included in the Information of Material Concerns Report.

Calculation of Final Dividend

The Board of Directors approved the final dividend in respect of 2022 on the above basis as follows:

($MMs)	
MIFRS Net Income	119.197
Adjustment for HPS Contingent Consideration	6.961
Net Income for Dividends	126.158
Dividends @ 60%	75.695
Quarterly Dividends Paid	(47.211)
Final Dividend in respect of 2022	28.483
Comparison to 2022 Financial Plan	
Dividends @ 60%	75.695
Dividends per 2022 Financial Plan	78.686
Difference	(2.990)

The Final Dividend in respect of 2022 of $28.5MM (rounded) will be paid to shareholders of record on December 31, 2022 holding Voting Shares on March 17, 2023 as follows:

	Final Dividend
Barrie Hydro Holdings Inc.	$2,385,155.46
Enersource Corporation	$8,421,391.70
Guelph Municipal Holdings Inc.	$1,317,540.31
Hamilton Utilities Corporation	$4,930,589.01
Markham Enterprises Corporation	$4,273,177.14
St. Catharines Hydro Inc.	$1,317,540.31
Vaughan Holdings Inc.	$5,837,926.07
	$28,483,320.00

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

Sincerely,

Brian J. Bentz
President and
Chief Executive Officer

Danielle Diaz
Interim 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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Consolidated Financial Statements
(In millions of Canadian dollars)

ALECTRA INC.

Year ended December 31, 2022

KPMG LLP
Vaughan Metropolitan Centre
100 New Park Place, Suite 1400
Vaughan ON L4K 0J3
Canada
Tel 905-265-5900
Fax 905-265-6390

INDEPENDENT AUDITOR'S 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, 2022
- 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, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

Other Information

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

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

We have nothing to report in this regard.

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

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

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

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

Auditor's 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 auditor's 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 auditor's 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 auditor's 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.

KPMG

- 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.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- 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 3, 2023

ALECTRA INC.
Consolidated Statement of Financial Position
(in millions of Canadian dollars)
as at December 31, 2022 and 2021

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	Notes	2022	2021
Assets			
Current assets			
Cash		48	32
Restricted cash	7	3	5
Trade and other receivables	21	586	568
Other assets	8	69	52
Total current assets		**706**	**657**
Non-current assets			
Property, plant, and equipment	9	3,954	3,780
Right of use assets	10	23	27
Goodwill and other intangible assets	11	1,034	1,036
Deferred tax asset	27	3	2
Other assets	8	—	6
Total non-current assets		**5,014**	**4,851**
Total assets		**5,720**	**5,508**
Liabilities and Shareholders' Equity			
Current liabilities			
Trade and other payables	12	477	466
Customer deposits liability		58	51
Short-term debt	14	290	195
Loans and borrowings	17	—	150
Deferred revenue	25	19	17
Lease obligations	20	4	6
Contingent consideration	15	11	—
Other liabilities	16	75	77
Total current liabilities		**934**	**962**
Non-current liabilities			
Loans and borrowings	17	2,237	1,987
Deferred revenue	25	588	535
Employee future benefits	18	71	100
Lease obligations	20	25	29
Deferred tax liabilities	27	107	97
Contingent consideration	15	—	4
Other liabilities	16	22	25
Total non-current liabilities		**3,050**	**2,777**
Total liabilities		**3,984**	**3,739**
Shareholders' equity			
Share capital	19, 29	992	994
Contributed surplus		599	599
Accumulated other comprehensive income (loss)		5	(20)
Retained earnings		140	196
Total shareholders' equity		**1,736**	**1,769**
Total liabilities and shareholders' equity		**5,720**	**5,508**

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, 2022 and 2021

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	Notes	2022	2021
Revenue			
Distribution revenue		620	628
Electricity sales		3,079	3,023
Other revenue	24	205	183
		3,904	**3,834**
Expenses			
Cost of power		3,169	3,092
Operating expenses	23	387	359
Depreciation and amortization	9, 10, 11	191	182
		3,747	**3,633**
Income from operating activities		**157**	**201**
Net finance costs	26	79	74
Loss (gain) on derecognition of property, plant, and equipment and intangible assets		6	(11)
Loss (gain) on fair value of contingent consideration	15	7	(3)
Impairment loss on investment in associate	8	6	—
Income before income taxes		**59**	**141**
Income tax expense	27	19	36
Net income		**40**	**105**
Other comprehensive income			
Item 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	18	32	7
Tax impact on remeasurement of defined benefit obligation		(9)	(2)
Total other comprehensive income		**25**	**7**
Total comprehensive income		**65**	**112**

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, 2022 and 2021

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	Note	Share capital	Contributed surplus	Accumulated other comprehensive (loss) income	Retained earnings	Total
Balance, January 1, 2021		996	599	(27)	168	1,736
Net income		—	—	—	105	105
Other comprehensive income		—	—	7	—	7
Return of capital	19	(2)	—	—	—	(2)
Dividends paid	19	—	—	—	(77)	(77)
Balance, December 31, 2021		**994**	**599**	**(20)**	**196**	**1,769**
Net income		—	—	—	40	40
Other comprehensive income		—	—	25	—	25
Return of capital	19	(2)	—	—	—	(2)
Dividends paid	19	—	—	—	(96)	(96)
Balance, December 31, 2022		**992**	**599**	**5**	**140**	**1,736**

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, 2022 and 2021

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	Notes	2022	2021
Net cash from (used in)			
Operating activities			
Net income		40	105
Add (deduct) non-cash items:			
Depreciation and amortization	9, 10, 11	191	182
Amortization of deferred revenue	25	(16)	(14)
Loss (gain) on derecognition of property, plant, and equipment and intangible assets		6	(11)
Loss (gain) on fair value of contingent consideration		7	(3)
Impairment loss on investment in associate	8	6	—
Income tax expense	27	19	36
Net finance costs	26	79	74
Capital contributions received	25	71	72
Net change in non-cash operating working capital	28	(8)	113
Net change in non-current assets and liabilities		4	20
Cash generated from operating activities		**399**	**574**
Income taxes paid	27	(37)	(9)
Income taxes refunded	27	3	—
Net cash from operating activities		**365**	**565**
Investing activities			
Decrease in restricted cash	7	2	75
Consideration paid for investment in a business, net of cash acquired	6	—	(74)
Purchase of property, plant, and equipment	28	(335)	(378)
Purchase of intangible assets	28	(25)	(21)
Proceeds from disposal of property, plant and equipment		3	31
Cash used in investing activities		**(355)**	**(367)**
Financing activities			
Issuance of short-term debt	29	11,991	6,839
Repayment of short-term debt	29	(11,896)	(7,059)
Repayment of long-term loans and borrowings	17, 29	(150)	(110)
Issuance of long-term loans and borrowings, net of debt issuance costs	17, 29	248	298
Repayment of lease obligations	20, 29	(6)	(4)
Interest received	29	2	—
Interest paid	29	(85)	(77)
Return of capital	19	(2)	(2)
Dividends paid	19, 29	(96)	(77)
Net cash from (used in) financing activities		**6**	**(192)**
Net cash inflow		**16**	**6**
Cash, beginning of year		**32**	**26**
Cash, end of year		**48**	**32**

See accompanying notes to the consolidated financial statements.

1. Description of the Business

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 and has two subsidiaries: Alectra Energy Services Inc. ("AESI"); and Alectra Power Services Inc. ("APSI"). AESI has four 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").

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 3, 2023.

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. These 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 and contingent consideration which is recorded at fair 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.

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(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.

2. Basis of Preparation (continued)

(c) Use of estimates and judgments (continued)

The changes in the economic environment arising from geopolitical events and high inflation has slowed down the momentum of the global economic recovery even after COVID–19 pandemic restrictions were eased during the year. 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 31).

(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").

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.

3. Regulation (continued)

(a) Rate Setting (continued)

On February 10, 2022, the OEB issued a Letter regarding *Incremental Capital Modules During Extended Deferred Rebasing Periods.* The OEB updated its ICM policy for electricity distributors during extended rebasing deferral periods arising from utility consolidations. The policy update is applicable to distributors in years six to ten of the rebasing deferral period. In order to further enhance the efficiency of the regulatory process and to provide a further incentive for distributors considering consolidation, the updated policy provides additional flexibility to apply for incremental capital funding for an annual capital program during the extended rebasing period.

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

2022 Rate Application

On August 18, 2021, Alectra Utilities filed an application for all five predecessor utilities' 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 is 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 is 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 is 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 is 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 is an increase of approximately 76 cents or 2.51%.

3. Regulation (continued)

(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 February 28, 2023.

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.

4. Significant Accounting Policies (continued)

(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.

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.

4. Significant Accounting Policies (continued)

(c) Revenue from contracts with customers (continued)

(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.
- 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 and power restoration services provided 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.*

4. Significant Accounting Policies (continued)

(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. 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. In the absence of an active market, the Corporation estimates fair value by using valuation techniques that refer to observable market data or estimated market prices. In making such estimates, the Corporation gives the highest priority to unadjusted quoted prices in active markets for similar assets or liabilities (Level 2) and the lowest priority to unobservable inputs (Level 3), as applicable. Fair values estimated using generally accepted pricing models are based on discounted cash flow analysis, with the most significant inputs being the contractual terms of the instrument and the market discount rates that reflect the credit risk of counterparties.

(ii) Derivative Financial Instruments and Hedge Accounting

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

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

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

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

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

4. Significant Accounting Policies (continued)

(d) Financial instruments (continued)

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

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

(iii) Impairment of financial assets

Impairment of the Corporation's financial assets is assessed on a forward-looking basis. The Corporation applies the simplified approach to its 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.

(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.

4. Significant Accounting Policies (continued)

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

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	4 to 50 years

(h) Goodwill and other intangible assets

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

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.

Brands have been assessed as having an indefinite useful life, as there is no foreseeable limit to the cash flows generated by the brands.

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

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

4. Significant Accounting Policies (continued)

(h) Goodwill and other intangible assets (continued)

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
Brands	Not amortized	Indefinite
Computer software	Straight-line	4 to 10 years
Capital contributions	Straight-line	10 to 70 years
Other assets (excluding brands)	Straight-line	2 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.

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. 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.

4. Significant Accounting Policies (continued)

(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.

(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.

4. Significant Accounting Policies (continued)

(k) Employee future benefits (continued)

(ii) Non-pension defined benefit plans (continued)

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 and mortality rates, 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, 2022.

(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.

4. Significant Accounting Policies (continued)

(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.

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.

4. Significant Accounting Policies (continued)

(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.

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.

4. Significant Accounting Policies (continued)

(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 an advance until the project is in service and billable under the terms of the corresponding service agreements.

5. Future Accounting Changes

The following proposed new accounting standards/amendments have been published by the IASB but are not effective as at December 31, 2022 and have not been adopted in these financial statements:

(a) Regulatory Assets and Regulatory Liabilities

On January 1, 2021, the IASB published the Exposure Draft, Regulatory Assets and Liabilities. If finalized as a new IFRS Standard, the proposals would replace IFRS 14, *Regulatory Deferral Accounts.*

The Exposure Draft proposes to introduce a requirement for companies subject to rate regulation, to report regulatory assets and liabilities and the related regulatory income and expenses that arise due to timing differences. The Corporation is monitoring the Exposure Draft for potential changes and is assessing the impact of implementation of the standard on its financial statements. The IASB has not set an implementation date for the proposed standard.

(b) Impacts of Amendments to Accounting Standards Issued but not yet Effective

The following amendments have been issued by the IASB but are not yet effective and have not been early adopted in these consolidated financial statements. Management has assessed that the expected impact of adopting these amendments is not significant.

Effective Date January 1, 2023

- Disclosure of Accounting Policies (Amendments to IAS 1 - *Presentation of Financial Statements*);
- Deferred Tax related to Assets and Liabilities arising from a single transaction (Amendments to IAS 12 - *Income Taxes*); and
- Definition of Accounting Estimates (Amendments to IAS 8 - *Accounting Policies, Changes in Accounting Estimates and Errors*).

Effective Date January 1, 2024

- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16 - *Leases*); and
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1 - *Presentation of Financial Statements*).

(in millions of Canadian dollars)

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 15.

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”).

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.

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

(in millions of Canadian dollars)

7. Restricted Cash

Restricted cash includes $3 (2021 - $5) held in an escrow account related to an amount retained from the total purchase price of HPSI to indemnify the Corporation from future third party claims, if any. Subsequent to the year end, on January 4, 2023, the Corporation released the holdback payable to the seller of HPSI upon meeting certain conditions as set out in the escrow agreement. Refer to Note 16.

8. Other Assets

	2022	2021
Current		
Inventories	40	34
Prepaid expenses	20	16
Other	9	2
	69	52
Non-current		
Investment in associate	—	6
	—	6

The Corporation owns 68,790 Preferred C Shares in Grid4C Ltd. (Grid4C) which represents a 19% in the issued and outstanding fully diluted shares. The Corporation maintains significant influence over Grid4C's key decisions through adequate Board representation and therefore recognizes the investment using the equity method of accounting.

Grid4C requires significant additional financing to fund its operations and meet existing and future liabilities. Grid4C's ability to meet its financial obligations is in doubt which has triggered uncertainty as to whether it will be able to continue as a going concern. As a result, the Corporation assessed its investment in Grid4C and was unable to determine whether the investment was recoverable. Consequently, a full impairment loss of $6 (5 $USD) has been recorded in the Consolidated Statement of Income and Comprehensive Income. The Corporation continues to explore opportunities to recover its investment in Grid4C which may result in a partial or full reversal of the impairment loss in the future.

(in millions of Canadian dollars)

9. Property, Plant, and Equipment

	Notes	Land and buildings	Distribution assets	Other assets	Work-in-progress	Total
Cost						
Balance at January 1, 2021		198	3,678	241	150	4,267
Additions through acquisition	6	2	—	6	—	8
Additions / transfers	28	6	292	45	29	372
Disposals		(13)	(11)	(6)	—	(30)
Balance at December 31, 2021		193	3,959	286	179	4,617
Reclassifications		3	(20)	17	—	—
Additions / transfers	28	15	276	23	25	339
Disposals		—	(8)	(9)	—	(17)
Balance at December 31, 2022		211	4,207	317	204	4,939
Accumulated depreciation						
Balance at January 1, 2021		26	576	94	—	696
Depreciation		6	122	24	—	152
Disposals		(3)	(4)	(4)	—	(11)
Balance at December 31, 2021		29	694	114	—	837
Depreciation		6	128	24	—	158
Reclassifications		—	(2)	2	—	—
Disposals		—	(2)	(8)	—	(10)
Balance at December 31, 2022		35	818	132	—	985
Carrying amounts						
December 31, 2021		164	3,265	172	179	3,780
December 31, 2022		176	3,389	185	204	3,954

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, borrowing costs of $5 (2021 - $4) were capitalized as part of the cost of PP&E and intangible assets. An average capitalization rate of 3.64% (2021 - 3.09%) was used to determine the amount of borrowing costs to be capitalized with respect to the Corporation. Refer to Note 11.

(in millions of Canadian dollars)

10. Right of Use Assets

	Note	Buildings	Rooftop	Total
Cost				
Balance at January 1, 2021		24	12	36
Additions		1	—	1
Additions through acquisition	6	1	—	1
Balance at December 31, 2021		26	12	38
Balance at December 31, 2022		26	12	38
Accumulated depreciation				
Balance at January 1, 2021		5	2	7
Depreciation		3	1	4
Balance at December 31, 2021		8	3	11
Depreciation		3	1	4
Balance at December 31, 2022		11	4	15
Carrying amounts				
December 31, 2021		18	9	27
December 31, 2022		15	8	23

(in millions of Canadian dollars)

11. 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, 2021		761	4	165	93	24	21	1,068
Additions through acquisition	6	16	—	—	—	—	30	46
Additions		—	—	13	5	(2)	5	21
Write off / Disposals		—	—	(8)	—	—	(1)	(9)
Balance at December 31, 2021		777	4	170	98	22	55	1,126
Additions	28	—	—	12	—	11	6	29
Write off / Disposals		—	—	(7)	(1)	—	(1)	(9)
Balance at December 31, 2022		777	4	175	97	33	60	1,146
Accumulated amortization								
Balance at January 1, 2021		—	—	53	15	—	4	72
Amortization		—	—	17	4	—	5	26
Write off / Disposals		—	—	(8)	—	—	—	(8)
Balance at December 31, 2021		—	—	62	19	—	9	90
Amortization		—	—	20	4	—	5	29
Write off / Disposals		—	—	(7)	—	—	—	(7)
Balance at December 31, 2022		—	—	75	23	—	14	112
Carrying amounts								
December 31, 2021		777	4	108	79	22	46	1,036
December 31, 2022		777	4	100	74	33	46	1,034

During the year, the Corporation received a refund of $1 (2021 - $nil) from Hydro One Networks related to capital contributions, as a result of the revision of estimates based on OEB prescribed methodologies.

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

Borrowing costs capitalized in intangible assets and PP&E during the period is included in Note 9 and 26.

(in millions of Canadian dollars)

11. Goodwill and Other Intangible Assets (continued)

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

Goodwill with a carrying amount of $777 (2021 - $777) and land rights with a carrying amount of $4 (2021 - $4) have been allocated to the Corporation's CGUs. Carrying value of goodwill and land rights allocation is as follows:

	Goodwill		Land rights	
	2022	2021	2022	2021
AUC	755	755	4	4
HPS	16	16	—	—
UA	6	6	—	—

The Corporation tested goodwill and land rights for impairment as at September 30, 2022 and September 30, 2021. 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 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	
	2022	2021	2022	2021
AUC	3.00%	1.50%	4.99%	3.33%
HPS	2.70%	1.75%	21.10%	21.28%
UA	3.00%	1.75%	18.73%	9.17%

Forecast EBITDA is based on expectations of future outcomes considering past experience, adjusted for anticipated revenue growth and cost savings. Revenue growth is 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.

In the current year, the Corporation performed the impairment assessment at a lower CGU level to provide better information to users of the financial statements. This resulted in an increase in the WACC used. The change did not affect the results of the goodwill impairment test for 2022 or 2021.

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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12. Trade and Other Payables

	Note	2022	2021
Trade payables - energy purchases		235	229
Accrued liabilities		113	97
Due to related parties	13	52	46
Customer receivables in credit balances		34	50
Trade payables - other		26	28
Interest payable		17	16
		477	466

13. Related Party Balances and Transactions

(a) Balances and transactions with related parties

Significant related party transactions with the exception of transactions disclosed in Note 17 are summarized below:

2022				
	Revenue / Deferred Revenue	Expenses	Due from related parties	Due to related parties
City of Barrie	7	—	1	—
City of Guelph	9	—	—	6
City of Hamilton	32	1	3	24
City of Markham	7	1	1	9
City of Mississauga	18	3	3	—
City of St. Catharines	3	—	1	—
City of Vaughan	6	1	—	13
	82	6	9	52

2021				
	Revenue / Deferred 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

(in millions of Canadian dollars)

13. 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 17 for related party loans and borrowings.

The Corporation paid dividends to shareholders during the year. Refer to Note 19.

(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:

	2022	2021
Salaries and current employment benefits	16	15
Employee future benefits	1	1
	17	16

14. Short-term Debt

	2022	2021
Commercial Paper	290	195

The Corporation meets its short-term liquidity requirements through the issuance of Commercial Paper ("CP") and the use of committed and uncommitted credit facilities.

The CP program has a maximum authorized amount of $700 (2021 - $500) and is supported by the Corporation's $700 (2021 - $700) committed credit facility with $100 expansion option subject to mutual agreement between the Corporation and its lenders.

The $100 (2021 - $100) uncommitted credit facility may be drawn on for working capital and general corporate purposes. Interest on drawn amounts under the credit facility would apply based on Canadian benchmark rates.

Short-term debt at December 31, 2022 and 2021 consist of CP issued under the Corporation's CP program. The short-term debt is denominated in Canadian dollars and is issued with varying maturities of less than one year. CP issuances bear interest based on the prevailing market conditions at the time of issuance. CP issuance at December 31, 2022 was $290 (2021 - $195).

For the year ended December 31, 2022, the average annual outstanding borrowings under the Corporation's revolving credit facility, working capital facility, and CP was $336 (2021 - $204) with a weighted average interest rate of 2.39% (2021 - 0.26%). Refer to Note 21(b)(iii).

(in millions of Canadian dollars)

15. Contingent Consideration

Contingent consideration represents the Corporation's liability for earnout payments with respect to its acquisition of HPSI. For the year ended December 31, 2022, the contingent consideration is dependent on exceeding an agreed upon target earnings level between the Corporation and the former owner of the acquired business. In the prior year, the fair value of the contingent consideration was based on the estimation of future EBITDA using the historic information, relevant market variables and payment date outlined in the business acquisition agreement. Due to the change in the basis of calculating the contingent consideration, the fair value assessment changed from Level 2 to Level 3.

The contingent consideration is measured at fair value at each reporting date and changes in fair value are recognized through profit and loss. During the current year, as provided by the business acquisition agreement, the Corporation has valued the contingent consideration at $11 (2021 - $4). The increase in the value of $7 (2021 - decrease of $3) is recognized in the Consolidated Statement of Income and Comprehensive Income.

16. Other Liabilities

	Note	2022	2021
Current			
Advance payments		62	54
Holdback payable	6	5	3
Income tax payable		4	14
Other		4	6
		75	77
Non-current			
Expansion deposit		21	20
Holdback payable	6	—	3
Other		1	2
		22	25

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.

Included in the holdback payable is $3 (2021 - $5) retained by the Corporation from the total purchase price of HPSI and $2 (2021 - $1) related to several other asset purchases and subcontractor agreements. The holdback is payable to the seller based on the terms and conditions in the agreements. Refer to Note 7.

(in millions of Canadian dollars)

17. Loans and Borrowings

	2022	2021
Debentures[1]		
3.033% Debentures due 2022	—	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	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
5.225% Debentures due 2052	250	—
Less: Unamortized debt issuance costs	(9)	(9)
	2,071	1,971
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	2,237	2,137
Less: Current portion of loans and borrowings	—	(150)
Long-term loans and borrowings	2,237	1,987

[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 $65 (2021 - $66).

The 3.033% debenture due 2022 was repaid during the year.

On November 14, 2022, the Corporation issued 5.225% senior unsecured debenture for $250 maturing in 2052 and incurred a debt issuance cost of $2.

The debentures are subject to a financial covenant. The covenant requires 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, 2022 and 2021.

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 (2021 - $7).

(in millions of Canadian dollars)

17. Loans and Borrowings (continued)

The table below summarizes principal repayments on loans and borrowings due in the next five years and thereafter as at December 31, 2022.

2024	316
2027	675
Thereafter	1,255
	2,246

Principal payments in 2025 and 2026 are $nil.

18. 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, 2022, the Corporation made employer contributions of $19 (2021 - $18) to OMERS. These contributions have been recognized as an expense net of the amount capitalized in assets. The expected payment for 2023 is $21.

As at December 31, 2021, and subject to the estimates, assumptions and valuations of OMERS, the plan obligations are 97% (2020 - 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, 2022. 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:

	2022	2021
Defined benefit obligation at January 1	100	105
Benefit cost recognized in net income:		
Current service costs	3	2
Interest expense	3	3
Benefit cost recognized in net income	6	5
Amounts recognized in other comprehensive income:		
Remeasurement of defined benefit obligation	(32)	(7)
Amounts recognized in other comprehensive income	(32)	(7)
Payments from the plans	(3)	(3)
Defined benefit obligation at December 31	71	100

(in millions of Canadian dollars)

18. Employee Future Benefits

(b) Non-pension defined benefit plans (continued)

The main actuarial assumptions underlying the valuation are as follows:

	2022	2021
Discount rate	5.00 %	3.10 %
Medical benefits costs escalation	4.70 %	4.43 %
Dental benefits costs escalation	4.90 %	4.71 %

(c) Sensitivity analysis

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

	2022	2021
Discount rate		
1% increase	(8)	(13)
1% decrease	10	17
Medical and dental benefits costs escalation		
1% increase	7	13
1% decrease	(6)	(11)

ALECTRA INC.

Notes to the Consolidated Financial Statements
(in millions of Canadian dollars)
for the years ended December 31, 2022 and 2021

19. 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:

	2022		2021	
	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	39	99,999	41
Total Class S shares	99,999	39	99,999	41
Total share capital	10,584,999	992	10,584,999	994

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

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

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

During the year, the Board of Directors approved a return of capital to the Class S shareholders in the amount of $2 (2021 - $2) 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.

(in millions of Canadian dollars)

19. Share Capital (continued)

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

- Common share dividends aggregating $95 or $9.06 per share (2021 - $75 or $7.15 per share); and
- Class S share dividends aggregating $1 or $14.32 per share (2021 - $2 or $16.24 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.

Subsequent to the year end, on March 3, 2023, the Corporation declared a dividend in the amount of $28 and $1, payable to common shareholders and Class S shareholders, respectively. The Corporation has also declared a return of capital in the amount of $1, payable to Class S shareholders.

20. 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. Refer to Note 10. 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 three years. The Corporation does not purchase or guarantee the value of leased vehicles.

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

	2022	2021
Less than one year	6	7
Between one and five years	13	16
More than five years	19	22
Total undiscounted lease obligations	38	45

	2022	2021
Amounts recognized in the Statement of Income and Comprehensive Income		
Interest on lease obligations	1	2
Variable lease payments and non-lease components not included in the measurement of lease obligations	2	2

(in millions of Canadian dollars)

20. Lease Obligations (continued)

	2022	2021
Amounts recognized in the Statement of Cash Flows		
Payments for the principal portion included within financing activities	6	4
Payments for the interest portion included within financing activities	2	2
Variable lease payments included within operating activities	2	2
Total cash outflow for leases	10	8

21. 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 $2,086 (2021 - $2,173).

		2022		2021	
	Maturity Date	Carrying Value[1]	Fair Value[2]	Carrying Value[1]	Fair Value[2]
Loans and borrowings					
Promissory notes issued in 2002	2024	166	165	166	179
Debentures issued in 2010	2030	65	67	65	81
Debentures issued in 2011	2041	210	219	210	284
Debentures issued in 2012	2042	200	176	200	233
Debentures issued in 2014	2024	150	145	150	157
Debentures issued in 2015	2045	30	26	30	36
Debentures issued in 2017	2027	675	624	675	696
Debentures issued in 2019	2049	200	158	200	220
Debentures issued in 2021	2031	300	242	300	287
Debentures issued in 2022	2052	250	264	—	—
Total loans and borrowings - long-term portion		2,246	2,086	1,996	2,173
Less: issuance costs		(9)	—	(9)	—
		2,237	2,086	1,987	2,173

[1] The carrying value of long-term debt represents the par value of the 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.

(in millions of Canadian dollars)

21. Financial Instruments and Risk Management (continued)

(a) Fair value of financial instruments (continued)

The following table provides a summary of the Corporation's financial instruments and the associated fair values as at December 31, 2022 and 2021;

2022	Notes	Level 2	Level 3	Total
Financial liabilities				
Contingent consideration payable	15	—	11	11
Long-term loans and borrowings	17	2,086	—	2,086

2021	Notes	Level 2	Level 3	Total
Financial liabilities				
Contingent consideration payable	15	4	—	4
Long-term loans and borrowings	17	2,173	—	2,173

(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.

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, 2022 and 2021, there was no significant concentration of credit risk with respect to any financial assets.

(in millions of Canadian dollars)

21. Financial Instruments and Risk Management (continued)

(b) Financial risks (continued)

(i) Credit risk (continued)

Trade and other receivables and respective aging are as follows:

	Note	2022	2021
Trade receivables		333	365
Unbilled revenue		276	230
Due from related parties	13	9	9
Other		11	9
		629	613
Less: expected credit losses		(43)	(45)
Total trade and other receivables, net		586	568

	2022	2021
Less than 30 days	547	523
30 - 60 days	20	27
61 - 90 days	15	10
Greater than 90 days	47	53
	629	613
Less: expected credit losses	(43)	(45)
Total trade and other receivables, net	586	568

	Expected credit losses
Balance, January 1, 2021	(51)
Additional provision	(21)
Write-offs	27
Balance, December 31, 2021	(45)
Additional provision	(12)
Write-offs	14
Balance, December 31, 2022	(43)

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.

(in millions of Canadian dollars)

21. Financial Instruments and Risk Management (continued)

(b) Financial risks (continued)

(ii) Interest rate risk

The Corporation is exposed to fluctuations in interest rates for the valuation of its post-employment benefit obligations (Note 18). The Corporation is also exposed to short-term interest rate risk on short-term debt under its credit facility and CP program (Note 14). The Corporation manages interest rate risk by monitoring its mix of fixed and floating rate instruments and taking action as necessary to maintain an appropriate balance.

As at December 31, 2022, in addition to the valuation of its post-employment benefit obligations, the Corporation was exposed to interest rate risk predominately from short-term debt under its CP Program and customer deposits liability, while most of its remaining obligations were either non-interest bearing or bearing fixed interest rates, and its financial assets were predominately short-term in nature and primarily non-interest bearing (Notes 14 and 17).

The Corporation estimates that a 1% increase in short-term interest rates, with all other variables held constant, would result in an increase of approximately $3 (2021 - $2) to annual finance costs.

(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:

2022				
	Due within 1 year	Due between 1 and 5 years	Due past 5 years	Total
Trade and other payables	477	—	—	477
Commercial paper issuance	290	—	—	290
Customer deposits liability	58	—	—	58
Contingent consideration	11	—	—	11
Other liabilities	71	22	—	93
4.410% Promissory note due 2024	4	80	—	84
4.410% Promissory note due 2024	3	70	—	73
4.410% Promissory note due 2024	1	21	—	22
3.239% Debentures due 2024	5	155	—	160
2.488% Debentures due 2027	17	734	—	751
5.264% Debentures due 2030	3	14	75	92
1.751% Debentures due 2031	5	21	318	344
5.297% Debentures due 2041	11	44	360	415
3.958% Debentures due 2042	8	32	319	359
4.121% Debentures due 2045	1	5	52	58
3.458% Debentures due 2049	7	27	349	383
5.225% Debentures due 2052	13	52	577	642
Lease obligations	6	13	19	38
	991	1,290	2,069	4,350

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

(in millions of Canadian dollars)

21. Financial Instruments and Risk Management (continued)

(b) Financial risks (continued)

(iii) Liquidity risk (continued)

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	51	—	—	51
Contingent consideration	—	4	—	4
Other liabilities	63	25	—	88
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
	1,002	593	2,215	3,810

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 September 29, 2027 ("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. The CP program was increased from a maximum of $500 to $700 in 2022.
- Issuance of senior unsecured debentures with various maturity dates under established Trust Indentures.

21. Financial Instruments and Risk Management (continued)

(b) Financial risks (continued)

(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 $USD denominated cash, investment in associate and where there is a mismatch between the currencies in which revenue, purchases, receivables, payables and cash balances are denominated in the functional currency of the Corporation. To mitigate the Corporation's exposure to foreign currency risk, non-$CAD cash flows are monitored in accordance with the Corporation's risk management policies.

Included in the Consolidated financial statements captions noted below are significant $USD denominated balances that exposes the Corporation to currency risk:

	2022	2021
Trade receivables	21	33
Cash	3	5
Investment in associate	—	6

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

22. Capital Structure

The main objectives of the Corporation when managing financial capital are to:
- ensure ongoing cost effective access to financial capital 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 17).

(in millions of Canadian dollars)

23. Operating Expenses

	2022	2021
Labour	227	201
Contract and consulting	67	56
Office expenses	24	25
Repairs and maintenance	20	20
Information and technology	16	15
Provision for ECL	12	21
Business taxes and fees	10	9
Facility expenses	5	5
Other	6	7
	387	359

24. Other Revenue

	2022	2021
Power restoration and industrial services	90	61
Consulting	24	19
Regulatory service charges	17	16
Solar generation	16	16
Amortized deferred revenue	16	14
Sub-metering and metering services	14	12
Water and waste water billing and customer charges	11	11
Street lighting	8	9
Pole and other rental income	6	7
CDM performance incentive revenue	—	12
Other	3	6
	205	183

25. Deferred Revenue

	Note	2022	2021
Deferred revenue at January 1		552	494
Capital contributions received		71	72
Amortization	24	(16)	(14)
Deferred revenue at December 31		607	552
Less: Current portion of deferred revenue		19	17
Non-current portion of deferred revenue		588	535

(in millions of Canadian dollars)

26. Net Finance Costs

	Notes	2022	2021
Finance costs			
Interest on loans and borrowings	17	72	73
Interest on short-term debt	14	8	1
Other interest		6	4
Less: capitalized interest	9	(5)	(4)
Total finance costs		81	74
Finance income		2	—
Net finance costs		79	74

27. Income Taxes

(a) Income tax expense

Income tax recognized in net income comprise the following:

	2022	2021
Current tax expense	19	18
Deferred tax expense	—	18
Income tax expense	19	36

Income taxes paid and refunded during the year were $37 (2021 - $9) and $3 (2021 -$nil), 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:

	2022	2021
Income before taxes	59	141
Statutory Canadian federal and provincial income tax rates	26.5 %	26.5 %
Expected tax provision on income at statutory rates	16	37
Decrease in income taxes resulting from:		
Permanent differences	4	(3)
Adjustments in respect of prior years	(1)	1
Deferred tax assets write-down	—	1
Total income tax expense	19	36
Effective income tax rate	32.2 %	26.0 %

The statutory income tax rate for the current year comprises a combined 15% (2021 - 15%) federal corporate tax rate and 11.5% (2021 - 11.5%) Ontario corporate tax rate. Certain subsidiaries of the Corporation are also subject to taxation in the provinces of New Brunswick 14% (2021 - 14%) and Quebec 11.5% (2021 - 11.5%).

(in millions of Canadian dollars)

27. Income Taxes (continued)

(c) Deferred tax balances

Net deferred tax assets and liabilities consist of the following:

	January 1, 2022	Recognized in net income	Recognized in OCI	Recognized in goodwill	December 31, 2022
Deferred tax assets					
PP&E and intangible assets	(4)	—	—	—	(4)
Non-capital loss carryforwards	5	1	—	—	6
Non-deductible reserves	1	—	—	—	1
	2	1	—	—	3
Deferred tax liabilities					
PP&E and intangible assets	153	22	—	—	175
Debt issuance cost	2	—	—	—	2
Non-capital loss carryforwards	(3)	1	—	—	(2)
Tax credit carryovers	(7)	1	—	—	(6)
Non-deductible reserves	(4)	3	—	—	(1)
Energy variances	(18)	(24)	—	—	(42)
Employee future benefits	(26)	(2)	9	—	(19)
	97	1	9	—	107

	January 1, 2021	Recognized in net income	Recognized in OCI	Recognized in goodwill	December 31, 2021
Deferred tax assets					
PP&E and intangible assets	(3)	(1)	—	—	(4)
Non-capital loss carryforwards	7	(2)	—	—	5
Debt issuance costs	(2)	2	—	—	—
Non-deductible reserves	1	—	—	—	1
	3	(1)	—	—	2
Deferred tax liabilities					
Employee future benefits	(28)	—	2	—	(26)
PP&E and intangible assets	121	23	—	9	153
Non-capital loss carryforwards	(3)	—	—	—	(3)
Tax credit carryovers	(11)	4	—	—	(7)
Debt issuance cost	—	2	—	—	2
Non-deductible reserves	(3)	(1)	—	—	(4)
Energy variances	(7)	(11)	—	—	(18)
	69	17	2	9	97

(in millions of Canadian dollars)

28. Net Change in Non-cash Operating Working Capital

	2022	2021
Trade and other receivables	(18)	76
Other assets	(17)	(3)
Trade and other payables	7	32
Other liabilities	13	9
Customer deposits liability	7	(1)
	(8)	113

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

	Notes	2022	2021
Purchase of PP&E, cash basis		335	378
Accruals		4	(6)
Total additions to PP&E	9	339	372
Purchase of intangible assets, cash basis		25	21
Accruals		4	—
Total additions to intangible assets	11	29	21

29. Financing Activities Reconciliation

Summary of changes in liabilities arising from financing activities:

	Notes	January 1, 2022	Cash inflow	Cash outflow	Non-cash changes	December 31, 2022
Short-term debt	14	195	11,991	(11,896)	—	290
Loans and borrowings	17	2,137	248	(150)	2	2,237
Lease obligations	20	35	—	(6)	—	29
Interest receivable		—	2	—	(2)	—
Interest payable	12	16	—	(85)	86	17
Share capital	19	994	—	(2)	—	992
Dividend payable	19	—	—	(96)	96	—
		3,377	12,241	(12,235)	182	3,565

	Notes	January 1, 2021	Cash inflow	Cash outflow	Non-cash changes	December 31, 2021
Short-term debt	14	415	6,839	(7,059)	—	195
Loans and borrowings	17	1,948	298	(110)	1	2,137
Lease obligations	20	35	—	(4)	4	35
Interest payable	12	15	—	(77)	78	16
Share capital	19	996	—	(2)	—	994
Dividend payable	19	—	—	(77)	77	—
		3,409	7,137	(7,329)	160	3,377

30. Commitments, Contingencies, and Guarantees

(a) Commitments

(i) Leases

Refer to Note 20 for details on lease commitments.

(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 (2021 - $33).

(iii) Unrecognized contractual commitments

As at December 31, 2022, the Corporation's commitments for capital expenditures contracted for but not recognized as liabilities, were $266 (2021 - $219). Included within the commitments for capital expenditures, are amounts for property, plant and equipment, intangible assets, and financial investments. The Corporation's commitments for operating expenditures, were $59 (2021 - $59).

(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, 2022, no assessments have been made.

(c) Guarantees

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

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

30. Commitments, Contingencies, and Guarantees (continued)

(c) Guarantees (continued)

(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.

31. 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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31. Divisional and Regulatory Information (continued)

2022	Regulated	Adjustment for regulated activities	Competitive activities	Total
Revenue				
Distribution revenue	610	10	—	620
Electricity sales	3,169	(90)	—	3,079
Other revenue	42	16	147	205
Total revenue	**3,821**	**(64)**	**147**	**3,904**
Expenses				
Cost of power	3,169	—	—	3,169
Operating expenses	286	2	99	387
Depreciation and amortization	158	16	17	191
Total expenses	**3,613**	**18**	**116**	**3,747**
Income from operating activities	**208**	**(82)**	**31**	**157**
Net finance costs	73	2	4	79
Loss on derecognition of property, plant, and equipment	5	—	1	6
Impairment loss on intangible assets	3	(3)	—	—
Loss on fair value of contingent consideration	—	—	7	7
Impairment loss on investment in associate	—	—	6	6
Income before income tax	**127**	**(81)**	**13**	**59**
Income tax expense	11	1	7	19
Net income	**116**	**(82)**	**6**	**40**
Other comprehensive income				
Reclassification to net income, loss on bond forward	—	—	2	2
Remeasurement of defined benefit obligation	19	12	1	32
Tax impact on remeasurement of defined benefit obligation	—	(8)	(1)	(9)
Total other comprehensive income	**19**	**4**	**2**	**25**
Total comprehensive income	**135**	**(78)**	**8**	**65**

(in millions of Canadian dollars)

31. 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**
Net finance costs	69	1	4	74
Gain on derecognition of property, plant, and equipment	(12)	1	—	(11)
Gain on fair value of contingent consideration	—	—	(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, 2022 and 2021

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31. Divisional and Regulatory Information (continued)

2022	Regulated	Adjustment for regulated activities	Competitive activities	Total
Assets				
Current assets				
Cash	—	—	48	48
Restricted cash	—	—	3	3
Trade and other receivables	548	—	38	586
Other assets	62	—	7	69
Total current assets	**610**	**—**	**96**	**706**
Non-current assets				
Property, plant, and equipment	3,188	619	147	3,954
Right of use assets	9	—	14	23
Goodwill and other intangible assets	947	8	79	1,034
Promissory notes receivable	—	—	—	—
Regulatory assets	445	(445)	—	—
Deferred tax asset	—	—	3	3
Other assets	4	—	(4)	—
Total non-current assets	**4,593**	**182**	**239**	**5,014**
Total assets	**5,203**	**182**	**335**	**5,720**
Liabilities and Shareholders' Equity				
Current liabilities				
Bank indebtedness	2	—	(2)	—
Trade and other payables	460	—	17	477
Customer deposits liability	57	—	1	58
Short-term debt	257	—	33	290
Lease obligations	3	—	1	4
Deferred revenue	—	19	—	19
Contingent consideration	—	—	11	11
Other liabilities	68	—	7	75
Total current liabilities	**847**	**19**	**68**	**934**
Non-current liabilities				
Loans and borrowings	2,059	—	178	2,237
Deferred revenue	—	588	—	588
Employee future benefits	71	—	—	71
Lease obligations	13	—	12	25
Regulatory liabilities	95	(95)	—	—
Deferred tax liabilities	160	(79)	26	107
Other long-term liabilities	22	—	—	22
Total non-current liabilities	**2,420**	**414**	**216**	**3,050**
Total liabilities	**3,267**	**433**	**284**	**3,984**
Shareholders' equity				
Share capital	683	—	309	992
Contributed surplus	839	(13)	(227)	599
Accumulated other comprehensive income	5	5	(5)	5
Retained earnings	409	(243)	(26)	140
Total shareholders' equity	**1,936**	**(251)**	**51**	**1,736**
Total liabilities and shareholders' equity	**5,203**	**182**	**335**	**5,720**

(in millions of Canadian dollars)

31. 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
Other assets	47	—	5	52
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
Regulatory assets	293	(293)	—	—
Deferred tax asset	—	—	2	2
Other assets	4	—	2	6
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	51	—	—	51
Short-term debt	170	—	25	195
Loans and borrowings	150	—	—	150
Lease obligations	4	—	2	6
Deferred revenue	—	17	—	17
Other liabilities	69	—	8	77
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
Contingent consideration	—	—	4	4
Other long-term liabilities	22	—	3	25
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**

(in millions of Canadian dollars)

31. 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.

	2022	2021
Regulatory Deferral Debit Balances		
Retail settlement variance accounts (RSVA's)[a]	193	84
Deferred income tax asset[b]	187	147
Lost revenues adjustment mechanism variance account (LRAMVA)[c]	26	25
Large commercial interval meter recovery[d]	15	14
OEB cost assessments deferral[e]	9	7
Collection of account lost revenue[f]	8	6
Renewable generation capital and operating cost deferral[g]	4	4
Re-measurements of post-employment benefits[h]	—	4
Other[i]	3	2
	445	**293**
Regulatory Deferral Credit Balances		
Retail settlement variance accounts (RSVA's)[a]	31	15
PILs and tax variance[j]	29	22
Capitalization policy[k]	14	9
Pole rental variance account[l]	10	8
Re-measurements of post-employment benefits[h]	9	—
Other[m,n]	2	2
	95	**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 energy sales or purchases 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) Deferred income taxes are presented as regulatory liabilities or assets and are not expensed through the Consolidated Statement of Income and Comprehensive Income as is the case under IFRS.

(c) The OEB approved a variance account to record revenues associated with the delivery of Conservation Demand Management ("CDM") programs. The variance account tracks the difference between the results of actual, verified impacts of CDM activities and the level of CDM program activities included in a distributor's load forecast. Alectra Utilities may recover or refund this revenue through future distribution rates.

31. Divisional and Regulatory Information (continued)

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

(e) The OEB 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.

(f) 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 and eliminated any customer charges for this activity. However, as the associated revenue was factored into the rate-setting process the established deferral account allows Alectra Utilities to record the lost revenues for recovery through future distribution rates.

(g) 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.

(h) The OEB approved a deferral account for PowerStream, Enersource and Guelph rate zones 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.

(i) 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.

(j) The OEB requires utilities to record the impact of any differences that result from a legislative or regulatory change to the tax rates or rules that are not incorporated in the distributor's rates. On June 21, 2019, Bill C-97, the Budget Implementation Act, 2019, No. 1, was given Royal Assent, which introduced the Accelerated Investment Incentive ("AII") program. This program provides for a first-year increase in capital cost allowance (CCA) deductions on eligible capital assets acquired after November 20, 2018. On June 23, 2022, Bill C-19, Budget Implementation Act, 2022, No. 1, was given Royal Asset. Bill C-19 implements new CCA immediate expensing rules, up to a maximum of $1.5MM, on eligible capital assets acquired after April 19, 2021 and available for use before January 1, 2024. Alectra Utilities has recorded the revenue related to the CCA tax rule changes to be refunded through future distribution rates.

(k) 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.

(l) 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 updated rate as set by the OEB. Effective January 1, 2022, the new pole attachment charge is set at $34.76 per pole based on the OEB's decision issued on December 16, 2021. Under IFRS, Alectra Utilities recognizes the revenue based on the effective rate in the period the revenue was earned.

31. Divisional and Regulatory Information (continued)

(m) 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.

(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 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. Alectra Utilities has not deferred any assets. The recovery of any potential COVID-19 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.

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

ALECTRA Inc.

Year ended December 31, 2022

GLOSSARY

The following acronyms and abbreviations are used in this document.

AES	Alectra Energy Solutions Inc.
AESI	Alectra Energy Services Inc.
AFFO	Adjusted Funds from Operations
Alectra Utilities	Alectra Utilities Corporation
AMSP	Alectra Microgrid Master Limited Partnership
APSI	Alectra Power Services Inc.
CC	Customer Contributions
CC&B	Customer Care and Billing
CDM	Conservation and Demand Management
CIS	Customer Information System
COVID-19	Coronavirus Disease 2019
CP	Commercial Paper
DBRS	Dominion Bond Rating Service
DER	Distributed Energy Resource
DSC	Distribution System Code
EBITDA	Earnings before interest, taxes, depreciation and amortization
ECL	Expected Credit Loss
ERM	Enterprise Risk Management
ERCC	Electricity Retailer Code of Conduct
ESG	Environmental, Social and Corporate Governance
EV	Electric Vehicles
FFO	Funds from Operations
GA	Global Adjustment
GHG	Greenhouse Gas
GP	General Plant
HNE	Holland New England
HPSI	Holland Power Services Inc.
HPS	HPS Holdings Inc.
IAS	International Accounting Standards
IASB	International Accounting Standards Board

ICM	Incremental Capital Module
IESO	Independent Electricity System Operator
IFRS	International Financial Reporting Standards
IR	Incentive Rate
kWh	Kilowatt-hour
LDC	Local Distribution Company
LED	Light Emitting Diode
LPC	Late Payment Charge
LRAMVA	Lost Revenue Adjustment Mechanism Variance Account
MD&A	Management Discussion and Analysis
MIFRS	Modified International Financial Reporting Standards
OEB	Ontario Energy Board
OEBA	Ontario Energy Board Act
OEFC	Ontario Electricity Finance Corporation
OER	Ontario Electricity Rebate
PP&E	Property, Plant and Equipment
PWU	Power Workers' Union
RPQR	Reliability and Power Quality Review
RRF	Renewed Regulatory Framework for Electricity Distributors
RSC	Retail Settlement Code
SA	System Access
SAIDI	System Average Interruption Duration Index
SAIFI	System Average Interruption Frequency Index
SR	System Renewal
SS	System Service
UA	Util-Assist Inc.
ULO	Ultra-Low Overnight
WMS	Wholesale Market Service
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 Management and Risks” 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.

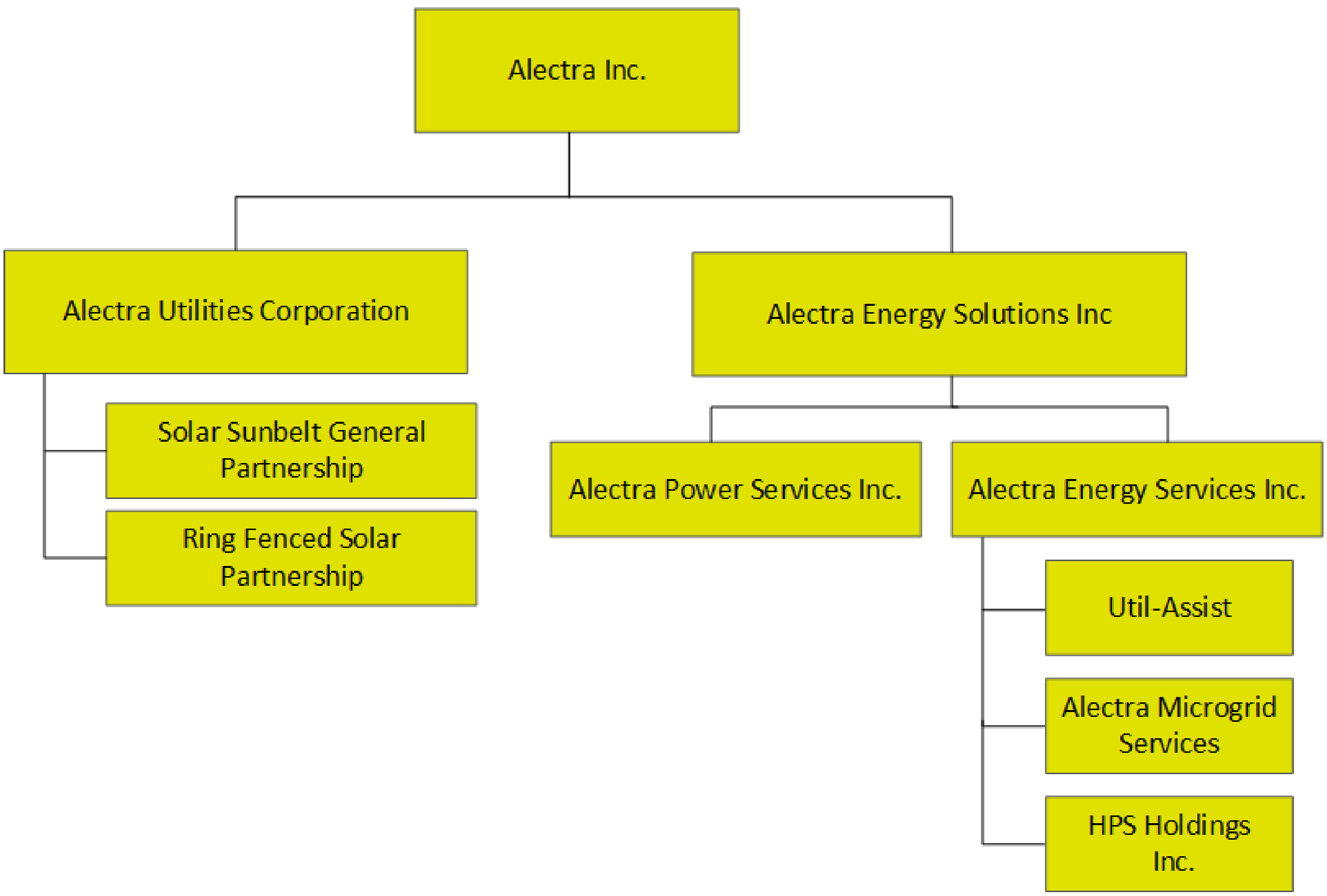
TABLE OF CONTENTS

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, 2022 (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, 2022. 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. 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

CORPORATE OVERVIEW (continued)

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").

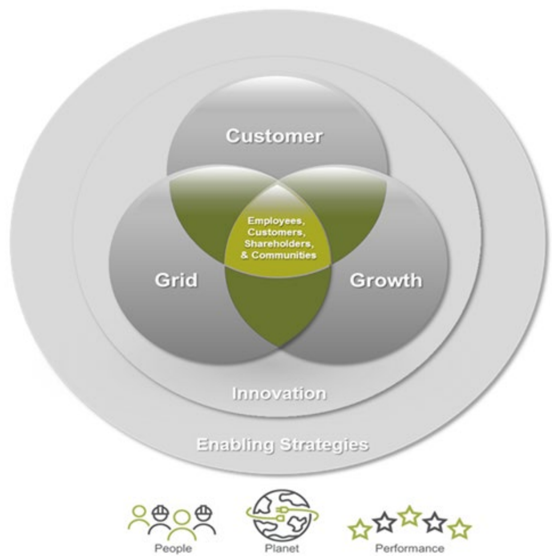
Vision and Strategic Intent

The Corporation's goal is to be a leading distribution and integrated energy solutions provider, creating a future where people, businesses, and communities will benefit from energy's full potential. The traditional centralized and unidirectional electricity system of the past is now transforming into one that is much more customer-focused, distributed and integrated.

Responding in part to the profound transformation that the electricity sector is experiencing, and the risks and opportunities it creates, in 2020, the Corporation evolved its strategy beyond the initial merger transaction and integration. "Strategy 2.0" builds upon the Corporation's integration and synergy successes achieved to date. 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.

"Strategy 2.0" was designed to be a natural evolution from the initial strategy focusing on three core strategic pillars:

- Customer (Experience);
    - Improving service, building stronger customer relationships and understanding of their needs, and creating a digital experience
- Grid (Modernization);
    - Adapting to the news of the future, while ensuring reliability for today, a digital grid
- Growth (Enterprise).
    - Seeking new opportunities in distribution and energy solutions



These core strategic pillars are intertwined and supported by three enabling strategies, culture and transformation, advocacy and financing, which will provide Strategy 2.0 with greater reliability and resiliency.

Sustainability / ESG

As a sustainable company, the Corporation is committed to meeting the needs of current and future generations by empowering its customers, communities, and employees, protecting the environment, and embracing innovation.

CORPORATE OVERVIEW (continued)

Sustainability / ESG (continued)

AlectraCARES is the umbrella program and framework that embeds sustainability principles into the Corporations core business strategy and operations helping to create enduring value, and connects the Corporation 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 2022 Annual ESG 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 Local Distribution Company ("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 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.

REGULATED BUSINESS (continued)

Rate Setting (continued)

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

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

On February 10, 2022, the OEB issued a Letter regarding Incremental Capital Modules During Extended Deferred Rebasing Periods. The OEB updated its ICM policy for electricity distributors during extended rebasing deferral periods arising from utility consolidations. The policy update is applicable to distributors in years six to ten of the rebasing deferral period. In order to further enhance the efficiency of the regulatory process and to provide a further incentive for distributors considering consolidation, the updated policy provides additional flexibility to apply for incremental capital funding for an annual capital program during the extended rebasing period.

REGULATED BUSINESS (continued)

Rate Setting (continued)

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.

Rate Applications

2022 Rate Application

On August 18, 2021, Alectra Utilities filed an application for all five predecessor utilities' 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 kilowatt-hour ("kWh") per month in the Horizon Rate Zone is 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 is 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 is 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 is 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 is an increase of approximately 76 cents or 2.51%.

REGULATED BUSINESS (continued)

Rate Applications (continued)

2023 Rates Applications

On May 16, 2022, Alectra Utilities filed an ICM application for the approval of 2023 incremental capital funding for urgent underground cable renewal investments in the PowerStream and Enersource rate zones, effective January 1, 2023.

On August 3, 2022, Alectra Utilities filed an application for all five predecessor utility rate zones for the approval of 2023 electricity distribution rates, effective January 1, 2023 to December 31, 2023.

On November 17, 2022, the OEB issued its Decision and Order on the ICM application, approving ICM rate riders effective January 1, 2023. On December 8, 2022, the OEB issued its Decision and Rate Order on the Price Cap IR application, approving distribution rates effective January 1, 2023.

The following rate changes were effective as of January 1, 2023:

- 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 97 cents or 3.40%;
- Brampton Hydro Rate Zone – Price Cap adjustment under the OEB's Price Cap IR. The resulting change to the distribution portion of the bill for a typical residential customer consuming 750 kWh per month is an increase of approximately 88 cents or 3.33%;
- 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 93 cents or 3.08%;
- Enersource 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 91 cents or 3.40%; 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 1.06 cents or 3.42%.

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

Government of Ontario Initiatives and Programs:

- Ultra-Low Overnight Price Plan – On March 31, 2022, the OEB submitted its report to the Ministry of Energy, as requested, detailing the design of an optional enhanced Time-of-Use rate option. The new rate option is to be available to all Regulated Price Plan-eligible customers and is characterized by four price periods with a 10:1 ratio between highest and lowest price periods, and without seasonal variations. The lowest price period would apply from 11PM-7AM on weekdays, weekends, and holidays throughout the year. The new rate is estimated to offer monthly bill savings up to 5% to customers who shift demand to the overnight period and would benefit EV-owners. Forecasts indicate that the plan could reduce Ontario's peak demand by up to 40 MW.

  On August 10, 2022, the Ministry of Energy published a regulatory proposal to launch the new price plan on May 1, 2023, under the name of the Ultra-Low Overnight ("ULO") Price Plan. Amendments to Regulations under the OEBA came into effect on November 1, 2022 to enable the new ULO Price Plan. Distributors are required to enable the new rate option for residential and small business customers no later than November 1, 2023.

- Broadband Connections – On April 14, 2022, the Getting Ontario Connected Act received Royal Assent. The Act aims to expedite the delivery of broadband projects throughout underserved areas of Ontario. Consistent with the Distribution System Code ("DSC"), the related Regulations state that in the event assets require relocation or replacement, Internet Service Providers will be responsible for the undepreciated cost of the asset plus additional costs for early retirement ("advancement costs"). The Regulation also establishes a deferral account to capture operating and capital costs incurred by LDCs for all designated broadband projects within their service area.

Ontario Energy Board Initiatives and Consultation:

- Energy Transition Initiative – On September 19, 2022, the OEB launched a consultation to map out priorities in respect of energy transition, as characterized by the "Four Ds": decarbonization, decentralization, democratization and digitalization. The OEB is developing an Energy Transition Roadmap to prioritize energy transition work.

- Electric Vehicle Integration Initiative – On September 19, 2022, the OEB launched a consultation to inform actions the OEB may take to ensure efficient integration of EVs.

(in millions of Canadian dollars)

KEY BUSINESS STATISTICS

	2022	2021	2021 Average Urban Distributor Benchmark [1]
SAIDI [2]	0.88	0.98	0.97
SAIFI [3]	1.07	1.15	1.14

[1] The Average Urban Distributor is based on the average 2021 SAIDI and SAIFI performance results for Urban Ontario Distributors with at least 50k customers from the 2021 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 0.88 and 1.07, respectively, in 2022, compared to SAIDI and SAIFI of 0.98 and 1.15, respectively, in 2021.

Alectra Utilities’ SAIDI performance improved relative to 2021 primarily due to shorter average duration of outages caused by defective equipment and adverse weather events, which was due to enhancements in distribution automation and system restoration efforts.

Alectra Utilities’ SAIFI performance improved relative to 2021 primarily due to fewer customer interruptions from outages caused by tree contacts, lightning, defective equipment and adverse environment. While there was negligible improvement in customer hours of interruption due to tree contact outages, the number of customer interruptions was reduced significantly.

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.

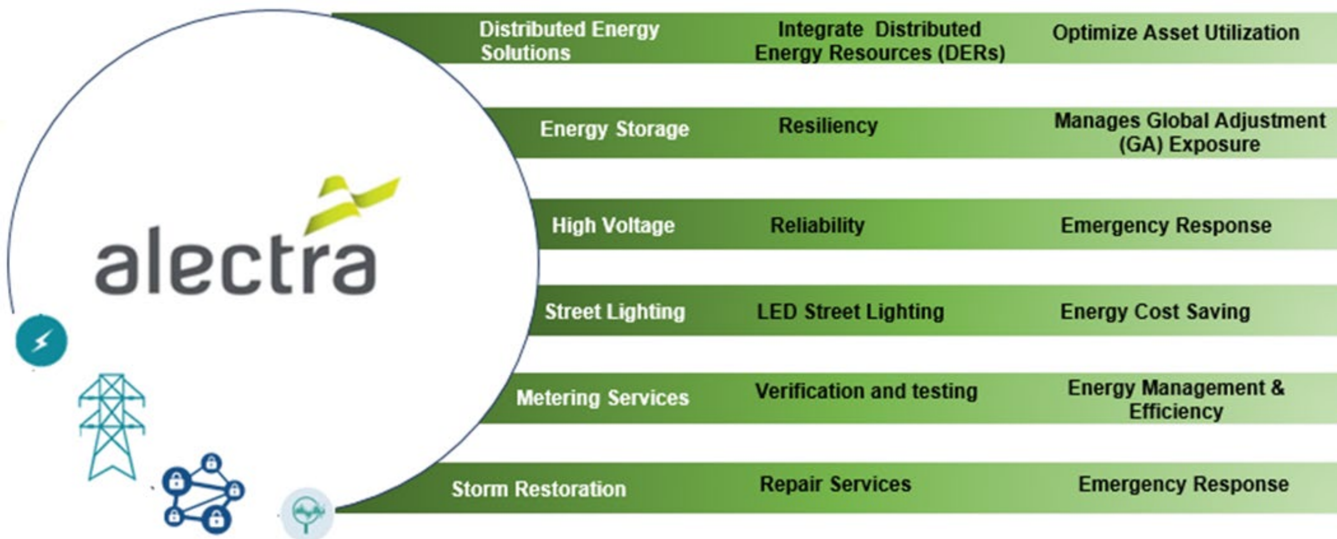
AMSP provides energy management services partnership which includes installing, owning and operating an industrial energy storage battery and gas system with a third party.

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

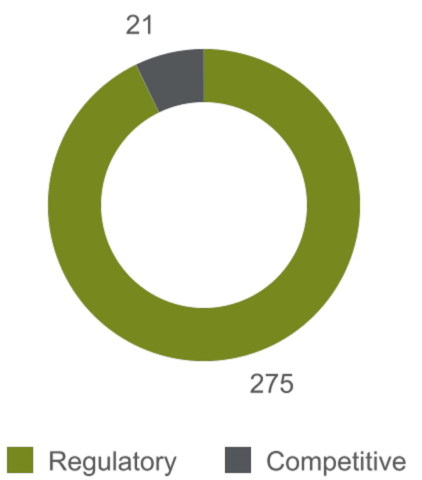
During 2022, AESI acquired a partial ownership stake in Global Strategic Mobility Fund L.P. The fund is based in the United States and is engaged in investment activities in the e-mobility space.

2022 FINANCIAL RESULTS AT A GLANCE

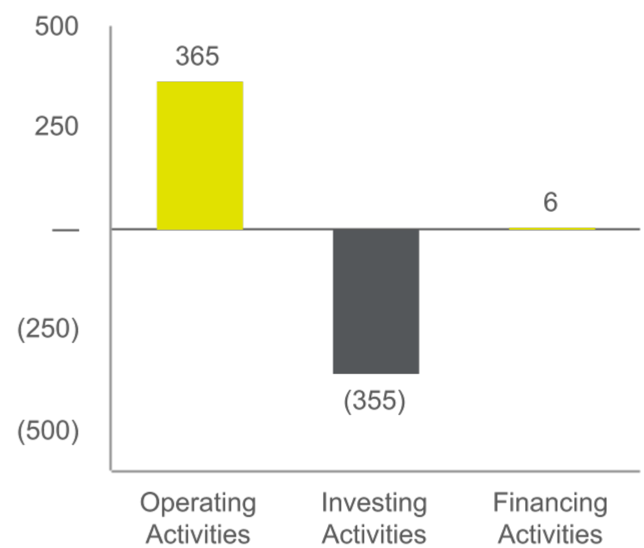
Annual Results and Performance

- Total Assets $5,720
- Loans and borrowings $2,237
- Revenue $3,904
- Expenses $3,747
- Net Income $40
- Net Income Adjusted for Regulatory Activities $122
- Dividends Paid $96

Capital Investments, Net of Contributions

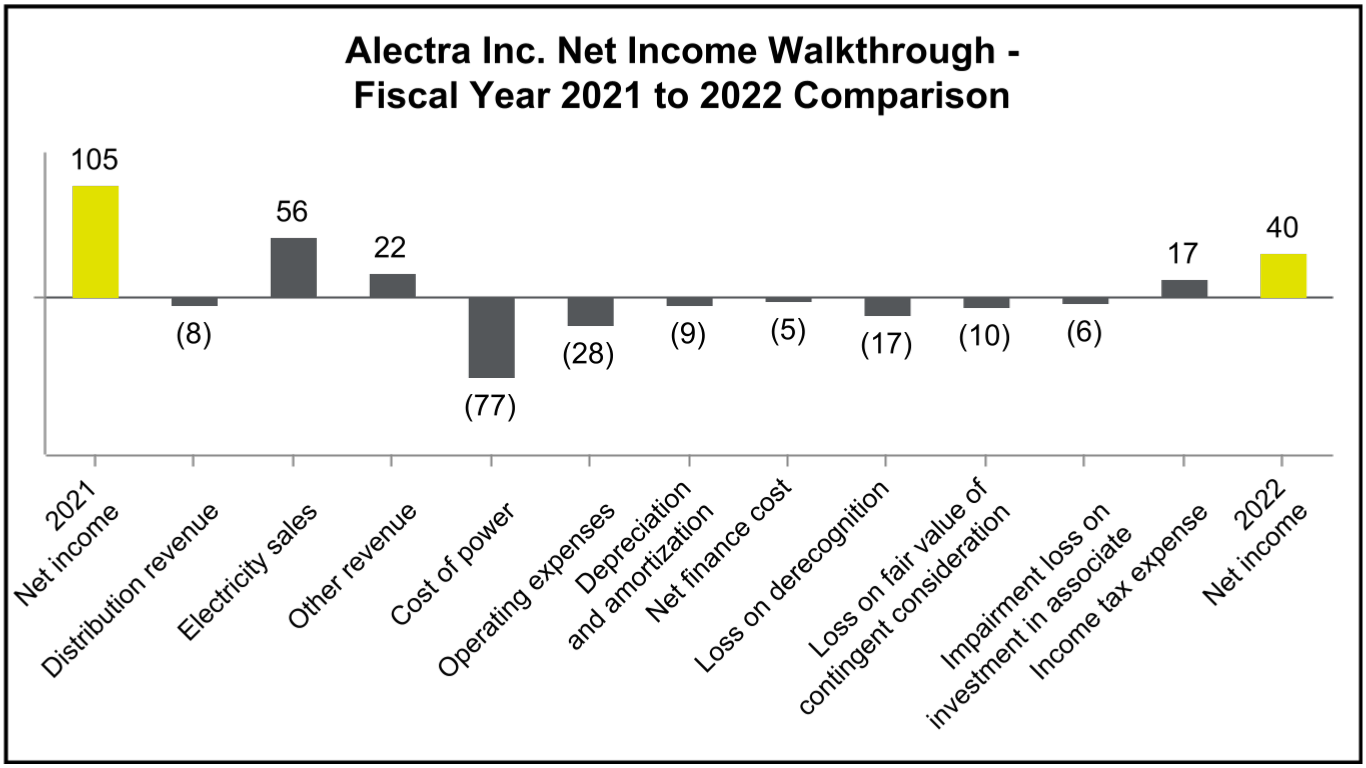


Cashflow Overview



(1) Net Income Adjusted for Regulatory Activities represents the net income for the year, adjusted for the effect of rate regulation. Refer to *Note 31* in the Consolidated Financial Statements for further details.

RESULTS OF OPERATIONS



Net income for the year ended December 31, 2022 was $40 which is $65 lower than 2021 net income of $105. The decrease in net income is principally attributable to: (i) an increase in cost of power ($77) as a result of higher wholesale electricity consumption; (ii) higher operating expenses of ($28) mainly due to an increase in labour costs due to increased storm response activities, and higher salaries, benefits and overtime; (iii) higher loss on derecognition of property, plant and equipment ("PP&E) of ($17) due to gain on sale of an operation centre in 2021; (iv) higher loss on the fair value of contingent consideration of ($10) due to a higher earnout payable; (v) higher depreciation and amortization costs of ($9) due to new in-service additions in 2022; (vi) lower distribution revenue of ($8) as a result of lower recoveries from customers through OEB approved rate riders; (vii) an impairment loss in investment in associate of ($6); (viii) an increase in net finance costs of ($5) due to an increase in short-term interest rates; partially offset by (ix) an increase in electricity sales of ($56) driven by higher electricity consumption; (x) higher other revenue of ($22) due to an increase in power restoration services; and (xi) lower income taxes of ($17) due to lower net income in 2022.

(in millions of Canadian dollars)

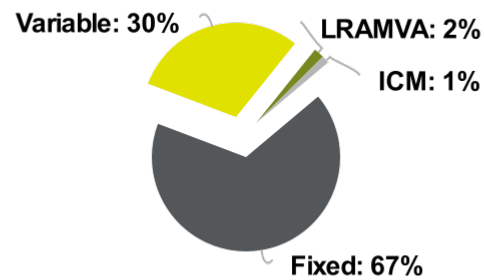
RESULTS OF OPERATIONS (continued)

	2022	2021	Change
Distribution Revenue	620	628	(8)

Distribution revenue is recorded based on OEB-approved distribution rates to recover the costs incurred by Alectra Utilities in delivering electricity to customers. The decrease in distribution revenue is mainly attributable to: (i) lower revenue recovered from customers through OEB approved rate riders ($30); partially offset by (ii) higher OEB approved distribution rates driven by a higher inflation factor ($15); (iii) an increase in consumption and demand from commercial customers ($6); and (iv) an increase in customer growth in the residential and small commercial classes ($1).

Distribution Revenue by Customer Class for 2022

Fixed vs. Variable Distribution Revenue for 2022



Alectra Utilities' customer classes are as follows:

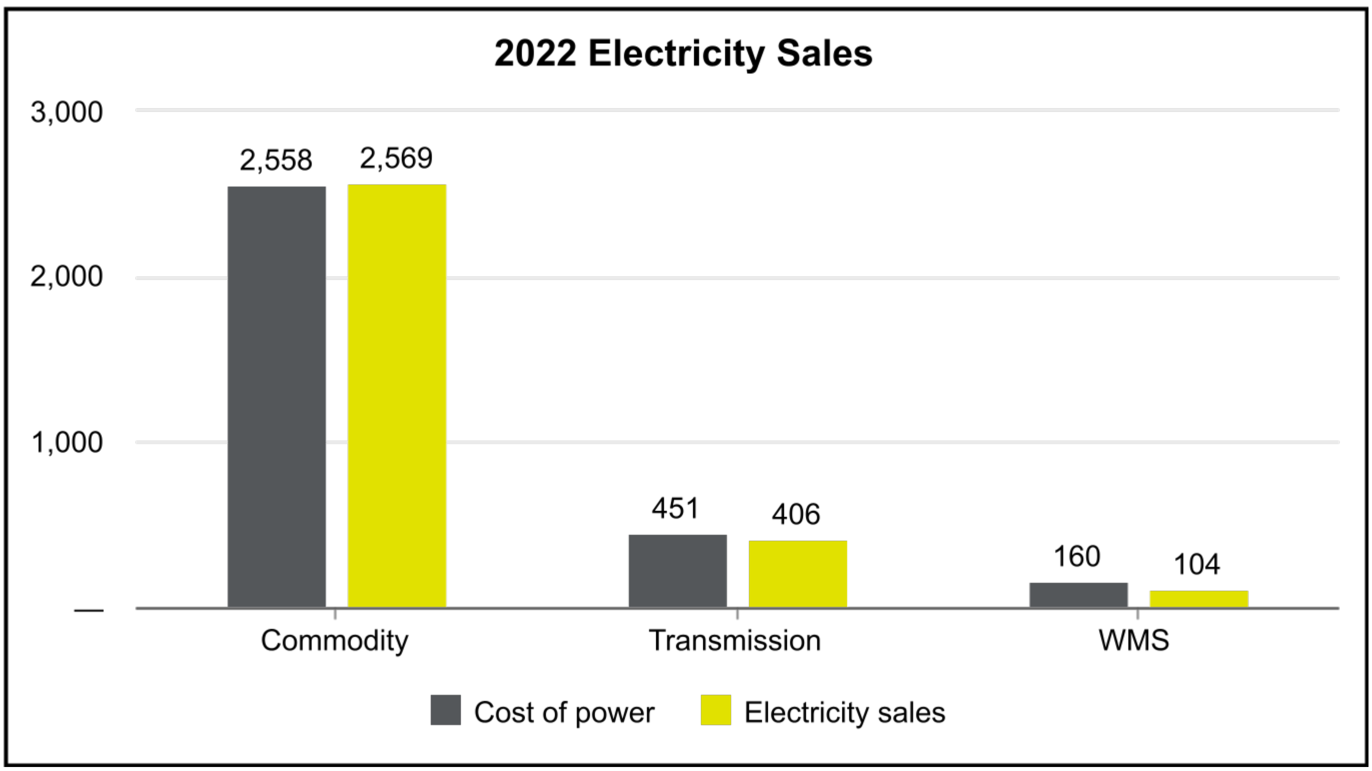
- Residential - the residential class includes single family or individually metered multi-family units and seasonal occupancy;
- Commercial - the commercial class typically includes small businesses and bulk-metered multi-unit residential establishments that is provided to customers with a monthly peak 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)

	2022	2021	Change
Electricity Sales	3,079	3,023	56

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

The increase in electricity sales by $56 is mainly driven by higher electricity consumption in the current year results.



RESULTS OF OPERATIONS (continued)

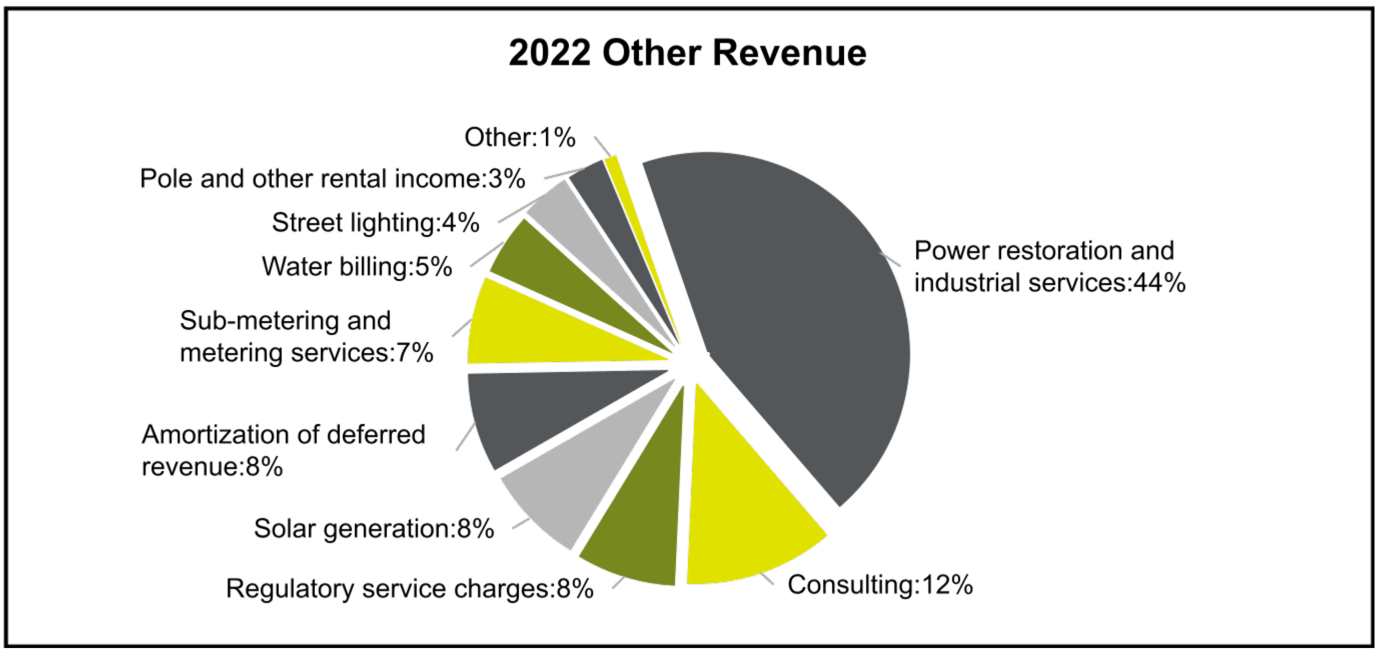
	2022	2021	Change
Other Revenue	205	183	22

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
- Conservation and Demand Management ("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.

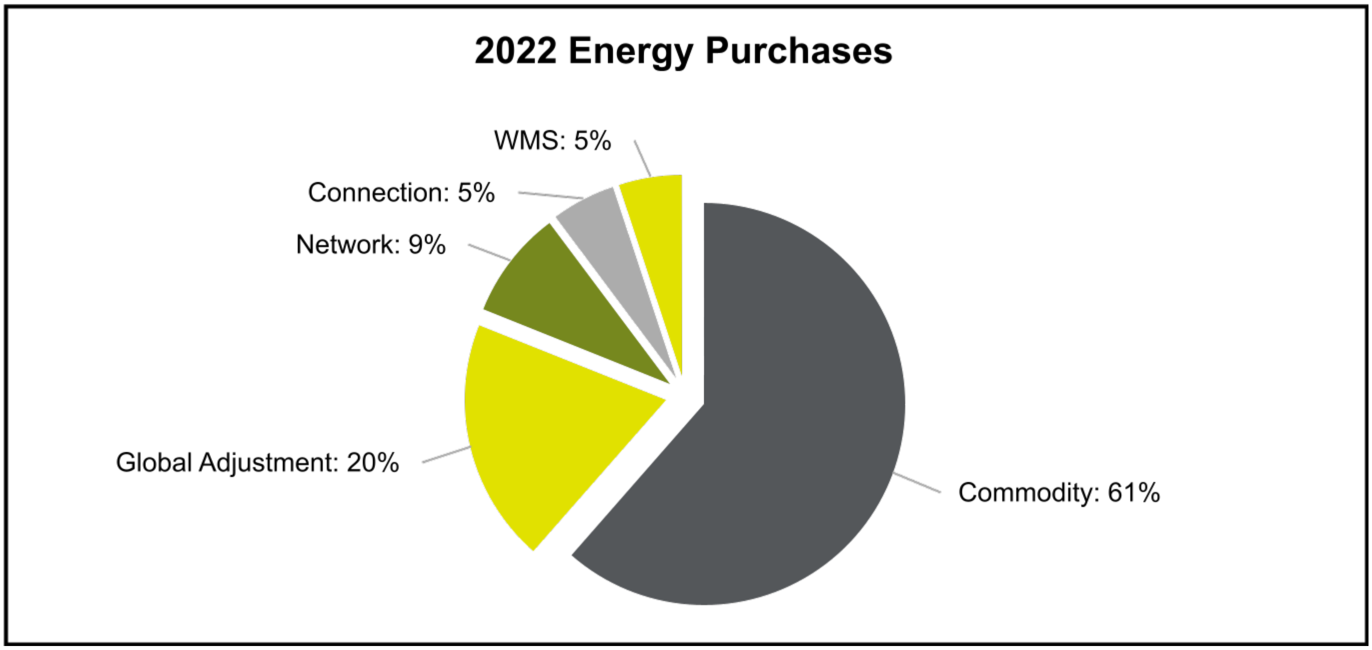
The increase in other revenue of $22 primarily relates to: (i) higher power restoration and industrial services revenue corresponding to higher storm response activities in the competitive business ($29); and (ii) higher consulting revenue ($5); partially offset by (iii) lower CDM revenue related to performance incentives under energy conservation agreements with the IESO ($12).



RESULTS OF OPERATIONS (continued)

	2022	2021	Change
Cost of Power	3,169	3,092	(77)

Cost of Power represents actual charges for electricity generated by third parties, which are delivered by Alectra Utilities and passed through to customers in the form of energy sales. The increase in cost of power by $77 is primarily as a result of higher wholesale electricity consumption.



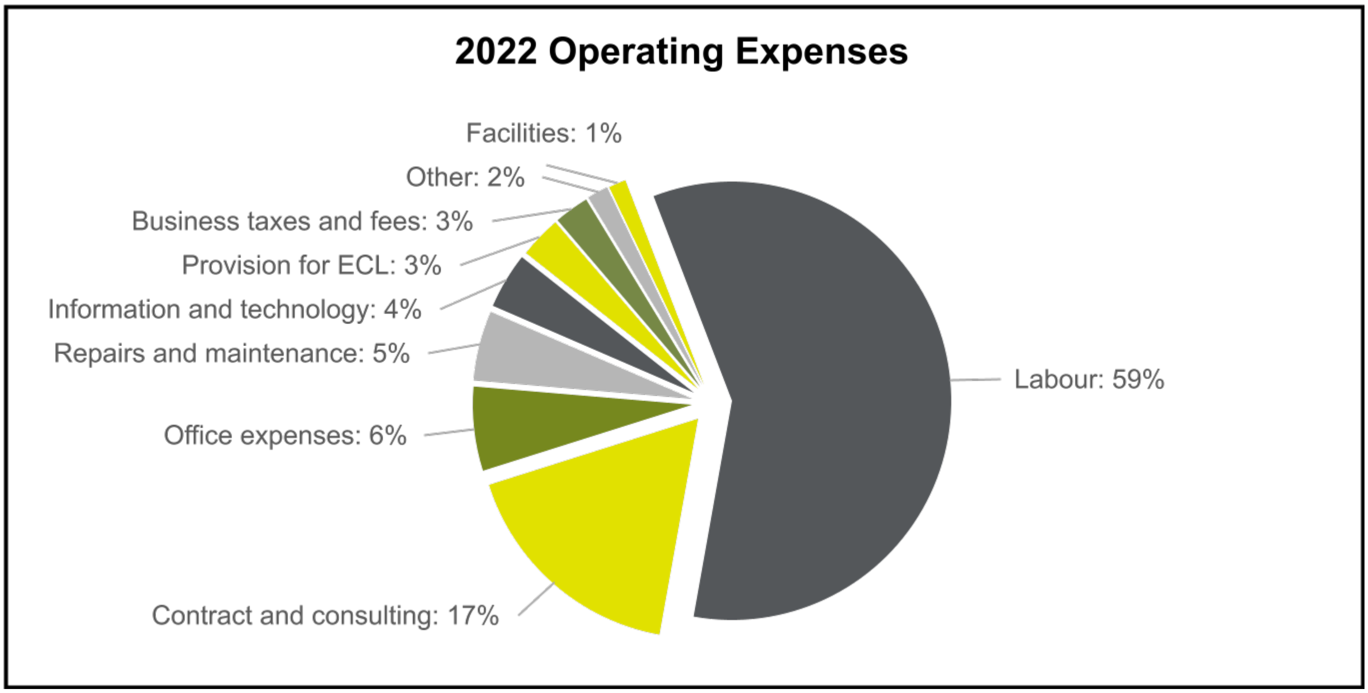
(in millions of Canadian dollars)

RESULTS OF OPERATIONS (continued)

	2022	2021	Change
Operating Expenses	387	359	(28)

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

The increase in operating expense of $28 is principally due to: (i) higher labour costs ($26) corresponding to higher volume of work on storm response activities and higher salaries, benefits and overtime; and (ii) higher contract and consulting costs ($11) mainly due to increased maintenance, asset inspection and storm response activities; partially offset by (iii) a lower provision for ECL ($9) due to slower growth of energy arrears from improved collections. The Corporation continues to actively monitor its exposure to credit risk, refer to *Note 21* in the Consolidated Financial Statements.



	2022	2021	Change
Depreciation and Amortization	191	182	(9)

The increase in depreciation and amortization expense of $9 is primarily due to: (i) new in-service additions for distribution assets ($6); (ii) new in-service additions for computer software ($2); and (iii) new in-service additions for DERs ($1).

(in millions of Canadian dollars)

RESULTS OF OPERATIONS (continued)

	2022	2021	Change
Net finance costs	79	74	(5)

The increase in net finance costs of $5 is primarily due to a higher rate of funding for commercial paper ($6), partially offset by an increase in finance income of ($1) due to higher short-term interest rates on cash deposits.

	2022	2021	Change
Loss (gain) on derecognition of property, plant, and equipment and intangibles	6	(11)	(17)

The decrease in gain on derecognition of PP&E of $17 is primarily due to the gain on the sale and lease back of an operations centre and sale of land in 2021.

	2022	2021	Change
Loss (gain) on fair value of contingent consideration	7	(3)	(10)

The decrease in fair value of contingent consideration of $10 is due to a higher than expected earnout payable related to the acquisition of HPSI as a result of favourable actual results versus target.

	2022	2021	Change
Impairment loss on investment in associate	6	—	(6)

The impairment loss on investment in associate of $6 is related to the equity investment in Grid4C Ltd. Refer to *Note 8* in the Consolidated Financial Statements for additional information.

	2022	2021	Change
Income tax expense	19	36	17

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 decrease in income tax expense by $17 primarily relates to: (i) lower net income before tax in 2022 relative to 2021 ($21); and (ii) higher tax recoveries in respect of prior years ($3); partially offset by higher permanent differences between accounting and tax treatments ($7).

(in millions of Canadian dollars)

RESULTS OF OPERATIONS (continued)

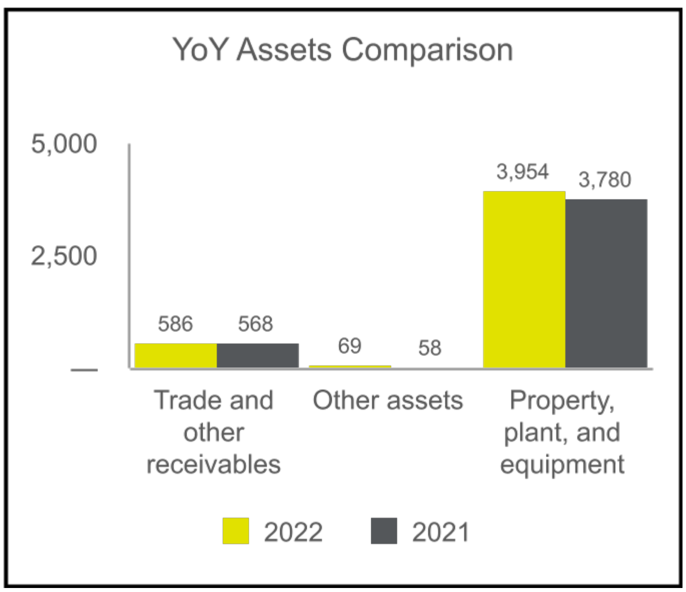
Competitive Operations Variance Analysis

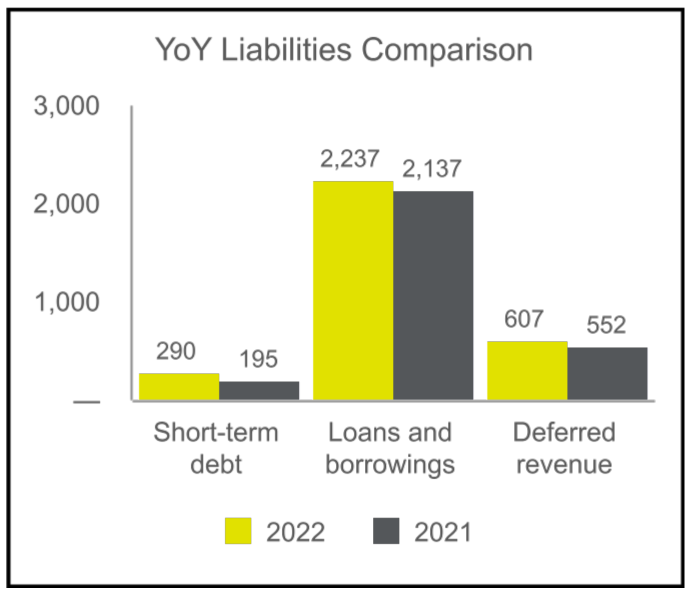
	2022	2021	Change
AES Net Income	—	5	(5)

Net income for the year ended December 31, 2022 was $nil which is $5 lower than 2021 net income of $5. The decrease in net income is primarily due to: (i) a loss on the fair value of contingent consideration due to a higher than expected earnout payable related to the acquisition of HPSI ($10); (ii) an impairment loss on investment in associate (Grid4C Ltd.) ($6); and (iii) an increase in income tax expense due to higher permanent differences between accounting and tax treatments ($3); partially offset by an increase in income from operating activities due to higher storm response activities ($14).

FINANCIAL POSITION

Significant changes selected from the Company's financial assets and liabilities, as at December 31, 2022 and the year over year ("YoY") change versus December 31, 2021, are provided below:





(in millions of Canadian dollars)

FINANCIAL POSITION (continued)

Assets	$ Change	% Change	Trend	Explanation
Trade and other receivables	18	3 %	↑	The increase is primarily due to: (i) higher unbilled revenue due to higher average energy prices and unbilled consumption; and (ii) higher revenue from storm restoration activities; partially offset by (iii) lower trade receivables balances due to an increase in collection activities.
Other assets	11	19 %	↑	The increase is primarily due to: (i) higher inventory due to an increase in safety stock; (ii) higher income tax receivables due to an increase to current year installments; and (iii) higher prepaid expenses due to the timing of payments in 2022 relative to 2021; partially offset by (iv) impairment of the investment in associate (Grid4C Ltd.)
Property, plant, and equipment	174	5 %	↑	The increase is primarily due to: (i) new in-service additions for distribution assets; partially offset by (ii) higher accumulated depreciation.

Liabilities	$ Change	% Change	Trend	Explanation
Short-term debt	95	49 %	↑	The increase is primarily due to: (i) higher short-term borrowings required to fund working capital and general corporate requirements; and (ii) a debenture repayment; partially offset by (iii) proceeds from new debenture issuance in 2022.
Loans and borrowings	100	5 %	↑	The increase is primarily due to: (i) new debenture issuance in 2022; partially offset by (ii) repayment of a matured debenture in 2022.
Deferred revenue	55	10 %	↑	The increase is driven by additional customer contributions primarily for: (i) distribution system expansion for new customers' projects; (ii) municipal road widening projects; and (iii) transit programs.

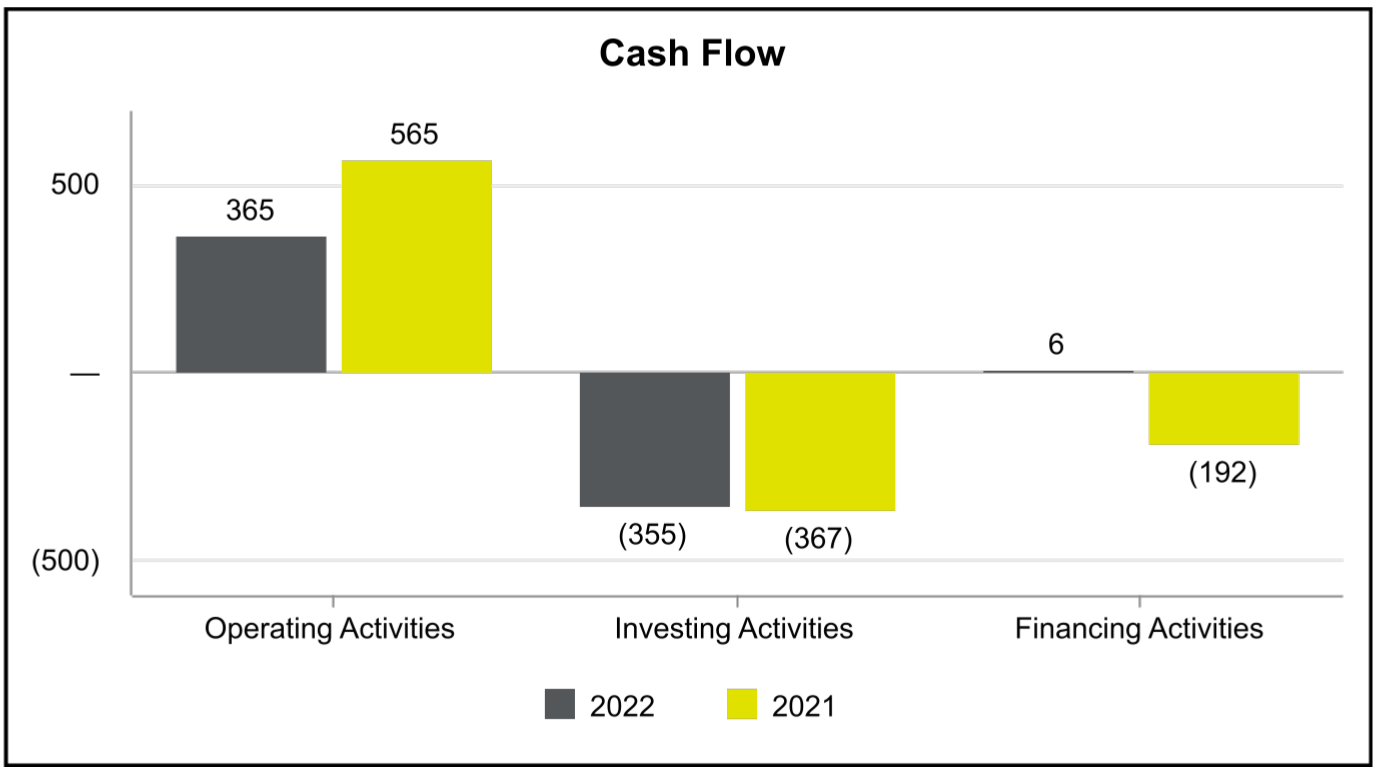
LIQUIDITY AND CAPITAL RESOURCES

Sources of Liquidity and Capital Resources

The Corporation's current ratio (Current Assets over Current Liabilities) improved year over year from 0.68 to 0.76. The improvement is primarily attributable to the issuance of $250 of long-term debentures in November 2022 and partially offset by the repayment of a $150 debenture in July 2022.

The Corporation utilizes its Commercial Paper ("CP") program to fund working capital requirements before issuing additional debentures. This strategy incorporates an optimal mix of short-term and long-term debt in order to lower overall financing costs and to enhance borrowing flexibility. In addition to the Corporation's primary sources of short-term liquidity, the Corporation borrows from debt capital markets on a long-term basis. The Corporation's liquidity and capital resource needs are required mainly for system expansion and enhancement expenditures to maintain and improve reliability and service quality of the electricity distribution system, for energy purchases and to meet working capital obligations.

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



Operating Activities

The decrease in net cash provided in operating activities of $200 from 2021 to 2022 was principally due to: (i) timing differences in relation to the settlement of receivables ($94) (refer to *Note 28* in the Consolidated Financial Statements); (ii) lower net income in 2022 relative to 2021 ($65); and (iii) timing differences in relation to the settlement of payables ($25) (refer to *Note 28* in the Consolidated Financial Statements).

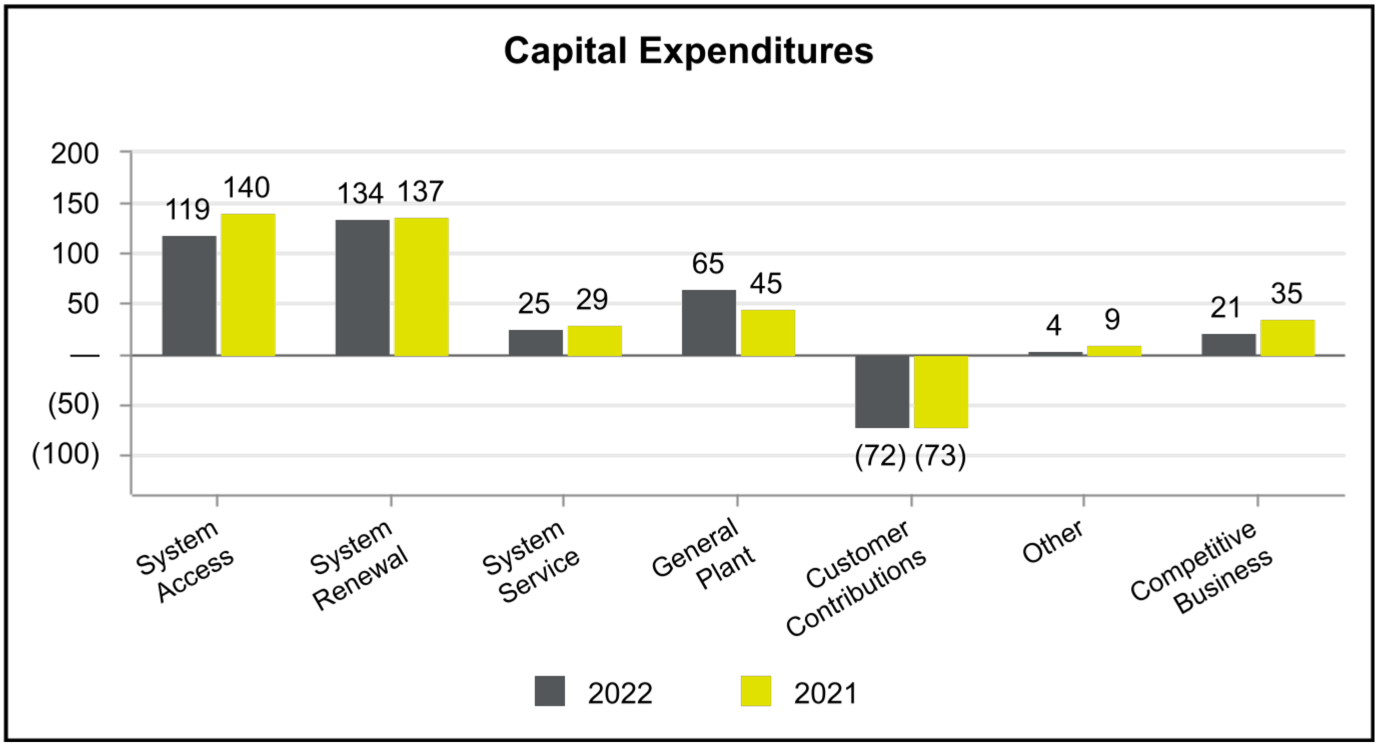
LIQUIDITY AND CAPITAL RESOURCES (continued)

Sources of Liquidity and Capital Resources (continued)

Investing Activities

The decrease in cash used for investing activities by $12 from 2021 to 2022 was primarily due to: (i) a decrease in purchases of PP&E primarily related to distributed energy resources and distribution assets ($43); partially offset by (ii) lower proceeds from disposal of PP&E compared with prior year ($28).

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 $21 relative to 2021, principally as a result of: (i) lower expenditures for municipal road widening projects ($7); (ii) lower investments in distribution assets to support customer initiated projects ($7); and (iii) lower new connections activity for subdivision development ($6).

System Renewal ("SR") expenditures relate to long-term plans to replace assets that are at the end or nearing the end of their useful lives. Replacement strategies are prioritized based on the condition and reliability of the assets. Capital expenditures in this category have decreased by $3 relative to 2021, principally as a result of: (i) lower expenditures for underground asset renewal projects ($9); and (ii) lower expenditures for overhead asset renewal projects ($1); partially offset by (iii) higher reactive expenditures largely driven by storm damage ($7).

LIQUIDITY AND CAPITAL RESOURCES (continued)

Sources of Liquidity and Capital Resources (continued)

System Service ("SS") expenditures relate to projects required to support the expansion, automation and reliability of the distribution system. Capital expenditures in this category have decreased by $4 relative to 2021, principally due to: (i) lower expenditures due to the purchase of land for a new substation in the previous year ($5); partially offset by (ii) higher expenditures on capacity expansion projects in the Hamilton area ($2).

General Plant ("GP") and transition expenditures relate to information systems projects, facilities, and fleet. Capital expenditures in this category have increased by $20 relative to 2021, principally due to: (i) higher expenditures for a new operations service center ($13); and (ii) higher expenditures for information technology initiatives such as the customer service strategy project, customer information system ("CIS") and customer care and billing systems ("CC&B") upgrade ($12); partially offset by (iii) lower connection and cost recovery agreements payments to Hydro One Networks than in the previous year ($5); and (iv) lower vehicle expenditures due to global supply chain shortages ($3).

Customer Contributions ("CC") relate to deposits in aid of the capital cost of construction. CC have decreased by $1 over the previous year primarily due to (i) lower contributions for new customer connections projects ($4); partially offset by (ii) higher contributions for distribution system expansion projects ($2).

Capital expenditures in the competitive business have decreased by $14 relative to 2021, principally as a result of: (i) higher expenditures in the previous year resulting from the acquisition of a portfolio of DER infrastructure assets ($24); partially offset by (ii) the acquisition of land and building ($6); and (iii) vehicles ($4).

Financing Activities

The increase in cash from financing activities by $198 was primarily due to: (i) a net increase in proceeds from short-term debt ($315); partially offset by (ii) a decrease in proceeds from new debenture issuance ($50); (iii) an increase in the repayment of long-term loans and borrowings ($40); and (iv) an increase in dividends paid ($19).

(in millions of Canadian dollars)

LIQUIDITY AND CAPITAL RESOURCES (continued)

Credit Ratings

The following table sets out the current credit ratings of the Corporation.

	DBRS Morningstar			S&P Global Ratings		
	Date Confirmed	Credit Rating	Trend	Date Confirmed	Credit Rating	Outlook
Issuer rating	June 21, 2022	A	Stable	May 27, 2022	A-	Stable
Senior unsecured debentures	June 21, 2022	A	Stable	May 27, 2022	A-	Stable
Short-term (Commercial Paper)	June 21, 2022	R-1 (low)	Stable			

On May 27, 2022, S&P Global Ratings lowered Alectra's credit rating to "A-" from "A", reflecting its view of the weakening business risk profile due to the higher contribution from the competitive business, whereas the "stable" outlook incorporates S&P Global Ratings expectations that the company's regulated utility business will consistently account for about 90% of its consolidated earnings before interest, taxes, depreciation and amortization ("EBITDA").

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.

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.

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 September 29, 2027 ("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. The CP program was increased from a maximum of $500 to $700 in 2022.
- 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, 2022, the Corporation was in compliance with all covenants included in its Revolving Facility agreement.

LIQUIDITY AND CAPITAL RESOURCES (continued)

Requirements for liquidity resources (continued)

As at December 31, 2022, the Corporation was in compliance with all covenants included in its Trust Indentures.

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

Short-term debt at December 31, 2022 and 2021 consist of CP issued under the Corporation's CP program. The short-term debt is denominated in Canadian dollars and is issued with varying maturities of less than one year. CP issuances bear interest based on the prevailing market conditions at the time of issuance. CP issuance at December 31, 2022 was $290 (2021 - $195).

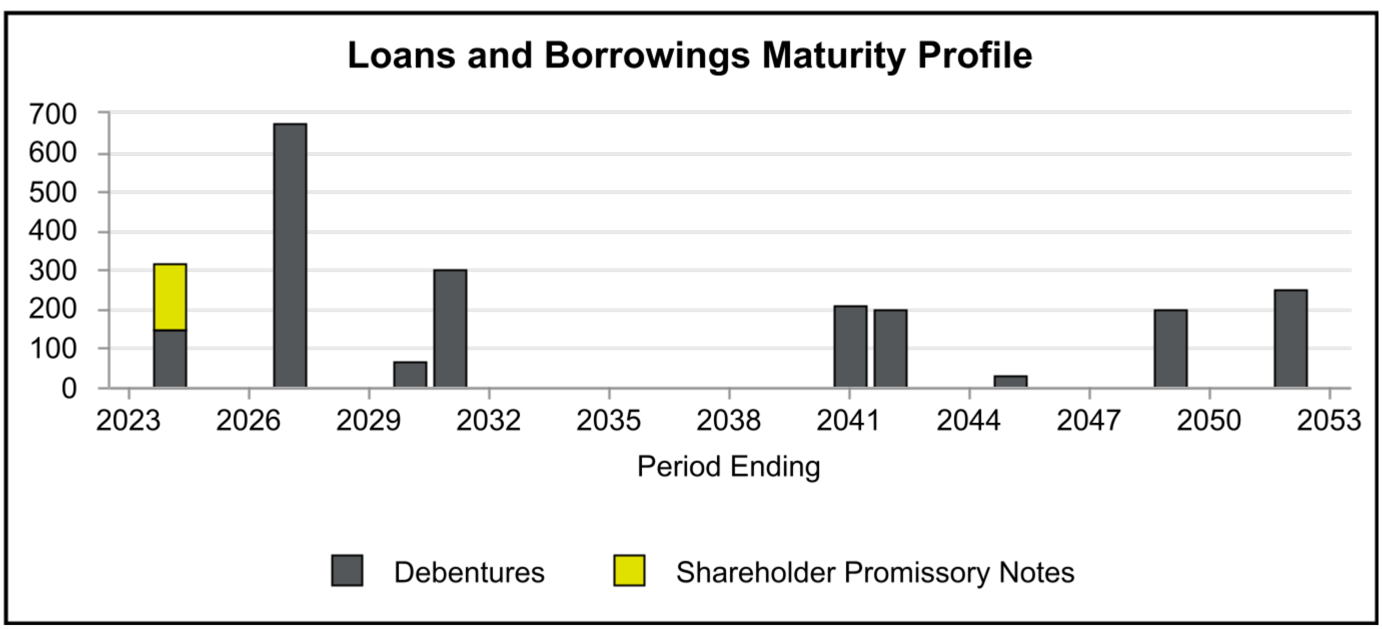
Long-term liquidity is available through the Corporation's ability to issue senior unsecured debentures under an established Trust Indenture. The rates of interest on such debentures comprise: government of Canada bond yields with terms of maturity corresponding to the terms of issued debentures; market-based credit spreads determined with reference to comparably rated entities; and costs of issuance.

Refer to *Note 17* 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.

Loans and borrowings maturities

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



(in millions of Canadian dollars)

LIQUIDITY AND CAPITAL RESOURCES (continued)

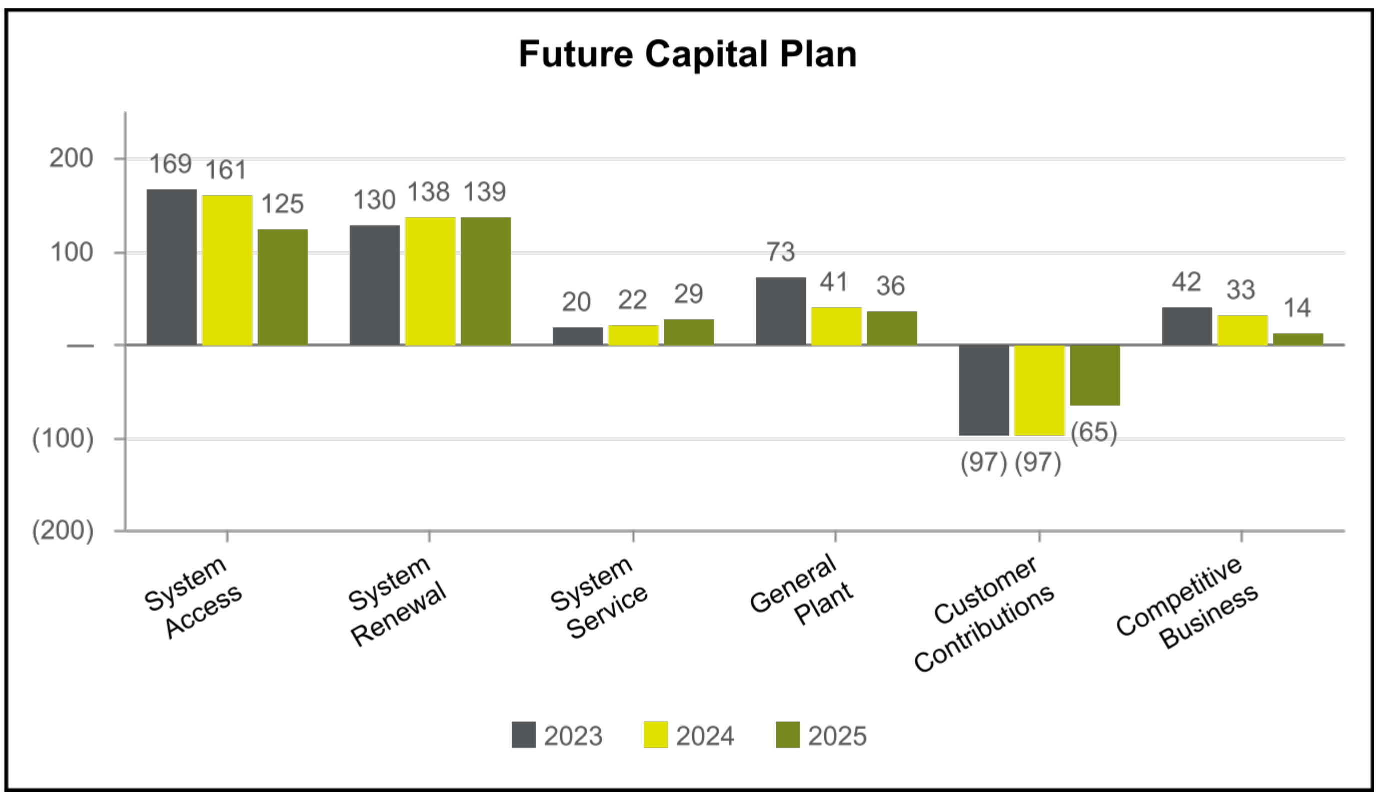
Summary of contractual obligations and other commitments

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

	2023	2024	2025	2026	2027	After 2027	Total
Commercial Paper	290	—	—	—	—	—	290
Debentures - principal repayment	—	150	—	—	675	1,255	2,080
Debentures - interest payments	71	71	66	66	57	795	1,126
Promissory notes - principal repayment	—	166	—	—	—	—	166
Promissory notes - interest repayments	7	5	—	—	—	—	12
Leases	6	4	3	3	3	19	38
Capital expenditures/financial investments	249	6	1	—	—	10	266
Operating expenditures	46	7	4	1	1	—	59
Total contractual obligations and other commitments	669	409	74	70	736	2,079	4,037

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 $913 over the 2023-2025 period as outlined in the table below:



LIQUIDITY AND CAPITAL RESOURCES (continued)

Future Capital Plan (continued)

The three-year SA investment plan is primarily driven by the requirement to connect new residential and general service customers as well as customer initiated expansion requirements, accounting for approximately 63% of total SA expenditures. Alectra Utilities will also make significant investments in SA over the next three years to support municipal road widening, transit infrastructure and network metering 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 38% 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.

The three-year expenditure plan for SS is primarily driven by Alectra Utilities' plan to invest in system automation equipment associated with controlling, monitoring and modernizing the distribution system to improve reliability, resiliency and grid flexibility. Over the next three years, 59% of the investment will be in automation, system control, and DER integration. In addition, to address the need to expand system capacity to support growth and expansion in Alectra Utilities' service areas, 39% of the investment in SS will be for system expansion to support the development of residential, commercial and industrial customers.

The three-year expenditure plan for GP addresses the need to upgrade corporate information systems such as the CC&B system, implement innovative technology including the Customer Experience platform and renew aged and obsolete computing assets. Information technology investments account for 47% of the total GP expenditures. In 2023, 45% of GP expenditures are for the construction of a new operations centre, consolidating two former operations centres to be decommissioned, and transition expenditures in relation to prior merger activities. In addition, 17% 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.

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 the construction of DER infrastructure, the purchase of sub-metering projects/customer contracts and metering hardware, the acquisition of vehicles to replace aging fleet and software development to support product offerings.

(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:

	2022		2021	
	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	39	99,999	41
Total share capital	10,584,999	992	10,584,999	994

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 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, 2022, the Corporation declared and paid dividends as follows:

- Common share dividends aggregating $95 or $9.06 per share (2021 - $75 or $7.15 per share); and
- Class S share dividends aggregating $1 or $14.32 per share (2021 - $2 or $16.24 per share).

In addition, a return of capital of $2 (2021 - $2) 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 19* 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:

	2022	2021
Transactions		
Revenue	82	81
Expenses	6	6
Return of capital	2	2
Dividends declared and paid	96	77
Balances		
Due from related parties	9	9
Due to related parties	52	46
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 13 (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 13)*.

Loans and borrowings comprise shareholder promissory notes owing to the City of Barrie, the City of Markham, and the City of Vaughan (refer to *Note 17*).

The annual compensation of key management personnel that is directly or indirectly attributable to the Corporation was $17 (2021 - $16) (refer to *Note 13 (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. The changes in the economic environment arising from geopolitical events and high inflation has slowed down the momentum of the global economic recovery even after COVID – 19 pandemic restrictions were eased during the year. Such uncertainty could generate, in future periods, a risk of adjustments to the carrying amounts of balances subject to estimates and judgments.

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

The following proposed new accounting standards/amendments have been published by the IASB but are not effective as at December 31, 2022 and have not been adopted in these financial statements:

(a) Regulatory Assets and Regulatory Liabilities

On January 1, 2021, the IASB published the Exposure Draft, Regulatory Assets and Liabilities. If finalized as a new IFRS Standard, the proposals would replace IFRS 14, *Regulatory Deferral Accounts.*

The Exposure Draft proposes to introduce a requirement for companies subject to rate regulation, to report regulatory assets and liabilities and the related regulatory income and expenses that arise due to timing differences. The Corporation is monitoring the Exposure Draft for potential changes and is assessing the impact of implementation of the standard on its financial statements. The IASB has not set an implementation date for the proposed standard.

(b) Impacts of Amendments to Accounting Standards Issued but not yet Effective

The following amendments have been issued by the IASB but are not yet effective and have not been early adopted in these consolidated financial statements. Management has assessed that the expected impact of adopting these amendments is not significant.

Effective Date January 1, 2023

- Disclosure of Accounting Policies (Amendments to IAS 1 - Presentation of Financial Statements);
- Deferred Tax related to Assets and Liabilities arising from a single transaction (Amendments to IAS 12 - *Income Taxes*);
- Definition of Accounting Estimates (Amendments to IAS 8 - *Accounting Policies, Changes in Accounting Estimates and Errors*); and
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1 - *Presentation of*
- *Financial Statements*).

Effective Date January 1, 2024

- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16 - *Leases*); and
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1 - *Presentation of Financial Statements*).

(in millions of Canadian dollars)

NON-IFRS FINANCIAL MEASURES

EBITDA

The Corporation uses 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 following table provides a reconciliation of non-IFRS financial measures to IFRS reported results on a consolidated basis. These non-IFRS financial measures are consistently applied in the previous period.

	2022	**2021**
EBITDA (MIFRS)	408	407
Add adjustments to remove regulatory accounting:		
Revenue	(64)	(12)
Operating expenses	(2)	—
Loss on derecognition of property, plant, and equipment	—	(1)
EBITDA (IFRS)	342	394
Depreciation and amortization	(191)	(182)
Net finance costs	(79)	(74)
(Loss) gain on fair value of contingent consideration	(7)	3
Impairment loss on investment in associate	(6)	—
Income before income taxes (IFRS)	59	141

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.

(in millions of Canadian dollars)

NON-IFRS FINANCIAL MEASURES (continued)

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, 2022 and 2021.

	2022	2021
IFRS Net income	40	105
Adjustment for regulatory activities (1)	82	43
MIFRS Net income	122	148
Depreciation	175	167
Loss (gain) on derecognition of property, plant, and equipment and intangible assets	9	(12)
Loss (gain) on fair value of contingent consideration	7	(3)
Impairment loss on investment in associate	6	—
Net change in non-cash operating working capital	(5)	112
Net change in non-current assets and liabilities	(83)	(30)
Net change in taxes	(16)	14
Total changes	93	248
AFFO	215	396

(1) Refer to *Note 31* in the Consolidated Financial Statements for details of the adjustments for regulatory activities.

The decrease in AFFO is mainly attributable to: (i) lower net change in non-cash operating working capital mainly due to increase in receivables; (ii) higher net change in non-current assets and liabilities mainly resulting from the net movement in the regulatory assets and liabilities; and (iii) lower net income in 2022 relative to 2021.

RISK MANAGEMENT AND RISKS

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, the Corporation has adopted an enterprise-wide approach to risk management, which is governed by its Enterprise Risk Management ("ERM") Program. The ERM Program incorporates industry best practices and aligns with international guidelines that are tailored to the Corporation's business.

The Corporation's ERM Program supports routine risk review in a process that identifies, assesses, manages, monitors and reports on risks. Identified risks are assessed using a standardized risk scoring matrix, with mitigation measures established and incorporated in development of the Corporation's strategy and business plans.

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 "risk owners" for managing and reporting on enterprise risks.

The Corporation's business is subject to a variety of risks, which are generally categorized into these key risk areas: Regulatory & Compliance, Strategic, Financial and Operational. The section below discusses certain specific risks that could have a material adverse impact on the Corporation's business, financial condition, or results of operations and is not a comprehensive list of all the risks to the Corporation.

RISK MANAGEMENT AND RISKS (continued)

Regulatory & Compliance Risk

The Corporation operates in a regulated electricity industry. Risks exist that the Corporation’s business activities could be impeded through actions of regulatory authorities and/or governments. In addition, any non-compliance with laws or regulations affecting the Corporation’s business could have a material adverse effect on its operations.

Regulatory 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 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 to disallow or limit the recovery of costs on applications could have a material adverse effect on the Corporation’s distribution revenue. There is no assurance that resulting decisions issued by the OEB will permit the Corporation to recover all costs actually incurred or to earn the allowable rate of return that permits the financial sustainability of its operations.

The Corporation’s regulatory risk is managed through ongoing stakeholder and government engagement, on aspects such as utility operations, rate filings and capital plans. The Corporation also employs a comprehensive regulatory application process to ensure applications to the OEB are evidence-based and accurately reflects the needs of the Corporation.

Political Risk

The Corporation is a municipally owned LDC that is subject to actions of governments. Governments could pass legislations, issue regulations, or implement policies that could have potential adverse effects on the Corporation's financial condition and hinder its ability to pursue its strategy and business objectives. Such government actions could include, but are not limited to, legislation or regulation that require LDCs to commit to additional costs.

The Corporation actively participates in stakeholder groups and industry associations that are designed to inform development of the legislative and regulatory environment. Through such engagements, the Corporation maintains dialogue, shares perspectives, and reinforces the Corporation’s vital interests and advocacy stance.

Compliance Risk

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

The Corporation actively monitors business activities that could be subject to compliance actions, including routine monitoring of applicable legislations and regulations for changes and implementing appropriate measures in response.

RISK MANAGEMENT AND RISKS (continued)

Strategic Risk

The Corporation pursues growth through acquisitions and organically from development projects and capital expenditures. Risks associated with the Corporation's strategy, including the inability to adapt to broader industry trends and foster a supportive corporate culture, could adversely impact its operations.

Risk Associated with Business Model

The Corporation's business model and strategic direction are based on certain assumptions, including the long-term viability of the competitive and regulated businesses, electricity demand forecast reflective of economic growth projections and evolution of technology used in the industry. Any significant changes to the key assumptions made could cause the Corporation to reevaluate its business model and/or strategic direction. The Corporation routinely monitors industry trends and business environment as well as the evolving needs and expectations of its customers.

Cultural Risk

The Corporation continues to develop and define a unified corporate culture to support the achievement of its strategy and organizational sustainability. Resistance to cultural change and conformance could adversely impact employee engagement, productivity, and the execution of strategy. The Corporation continues to implement initiatives to support a unified and inclusive culture, such initiatives include sustaining employee capabilities to live and lead cultural and behavioural commitments, integrating and harmonizing business processes to a unified standard, and building an equity, diversity and inclusion plan that promotes an inclusive environment.

Financial Risk

Risks related to the financial markets that could adversely impact the Corporation's financial performance. Some of the Corporation's key financial risks include credit risk, and risks associated with debt financing.

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 its customer receivables.

The Corporation 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. Additional estimates and judgments have been incorporated in the preparation of ECLs on its accounts receivable balances, which includes analyzing customers by class (i.e. residential, small commercial, large commercial, etc.) and applying provisions based on trends for customer collections, economic and other market conditions.

RISK MANAGEMENT AND RISKS (continued)

Financial Risk (continued)

Risks Associated with Arranging Debt Financing

The Corporation relies on debt financing and/ or the availability of credit facilities to repay existing indebtedness and to finance its ongoing business operations. 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 (such as changes in interest rates); (ii) the regulatory environment in Ontario; (iii) the Corporation’s results of operations and financial condition; (iv) the ratings assigned to the Corporation and its debt securities by credit rating agencies; (v) the current timing of debt maturities; and (vi) other general economic conditions. The inability to access debt capital markets on favourable terms and within a desired timeframe could impair the Corporation’s ability to fund capital expenditures and meet other obligations, which could have an adverse effect on its operating results and financial position in the future.

The Corporation has taken proactive measures to ensure adequate access to financial liquidity, including active monitoring of its cash position, and communicating regularly with credit rating agencies and investment community regarding its capital structure.

Operational Risk

The Corporation’s ability to safely and reliably operate as well as maintain its distribution assets and facilities inherently has risks. Some of the Corporation’s key operational risks include safety and wellness, cybersecurity, supply chain, people and skills, labour relations, climate change, and emergency preparedness/ business continuity risks.

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 the public and employees safe could have adverse operational, financial, and/or reputational impact on the Corporation. The Corporation's safety management program is based on a continuous improvement principle, which includes measures such as equipment inspections, employee training, and safety audits. In addition, the Corporation continually strengthens its safety culture program to support safety performance and minimize associated threats.

The Corporation has undertaken actions to promote mental wellness and additional support through the employee assistance program. The Corporation continues to monitor the pandemic information from the Ontario Government and Alectra’s response plan has been updated and enhanced for future potential infectious disease emergencies.

RISK MANAGEMENT AND RISKS (continued)

Operational Risk (continued)

Cybersecurity Risk

The Corporation's ability to operate effectively in the Ontario electricity market is in part dependent on the management of its information technology and operational technology systems. These systems are employed to operate and monitor electricity distribution, as well as the Corporation's financial, billing, and other business systems. As a critical infrastructure operator, the Corporation's distribution infrastructure and technology systems are vulnerable to damage or interruption from cyberattacks, breaches or other compromise. A cybersecurity incident could result in service disruptions, theft of intellectual property and confidential customer or business information, resulting in regulatory scrutiny, litigation and reputational damage for the Corporation. The Corporation has in place a robust cybersecurity program that incorporates industry best practices and applies significant focus on employee cybersecurity training, collaboration with industry experts and technology vendors, continuous monitoring of information systems, and incident response procedures to minimize damage from a cyberattack, breach or other compromise.

Supply Chain Risk

Global supply chains have been disrupted by factors such as macroeconomic conditions and the COVID-19 pandemic. The Corporation's ability to operate effectively is in part dependent upon timely access to equipment, materials and key suppliers. Loss of key suppliers and volatility in material and equipment lead times could adversely impact the Corporation's operations and its capital project planning and execution. In addition, the Corporation has been faced with inflationary cost pressure since the onset of the COVID-19 pandemic. The Corporation continues to work with key suppliers on contract terms and advance procurement of key equipment and materials that have expected long lead times.

People and Skills Risk

The Corporation is subject to the risk that skilled and experienced resources may not be available to support its business objectives and strategy execution. To mitigate this risk, the Corporation implements various programs to attract, develop and retain talent, including talent attraction and retention strategies, succession planning, and knowledge management programs to ensure ongoing workforce capability. The Corporation expects to continue to meet its talent needs by developing existing employees and hiring in specific areas where appropriate.

Labour Relations Risk

The Corporation is committed to maintaining effective relationships with its union, which is represented by the Power Workers' Union ("PWU"). The inability to maintain or negotiate the collective agreement with PWU on mutually acceptable terms could lead to higher employee costs and work disruptions, resulting in adverse impacts to the Corporation's business. The Corporation reached an agreement with the PWU, covering the period from June 1, 2022 to May 31, 2025.

RISK MANAGEMENT AND RISKS (continued)

Operational Risk (continued)

Climate Change Risk

The Corporation's service territory, its energy-related infrastructure and other facilities are exposed to the risk of climate change and extreme weather events. Extreme weather events create a risk of physical damage to the Corporation's distribution infrastructure, resulting in increased frequency and/ or duration of power outages.

The Corporation continues to adapt and increase the resilience and reliability of its infrastructure and operations to address the effects of climate change. These initiatives include updating major equipment specifications, revising design practices, updating planning processes, enhancing maintenance programs, and initiating emergency preparedness program to minimize the extent of disruptions.

Emergency Preparedness/ Business Continuity Risk

The Corporation's operations could be exposed to the effects of emergencies, including natural or human-caused hazards, which could result in operational disruptions and a decrease in distribution revenue and/ or additional costs to repair and restore operations.

The Corporation's emergency preparedness and business continuity program focuses on building resilience into business processes to ensure continued operation of critical business functions. The program is designed to ensure the Corporation can resolve an emergency in a timely and effective manner, so that immediate response actions are taken to protect the health and safety of employees and the public, as well as to limit the impact of an incident on distribution assets and/ or facilities. The Corporation regularly monitors for industry events and makes improvements to the program to prepare for and respond to major operational threats, such as major power outage events and the COVID-19 pandemic.

alectra
Discover the possibilities

Alectra Inc.
Management's Discussion and Analysis
Consolidated Financial Results
Year Ended
December 31, 2022

PREAMBLE

This Management's Discussion and Analysis (MD&A), is a review of the results of operations of Alectra Inc. (Alectra or the Corporation) for the year ended December 31, 2022, as compared to the 2022 Budget, and of the Corporation's financial condition.

The Corporation reports and evaluates its financial performance using a non International Financial Reporting Standard (IFRS) financial performance measure commonly referred to as Modified IFRS (MIFRS). MIFRS financial information is computed in a manner consistent with that used by the Ontario Energy Board (OEB) for purposes of its distribution rate-making policies. This MD&A has been prepared on a MIFRS basis.

This MD&A should be read in conjunction with the consolidated audited financial statements for the years ended December 31, 2022 and 2021 (the Annual Statements), and the notes to the respective financial statements. The calculation and reconciliation of MIFRS financial measures are disclosed in the Divisional and Regulatory Information note in the Annual Statements.

Alectra's Annual Statements have been prepared in accordance with IFRS. The Annual Statements and MD&A were reviewed by Alectra's Audit, Finance and Risk Management Committee, and were approved by Alectra's Board of Directors.

All amounts are in thousands of Canadian dollars unless otherwise specified.

Table of Contents

GLOSSARY of ACRONYMS and ABBREVIATIONS

The following acronyms and abbreviations are used in this document.

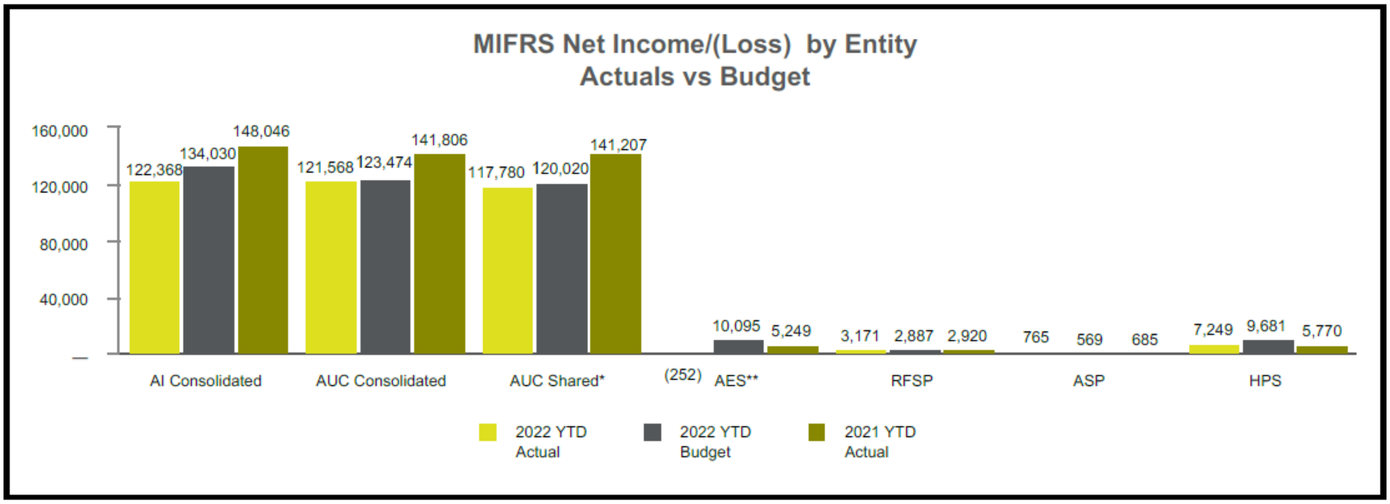
AES	Alectra Energy Solutions Inc.
AESI	Alectra Energy Services Inc.
AFFO	Adjusted Funds from Operations
AFUDC	Allowance For Funds Used During Construction
AI	Alectra Inc.
AMSP	Alectra Microgrid Services Master Limited Partnership
APS	Alectra Power Services Inc.
ASP	Alectra Solar Partnership
AUC	Alectra Utilities Corporation
BU	Business unit
CCA	Capital Cost Allowance
CC&B	Customer Care and Billing
CCP	Community Conservation Program
CCRA	Connection Cost & Recovery Agreement
CDM	Conservation & Demand Management
CIA	Customer Insights and Acquisitions, Connection Impact Assessment
CIS	Customer Information System
CP	Commercial Paper
COVID-19	Coronavirus Disease 2019
CSR	Cyber security roadmap
DASGR	Data Analytics, Strategy and Governance Roadmap
DERMS	Distributed Energy Resource Management Systems
DER	Distributed Energy Resources
DSP	Distribution System Plan
DTA	Deferred Tax Asset
DVA	Deferral & Variance Accounts
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization
ERP	Enterprise Resource Planning
FCR	Full Cost Recovery
FX	Foreign Exchange
GIAS	Gartner Industry Advisory Service
GP	General Partnership
GRE&T	Green Energy & Technology Center
GRZ	Guelph Rate Zone
GS	General Service
GWh	Gigawatt Hours
HPS	HPS Holdings Inc.
HST	Harmonized Sales Tax
HaLRT	Hamilton Light Rail Transit
HONI	Hydro One Networks Inc.
HVAC	Heating,Ventilation and Air-Conditioning
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

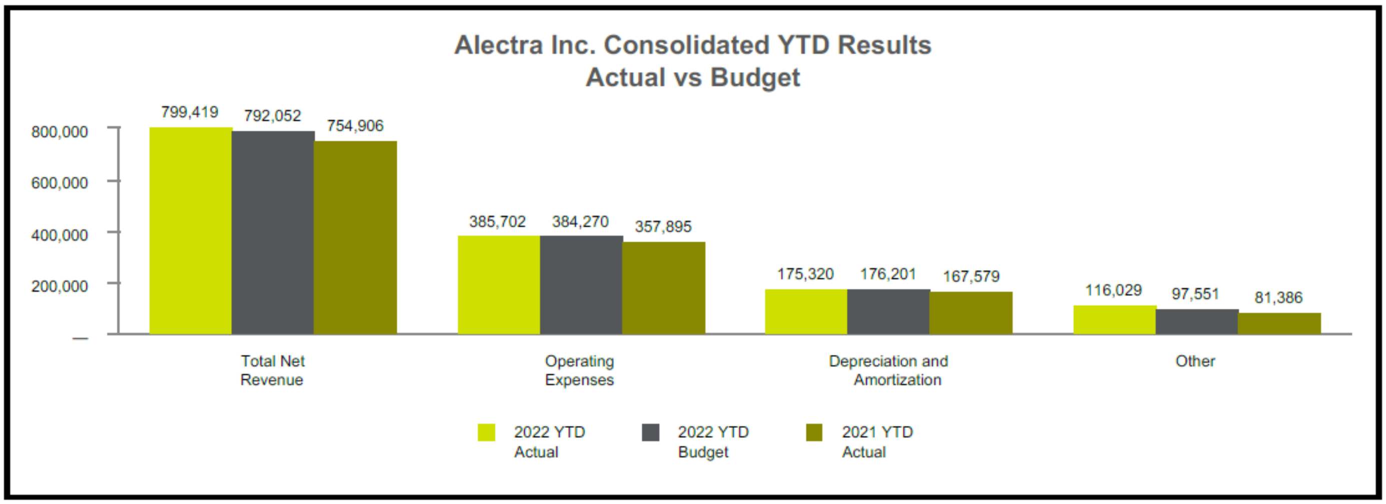
kW	Kilowatt
kWh	Kilowatt Hours
LC	Letters of Credit
LED	Light-Emitting Diode
LP	Limited Partnership
LPSS	Load Profile and Settlement System
LRAMVA	Lost Revenue Adjustment Mechanism Variance Account
LRT	Light Rail Transit
M&A	Mergers and Acquisitions
MAR	Miscellaneous Accounts Receivable
MD&A	Management Discussion & Analysis
MIFRS	Modified International Financial Reporting Standards
MIST	Meter Inside the Settlement Timeframe
MOF	Ministry of Finance (Ontario)
MS	Municipal Station
MSP	Meter Service Provider
NRCAN	Natural Resources Canada
NSF	Non-Sufficient Funds
NWA	Non-Wires Alternative
OCI	Other Comprehensive Income
OEB	Ontario Energy Board
OM&A	Operations, Maintenance and Administration
OMERS	Ontario Municipal Employees Retirement System
OMS	Outage Management System
PACE	PowerAssist Call Engine
P4P	Pay For Performance
PILC	Paper Insulated Lead Conductor
PILs	Payments in Lieu
PP&E	Property, Plant, & Equipment
PRZ	Powerstream Rate Zone
PWU	Power Worker's Union
RGCRP	Renewable Generation Connection Rate Protection
RFP	Request for Proposal
RFSP	Ring-Fenced Solar Portfolio
RPA	Robotic Process Automation
RPP	Regulated Price Plan
S&P	Standard & Poor
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.
USD	United States Dollar
VDI	Virtual Desktop Infrastructure
WA	Weighted Average
WSIB	Workplace Safety and Insurance Board

Executive Summary

ALECTRA INC. CONSOLIDATED RESULTS (MIFRS)

Alectra Inc. consolidated net income was $122,368 or $11,662 unfavourable to the budget of $134,030.





*Excludes ASP **Includes HPS

The main variances impacting Alectra Inc. consolidated net income are from Alectra Utilities Shared and Alectra Energy Solutions and are described below.

ALECTRA UTILITIES SHARED

Alectra Utilities Shared net income was $117,780, and $2,240 unfavourable to the budget of $120,020. The principal drivers of this variance are:

Executive Summary (cont'd)

ALECTRA UTILITIES SHARED (cont'd)

REVENUE

Revenue, net of cost of power, was $652,087, and $14,318 favourable to the budget of $637,769. The variance is principally explained by:

- higher other revenue, $7,522 primarily due to: (i) higher late payment charges due to an increase in overdue accounts receivable as a result of the COVID-19 pandemic ($4,705), (ii) higher revenue from ICI services due to a larger number of projects completed this year ($1,146), (iii) higher revenue from the cancellation of stale-dated customer refund cheques ($546), and (iv) higher GRE&T centre revenue from funding received for the RPP project originally budgeted for 2021 ($544).

- higher distribution revenue, $6,796 principally due to: (i) higher than budgeted rates principally attributable to a higher OEB approved inflation rate partially offset by GRZ provision for proration of fixed charges ($4,257), (ii) higher LRAM from OEB approved persistence savings from 2019, 2020 and 2021 CDM projects ($3,079), and (iii) higher consumption in the small commercial GS<50 kW customer class driven by warmer than normal summer weather ($1,115), partially offset by (iv) lower ICM revenue as a result of lower energization of prior year ICM projects ($762), (v) lower revenue from regulatory variance account adjustments primarily related to the expansion of the accelerated CCA initiative allowing the immediate expensing of eligible property ($587), and (vi) lower customer growth primarily from general service customers ($569).

EXPENSES

Expenses were $443,547, and $12,757 unfavourable to the budget of $430,790. The variance is principally explained by:

- higher labour costs mainly due to increased overtime as a result of vacancies, the accrual of unbudgeted performance based compensation, higher salary, premiums and retroactive payments, and higher benefits allocated to operating programs, partially offset by higher vacancies ($6,226);
- higher outside service provider costs primarily due to increased third-party data collections for overhead plant inspections in the Central and East regions, higher volume of customer requests for disconnects/reconnects, and higher secondary cable faults ($4,589);
- higher repairs and maintenance expenditures primarily due to disinfecting and janitorial services related to the COVID-19 pandemic ($3,413);
- higher credit losses as a result of a higher credit loss provision on energy accounts partially offset by lower credit loss provision on unbilled and MAR accounts ($1,346); and
- higher direct vehicle costs due to higher utilization of vehicles to support operating programs ($1,108); partially offset by
- lower consulting costs mainly related to lower strategic consulting costs ($2,015);
- lower IST licenses and maintenance costs primarily due to savings on contract renewals and deferral of projects ($953); and
- lower costs for employee training and conferences due to higher utilization of virtual training options and increased vacancies ($758).

OTHER

- Loss on derecognition of property, plant, and equipment was $1,755 favourable to budget, primarily due to lower loss on derecognition of distribution assets;

- Impairment loss on intangible assets was $3,242 unfavourable to budget due to the partial impairment of the new OMS;

Executive Summary (cont'd)

ALECTRA UTILITIES SHARED (cont'd)

- Net finance costs were $5,112 unfavourable to budget, primarily due to higher short-term borrowing interest rates and the earlier issuance of the debenture originally planned for early 2023; and

- Income tax expense was $2,753 favourable to budget, primarily due to release of tax reserves upon the conclusion of the 2017 Ministry of Finance audit, and lower net income before tax, partially offset by lower capital cost allowance based on fixed asset additions for the year.

ALECTRA ENERGY SOLUTIONS

Alectra Energy Solutions net loss was $252, and $10,347 unfavourable to the budgeted net income of $10,095. The principal drivers of this variance are:

REVENUE

Revenue was $136,923, and $4,176 unfavourable to the budget of $141,099. The variance is principally explained by:

- lower other revenue due to fewer new business opportunities from CIA ($1,500);
- lower global adjustment savings revenue in Microgrid due to a reduction in global adjustment rates by the IESO ($1,306);
- lower revenue in Submetering due to delays in new customer enrollments as a result of project delays ($630); and
- lower demand response revenue in Microgrid due to the cancellation of the winter demand response event by the IESO ($538).

EXPENSES

Expenses were $113,686, and $9,217 favourable to the budget of $122,903. The variance is principally explained by:

- lower cost of services rendered in HPS as a result of renegotiated contracts for recovery of billable expenses partially offset by higher cost of services rendered due to higher storm response activities ($3,273);
- lower repairs and maintenance costs in HPS primarily due to a lower number of fleet vehicles on hand ($2,917);
- lower billable, travel, phone/mobile costs and advertising expenses in UA for consulting projects due to the COVID-19 Pandemic ($1,361);
- lower labour costs in UA relating to consulting projects ($1,087);
- lower labour costs in Energy Solutions due to vacant positions ($994);
- higher recoveries from CDM for CIA labour costs ($639);
- lower credit losses in Energy Services due to improved collection from submetering customers ($626);
- lower depreciation in Microgrid due to an increase in useful lives of natural gas generators ($274);
- lower fuel and outside service provider costs in Microgrid due to lower demand response and global adjustment activity ($258);
- lower cost of services rendered in APS due to vacant positions ($252);
- lower legal costs in UA due to lower merger and acquisition related activities ($248); and
- lower labour costs in Energy Services due to vacant positions ($196); partially offset by
- higher third party support for consulting projects in UA ($2,431).

OTHER

- Loss on fair value of the contingent liability in HPS was $6,961 unfavourable to the budget due to a higher earn-out payable to the former owner of HPS as a result of favourable actual results versus target;

- Impairment loss on the investment in associate (Grid4C) was $5,943 unfavourable to budget;

Executive Summary (cont'd)

ALECTRA ENERGY SOLUTIONS (cont'd)

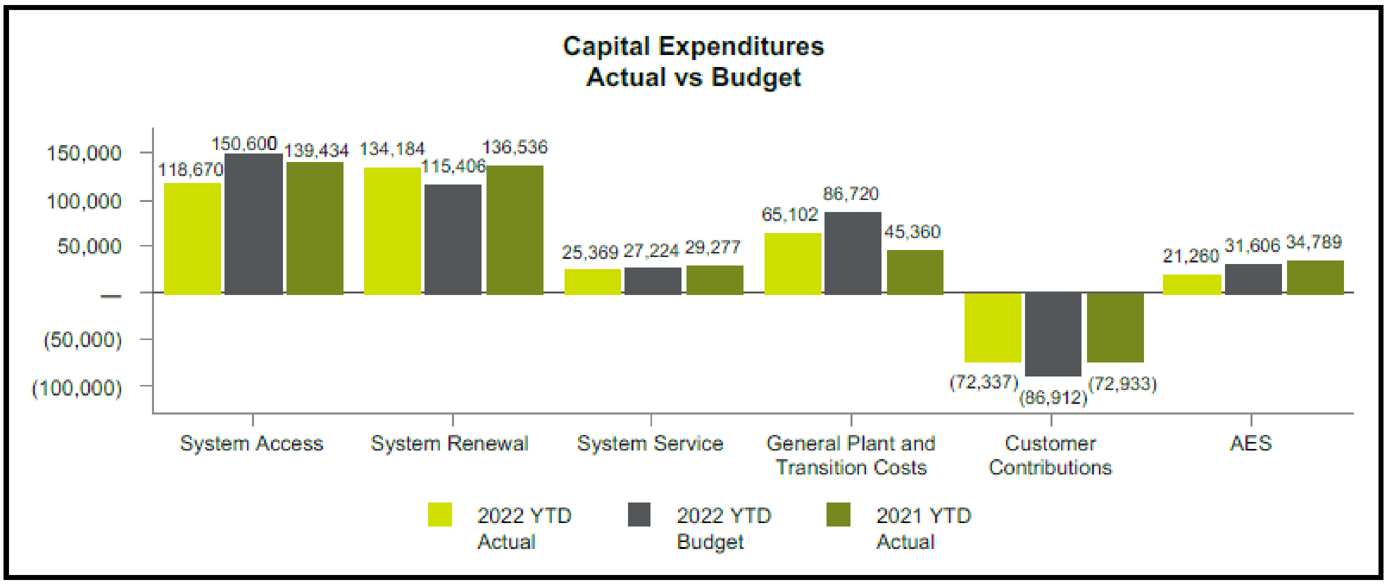
- Loss on derecognition of property, plant and equipment was $967 unfavourable to budget due to the write-off of assets no longer in use by UA and the termination of a submetering contract resulting in the write-off of a customer contract and metering hardware;

- Loss on fair value of an investment security was $424 unfavourable to budget as a result of the fair value adjustment of the investment in the Global Strategic Mobility Fund; and

- Income tax expense was $926 unfavourable to the budget due to the nondeductible impairment loss on the investment in associate (Grid4) in UA and the nondeductible loss on fair value of the contingent liability in HPS.

CAPITAL EXPENDITURES

Alectra Inc. consolidated capital expenditures were $292,248, and $32,396 lower than the budget of $324,644.



The main variances impacting Alectra Inc. consolidated capital expenditures are from Alectra Utilities Shared and Alectra Energy Solutions as described below.

ALECTRA UTILITIES SHARED

Alectra Utilities Shared capital expenditures were $270,988 which is $22,050 lower than the budget of $293,038. The principal drivers for this variance are:

- lower System Access expenditures primarily due to delays and scope reductions for road authority projects mainly in the East region, lower spending on new connection projects primarily related to subdivisions, lower expenditures on transit projects due to delays for GO electrification of the Barrie and Stouffville lines and design conflicts with the city of Mississauga, and a delay and scope change for the Urbacon project in the East region partially, offset by higher expenditures for network metering ($31,930);

- lower General Plant and Transition costs primarily as a result of delays for the Kennedy Rd operations centre project, IT and Guelph transition projects, and delays in the delivery of vehicles due to global supply chain issues ($21,618); and

Executive Summary (cont'd)

CAPITAL EXPENDITURES (cont'd)

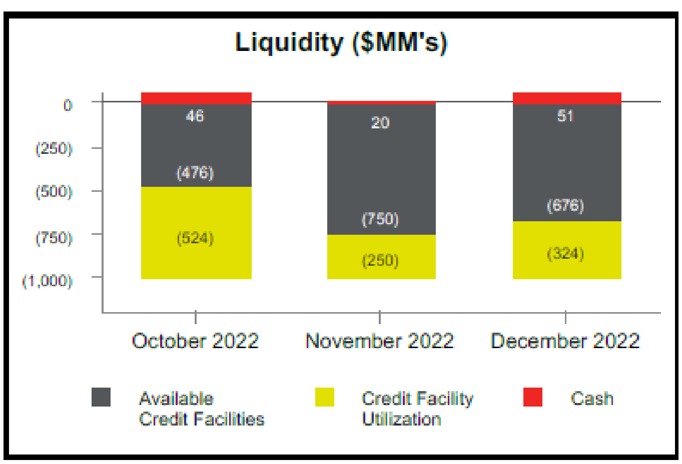
- lower System Service expenditures mainly due to the deferral of the Kenilworth TS Power Factor Correction project, cancellation of the installation of 27.6Kv circuits in the East region, deferral of the GRE&T Centre NWA project, partially offset by higher expenditures on automation projects ($1,855); partially offset by
- higher system renewal expenditures mainly due to higher expenditures for reactive repairs related to PILC and switchgear faults in the West region, underground transformer failures in the East and Central-North regions, and the second quarter wind storm damage, higher overhead asset replacement expenditures due to additional pole remediation and overhead rebuild work in the Southwest region, and higher substation renewal expenditures due to station building improvements and replacement work, partially offset by lower expenditures for underground asset renewal related to cable injection projects ($18,778); and
- lower customer contributions for transit projects largely in the East region, lower contributions from a government agency for distribution automation work, and lower contributions for road widening projects in the East and St. Catharines regions, partially offset by higher contributions for customer initiated distribution systems projects ($14,575)..

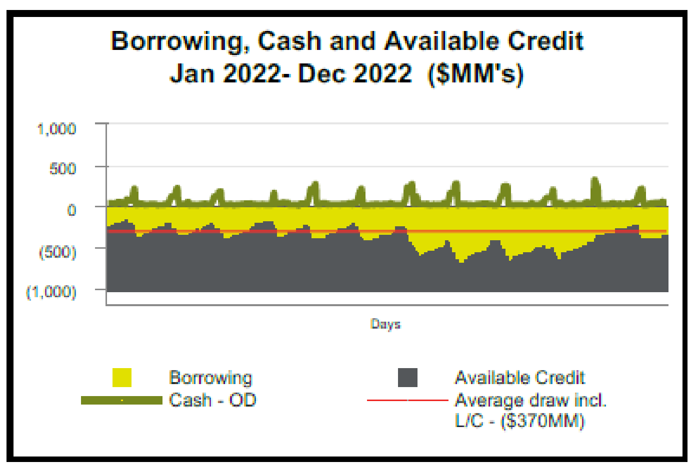
ALECTRA ENERGY SOLUTIONS

Alectra Energy Solutions capital expenditures were $21,260, which is $10,346 lower than the budget of $31,606. The principal drivers for this variance are:

- lower expenditures in Microgrid primarily due to the delayed acquisition of natural gas electricity generating assets ($21,190); partially offset by
- higher expenditures in HPS primarily due to the acquisition of bucket trucks, the purchase of land and a building for consolidation of the New Brunswick facilities and the purchase of land for the Fort Erie expansion ($9,236); and
- higher expenditures in AESI primarily due to the acquisition of customer contracts and higher metering hardware purchases ($2,203).

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

(in thousands of dollars)

As at December 31, 2022, $290MM of the $700MM credit facility was utilized through $290MM of CP issuance. $34MM of the $100MM letter of credit facility was utilized. The $100MM overdraft facility was unutilized as at December 31, 2022.

Alectra Net Income/(Loss) by Entity

	Year Ended December 31 2022			Year Ended December 31 2021	
	Actual	Budget	Variance	Actual	YoY Variance
Alectra Inc. Consolidated					
Alectra Utilities Shared*	117,780	120,020	(2,240)	141,207	(23,427)
Alectra Energy Solutions	(252)	10,095	(10,347)	5,249	(5,501)
Alectra Solar Partnership	765	569	196	685	80
Alectra Inc. Unconsolidated**	904	459	445	(2,015)	2,919
Alectra Inc. Shared Consolidated	**119,197**	**131,143**	**(11,946)**	**145,126**	**(25,929)**
Alectra RFSP	3,171	2,887	284	2,920	251
Alectra Inc. Consolidated MIFRS net income	**122,368**	**134,030**	**(11,662)**	**148,046**	**(25,678)**
IFRS adjustments	(82,071)	(13,872)	(68,199)	(43,258)	(38,813)
Alectra Inc. Consolidated IFRS net income	**40,297**	**120,158**	**(79,861)**	**104,788**	**(64,491)**

* Excludes Alectra Solar Partnership

** Includes elimination entries

IFRS Adjustments

The IFRS adjustments amount to $82,071. 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 ($89,934);
- regulatory assets/liabilities representing differences between deferred taxes under MIFRS and IFRS ($934); partially offset by
- approved regulatory variance accounts dispositions that are being recovered through rate riders ($8,710); and
- other variances ultimately settled in rate applications to the OEB ($88).

Financial Metrics

	2022 Actual	2022 Budget
Current Ratio	0.77	0.68
Debt / Capitalization	56.8%	56.6%
Debt / Capitalization (excluding valuation adjustments)	63.6%	63.4%
AFFO / Debt (S&P Global)	8.8%	13.1%
AFFO / Interest	3.7	5.8
EBITDA / Interest	5.2	5.3
Return on closing equity (unadjusted)	6.2%	6.8%

Metrics in the table above are calculated on a MIFRS basis, except for the S&P AFFO/Debt ratio. This ratio is calculated on a IFRS basis in line with S&P's methodology. S&P calculates AFFO as IFRS EBITDA adjusted for cash taxes and interest paid. The AFFO/Debt ratio calculated using the same methodology on a MIFRS basis is 11.4%.

The IFRS-based ratio of 8.8% is lower due to the $89,934 difference between cost of power versus energy sales (as described above under IFRS Adjustments), resulting in a corresponding decrease in IFRS EBITDA, as compared to MIFRS. These variances are temporary in nature and will reverse over time. Alectra Utilities will request clearance of these variance in the 2024 rate application.

IFRS Equity Reconciliation

Alectra Inc.

($000s)	Alectra Inc. Shared Consolidated	Alectra RFSP	Alectra Inc. Consolidated
Shareholders' equity as at January 1, 2022	**1,759,799**	**9,255**	**1,769,054**
Net income	37,126	3,171	40,297
Dividends paid / return of capital	(94,946)	(3,580)	(98,526)
OCI changes	24,856	—	24,856
Shareholders' equity as at December 31, 2022	**1,726,835**	**8,846**	**1,735,681**

CONFIDENTIAL

QUARTERLY REPORT TO SHAREHOLDERS

Date of Report	March 03, 2023
Subject	USA s2.26(b) - Information of Material Concern

The following summary provides information on items of material concern in compliance with the Unanimous Shareholder Agreement (USA).

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.

Changes in the economic environment arising from geopolitical events and high inflation has slowed down the momentum of the global economic recovery even after COVID–19 Pandemic restrictions were eased during the year. Global supply chains have been disrupted. The Corporation continues to work with key suppliers on contract terms and advance procurement of key equipment and materials that have expected long lead times.

Impact on Financial Results

As a result of the Pandemic, overdue accounts receivable remain elevated and repairs and maintenance expenditures remain high, primarily due to disinfecting and janitorial services. Please carefully review the accompanying Financial Review of Modified IFRS Consolidated Financial Results ("Financial Review") for a complete reporting of all the implications of the Pandemic on financial results.

Financing and Cash Flow Implications

The Pandemic together with inflation, supply chain issues, and geopolitical events, continue to create an uncertain economic situation, thus impacting the general economy and the ability of customers to pay their energy bills. However, Alectra had a successful $250MM long-term debenture issuance in the fourth quarter that was 3.5 times oversubscribed. This together with Alectra's $900MM of available short-term liquidity, Alectra has sufficient liquidity to support its operations and meet its financial obligations for the foreseeable future.

Holland Power Services Inc.

Since the acquisition of HPS in January 2021, HPS has contributed over $40MM in EBITDA to Alectra Energy Solutions (AES), growing AES from $8MM in EBITDA in 2020 to $33MM in 2022 representing a 300% increase over 2 years. The acquisition has also provided $13.7MM in dividends to Alectra Energy Services Inc. over the past two years due to their strong financial performance.

Global Strategic Mobility Fund

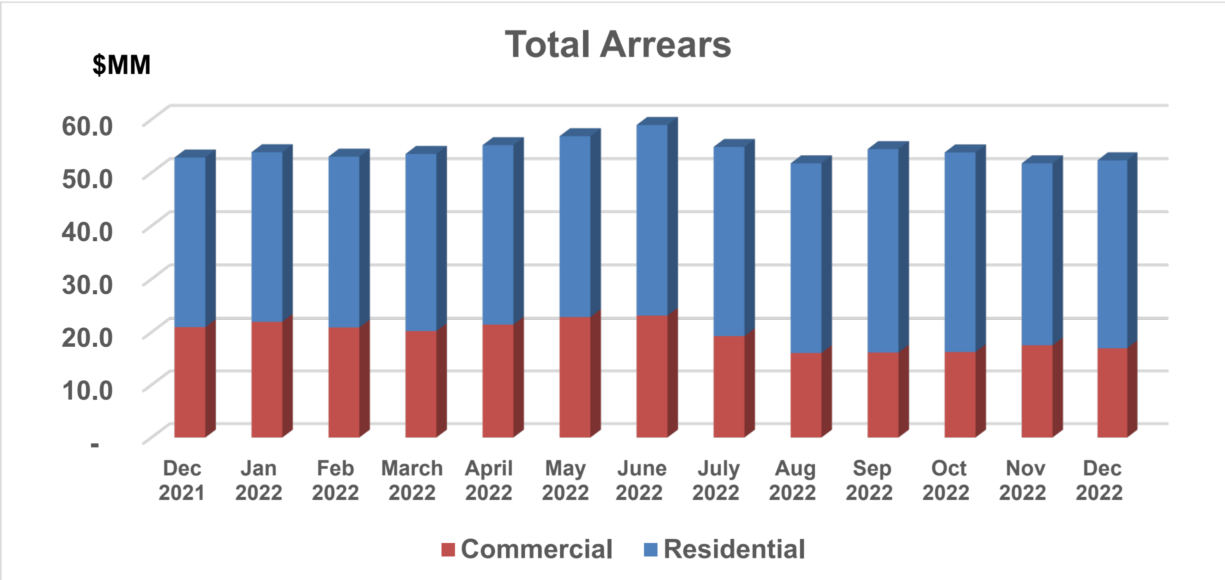
On April 13, 2022, the Corporation acquired 21% ownership stake in Global Strategic Mobility Fund LP with an additional capital commitment of $7.5MM USD over a 10-year period. The fund is based in the United States and is engaged in investment activities in the e-mobility space. The investment is carried at fair value ('FV') with changes in FV recognized in the profit or loss as the Corporation does not have significant influence due to a lack of voting rights and an inability to participate in policy making processes. As at December 31, 2022, the Corporation's ownership stake was diluted to 15% as a result of additional external investments in the fund.

Grid4C Ltd.

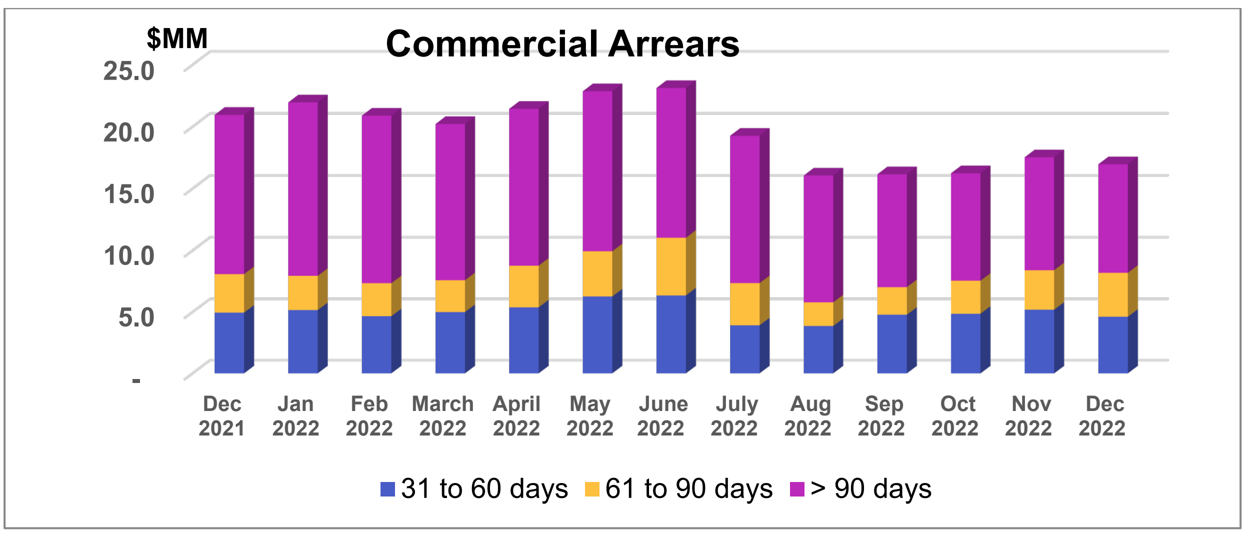
On January 7, 2020, the Corporation purchased 68,790 Preferred C shares in Grid4C Ltd. (Grid4C) for $7MM ($5MM USD). Grid4C requires significant additional financing to fund its operations and meet existing and future liabilities. Grid4C's ability to meet its financial obligations is in doubt which has triggered uncertainty as to whether it will be able to continue as a going concern. As a result, the Corporation assessed its investment in Grid4C and was unable to determine whether the investment was recoverable. As previously reported, a full impairment loss of $6MM ($5MM USD) has been recorded in the Consolidated Statement of Income and Comprehensive Income. The Corporation continues to explore opportunities to recover its investment in Grid4C which may result in a partial or full reversal of the impairment loss in the future.

Customer Arrears

The following graph provides a trend of Alectra Utilities arrears over the last twelve months.

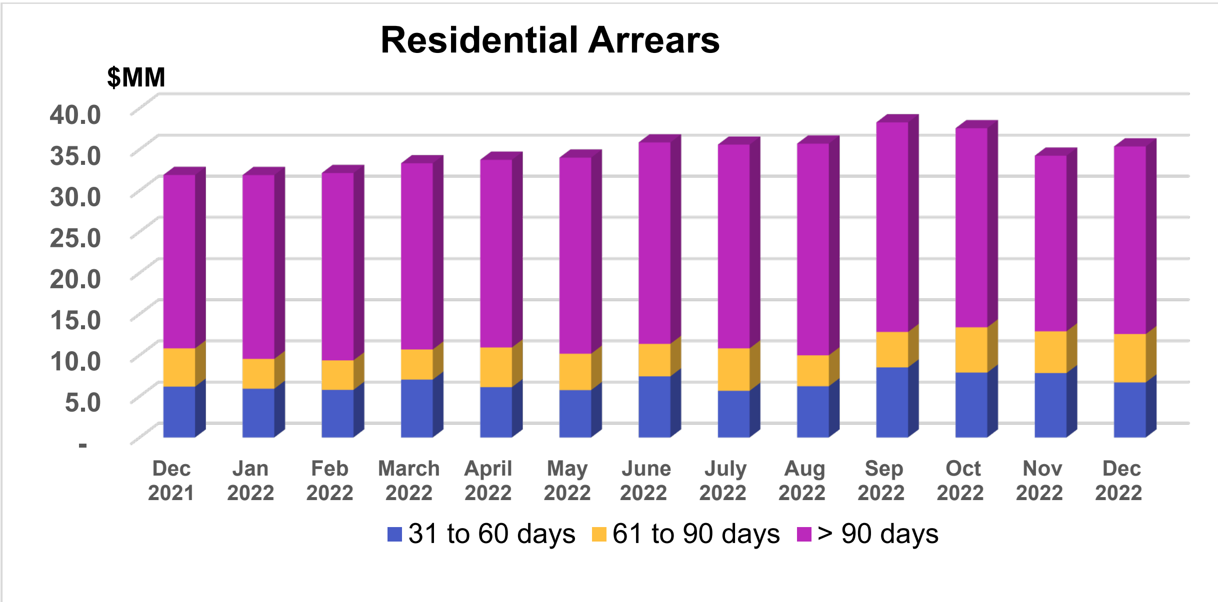


Total Accounts Receivable > 30 days as of December 31, 2022, is $52.3MM or 1% lower than as of December 31, 2021.



Commercial arrears of $17.0MM have decreased by $4.0MM or (19%) since December 2021 in all aging categories, with >90 days category accounting for most of the decline. 3,837 commercial customers are in arrears greater than 90 days category, owing an average of $2,285. Collection activities continue with a focus on aged accounts > 90 days category and greater than $20K in arrears.

Residential arrears of $35.4MM have been increasing since 2021, with approximately 10.9% growth or $3.5MM year over year, across all categories.



Residential accounts have not been subject to disconnection since October 2019 until June 3, 2021, when OEB ended its residential Disconnection Ban, aligned with provincial Stay at Home Order. As of December 31, 2022, 28,196 customers are in arrears > 90 days, owing an average of $808. A targeted residential collection strategy was developed, and collection activities commenced in July, with a focus on the top residential customers with arrears greater than $10K. In September, Alectra continued implementation of its collection strategy, moving to arrears greater than $4K. With the winter residential disconnection ban in place, collection efforts have shifted to outbound calling campaigns to manage any increase in arrears until the end of the ban in May 2023. Other residential collection activities including disconnections, if necessary, will resume thereafter.

Planning continues for development of Alectra's Customer Assistance Program, which will feature a range of additional supports and options for customers who are in arrears. This strategy will include working with local community partners, industry associations and government advocacy groups to segment at risk customers and coordinate support tools.

Management has made additional estimates and judgments in the preparation of the provision for bad debts (credit losses) on its accounts receivable balances, which are subject to a higher degree of estimation uncertainty, than would have existed before the COVID-19 Pandemic. These increased provision rates have been applied to commercial, industrial, and residential customers. At year end, Alectra Utilities had an allowance for doubtful accounts in respect of customer receivables of $40MM, a 4.7% decrease over 2021 and representing 6.8% of 2022 Customer receivables.

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