

March 5, 2024

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, 2023

Please find attached the consolidated audited financial statements for Alectra Inc. for the year ended December 31, 2023 (“Annual Financial Statements”). This information is provided in compliance with Section 2.25 of the Unanimous Shareholders’ Agreement (“USA”) 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 1, 2024.

Alectra Inc. Shared Financial Results – Year Ended December 31, 2023

Net income on a consolidated shared basis for 2023, as reported under Modified International Financial Reporting Standards (“MIFRS”), was \$136.7MM or \$2.8MM above the budget of \$133.9MM.

More information regarding the 2023 financial results is included in the 2023 Annual Financial Statements and associated Management Discussion and Analysis.

Final Dividends on Voting Shares in respect of 2023 Fiscal Year

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

Calculation of Final Dividend

The Board of Directors approved the final dividend in respect of 2023 on the above basis as follows:

Consolidated Shared - All Shareholders

(\$MMs)

MIFRS Net Income	136.748
Net Income for Dividends	136.748
Dividends @ 60%	82.049
Quarterly Dividends Paid	(48.213)
Final Dividend in respect of 2023	33.836

Comparison to 2023 Financial Plan

Dividends @ 60%	82.049
Dividends per 2023 Financial Plan	80.355
Difference	1.694

The Final Dividend in respect of 2023 of \$33.836MM (rounded) will be paid to shareholders of record on December 31, 2023 holding Voting Shares on March 15, 2024 as follows:

	<u>Final Dividend</u>
Barrie Hydro Holdings Inc.	\$2,833,369.31
Enersource Corporation	\$10,003,923.52
Guelph Municipal Holdings Inc.	\$1,565,129.97
Hamilton Utilities Corporation	\$5,857,135.87
Markham Enterprises Corporation	\$5,076,184.42
St. Catharines Hydro Inc.	\$1,565,129.97
Vaughan Holdings Inc.	\$6,934,977.94
	<u>\$33,835,851.00</u>

Promissory Notes from Related Parties

Currently, Alectra Inc. has promissory notes to the City of Vaughan, the City of Markham and the City of Barrie totalling \$166.1MM. These promissory notes each 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 Alectra Inc.

Alectra has received notice from all three Cities that the promissory notes will not be renewed beyond May 31, 2024. Therefore Alectra will be required to issue a new debenture to refinance the matured promissory notes.

Notice to shareholders under section 4.1(5) of the USA governing Alectra Inc. regarding Additional capital

Please refer to the USA for the definitions of capitalized terms under this section unless otherwise defined in this letter. All section references are to the USA unless otherwise indicated.

Management is bringing forward information and a recommendation on the timing and process for a 2024 debenture issuance.

As shareholder promissory notes of \$166.1MM are not being renewed, Management is recommending to refinance the debt with an issuance of a \$200MM senior unsecured debenture to take place in Q2 2024. At the time of issuance, Alectra may consider ten-year or 30-year terms. The proceeds from such issuance would be to settle promissory notes and for general corporate purposes.

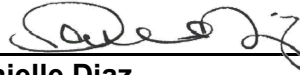
The debentures will be issued under the Alectra Trust Indenture, which will allow the issuance process to be completed within short period of time, providing flexibility in respect to the timing of the issuance.

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

Sincerely,



Brian J. Bentz
President and
Chief Executive Officer



Danielle Diaz
Executive Vice President and
Chief Financial Officer

- cc. Norm Loberg – Chair of the Board of Directors
Vinay Mehta – EVP Legal, Strategy 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

Consolidated Financial Statements
(In millions of Canadian dollars)

ALECTRA INC.

Year ended December 31, 2023



KPMG LLP

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Vaughan, ON L4K 0J3
Canada
Telephone 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, 2023
- 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 material accounting policy information

(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, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards.

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 Accounting Standards, 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.



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- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Vaughan, Canada

March 1, 2024

ALECTRA INC.

Consolidated Statement of Financial Position

(in millions of Canadian dollars)

as at December 31, 2023 and 2022



	Notes	2023	2022
Assets			
Current assets			
Cash		21	48
Restricted cash	8	—	3
Trade and other receivables	18	642	586
Other assets	9	87	67
Total current assets		750	704
Non-current assets			
Property, plant, and equipment and right of use assets	6	4,292	3,977
Goodwill and other intangible assets	7	1,026	1,034
Deferred tax asset	24	4	3
Other assets	9	5	2
Total non-current assets		5,327	5,016
Total assets		6,077	5,720
Liabilities and Shareholders' Equity			
Current liabilities			
Trade and other payables	10	503	477
Customer deposits liability		58	58
Loans and borrowings	12	691	290
Deferred revenue	22	22	19
Lease obligations	17	2	4
Contingent consideration	13	—	11
Other liabilities	14	107	75
Total current liabilities		1,383	934
Non-current liabilities			
Loans and borrowings	12	1,921	2,237
Deferred revenue	22	702	588
Employee future benefits	15	75	71
Lease obligations	17	23	25
Deferred tax liabilities	24	146	107
Other liabilities	14	26	22
Total non-current liabilities		2,893	3,050
Total liabilities		4,276	3,984
Shareholders' equity			
Share capital	16, 26	990	992
Contributed surplus		599	599
Accumulated other comprehensive income		4	5
Retained earnings		208	140
Total shareholders' equity		1,801	1,736
Total liabilities and shareholders' equity		6,077	5,720

The accompanying notes are an integral part of these 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, 2023 and 2022



	Notes	2023	2022
Revenue			
Distribution revenue	20	716	620
Electricity sales	20	3,032	3,079
Other revenue	20	208	205
		3,956	3,904
Expenses			
Cost of power		3,055	3,169
Operating expenses	21	397	387
Depreciation and amortization	6, 7	201	191
		3,653	3,747
Income from operating activities		303	157
Net finance costs	23	(96)	(79)
Loss on derecognition of property, plant, and equipment and intangible assets		(6)	(6)
Loss on fair value of contingent consideration	13	—	(7)
Share of net loss of joint venture	9	(1)	—
Impairment loss on investment in associate		—	(6)
Income before income taxes		200	59
Income tax expense	24	(54)	(19)
Net income		146	40
Other comprehensive (loss) income			
<i>Item that may be subsequently reclassified to income</i>			
Reclassification to net income, loss on bond forward		2	2
<i>Items that will not be subsequently reclassified to income</i>			
Remeasurement of defined benefit obligation	15	(3)	32
Tax impact on remeasurement of defined benefit obligation		—	(9)
Total other comprehensive (loss) income		(1)	25
Total comprehensive income		145	65

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

ALECTRA INC.

Consolidated Statement of Changes in Equity
(in millions of Canadian dollars)
for the years ended December 31, 2023 and 2022



	Notes	Share capital	Contributed surplus	Accumulated other comprehensive (loss) income	Retained earnings	Total
Balance, January 1, 2022		994	599	(20)	196	1,769
Net income		—	—	—	40	40
Other comprehensive income		—	—	25	—	25
Return of capital	16, 26	(2)	—	—	—	(2)
Dividends paid	16, 26	—	—	—	(96)	(96)
Balance, December 31, 2022		992	599	5	140	1,736
Net income		—	—	—	146	146
Other comprehensive loss		—	—	(1)	—	(1)
Return of capital	16, 26	(2)	—	—	—	(2)
Dividends paid	16, 26	—	—	—	(78)	(78)
Balance, December 31, 2023		990	599	4	208	1,801

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

ALECTRA INC.

Consolidated Statement of Cash Flows
(in millions of Canadian dollars)
for the years ended December 31, 2023 and 2022



	Notes	2023	2022
Net cash from (used in)			
Operating activities			
Net income		146	40
Add (deduct) non-cash items:			
Depreciation and amortization	6, 7	201	191
Amortization and derecognition of capital contributions	22	(23)	(16)
Loss on derecognition of property, plant, and equipment and intangible assets		6	6
Loss on fair value of contingent consideration		—	7
Impairment loss on investment in associate		—	6
Share of net loss of joint venture	9	1	—
Income tax expense	24	54	19
Net finance costs	23	96	79
Capital contributions received	22	116	71
Net change in operating working capital	25	(17)	(8)
Net change in non-current assets and liabilities		7	4
Cash generated from operating activities		587	399
Income taxes paid	24	(21)	(37)
Income taxes refunded	24	7	3
Net cash from operating activities		573	365
Investing activities			
Decrease in restricted cash	8	3	2
Purchase of investment security	9	(2)	—
Consideration for investment in joint venture	9	(2)	—
Purchase of property, plant, and equipment	6	(474)	(335)
Purchase of intangible assets	7	(29)	(25)
Proceeds from disposal of property, plant and equipment		3	3
Proceeds from disposal of intangible assets		1	—
Net cash used in investing activities		(500)	(355)
Financing activities			
Issuance of short-term debt	26	11,758	11,983
Repayment of short-term debt	26	(11,673)	(11,888)
Repayment of long-term loans and borrowings	26	—	(150)
Issuance of long-term loans and borrowings, net of transaction costs	26	—	248
Repayment of lease obligations	17, 26	(5)	(6)
Interest received	26	5	2
Interest paid	26	(105)	(85)
Return of capital	16, 26	(2)	(2)
Dividends paid	16, 26	(78)	(96)
Net cash (used in) from financing activities		(100)	6
Net cash (outflow) inflow		(27)	16
Cash, beginning of year		48	32
Cash, end of year		21	48

The accompanying notes are an integral part of these 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"); Alectra Microgrid Master General Partnership; and Holland Power Services Inc. ("HPSI"). UA has one subsidiary: Util-Assist Corp. HPSI has one subsidiary: Holland New England ("HNE"). AESI has a 50% Joint Venture with Convergent Energy and Power through the formation of Alectra Convergent Development LP ("ACD"). On January 1, 2023, HPS Holdings Inc. ("HPS") amalgamated under the provisions of the Business Corporations Act (New Brunswick) with Holland Power Services Inc. to form Holland Power Services Inc.

AES is an Ontario-based company that provides customers with energy solutions and services through the use of innovative technologies. The principal activities of AES, its subsidiaries and joint venture 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;
- AMSP - provides energy management services which includes installing, owning and operating an industrial energy storage battery and gas system with a third party; and

1. Description of the Business (continued)

- ACD - provides distributed energy solutions which includes developing, constructing, commissioning, owning, operating and maintaining front-of-the-meter storage system projects in Ontario.

2. Basis of Preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with IFRS Accounting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). These consolidated financial statements were approved by the Board of Directors on March 1, 2024.

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 the actuarial present value of defined benefit obligation, and contingent consideration and investment security which are 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)(ii) – recognition and measurement of unbilled revenue;
- Note 4(c)(ii) – recognition and measurement of expected credit losses on trade and other receivables;
- Note 4(h) – impairment of non-financial assets: key assumptions underlying recoverable amounts; and
- Note 4(j) – measurement of employee future benefits – key 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.

2. Basis of Preparation (continued)

(c) Use of estimates and judgments (continued)

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

- Note 4(f) and (g) – determining the useful lives of property, plant and equipment and finite life intangible assets;
- Note 4(h) – impairment of non-financial assets: key judgements include identification of cash generating units and inputs used for determining the recoverable amount;
- Note 4(i) – recognition and measurement of provisions and contingencies, determining whether a present obligation exists and assessing the probability, timing, and amount of any future outflows; and
- Note 4(l) – recognition of deferred tax assets and liabilities.

The changes in the economic environment arising from geopolitical events, high inflation rates and interest rate increases continue to cause uncertainty over economic growth. 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 28).

(a) Rate Setting

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

The rate-making policies of the OEB are guided by its statutory objectives under *The Ontario Energy Board Act, 1998 (Ontario)* ("OEBA") that include, among other matters, to support the cost-effective planning and operation of the electricity distribution network and to provide an appropriate alignment between a sustainable, financially viable electricity sector and the expectations of customers for reliable service at a reasonable price.

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

3. Regulation (continued)*(a) Rate Setting (continued)**Price Cap IR*

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

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

Custom IR

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

Annual IR

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

*(b) Rate Applications**2023 Rate Application*

On May 16, 2022, Alectra Utilities filed an ICM application for the approval of 2023 incremental capital funding for underground cable renewal investments in the PowerStream and Enersource rate zones, effective January 1, 2023. On November 17, 2022, the OEB issued its Decision and Order on the ICM application, approving \$18 of Alectra Utilities' \$25 ICM capital request. The OEB approved recovery of the incremental revenue requirement 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. On December 8, 2022, the OEB issued its Decision and Rate Order on the Price Cap IR application, approving a 3.4% rate adjustment to distribution rates effective January 1, 2023 and providing for disposition of deferral and variance account balances.

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

Following the issuance of Ministerial directives pursuant to the Electricity Act ("EA"), 1998 (Ontario), the IESO has provided Alectra Utilities and all LDCs across the province with a notice to extend the in-service date for certain projects under the Conservation First Framework ("CFF") to support customers that were impacted by the COVID-19 pandemic.

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 that were incurred in the preceding month and reimbursed to Alectra in the following month. The amounts received 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 its costs and the eligible funding is capped at a prescribed Internal Rate of Return.

4. Material Accounting Policies

In February 2021, the IASB issued amendments to IAS 1, *Presentation of Financial Statements*, which provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The IASB also issued amendments to IFRS Practice Statement 2, *Making Materiality Judgements*, to support the amendments in IAS 1. The amendments to IAS 1 and IFRS Practice Statement 2, require the Corporation to disclose its material accounting policies rather than its significant accounting policies. The amendments are effective for annual periods beginning on or after January 1, 2023. The adoption of these amendments has not resulted in any changes to the Corporation's accounting policies.

Pursuant to the amendments, the following material 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 are eliminated on consolidation.

4. Material Accounting Policies (continued)*(b) 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 based on regular meter readings and estimates of customer usage since the last meter reading date to the end of the year. The Corporation satisfies its performance obligation to the customer over time, which is to use reasonable diligence in providing a regular and uninterrupted supply of electricity over the contract term.

(ii) Other revenue

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

- Revenue from renewable generation sources is recognized in the period in which electricity is generated and delivered, based on regular meter readings, and is measured at the fair value of the consideration received or receivable, net of sales tax.
- 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.

4. Material Accounting Policies (continued)*(b) Revenue from contracts with customers (continued)**(ii) Other revenue (continued)*

- Sub-metering revenue is primarily comprised of management fees billed for sub-metering services related to the consumption of electricity and water in individual units within multi-residential and commercial buildings. Revenue is recognized monthly over the term of corresponding service agreements as the services are provided to the customer. AESI has determined that it is acting as an agent for its meter billing service and, as such, the revenue is recognized on a net basis.
- Revenue from consulting services is recognized using a time and materials basis which is measured monthly based on input measures, such as hours incurred to date, with consideration given to output measures, such as contract milestones when applicable. Certain service revenues, such as upfront conversion revenue, are recognized at a point in time.
- Revenue 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*.

(c) Financial instruments

Financial assets and liabilities include cash, investment security, trade and other receivables, trade and other payables, customer deposits liability, contingent consideration, 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, except for investment securities and contingent consideration, 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. Investment securities and contingent consideration are subsequently measured at fair value and changes in fair value are recognized in the profit or loss.

(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).

4. Material Accounting Policies (continued)*(c) Financial instruments (continued)**(i) Financial instruments at fair value (continued)*

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) 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.

(d) Restricted cash

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

(e) 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.

(f) 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.

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. Material Accounting Policies (continued)

(f) 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.

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 60 years
Distribution assets	Straight-line	10 to 70 years
Other assets	Straight-line	4 to 50 years

(g) Goodwill and other intangible assets

Intangible assets include: goodwill; land rights; brands; computer software; 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.

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.

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

Computer software, 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.

Contributions represent payments 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. 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 are subsequently measured at cost less accumulated amortization and any applicable impairment losses. The amortization is charged on a straight-line basis over the life of the asset.

4. Material Accounting Policies (continued)

(g) 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	3 to 10 years
Contributions	Straight-line	10 to 70 years
Other assets (excluding brands)	Straight-line	2 to 35 years

(h) 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 2 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. Material Accounting Policies (continued)*(i) 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.

Contingencies are disclosed unless the possibility of an outflow of economic benefits is remote.

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.

(j) 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. Material Accounting Policies (continued)*(j) 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. 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 Consolidated 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.

(k) 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 is 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.

(l) Income taxes

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

AESI, HPSI and UA are subject to the payment of tax under the Tax Acts. Other than AESI, HPSI and UA, pursuant to the EA, and because 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.

4. Material Accounting Policies (continued)

(l) Income taxes (continued)

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, HPSI 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.

(m) 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.

(n) 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, 2023, 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, 2024

- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16 - *Leases*);
- Disclosures regarding Supplier Finance arrangements (Amendments to IAS 7 - *Statement of Cash Flows* and IFRS 7 - *Financial Instruments: Disclosures*); and
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1 - *Presentation of Financial Statements*).

ALECTRA INC.

Notes to the Consolidated Financial Statements
(in millions of Canadian dollars)
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**6. Property, Plant, and Equipment and Right of Use Assets**

	Property, Plant and Equipment				RoU		
	Land and buildings	Distribution assets	Other assets	Work in progress	Sub-Total	RoU assets	Total
Cost							
Balance at January 1, 2022	193	3,959	286	179	4,617	38	4,655
Reclassifications	3	(20)	17	—	—	—	—
Additions / transfers	15	276	23	25	339	—	339
Disposals	—	(8)	(9)	—	(17)	—	(17)
Balance at December 31, 2022	211	4,207	317	204	4,939	38	4,977
Additions / transfers	124	384	24	(38)	494	1	495
Disposals	—	(12)	(11)	—	(23)	(8)	(31)
Balance at December 31, 2023	335	4,579	330	166	5,410	31	5,441
Accumulated depreciation							
Balance at January 1, 2022	29	694	114	—	837	11	848
Depreciation	6	128	24	—	158	4	162
Reclassifications	—	(2)	2	—	—	—	—
Disposals	—	(2)	(8)	—	(10)	—	(10)
Balance at December 31, 2022	35	818	132	—	985	15	1,000
Depreciation	6	136	25	—	167	5	172
Disposals	—	(4)	(11)	—	(15)	(8)	(23)
Balance at December 31, 2023	41	950	146	—	1,137	12	1,149
Net book value							
December 31, 2022	176	3,389	185	204	3,954	23	3,977
December 31, 2023	294	3,629	184	166	4,273	19	4,292

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

RoU assets represent the Corporation's right to use buildings and roof tops over the duration of the lease term.

During the year, borrowing costs of \$7 (2022 - \$5) were capitalized as part of the cost of PP&E and intangible assets. An average capitalization rate of 4.36% (2022 - 3.64%) was used to determine the amount of borrowing costs to be capitalized with respect to the Corporation. Refer to Note 23.

ALECTRA INC.

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**6. Property, Plant, and Equipment and Right of Use Assets (continued)**

Reconciliation between the amounts presented on the Consolidated Statement of Cash Flows and total additions to property, plant and equipment:

	Note	2023	2022
Purchase of property, plant and equipment, cash basis		474	335
Non-cash asset contributions	22	16	—
Accruals		4	4
Total additions to property, plant and equipment		494	339

7. Goodwill and Other Intangible Assets

(a) *Goodwill and intangible assets*

	Goodwill	Land rights	Computer software	Contributions	Work in progress	Other assets	Total
Cost or deemed costs							
Balance at January 1, 2022	777	4	170	98	22	55	1,126
Additions	—	—	12	—	11	6	29
Write off / Disposals	—	—	(7)	(1)	—	(1)	(9)
Balance at December 31, 2022	777	4	175	97	33	60	1,146
Additions	—	—	27	—	(7)	7	27
Write off / Disposals	—	—	(5)	—	(5)	—	(10)
Balance at December 31, 2023	777	4	197	97	21	67	1,163
Accumulated amortization							
Balance at January 1, 2022	—	—	62	19	—	9	90
Amortization	—	—	20	4	—	5	29
Write off / Disposals	—	—	(7)	—	—	—	(7)
Balance at December 31, 2022	—	—	75	23	—	14	112
Amortization	—	—	21	3	—	5	29
Write off / Disposals	—	—	(4)	—	—	—	(4)
Balance at December 31, 2023	—	—	92	26	—	19	137
Net book value							
December 31, 2022	777	4	100	74	33	46	1,034
December 31, 2023	777	4	105	71	21	48	1,026

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 6 and 23.

7. Goodwill and Other Intangible Assets (continued)

(a) Goodwill and intangible assets (continued)

Reconciliation between the amounts presented on the Consolidated Statement of Cash Flows and total additions to intangible assets:

	2023	2022
Purchase of intangible assets, cash basis	29	25
Accruals	(2)	4
Total additions to intangible assets	27	29

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

Goodwill with a carrying amount of \$777 (2022 - \$777) and land rights with a carrying amount of \$4 (2022 - \$4) have been allocated to the Corporation's CGUs. Carrying value of goodwill and land rights allocation is as follows:

	Goodwill		Land rights		Brands	
	2023	2022	2023	2022	2023	2022
AUC	755	755	4	4	—	—
HPS	16	16	—	—	2	2
UA	6	6	—	—	—	—

The Corporation tested goodwill, land rights and brands for impairment as at September 30, 2023, and September 30, 2022. The impairment test was performed by considering the latest developments and economic conditions. The recoverable amount of goodwill, brands 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 the 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	
	2023	2022	2023	2022
AUC	3.00%	3.00%	5.16%	4.99%
HPS	2.50%	2.70%	14.23%	21.10%
UA	3.00%	3.00%	21.22%	18.73%

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.

Management is not aware of any change to the noted key assumptions that would cause a CGU's carrying amount to exceed its recoverable amount.

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**8. Restricted Cash**

The restricted cash in 2022 represents the amount held in an escrow account, retained from the total purchase price of HPSI to indemnify the Corporation from future third party claims if any. 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.

9. Other Assets

	2023	2022
Current		
Inventories	61	40
Prepaid expenses	18	18
Other receivable	8	9
	87	67
Non-current		
Investment security	2	—
Prepaid expenses	2	2
Investment in joint venture	1	—
	5	2

On April 13, 2022, the Corporation acquired 21% ownership stake in Global Strategic Mobility Fund LP. with a total capital commitment of \$7.5 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 security is carried at fair value with changes in fair value 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, 2023, the Corporation's ownership stake in the fund was 15% (2022 - 15%).

On June 27, 2022, AESI entered into a 50% Joint Venture with Convergent Energy and Power through the formation of Alectra Convergent Development LP ("ACD"). On August 22, 2023, ACD was selected by the IESO to construct and operate three battery energy storage projects, for an expected total capacity of 80MW across three sites.

10. Trade and Other Payables

	Note	2023	2022
Trade payables - energy purchases		234	235
Accrued liabilities		118	113
Due to related parties	11	54	52
Trade payables - other		47	26
Customer receivables in credit balances		30	34
Interest payable		20	17
		503	477

11. Related Party Balances and Transactions

(a) Balances and transactions with related parties

Significant related party transactions except for transactions disclosed in Note 12 are summarized below:

2023				
	Revenue/ Deferred Revenue	Expenses	Due from related parties	Due to related parties
City of Barrie	7	—	2	—
City of Guelph	11	—	1	7
City of Hamilton	33	1	2	24
City of Markham	9	1	2	11
City of Mississauga	19	3	3	—
City of St. Catharines	5	—	1	—
City of Vaughan	8	1	1	12
	92	6	12	54
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

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 12 for related party loans and borrowings.

The Corporation paid dividends to shareholders during the year. Refer to Note 16.

(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:

	2023	2022
Salaries and current employment benefits	16	16
Employee future benefits	1	1
	17	17

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**12. Loans and Borrowings**

	2023	2022
Total loans and borrowings	2,612	2,527
Less:		
Short-term debt	375	290
Current portion of long term-debt	316	—
Current portion of loans and borrowings	691	290
Long-term loans and borrowings	1,921	2,237

(a) Short-term debt

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 (2022 - \$700) and is supported by the Corporation's \$700 (2022 - \$700) committed credit facility with \$100 expansion option subject to mutual agreement between the Corporation and its lenders.

The \$100 (2022 - \$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, 2023, and 2022 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, 2023, was \$375 (2022 - \$290).

For the year ended December 31, 2023, the average annual outstanding borrowings under the Corporation's committed revolving credit facility and uncommitted credit facility was \$348 (2022 - \$336) with a weighted average interest rate of 4.92% (2022 - 2.39%). Refer to Note 18(b)(iii).

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**12. Loans and Borrowings (continued)***(b) Long-term debt*

	2023	2022
Debtures ¹		
3.239% Debtures due 2024	150	150
2.488% Debtures due 2027	675	675
5.264% Debtures due 2030	65	65
1.751% Debtures due 2031	300	300
5.297% Debtures due 2041	210	210
3.958% Debtures due 2042	200	200
4.121% Debtures due 2045	30	30
3.458% Debtures due 2049	200	200
5.225% Debtures due 2052	250	250
Less: unamortized transaction costs	(9)	(9)
	2,071	2,071
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 long-term debt	2,237	2,237
Less: Current portion of long-term debt	316	—
Long-term loans and borrowings	1,921	2,237

¹Debtures issued are senior unsecured debtures.

The debtures rank *pari passu* with all the Corporation's other senior unsubordinated and unsecured obligations. Interest expense on these debtures was \$74 (2022 - \$65).

The debtures 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, 2023, and 2022.

The three promissory notes to the City of Vaughan, the City of Markham and the City of Barrie mature on May 31, 2024, and include an option to renew 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 (2022 - \$7). Subsequent to the year end, the lenders have opted not to renew the promissory notes for the additional term.

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**12. Loans and Borrowings (continued)***(b) Long-term debt (continued)*

The table below summarizes principal repayments on long-term debt due in the next five years and thereafter as at December 31, 2023.

2024	316
2027	675
Thereafter	1,255
	2,246

13. Contingent Consideration

Contingent consideration represents the Corporation's liability for earnout payments related to its acquisition of HPSI. The contingent consideration was dependent on exceeding an agreed upon target earnings level between the Corporation and the former owner of HPSI. During the year, the conditions for payout were met and as a result, payment of \$11 was made to the former owner.

14. Other Liabilities

	2023	2022
Current		
Advance payments	99	62
Holdback payable	6	5
Income tax payable	1	4
Other	1	4
	107	75
Non-current		
Expansion deposits	25	21
Other	1	1
	26	22

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.

15. Employee Future Benefits*(a) Multi-employer defined benefit pension plan*

The Corporation provides a pension plan for its employees, except those in UA and HPSI, 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, 2023, the Corporation made employer contributions of \$19 (2022 - \$19) to OMERS. These contributions have been recognized as an expense net of the amount capitalized in assets. The expected payment for 2024 is \$22.

15. Employee Future Benefits (continued)

(a) Multi-employer defined benefit pension plan (continued)

As at December 31, 2022, and subject to the estimates, assumptions and valuations of OMERS, the plan obligations are 95% (2021 - 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 HPSI, 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 provide 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:

	2023	2022
Defined benefit obligation at January 1	71	100
Benefit cost recognized in net income:		
Current service costs	1	3
Interest expense	3	3
Benefit cost recognized in net income	4	6
Amounts recognized in other comprehensive income:		
Remeasurement of defined benefit obligation	3	(32)
Amounts recognized in other comprehensive income	3	(32)
Payments from the plans	(3)	(3)
Defined benefit obligation at December 31	75	71

The main actuarial assumptions underlying the valuation are as follows:

	2023	2022
Discount rate	4.60 %	5.00 %
Medical benefits costs escalation	4.90 %	4.70 %
Dental benefits costs escalation	5.10 %	4.90 %

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**15. Employee Future Benefits (continued)***(c) Sensitivity analysis*

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

	2023	2022
Discount rate		
1% increase	(9)	(8)
1% decrease	11	10
Medical and dental benefits costs escalation		
1% increase	9	7
1% decrease	(7)	(6)

16. 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:

	2023		2022	
	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	37	99,999	39
Total Class S shares	99,999	37	99,999	39
Total share capital	10,584,999	990	10,584,999	992

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

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16. Share Capital (continued)

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

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

During the year, the Board of Directors approved a return of capital to the Class S shareholders in the amount of \$2 (2022 - \$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.

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

- Common share dividends aggregating \$76 or \$7.31 per share (2022 - \$95 or \$9.06 per share); and
- Class S share dividends aggregating \$2 or \$15.04 per share (2022 - \$1 or \$14.32 per share).

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

Subsequent to the year end, on March 1, 2024, the Corporation declared a dividend in the amount of \$34 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.

17. Lease Obligations

The Corporation leases 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 6. 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.

17. Lease Obligations (continued)

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

	2023	2022
Less than one year	4	6
Between one and five years	13	13
More than five years	16	19
Total undiscounted lease obligations	33	38
	2023	2022
Amounts recognized in the Consolidated Statement of Income and Comprehensive Income		
Interest on lease obligations	1	1
Variable lease payments and non-lease components not included in the measurement of lease obligations	1	2
	2023	2022
Amounts recognized in the Consolidated Statement of Cash Flows		
Payments for the principal portion included within financing activities	5	6
Payments for the interest portion included within financing activities	1	2
Variable lease payments included within operating activities	1	2
Total cash outflow for leases	7	10

18. 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 long-term debt approximates fair value because of the short maturity of these instruments. The fair value of the Corporation's long-term borrowings is \$1,861 (2022 - \$2,086).

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

	Maturity Date	2023		2022	
		Carrying Value ¹	Fair Value ²	Carrying Value ¹	Fair Value ²
Loans and borrowings					
Promissory notes issued in 2002	2024	—	—	166	165
Debentures issued in 2010	2030	65	69	65	67
Debentures issued in 2011	2041	210	229	210	219
Debentures issued in 2012	2042	200	186	200	176
Debentures issued in 2014	2024	—	—	150	145
Debentures issued in 2015	2045	30	28	30	26
Debentures issued in 2017	2027	675	640	675	624
Debentures issued in 2019	2049	200	170	200	158
Debentures issued in 2021	2031	300	256	300	242
Debentures issued in 2022	2052	250	283	250	264
Total loans and borrowings - long-term portion		1,930	1,861	2,246	2,086
Less: unamortized transaction costs		(9)	—	(9)	—
		1,921	1,861	2,237	2,086

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.

The following table provides a summary of the Corporation's financial instruments and the associated fair values as at December 31, 2023, and 2022:

	2023			
	Notes	Level 2	Level 3	Total
Financial assets				
Investment security	9	2	—	2
Financial liabilities				
Long-term loans and borrowings	12	1,861	—	1,861
	2022			
	Notes	Level 2	Level 3	Total
Financial liabilities				
Contingent consideration payable	13	—	11	11
Long-term loans and borrowings	12	2,086	—	2,086

18. Financial Instruments and Risk Management (continued)

(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.

The Corporation considers current economic and credit conditions to determine the ECL allowance of its trade and other receivable balances. During the years ended December 31, 2023, and 2022, given the uncertainty caused by high inflation and interest rate increases, management revised the estimates and judgments used in the preparation of the ECL allowance on its trade and other receivable balances, which were subject to a higher degree of estimation uncertainty. 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, 2023, and 2022, there was no significant concentration of credit risk with respect to any financial assets.

Trade and other receivables and respective aging are as follows:

	Note	2023	2022
Trade receivables		360	334
Unbilled revenue		292	275
Due from related parties	11	12	9
Other		12	11
		676	629
Less: expected credit losses		(34)	(43)
Total trade and other receivables, net		642	586
Less than 30 days		597	547
30 - 60 days		18	20
61 - 90 days		13	15
Greater than 90 days		48	47
		676	629
Less: expected credit losses		(34)	(43)
Total trade and other receivables, net		642	586

18. Financial Instruments and Risk Management (continued)

(b) Financial risks (continued)

(i) Credit risk (continued)

	Expected credit losses
Balance, January 1, 2022	(45)
Additional provision	(12)
Write-offs	14
Balance, December 31, 2022	(43)
Additional provision	(7)
Write-offs	16
Balance, December 31, 2023	(34)

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

(ii) Interest rate risk

The Corporation is exposed to fluctuations in interest rates for the valuation of its post-employment benefit obligations (Note 15). The Corporation is also exposed to short-term interest rate risk on short-term debt under its credit facility and CP program (Note 12). 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, 2023, 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. Note 12

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 \$4 (2022 - \$3) to annual finance costs.

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

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

	2023			Total
	Due within 1 year	Due between 1 and 5 years	Due past 5 years	
Trade and other payables	503	—	—	503
Short-term debt	375	—	—	375
Customer deposits liability	58	—	—	58
Other liabilities	106	26	—	132
4.410% Promissory note due 2024	81	—	—	81
4.410% Promissory note due 2024	70	—	—	70
4.410% Promissory note due 2024	21	—	—	21
3.239% Debentures due 2024	155	—	—	155
2.488% Debentures due 2027	17	717	—	734
5.264% Debentures due 2030	3	14	72	89
1.751% Debentures due 2031	5	21	313	339
5.297% Debentures due 2041	11	44	349	404
3.958% Debentures due 2042	8	32	311	351
4.121% Debentures due 2045	1	5	51	57
3.458% Debentures due 2049	7	28	342	377
5.225% Debentures due 2052	13	52	564	629
Lease obligations	4	13	16	33
	1,438	952	2,018	4,408

The balances for loans and borrowings, and lease obligations include both principal and interest.

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

	2022			Total
	Due within 1 year	Due between 1 and 5 years	Due past 5 years	
Trade and other payables	477	—	—	477
Short-term debt	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, and lease obligations 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:

- \$1,000 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 \$200.
- The committed facility is also used to support outstanding commitments under the CP program by way of same day market rate advances.
- Issuance of senior unsecured debentures with various maturity dates under established Trust Indentures.

18. 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 and investment security balances 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:

	2023	2022
	USD	USD
Trade receivables	15	15
Cash	5	2
Trade payables	1	1
Investment security	1	—
	22	18

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

19. 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 based on 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 12).

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**20. Revenues**

	2023	2022
Electricity sales	3,032	3,079
Distribution revenue	716	620
Power restoration and industrial services	75	90
Consulting	27	24
Amortization and derecognition of capital contributions	23	16
Sub-metering and metering services	16	14
Solar generation	15	16
Regulatory service charges	14	17
Water and wastewater billing and customer charges	12	11
Street lighting	10	8
Pole and other rental income	6	6
CDM performance incentive revenue	2	—
Other	8	3
	3,956	3,904

Energy sales and distribution revenue by customer class are as follows:

	2023	2022
Residential service ¹	1,354	1,391
Commercial ²	2,159	2,096
Large users ³	235	212
	3,748	3,699

¹ "Residential Service" means a service that is for domestic or household purposes, including single family or individually metered multi-family units and seasonal occupancy.

² "Commercial" means a service supplied to premises other than those receiving "Residential Service" and "Large Users" and typically includes small businesses and bulk-metered multi-unit residential establishments. This service is provided to customers with a monthly peak demand of less than 5,000 kW averaged over a 12-month period.

³ "Large Users" means a service provided to a customer with a monthly peak demand of 5,000 kW or greater averaged over a 12-month period.

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**21. Operating Expenses**

	2023	2022
Labour	227	221
Contract and consulting	75	67
General and administrative	32	30
Repairs and maintenance	20	20
Information and technology	18	16
Business taxes and fees	11	10
Provision for ECL	7	12
Facility expenses	5	5
Other	2	6
	397	387

22. Deferred Revenue

	Notes	2023	2022
Deferred revenue at January 1		607	552
Capital contributions received		124	71
Non-cash asset contributions	6	16	—
Amortization and derecognition	20	(23)	(16)
Deferred revenue at December 31		724	607
Less: Current portion of deferred revenue		22	19
Non-current portion of deferred revenue		702	588

Reconciliation between the amounts presented on the Consolidated Statement of Cash Flows and total additions to customer contributions:

	2023	2022
Capital contributions, cash basis	116	71
Accruals	8	—
Total capital contributions received	124	71

23. Net Finance Costs

	Notes	2023	2022
Finance costs			
Interest on long-term debt	12	81	72
Interest on short-term debt	12	17	8
Other interest		10	6
Less: capitalized interest	6	(7)	(5)
Total finance costs		101	81
Interest income		5	2
		96	79

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

Income tax expense recognized in net income comprise the following:

	2023	2022
Current tax expense	16	19
Deferred tax expense	38	—
Income tax expense	54	19

Income taxes paid and refunded during the year were \$21 (2022 - \$37) and \$7 (2022 - \$3), 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:

	2023	2022
Income before taxes	200	59
Statutory Canadian federal and provincial income tax rates	26.5 %	26.5 %
Expected tax provision on income at statutory rates	53	16
Decrease in income taxes resulting from:		
Permanent differences	—	4
Adjustments in respect of prior years	—	(1)
Unrecognized deferred tax assets	1	—
Total income tax expense	54	19
Effective income tax rate	27.0%	32.2 %

The statutory income tax rate for the current year comprises a combined 15% (2022 - 15%) federal corporate tax rate and 11.5% (2022 - 11.5%) Ontario corporate tax rate. Certain subsidiaries of the Corporation are also subject to taxation in the provinces of New Brunswick 14% (2022 - 14%) and Quebec 11.5% (2022 - 11.5%).

24. Income Taxes (continued)

(c) Deferred tax balances

Net deferred tax assets and liabilities consist of the following:

	January 1, 2023	Recognized in net income	Recognized in OCI	December 31, 2023
Deferred tax assets				
Property, plant and equipment, RoU and intangible assets	(4)	(1)	—	(5)
Non-capital loss carryforwards	6	2	—	8
Non-deductible reserves	1	—	—	1
	3	1	—	4
Deferred tax liabilities				
Property, plant and equipment, RoU and intangible assets	175	27	—	202
Transaction costs of loans and borrowings	2	—	—	2
Non-capital loss carryforwards	(2)	2	—	—
Tax credit carryovers	(6)	—	—	(6)
Non-deductible reserves	(1)	—	—	(1)
Energy variances	(42)	10	—	(32)
Employee future benefits	(19)	—	—	(19)
	107	39	—	146
Deferred tax assets				
	January 1, 2022	Recognized in net income	Recognized in OCI	December 31, 2022
Property, plant and equipment, RoU and intangible assets	(4)	—	—	(4)
Non-capital loss carryforwards	5	1	—	6
Non-deductible reserves	1	—	—	1
	2	1	—	3
Deferred tax liabilities				
Property, plant and equipment, RoU and intangible assets	153	22	—	175
Transaction costs of loans and borrowings	2	—	—	2
Non-capital loss carryforwards	(3)	1	—	(2)
Non-deductible reserves	(4)	3	—	(1)
Tax credit carryovers	(7)	1	—	(6)
Energy variances	(18)	(24)	—	(42)
Employee future benefits	(26)	(2)	9	(19)
	97	1	9	107

ALECTRA INC.

Notes to the Consolidated Financial Statements
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**25. Net Change in Operating Working Capital**

	2023	2022
Trade and other receivables	(47)	(18)
Other assets	(18)	(17)
Trade and other payables	29	7
Other liabilities	30	13
Customer deposits liability	—	7
Contingent consideration	(11)	—
	(17)	(8)

26. Financing Activities Reconciliation

Summary of changes in liabilities arising from financing activities:

	Notes	January 1, 2023	Cash inflow	Cash outflow	Non-cash changes	December 31, 2023
Short-term debt	12	290	11,758	(11,673)	—	375
Long-term debt	12	2,237	—	—	—	2,237
Lease obligations	17	29	—	(5)	1	25
Interest receivable		—	5	—	(5)	—
Interest payable	10	17	—	(105)	108	20
Share capital	16	992	—	(2)	—	990
Dividend payable	16	—	—	(78)	78	—
		3,565	11,763	(11,863)	182	3,647

	Notes	January 1, 2022	Cash inflow	Cash outflow	Non-cash changes	December 31, 2022
Short-term debt	12	195	11,983	(11,888)	—	290
Long-term debt	12	2,137	248	(150)	2	2,237
Lease obligations	17	35	—	(6)	—	29
Interest receivable		—	2	—	(2)	—
Interest payable	10	16	—	(85)	86	17
Share capital	16	994	—	(2)	—	992
Dividend payable	16	—	—	(96)	96	—
		3,377	12,233	(12,227)	182	3,565

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

Refer to Note 17 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 (2022 - \$33).

The Corporation has posted letters of credit in the favour of IESO as security for participation in the battery energy storage projects as a part of IESO's long term energy capacity plan, in the amount of \$13 (2022 - \$nil). Refer to Note 9 for details.

(iii) Unrecognized contractual commitments

As at December 31, 2023, the Corporation's commitments for capital expenditures contracted for but not recognized as liabilities, were \$336 (2022 - \$266). 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 \$60 (2022 - \$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. As at December 31, 2023, and 2022, the Corporation assessed that none of these legal actions and claims are expected to have a material adverse effect on the Corporation.

(ii) Insurance

The Corporation excluding HPSI, 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. HPSI is insured through a separate insurer. As at December 31, 2023, and 2022, no assessments have been made.

27. Commitments, Contingencies, and Guarantees (continued)

(c) Guarantees

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

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

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

ALECTRA INC.

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**28. 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 material 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.

	2023			
	Regulated	Adjustment for regulated activities	Competitive activities	Total
Revenue				
Distribution revenue	632	84	—	716
Electricity sales	3,055	(23)	—	3,032
Other revenue	40	27	141	208
	3,727	88	141	3,956
Expenses				
Cost of power	3,055	—	—	3,055
Operating expenses	286	10	101	397
Depreciation and amortization	164	20	17	201
	3,505	30	118	3,653
Income from operating activities	222	58	23	303
Net finance costs	(83)	(9)	(4)	(96)
Loss on derecognition of property, plant, and equipment and intangible assets	(3)	(3)	—	(6)
Share of net loss of joint venture	—	—	(1)	(1)
Income before income tax	136	46	18	200
Income tax expense	(8)	(40)	(6)	(54)
Net income	128	6	12	146
Other comprehensive loss				
Reclassification to net income, loss on bond forward	—	—	2	2
Remeasurement of defined benefit obligation	(2)	(1)	—	(3)
Tax impact on remeasurement of defined benefit obligation	—	1	(1)	—
	(2)	—	1	(1)
Total comprehensive income	126	6	13	145

ALECTRA INC.

Notes to the Consolidated Financial Statements
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**28. 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
	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
	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)
	19	4	2	25
Total comprehensive income	135	(78)	8	65

ALECTRA INC.

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

	2023			Total
	Regulated	Adjustment for regulated activities	Competitive activities	
Assets				
Current assets				
Cash	—	—	21	21
Trade and other receivables	600	—	42	642
Other assets	75	—	12	87
Total current assets	675	—	75	750
Non-current assets				
Property, plant, and equipment and right of use assets	3,395	735	162	4,292
Goodwill and other intangible assets	943	8	75	1,026
Promissory notes receivable	—	—	—	—
Regulatory assets	434	(434)	—	—
Deferred tax asset	—	—	4	4
Other assets	6	—	(1)	5
Total non-current assets	4,778	309	240	5,327
Total assets	5,453	309	315	6,077
Liabilities and Shareholders' Equity				
Current liabilities				
Bank indebtedness	15	—	(15)	—
Trade and other payables	471	—	32	503
Customer deposits liability	57	—	1	58
Loans and borrowings	668	—	23	691
Lease obligations	1	—	1	2
Deferred revenue	—	22	—	22
Other liabilities	104	—	3	107
Total current liabilities	1,316	22	45	1,383
Non-current liabilities				
Loans and borrowings	1,746	—	175	1,921
Deferred revenue	—	702	—	702
Employee future benefits	75	—	—	75
Lease obligations	12	—	11	23
Regulatory liabilities	94	(94)	—	—
Deferred tax liabilities	196	(76)	26	146
Other liabilities	25	—	1	26
Total non-current liabilities	2,148	532	213	2,893
Total liabilities	3,464	554	258	4,276
Shareholders' equity				
Share capital	682	—	308	990
Contributed surplus	839	(13)	(227)	599
Accumulated other comprehensive income	3	5	(4)	4
Retained earnings	465	(237)	(20)	208
Total shareholders' equity	1,989	(245)	57	1,801
Total liabilities and shareholders' equity	5,453	309	315	6,077

ALECTRA INC.

Notes to the Consolidated Financial Statements
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**28. 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	60	—	7	67
Total current assets	608	—	96	704
Non-current assets				
Property, plant, and equipment and right of use assets	3,197	619	161	3,977
Goodwill and other intangible assets	947	8	79	1,034
Regulatory assets	445	(445)	—	—
Deferred tax asset	—	—	3	3
Other assets	6	—	(4)	2
Total non-current assets	4,595	182	239	5,016
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
Loans and borrowings	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 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

28. 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.

	2023	2022
Regulatory Deferral Debit Balances		
Deferred income tax asset ^a	223	187
Retail settlement variance accounts (RSVA's) ^b	142	193
Lost revenues adjustment mechanism variance account (LRAMVA) ^c	20	26
Large commercial interval meter recovery ^d	16	15
OEB cost assessments deferral ^e	12	9
Collection of account lost revenue ^f	12	8
Renewable generation capital and operating cost deferral ^g	4	4
Incremental locate costs deferral ^h	3	—
Net refund of regulatory balances ⁱ	2	—
Other ^j	—	3
	434	445
Regulatory Deferral Credit Balances		
PILs and tax variance ^k	38	29
Capitalization policy ^l	21	14
Pole rental variance account ^m	14	10
Retail settlement variance accounts (RSVA's) ^b	12	31
Re-measurements of post-employment benefits ⁿ	6	9
Other ^{o,p}	3	2
	94	95

- (a) 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.
- (b) 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.
- (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.

28. Divisional and Regulatory Information (continued)

- (d) The OEB approved a deferral account to record costs associated with replacing interval meters for its large commercial customers in order to meet amendments made to its Distribution System Code. Under IFRS, Alectra Utilities capitalizes or expenses the amounts in the period they were incurred.
- (e) The OEB 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 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 established a generic, sector-wide variance account, effective April 1, 2023, to record the incremental cost of locates resulting from the implementation of Bill 93. The bill includes amendments to the *Ontario Underground Notification System Act, 2012* imposing a five-business day deadline for completing standard locate requests and introducing administrative penalties for failing to comply. The implementation of the administrative penalty regime has been postponed to April 1, 2024. Under IFRS, Alectra Utilities recognizes costs of locates under operating expenses in the period they were incurred.
- (i) The OEB approved a control account to record the OEB-approved disposition of deferral and variance accounts balances as part of the regulatory process. This account also includes the amounts recovered (or refunded) in rates through deferral and variance accounts rate riders. Under IFRS, Alectra Utilities recognizes deferral and variance accounts rate riders as an increase or decrease to distribution.
- (j) 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.
- (k) 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 Assent. 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.
- (l) 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.

28. Divisional and Regulatory Information (continued)

- (m) 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, 2023, the new pole attachment charge is set at \$36.05 per pole based on the OEB's decision issued on November 3, 2022. Under IFRS, Alectra Utilities recognizes the revenue based on the effective rate in the period the revenue was earned.
- (n) 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.
- (o) 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.
- (p) 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, 2023

GLOSSARY

The following acronyms and abbreviations are used in this document.

ACD	Alectra Convergent Development LP	IDR	Issuer Default Rating
AES	Alectra Energy Solutions Inc.	IESO	Independent Electricity System Operator
AESI	Alectra Energy Services Inc.	IFRS	International Financial Reporting Standards
AFFO	Adjusted Funds from Operations	IR	Incentive Rate
Alectra Utilities	Alectra Utilities Corporation	kWh	Kilowatt-hour
AMSP	Alectra Microgrid Master Limited Partnership	LDC	Local Distribution Company
APSI	Alectra Power Services Inc.	LPC	Late Payment Charge
CC	Customer Contributions	MD&A	Management Discussion and Analysis
CC&B	Customer Care and Billing	MIFRS	Modified International Financial Reporting Standards
CDM	Conservation and Demand Management	MW	Megawatt
CP	Commercial Paper	OEB	Ontario Energy Board
DBRS	Dominion Bond Rating Service	OEBA	Ontario Energy Board Act
DER	Distributed Energy Resource	OEFC	Ontario Electricity Finance Corporation
DSC	Distribution System Code	PP&E	Property, Plant and Equipment
EBITDA	Earnings before interest, taxes, depreciation, and amortization	PWU	Power Workers' Union
ECL	Expected Credit Loss	ROE	Return on Equity
ERM	Enterprise Risk Management	RoU	Right of Use
ESG	Environmental, Social and Corporate Governance	RRF	Renewed Regulatory Framework for Electricity Distributors
GA	Global Adjustment	SA	System Access
GHG	Greenhouse Gas	SAIDI	System Average Interruption Duration Index
GP	General Plant	SAIFI	System Average Interruption Frequency Index
HNE	Holland New England	SCADA	Supervisory Control and Data Acquisition
HPSI	Holland Power Services Inc.	SP	Spare Parts
HPS	HPS Holdings Inc.	SR	System Renewal
IAS	International Accounting Standards	SS	System Service
IASB	International Accounting Standards Board	UA	Util-Assist Inc.
IBEW	International Brotherhood of Electrical Workers	WMS	Wholesale Market Service
ICI	Industrial, Commercial and Institutional	YoY	Year over Year
ICM	Incremental Capital Module		

LEGEND:

	Higher	Lower
Revenue	↑	↓
Expenses	↑	↓

	Lower	Higher
Assets	↓	↑
Liabilities	↓	↑

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 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;
- Unexpected changes in environmental regulation; and
- Unforeseen significant events occurring outside the ordinary course of business.

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.

FORWARD LOOKING STATEMENTS AND INFORMATION (continued)

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.

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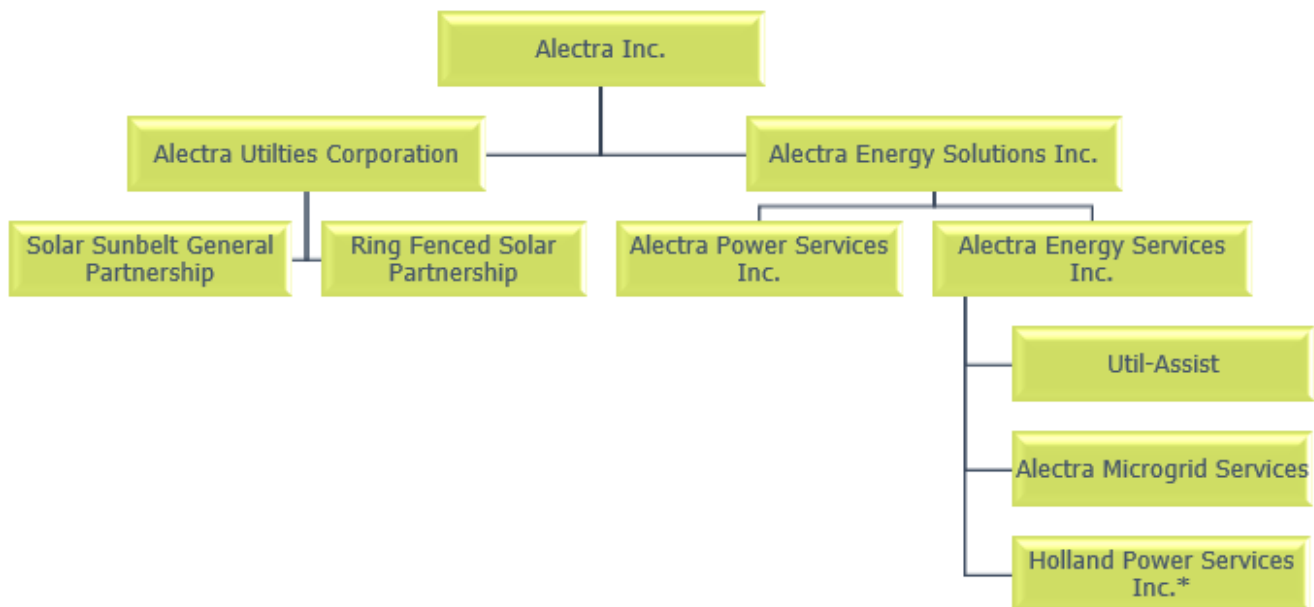
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INTRODUCTION

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, 2023, (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, 2023. All dollar amounts in the tables are in millions of Canadian dollars, which are presented in whole numbers.

CORPORATE OVERVIEW



* On January 1, 2023, HPS Holdings Inc. ("HPS") amalgamated under the provisions of the Business Corporations Act (New Brunswick) with Holland Power Services Inc. to form Holland Power Services Inc.

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.

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

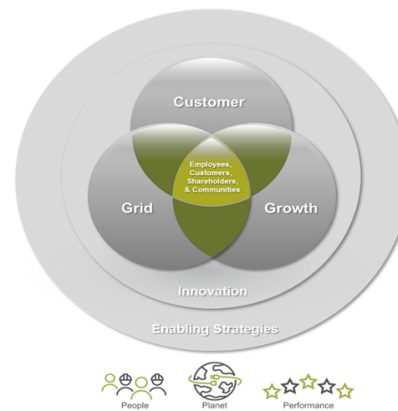
CORPORATE OVERVIEW (continued)

Vision and Strategic Intent (continued)

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 needs 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.

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.

AlectraCARES is the umbrella program and framework that embeds sustainability principles into the Corporation's 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 2023 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.

REGULATED BUSINESS (continued)

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.

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. For distributors that are in an extended rebasing deferral period arising from utility consolidations (i.e., distributors in years six to ten of the rebasing deferral period), incremental capital funding may be requested for an annual capital program. 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.

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

2023 Rate Applications

On May 16, 2022, Alectra Utilities filed an ICM application for the approval of 2023 incremental capital funding for underground cable renewal investments in the PowerStream and Enersource rate zones, effective January 1, 2023. On November 17, 2022, the OEB issued its Decision and Order on the ICM application, approving \$18 of Alectra Utilities' \$25 ICM capital request. The OEB approved recovery of the incremental revenue requirement 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. On December 8, 2022, the OEB issued its Decision and Rate Order on the Price Cap IR application, approving a 3.4% rate adjustment to distribution rates effective January 1, 2023 and providing for disposition of deferral and variance account balances.

2024 Rate Applications

On July 21, 2023, Alectra Utilities filed an ICM application for the approval of 2024 incremental capital funding for urgent underground cable renewal investments in the PowerStream and Enersource rate zones, effective January 1, 2024. On February 13, 2024, the OEB issued its Decision and Order on the ICM application, approving \$17 of Alectra Utilities' \$25 ICM capital request. For the 2024 rate year, the OEB approved recovery of the incremental revenue requirement, approved as part of the

REGULATED BUSINESS (continued)

Decision, over a 10-month period from March 1, 2024, to December 31, 2024, and over a 12-month period in the subsequent rate years.

On August 17, 2023, Alectra Utilities filed an application for all five predecessor utility rate zones for the approval of 2024 electricity distribution rates and other charges, effective January 1, 2024. On December 14, 2023, the OEB issued its Decision and Rate Order on the Price Cap IR application, approving a 4.5% rate adjustment to distribution rates effective January 1, 2024 and providing for disposition of deferral and variance account balances.

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

Select Energy Policies and Regulation Affecting the Corporation

Ontario Energy Board Initiatives and Consultation:

- Getting Ontario Connected Act Variance Account – On October 31, 2023, the OEB approved the creation of a generic, sector-wide variance account to track the incremental costs of locates resulting from Bill 93 (*the Getting Ontario Connected Act 2022*) effective April 1, 2023. Bill 93 includes amendments to the *Ontario Underground Notification System Act, 2012*, which impose a five-business-day deadline for completing standard locate requests and introduce administrative penalties for failing to comply. The implementation of the administrative penalty regime has been postponed to April 1, 2024. The disposition of any balance in this variance account will be subject to a prudence review and a requirement to establish that any cost incurred over and above what is provided for in current rates is an incremental cost resulting from Bill 93. Disposition of the variance account will occur at the utility's next rebasing application.
- Cloud Computing Implementation Costs Deferral Account – On November 2, 2023, the OEB issued an Accounting Order establishing a generic sector-wide deferral account to capture incremental cloud computing implementation costs and any related offsetting savings, if applicable, effective December 1, 2023. Under the regulatory accounting treatment, costs for on-premise solutions are typically capitalized in accordance with the utility's capitalization policy, while costs for cloud computing solutions are typically expensed as incurred. Cloud computing solutions often require significant up-front costs for implementation. The deferral account is intended to remove regulatory barriers to adopting cloud computing solutions and optimize a utility's ability to plan for cloud computing implementation outside of a rebasing year. Disposition of the account balances will be subject to the applicable criteria for causation, materiality, and prudence.

KEY BUSINESS STATISTICS

	2023	2022	2022 Average Urban Distributor Benchmark ⁽¹⁾
SAIDI ⁽²⁾	0.83	0.88	1.14
SAIFI ⁽³⁾	1.06	1.07	1.15

⁽¹⁾ The Average Urban Distributor is based on the average 2022 SAIDI and SAIFI performance results for Urban Ontario Distributors with at least 50k customers from the 2022 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 0.83 and 1.06, respectively, in 2023, compared to SAIDI and SAIFI of 0.88 and 1.07, respectively, in 2022.

Alectra Utilities' SAIDI performance improved relative to 2022 due to distribution automation and focused restoration efforts resulting in fewer outages caused by defective equipment and shorter outage durations.

Alectra Utilities' SAIFI performance improved relative to 2022 primarily due to fewer customer interruptions from outages caused by defective equipment, partially offset by increased customer interruptions resulting from external factors such as adverse weather, adverse environmental conditions, and foreign interference including equipment damage from vehicle collisions or animal contacts.

COMPETITIVE BUSINESS

Overview of AES

AES 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.

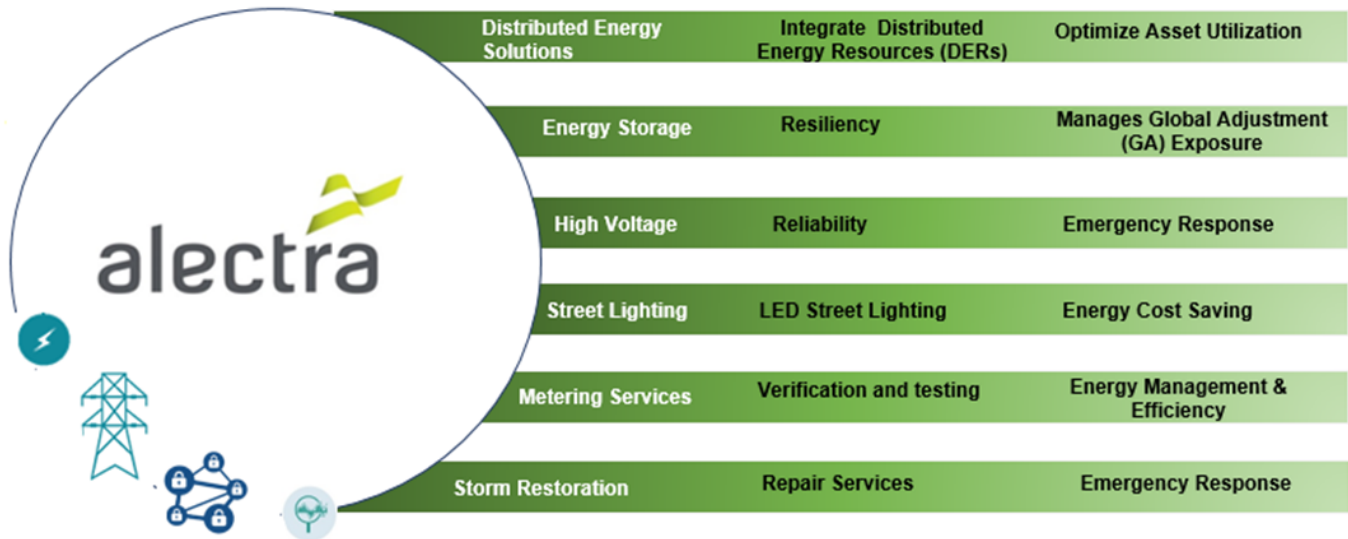
HPSI and HNE provide emergency restoration services to utilities primarily located along the eastern seaboard of the United States and Canada; and industrial electrical services to utilities and industrial clients.

ACD provides distributed energy solutions which includes developing, constructing, commissioning, owning, operating and maintaining front-of-the-meter storage system projects in Ontario.

COMPETITIVE BUSINESS (continued)

Key Business Updates

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

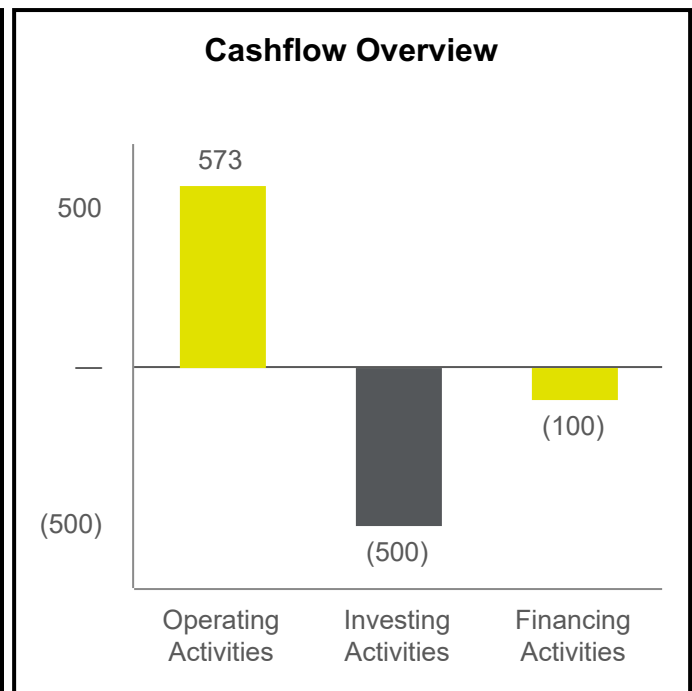
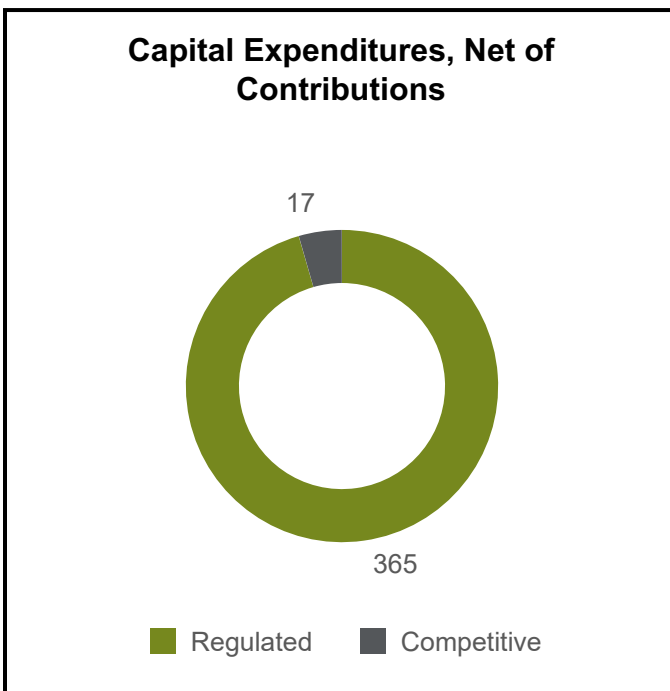
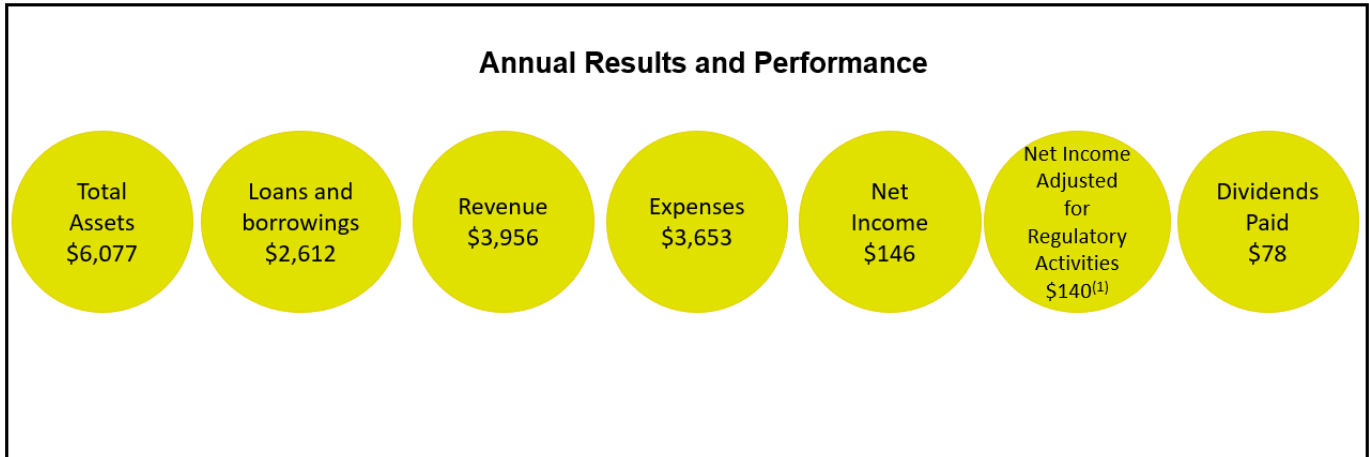


Latest Investments

On June 27, 2022, AESI entered into a 50% Joint Venture with Convergent Energy and Power through the formation of ACD. On August 22, 2023, ACD was selected by the IESO to construct and operate three battery energy storage projects.

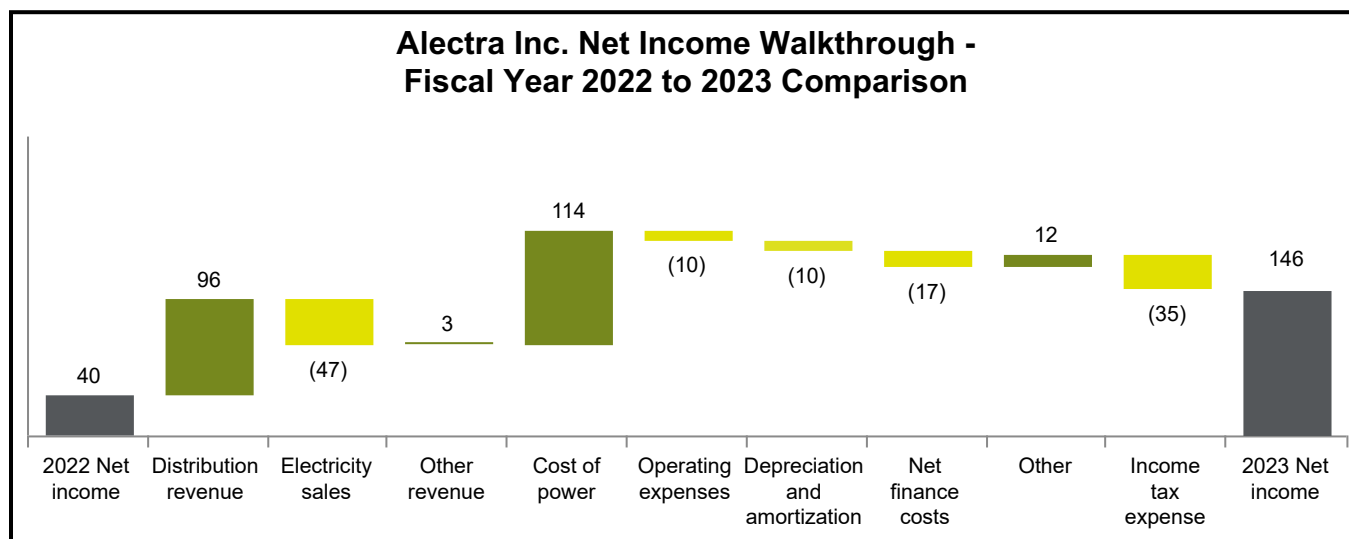
A total of 80 MW of storage will be built, enough to power more than 83,000 homes – across three sites. The distributed nature of the battery energy storage system proposed by the Alectra Convergent partnership will provide the ability to quickly and reliably support voltage, regulate frequency and provide capacity while reducing reliance on fossil fuel generation. Investments in the Joint Venture will be made over the construction period.

2023 FINANCIAL RESULTS AT A GLANCE



⁽¹⁾ Net Income Adjusted for Regulatory Activities represents the net income for the year, adjusted for the effect of rate regulation. Refer to Note 28 for further details.

RESULTS OF OPERATIONS



	2023	2022	Change
Net Income	146	40	106 ↑

Net income for the year ended December 31, 2023, was \$146 and \$106 higher than 2022 net income of \$40. The increase in net income is principally attributable to:

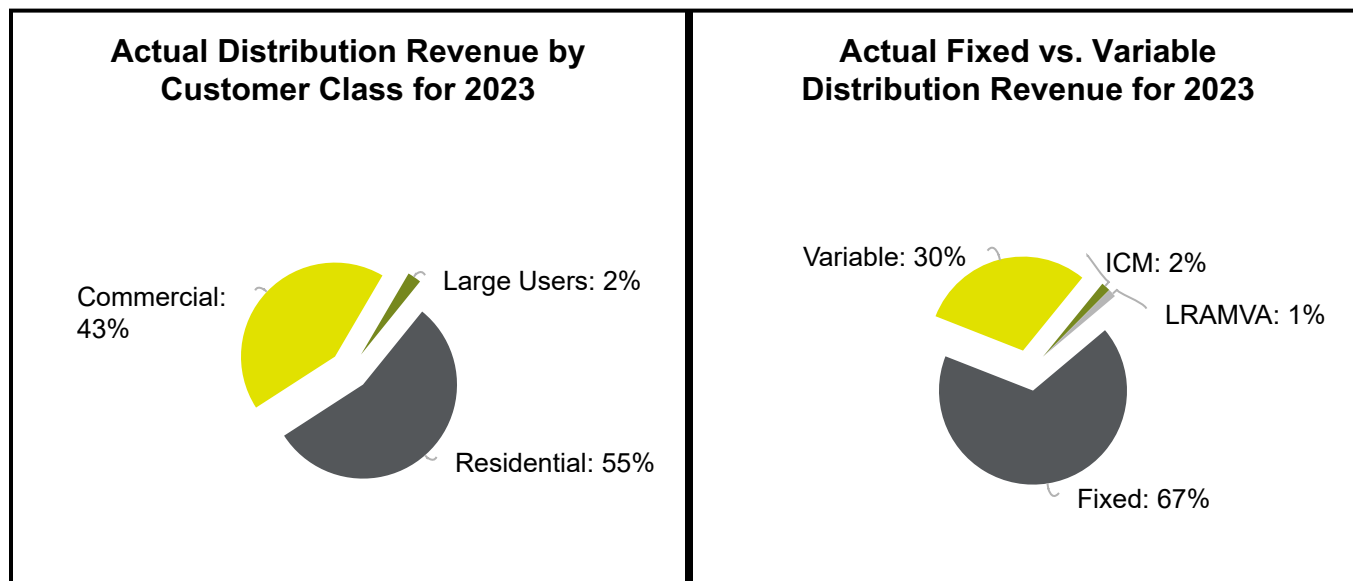
- i. lower cost of power (\$114) primarily due to lower wholesale electricity prices and lower wholesale electricity consumption;
- i. higher distribution revenue (\$96) mainly because of higher revenue recovered from customers through OEB approved rate riders; and
- ii. lower other expenses (\$12) related to the fair value loss of contingent consideration on the earnout payable related to the acquisition of HPSI, and lower impairment loss on investment in associate; partially offset by
- iii. lower electricity sales (\$47) largely driven by lower electricity prices and lower electricity consumption;
- iv. higher income taxes (\$35) due to higher income before tax in 2023;
- v. higher net finance costs (\$17) primarily due to higher interest costs related to the issuance of a new debenture and an increase in the rate of funding from commercial paper;
- vi. higher operating expenses (\$10) due to higher contract and consulting costs; and
- vii. higher depreciation and amortization costs (\$10) primarily due to new in-service additions in 2023.

Distribution Revenue

Distribution revenue is recorded based on OEB-approved distribution rates to recover the costs incurred by Alectra Utilities in delivering electricity to customers.

RESULTS OF OPERATIONS (continued)

Distribution Revenue (continued)



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.

	2023	2022	Change
Distribution Revenue	716	620	96 ↑

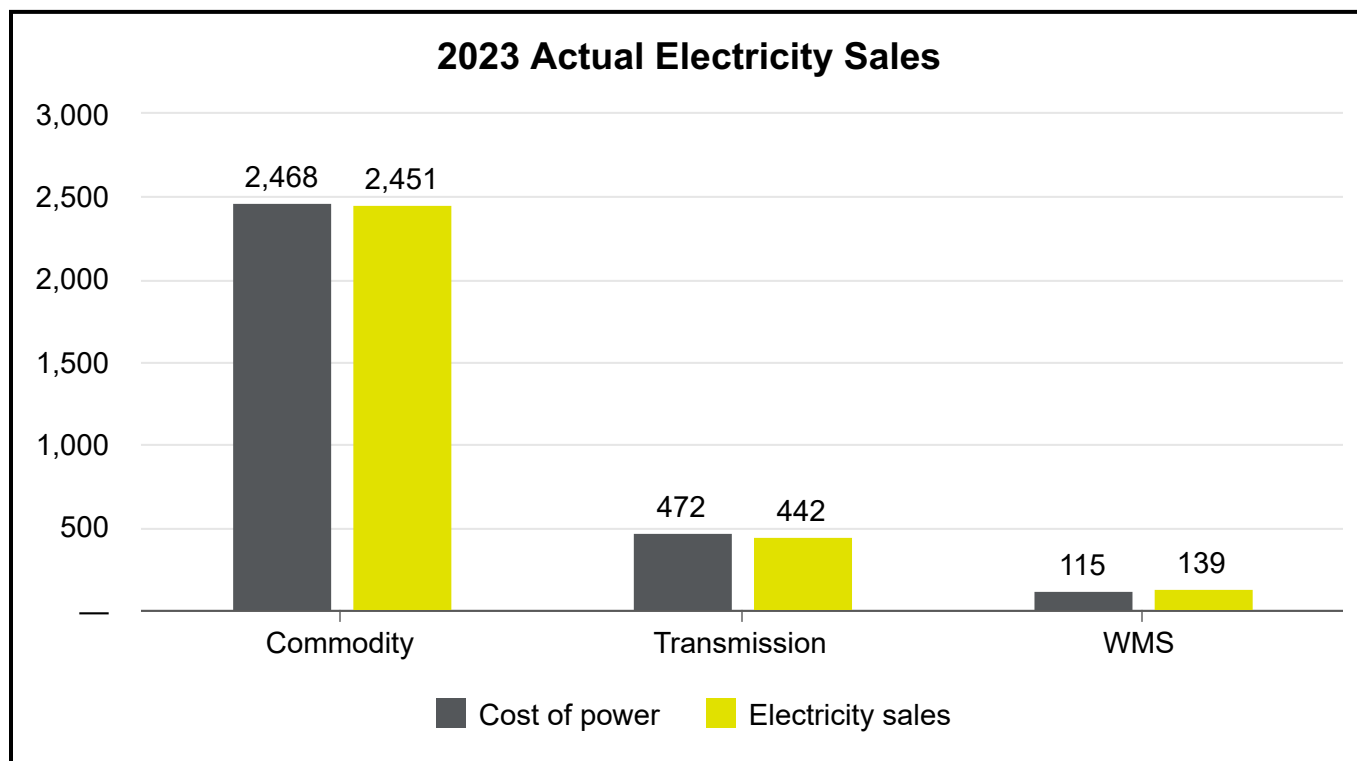
The increase in distribution revenue is mainly attributable to: (i) higher revenue recovered from customers through OEB approved rate riders (\$73) and (ii) higher OEB approved distribution rates driven by a higher inflation factor (\$21).

Electricity Sales

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.

RESULTS OF OPERATIONS (continued)

Electricity Sales (continued)



	2023	2022	Change
Electricity Sales	3,032	3,079	(47) ↓

The decrease in electricity sales of \$47 is mainly driven by lower electricity prices (\$25) and lower electricity consumption (\$22) in the current year.

Other Revenue

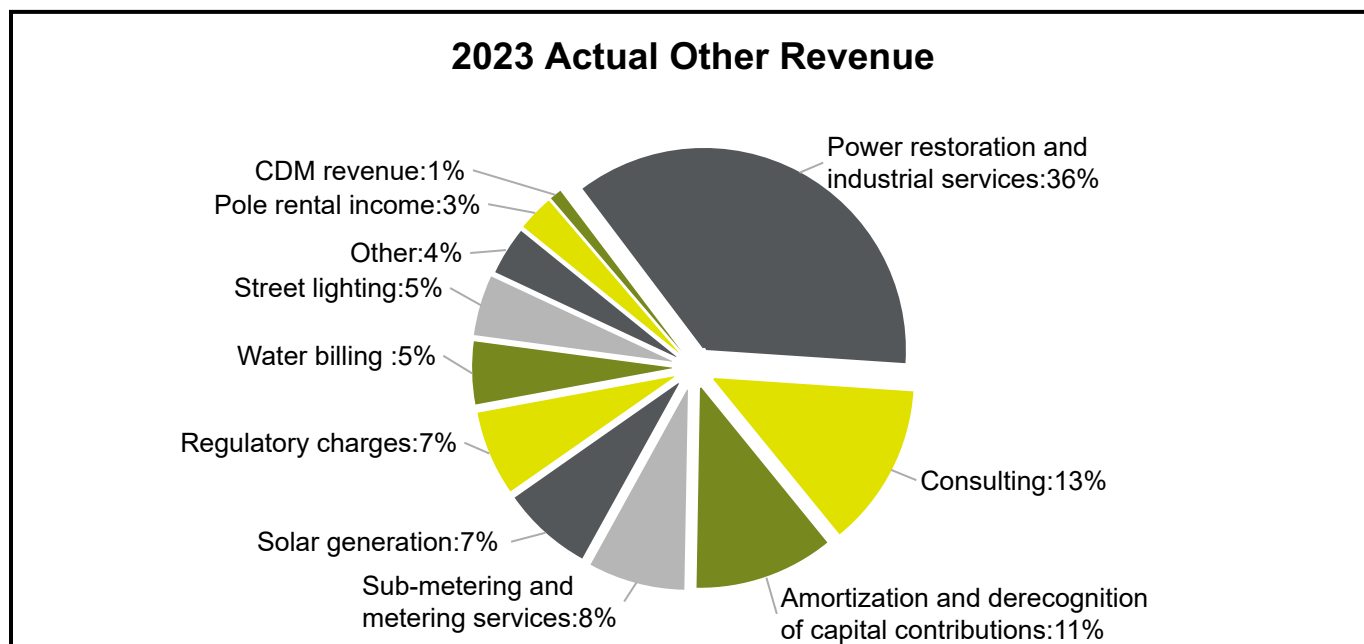
Other revenue is earned from regulated electricity distribution activities as well as competitive activities.

Other revenue from regulated activities include: (i) the amortization and derecognition of capital contributions; (ii) solar generation revenue; (iii) rates charged to customers for connections, reconnections, LPCs, and ancillary services; (iv) water and wastewater billing and customer charges; and (v) pole attachment charges to other utility service providers that attach equipment to poles owned by Alectra Utilities; and (vi) CDM incentives.

Other revenue from competitive activities include: (i) power restoration and industrial services; (ii) consulting services; (iii) sub-metering and meter services; (iv) street lighting and ancillary services; and (v) distributed energy services.

RESULTS OF OPERATIONS (continued)

Other Revenue (continued)



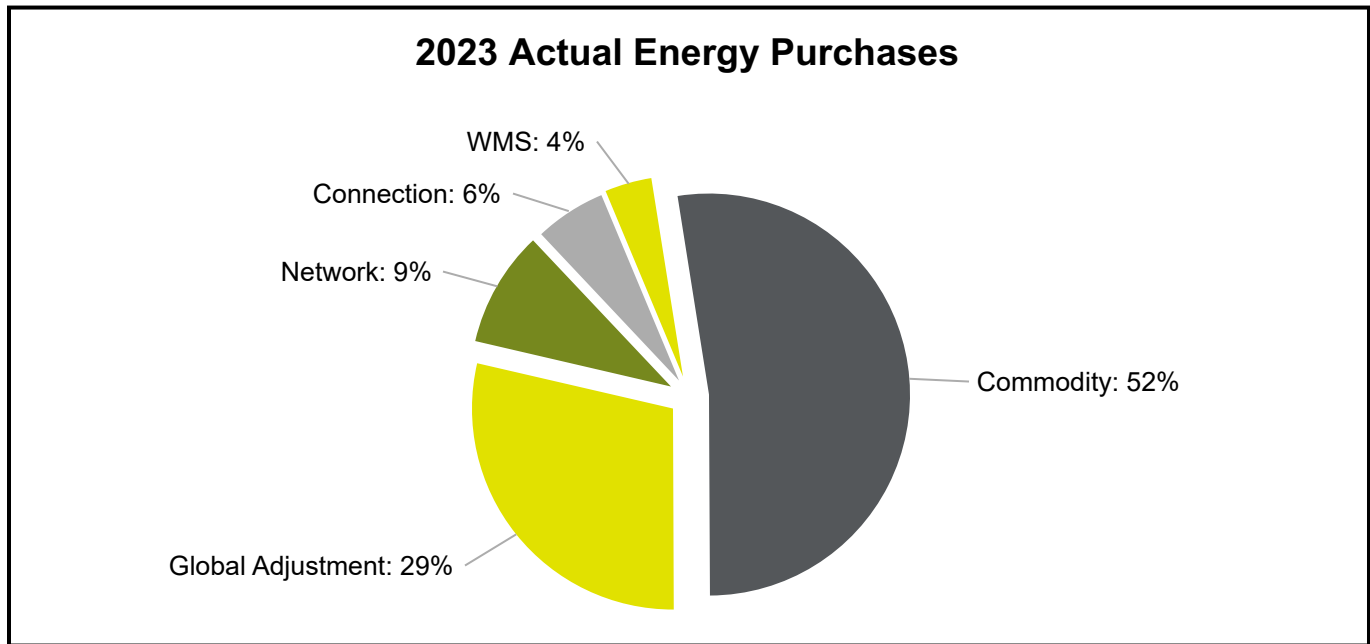
	2023	2022	Change
Other Revenue	208	205	3 ↑

The increase in other revenue of \$3 primarily relates to: (i) higher revenue from the amortization and derecognition of capital contributions (\$7), (ii) higher revenue from distributed energy services (\$5); (iii) higher consulting revenue (\$3); and (iv) higher street lighting revenue (\$2); partially offset by (v) lower power restoration services revenue due to lower storm response activities in the competitive business (\$15).

RESULTS OF OPERATIONS (continued)

Cost of Power

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.



	2023	2022	Change
Cost of Power	3,055	3,169	114 ↓

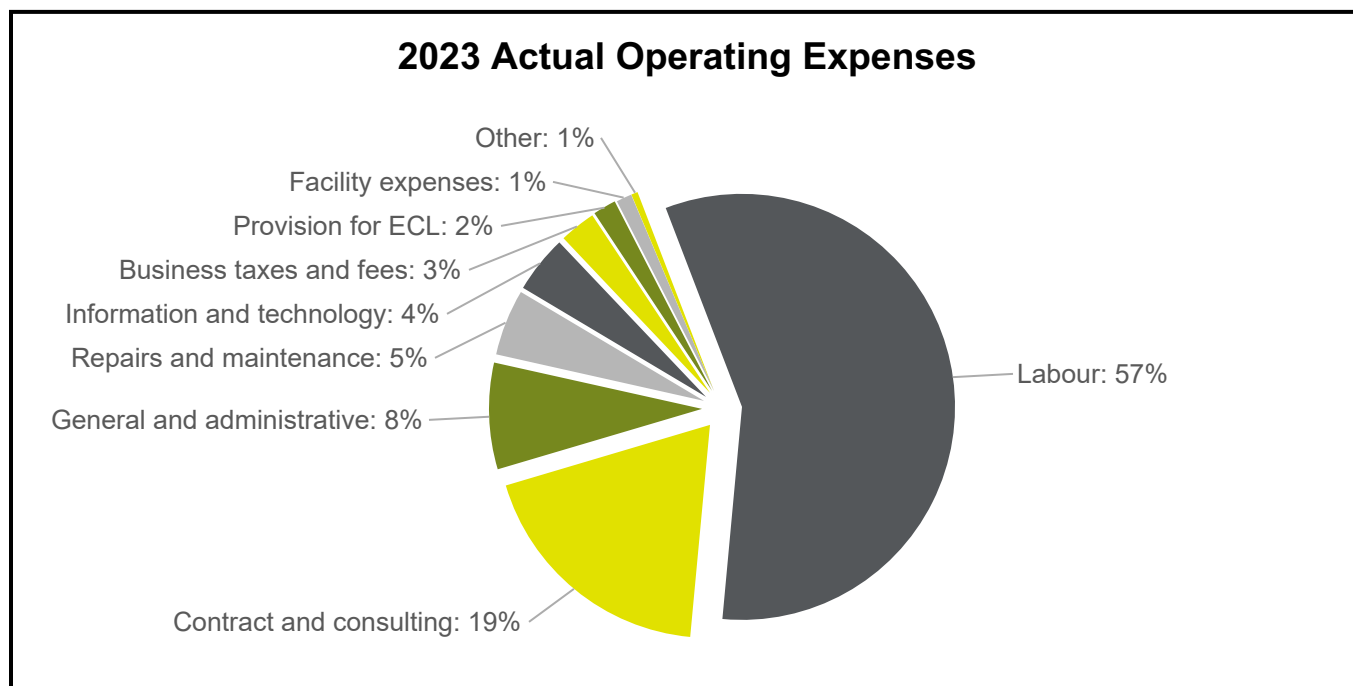
The decrease in cost of power by \$114 is primarily because of lower wholesale electricity prices (\$92) and lower wholesale electricity consumption (\$22).

Operating Expenses

Operating expenses primarily include (i) salaries and benefits; (ii) contract and consulting; (iii) general and administrative; (iv) repairs and maintenance; and (v) other third-party service costs in support of the activities underlying the business of the Corporation.

RESULTS OF OPERATIONS (continued)

Operating Expenses (continued)



	2023	2022	Change
Operating Expenses	397	387	(10) ↑

The increase in operating expense of \$10 is principally due to: (i) higher contract and consulting costs (\$8) due to relocation costs for a new operations service centre, higher third-party support costs due to increased prices, and higher cable locate costs due to the implementation of Bill 93; and (ii) higher labour costs (\$6) related to higher salaries and benefits; partially offset by (iii) a lower provision for ECL (\$5) due to a decrease in energy arrears from improved collections.

	2023	2022	Change
Depreciation and amortization	201	191	(10) ↑

The increase in depreciation and amortization expense of \$10 is primarily due to new in-service additions for distribution and computer software assets.

	2023	2022	Change
Net finance costs	96	79	(17) ↑

The increase in net finance costs of \$17 is primarily due to a higher rate of funding for commercial paper with a weighted average interest rate of 4.92% (2022 - 2.39%) and a higher average amount of outstanding debentures.

RESULTS OF OPERATIONS (continued)

	2023	2022	Change
Loss on fair value of contingent consideration	—	7	7 ↓

The decreased loss on fair value of the contingent consideration of \$7 is related to the earnout payment associated with the acquisition of HPSI.

Income Tax Expense

The Corporation and its subsidiaries, other than AESI, HPSI 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, HPSI and UA are subject to the payment of tax under the Tax Acts.

	2023	2022	Change
Income tax expense	54	19	(35) ↑

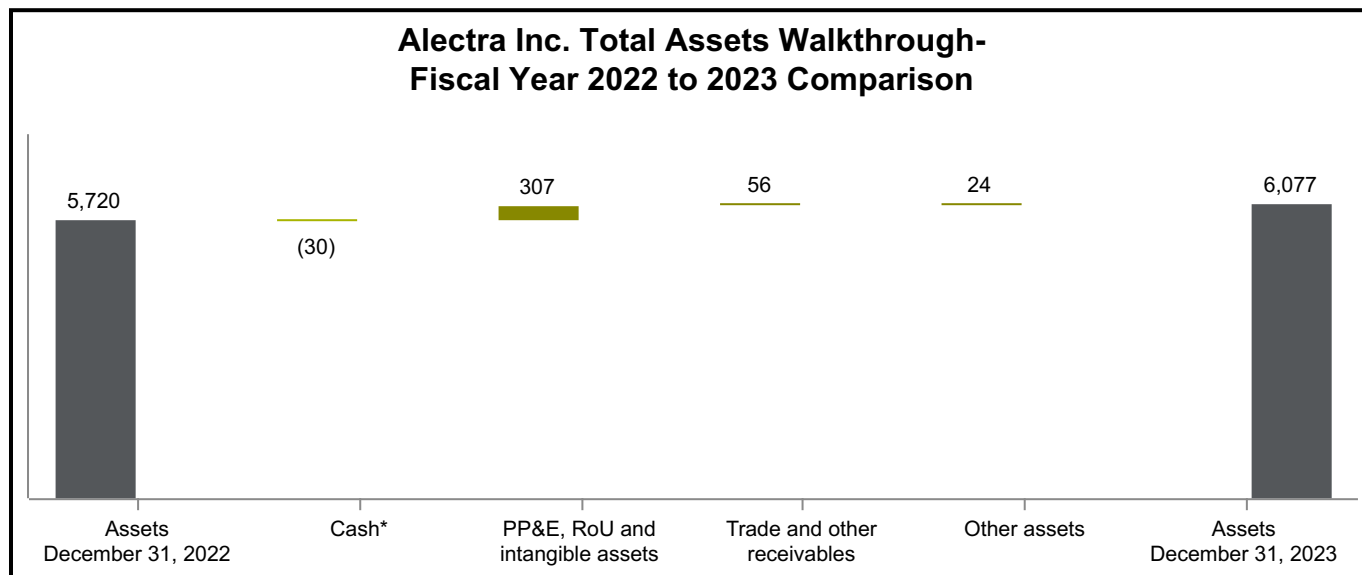
The increase in income tax expense by \$35 primarily relates to: (i) higher income before tax (\$37); partially offset by (ii) lower permanent differences between accounting and tax treatments (\$4).

Competitive Operations Variance Analysis

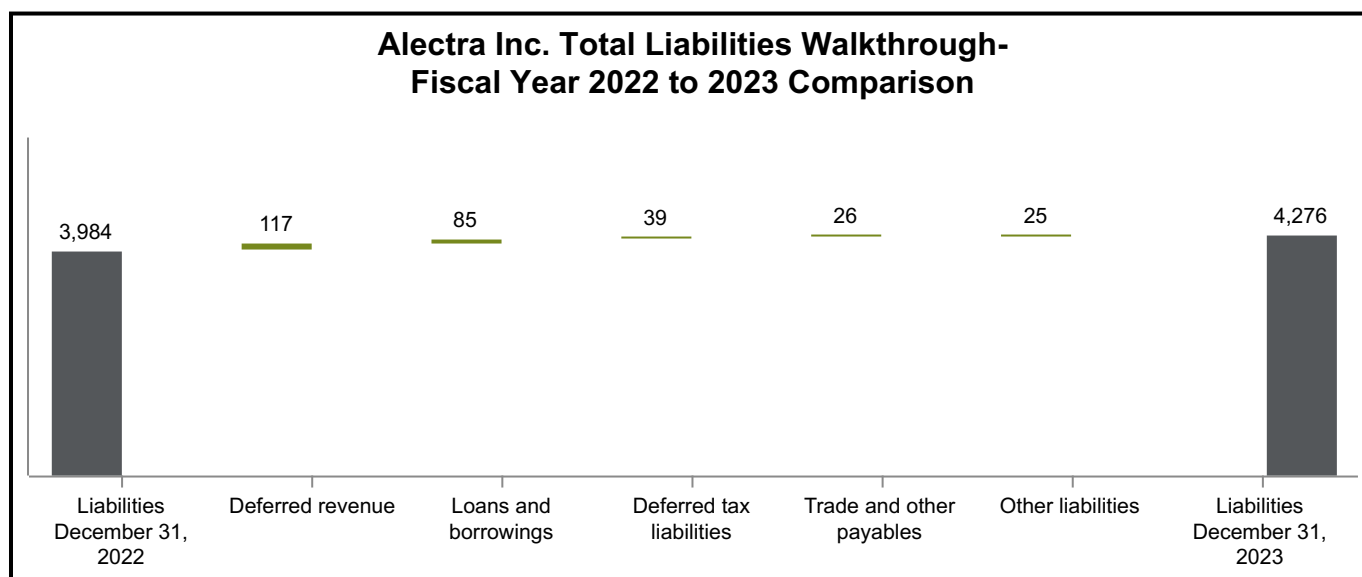
	2023	2022	Change
AES Net Income	7	—	7 ↑

Net income for the year ended December 31, 2023, was \$7 which is \$7 higher than 2022 net income of \$nil. The increase in net income is primarily due to: (i) a decrease in the loss on the fair value of contingent consideration for the earnout payment associated with the acquisition of HPSI (\$7); and (ii) lower impairment loss on investment in associate (Grid4C Ltd.) (\$6); partially offset by (iii) a decrease in income from operating activities mainly due to lower storm response activities (\$7).

FINANCIAL POSITION



*For details, refer to the Liquidity and Capital Resources section



For details, refer to the Consolidated Financial Statements for the Year Ended December 31, 2023.

Significant year over year changes in the Corporation's assets and liabilities as at December 31, 2023, are as follows:

FINANCIAL POSITION (continued)

Assets	\$ Change	% Change	Trend	Explanation
PP&E, RoU and intangible assets	307	6 %	↑	The increase is primarily due to: (i) in-service additions for distribution assets and land and buildings; partially offset by (ii) higher accumulated depreciation.
Trade and other receivables	56	10 %	↑	The increase is primarily due to: (i) timing of billing and collection activities; and (ii) higher unbilled revenue primarily due to higher average energy prices; partially offset by (iii) lower provision for ECL due to a decrease in energy arrears from improved collection activities.
Other assets	24	33 %	↑	The increase is primarily due to higher inventory due to an increase in safety stock.

Liabilities	\$ Change	% Change	Trend	Explanation
Deferred revenue	117	19 %	↑	The increase is driven by (i) additional customer contributions for transit projects and (ii) distribution system expansion for new customer projects.
Loans and borrowings	85	3 %	↑	The increase is primarily due to higher short-term borrowings required to fund working capital and general corporate requirements.
Deferred tax liabilities	39	36 %	↑	The increase is due to (i) the difference between capital cost allowance deductions for tax purposes compared to accounting depreciation for property, plant and equipment and intangible assets; and (ii) the difference between the cost of electricity commodity and sales revenue at the OEB approved rates.

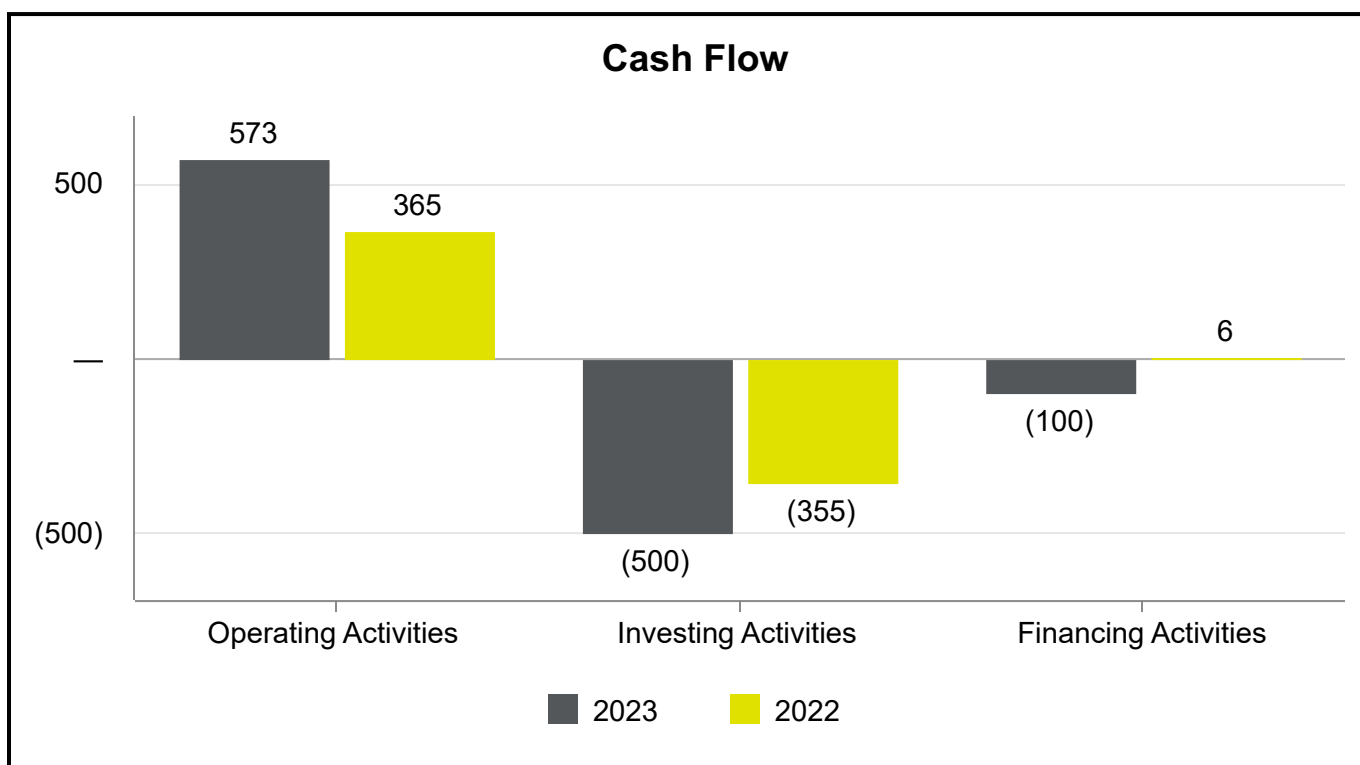
LIQUIDITY AND CAPITAL RESOURCES

Sources of Liquidity and Capital Resources

The Corporation's current ratio (Current Assets over Current Liabilities) decreased year over year from 0.75 to 0.54. The decrease is primarily attributable to: (i) the reclassification of shareholders promissory notes maturing in May 2024 (\$166) and a maturing debenture in November 2024 (\$150) to current liabilities; (ii) an increase in short term debt (\$85); and (iii) an increase in trade payables and other liabilities (\$58).

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 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 increase in net cash generated from operating activities of \$208 from 2022 to 2023 was principally due to: (i) higher EBITDA in 2023 relative to 2022 (\$156); and (ii) higher customer contributions for transit projects and distribution system expansion for new customer projects (\$45).

LIQUIDITY AND CAPITAL RESOURCES (continued)

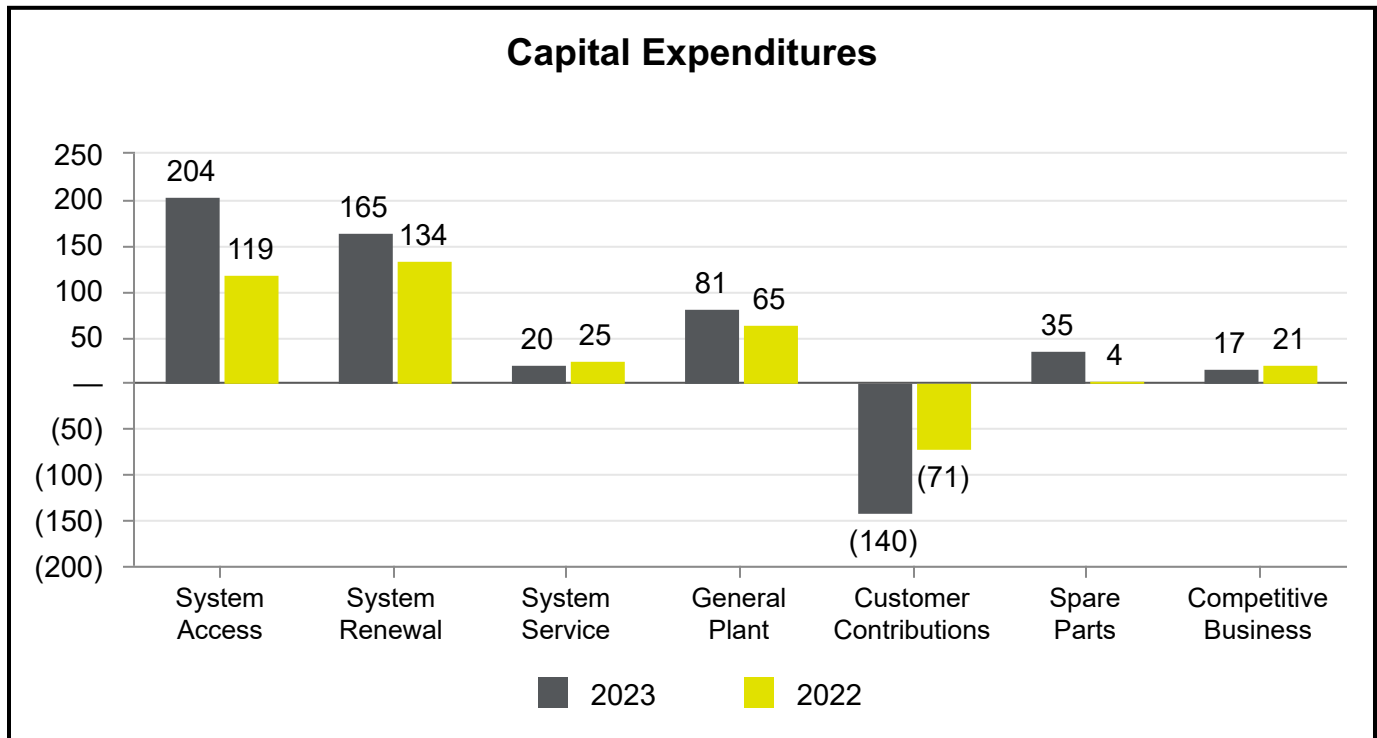
Sources of Liquidity and Capital Resources (continued)

Investing Activities

The increase in cash used for investing activities by \$145 from 2022 to 2023 was primarily due to an increase in purchases of PP&E primarily related to distribution assets and land and buildings.

As the largest municipally-owned LDC in Canada providing service to over one million customers, the Corporation continues to invest in the renewal of existing aging infrastructure to address safety, reliability and customer service requirements.

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 increased by \$85 relative to 2022, principally as a result of: (i) higher expenditures for major transit related projects (\$43); (ii) increased new connections activity from subdivision development and for ICI customers (\$28); and (iii) increased investment in distribution assets to support large customer expansion projects throughout Alectra's service territory (\$11).

LIQUIDITY AND CAPITAL RESOURCES (continued)

System Renewal ("SR") expenditures relate to long-term plans to replace assets that are at the end or nearing the end of their useful lives. Replacement strategies are prioritized based on the condition and reliability of the assets. Capital expenditures in this category have increased by \$31 relative to 2022, principally as a result of: (i) higher expenditures for underground asset renewal projects to improve the reliability performance of the electrical system (\$22); and (ii) higher expenditures for pole replacement projects (\$6).

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 \$5 relative to 2022, principally due to: (i) lower expenditures on capacity expansion projects (\$3); and (ii) lower expenditures on SCADA and automation projects (\$2).

General Plant and transition expenditures relate to information systems projects, facilities, and fleet. Capital expenditures in this category have increased by \$16 relative to 2022, principally due to: (i) higher expenditures for a new operations service center (\$20); (ii) higher fleet vehicle expenditures (\$4); partially offset by (iii) lower expenditures on information technology (\$8).

Customer Contributions ("CC") relate to deposits in aid of the capital cost of construction. CC have increased by \$69 over the previous year primarily due to (i) higher contributions for transit project work (\$43); and (ii) higher contributions for subdivision and ICI connections projects (\$27).

Spare Parts ("SP") relate to transformers and meters which are held for use in the operation. SP have increased by \$31 relative to 2022, principally due to increased supplier prices and quantity of purchases.

Capital expenditures in the competitive business have decreased by \$5 relative to 2022, principally because of the acquisition of land and building in 2022.

Financing Activities

The decrease in cash from financing activities by \$106 from 2022 to 2023 was primarily due: (i) a decrease in proceeds from debenture issuance in 2022 (\$248); partially offset by (ii) a decrease from debenture repayment in 2022 (\$150).

Credit Ratings

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.

LIQUIDITY AND CAPITAL RESOURCES (continued)

Credit Ratings (continued)

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

	DBRS Morningstar		Fitch		S&P Global Ratings	
	Credit Rating	Trend	Credit Rating	Outlook	Credit Rating	Outlook
Issuer rating	A	Stable	A-	Stable	A-	Negative
Senior unsecured debentures	A	Stable	A	Stable	A-	Negative
Short-term (Commercial Paper)	R-1 (low)	Stable				

On June 21, 2023, DBRS Morningstar confirmed the Corporation's "A"/ Stable rating for Issuer Rating and Senior Unsecured Debentures and R-1 (low) rating for commercial paper. The Corporation's DBRS ratings are based on the company's regulated business, which provides a predictable source of earnings and cash flows. The stable trend reflects DBRS financial risk assessment of the Corporation, which remains supportive of the current ratings. DBRS also notes that there were no material changes to the Corporation's business risk assessment, which continues to be supported by a reasonable regulatory framework.

On August 14, 2023, Fitch assigned a first-time Long-Term Issuer Default Rating ("IDR") of 'A-' with a Stable outlook and assigned an instrument rating of 'A' to the Corporation's senior unsecured debt. The Corporation's Fitch ratings are supported by the company's large-scale regulated electric distribution operations in high growth areas of Ontario. Additionally, Fitch views the rate-setting mechanisms employed by the OEB, to be highly constructive. Fitch has applied a one notch utility sector uplift from the IDR to the ratings of the Corporation's senior unsecured debt. This assessment is based on the Corporation's financing policy of raising debt exclusively at the parent level and the expectation that its business mix will remain predominantly regulated.

On May 11, 2023, S&P Global ("S&P") affirmed the Corporation's Corporate and Long-Term Credit Rating as "A-" and changed the outlook from "Stable" to "Negative". This action was consistent with other ratings issued by S&P in the Ontario electricity distributor sector. The "A-" credit rating with negative outlook incorporates S&P's expectation of continued strong financial performance. The negative outlook reflects the possibility of S&P reassessing their view of the Ontario regulatory framework because of "rising" regulatory lag, resulting in weakened financial performance, increased cash flow volatility, and weakened financial predictability for Ontario utilities.

LIQUIDITY AND CAPITAL RESOURCES (continued)

Requirements for liquidity resources

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

- \$1,000 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 \$200.
- The committed facility is also used to support outstanding commitments under the CP program by way of same day market rate advances.
- Issuance of senior unsecured debentures with various maturity dates under established Trust Indentures.

The Revolving Facility contains certain covenants, including a requirement that the Corporation's debt to capitalization ratio not exceed 75%. As at December 31, 2023, the Corporation was in compliance with all covenants included in its Revolving Facility agreement.

As at December 31, 2023, 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, 2023, and 2022 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, 2023, was \$375 (2022 - \$290).

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.

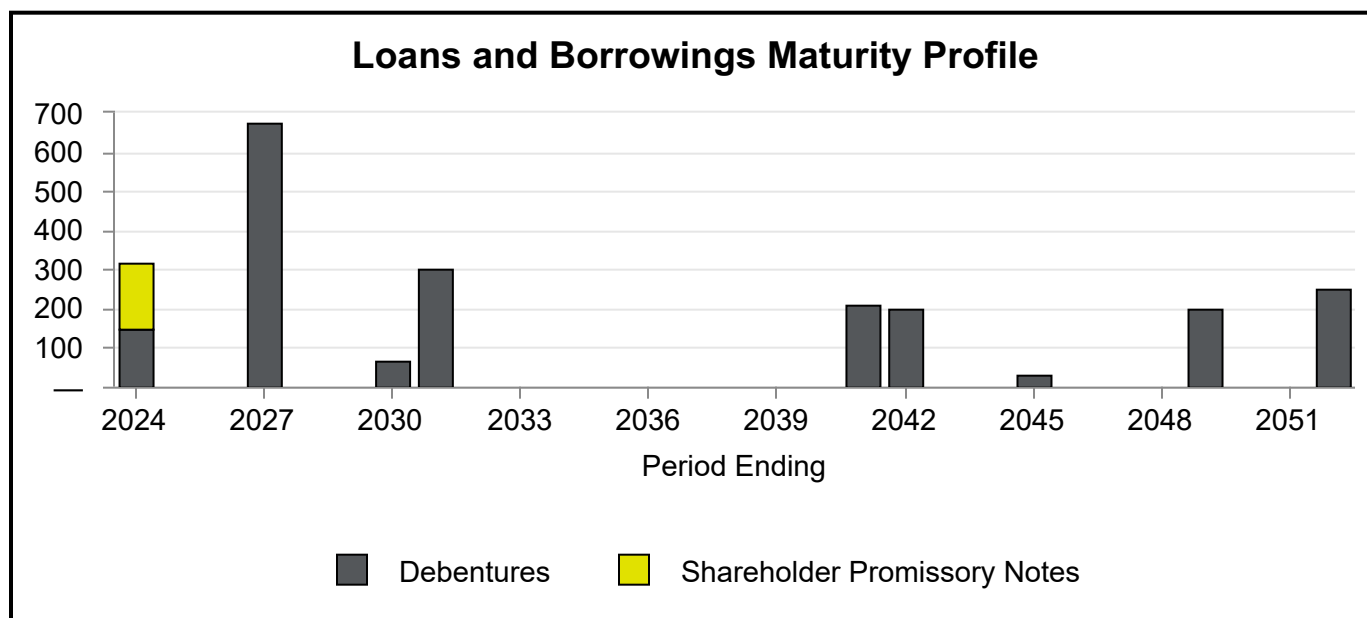
Refer to *Note 12* for details of the Corporation's long-term borrowings.

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.

LIQUIDITY AND CAPITAL RESOURCES (continued)

Loans and borrowings maturities

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



Summary of contractual obligations and other commitments

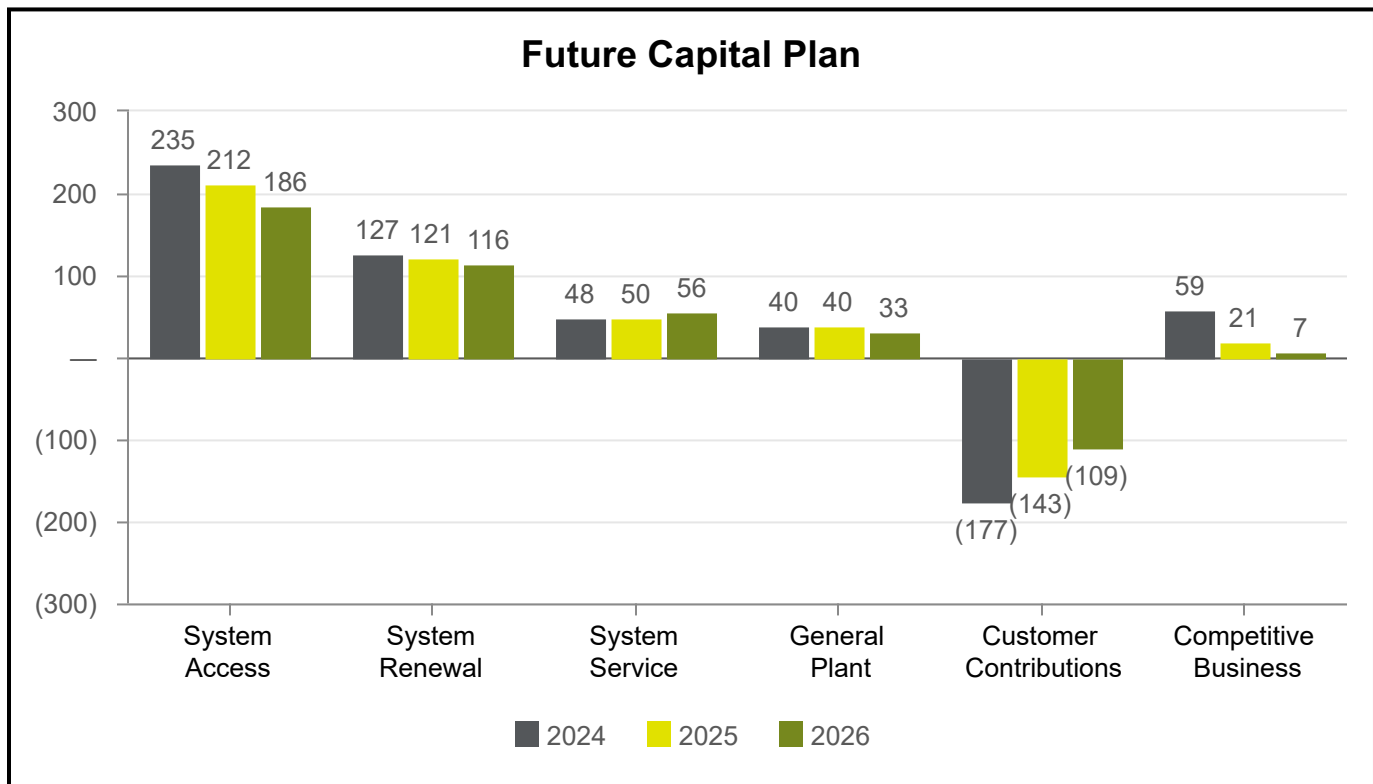
The following table presents a summary of the Corporation's debentures, major contractual obligations, and other commitments:

	2024	2025	2026	2027	2028	After 2028	Total
Commercial Paper	375	—	—	—	—	—	375
Debentures - principal repayment	150	—	—	675	—	1,255	2,080
Debentures - interest payments	70	66	66	57	49	747	1,055
Promissory notes - principal repayment	166	—	—	—	—	—	166
Promissory notes - interest repayments	6	—	—	—	—	—	6
Leases	4	3	3	3	4	16	33
Capital expenditures/financial investments	281	41	2	5	—	7	336
Operating expenditures	45	8	2	5	—	—	60
Total contractual obligations and other commitments	1,097	118	73	745	53	2,025	4,111

LIQUIDITY AND CAPITAL RESOURCES (continued)

Future Capital Plan

The three-year capital expenditure plan structure corresponds to the OEB's Renewed Framework for Electricity Distributors along with Competitive Business Plans. The total net capital expenditure plan is \$922 over the 2024-2026 period as outlined in the table below:



The three-year SA investment plan is primarily driven by the requirement to connect new residential and general service customers as well as customer-initiated expansion requirements, accounting for approximately 45% 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. Additional investments in System Access will be made to support the installation of AMI 2.0 meters and corresponding communication infrastructure.

The three-year SR investment plan is primarily driven by renewal of the underground and overhead distribution infrastructure, comprising approximately 35% and 27% of the planned SR investments, respectively. Investment in the underground system is the primarily to improve the declining reliability performance in the distribution system. Investment in overhead assets is largely to address the impact of weather outages which have increased in both duration and severity.

The three-year SS investment plan is primarily driven by Alectra Utilities' plan to invest in system connection to support expansion driven by general growth of residential, commercial, and industrial

LIQUIDITY AND CAPITAL RESOURCES (continued)

customers. Approximately 70% of the SS investments are planned to accommodate this system growth and expansion in Alectra Utilities' service areas. Additional investments in SS will support system automation equipment associated with controlling, monitoring, and modernizing the distribution system to improve reliability, resiliency, and grid flexibility.

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 63% of the total GP expenditures. In addition, 25% of total General Plant investments will be used for 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.

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:

	2023		2022	
	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	37	99,999	39
Total share capital	10,584,999	990	10,584,999	992

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 MIFRS 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, 2023, the Corporation declared and paid dividends as follows:

- Common share dividends aggregating \$76 or \$7.31 per share (2022 - \$95 or \$9.06 per share); and
- Class S share dividends aggregating \$2 or \$15.04 per share (2022 - \$1 or \$14.32 per share).

In addition, a return of capital of \$2 (2022 - \$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 16* for details.

RELATED PARTIES BALANCES AND TRANSACTIONS

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

	2023	2022
<i>Transactions</i>		
Revenue	92	82
Expenses	6	6
Return of capital	2	2
Dividends declared and paid	78	96
<i>Balances</i>		
Due from related parties	12	9
Due to related parties	54	52
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 11 (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 11*).

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 12*).

The annual compensation of key management personnel that is directly or indirectly attributable to the Corporation was \$17 (2022 - \$17) (refer to *Note 11 (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*.

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, high inflation rates and interest rate increases continue to cause uncertainty over economic growth. 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.

FUTURE ACCOUNTING CHANGES

The following proposed new accounting standards/amendments have been published by the IASB but are not effective as at December 31, 2023, 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, 2024

- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16 - *Leases*);
- Disclosures regarding Supplier Finance arrangements (Amendments to IAS 7 - *Statement of Cash Flows* and IFRS 7 - *Financial Instruments: Disclosures*); and
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1 - *Presentation of Financial Statements*).

NON-IFRS FINANCIAL MEASURES

EBITDA

The Corporation uses EBITDA, comparable net earnings, and adjusted funds from operations 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.

	2023	2022
EBITDA (MIFRS)	423	408
Add adjustments to remove regulatory accounting:		
Revenue	88	(64)
Operating expenses	(10)	(2)
Loss on derecognition of property, plant, and equipment and intangible assets	(3)	—
EBITDA (IFRS)	498	342
Depreciation and amortization	(201)	(191)
Net finance costs	(96)	(79)
Loss on fair value of contingent consideration	—	(7)
Share of net loss of joint venture	(1)	—
Impairment loss on investment in associate	—	(6)
Income before income taxes (IFRS)	200	59

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.

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, 2023, and 2022.

	2023	2022
IFRS Net income	146	40
Adjustment for regulatory activities ⁽¹⁾	(6)	82
MIFRS Net income	140	122
Depreciation	181	175
Loss on derecognition of property, plant, and equipment and intangible assets	3	9
Loss on fair value of contingent consideration	—	7
Impairment loss on investment in associate	—	6
Net change in non-cash operating working capital	(11)	(5)
Net change in non-current assets and liabilities	54	(83)
Net change in taxes	—	(16)
Share of net loss of joint venture	1	—
Total changes	228	93
AFFO	368	215

⁽¹⁾ Refer to Note 28 for details of the adjustments for regulatory activities.

The increase in AFFO is mainly attributable to: (i) increase from the net change in non-current assets and liabilities mainly resulting from the net movement in regulatory assets and liabilities; and (ii) higher net income in 2023 relative to 2022; partially offset by (iii) decrease from the net change in non-cash operating working capital mainly due to an increase in receivables.

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 risks 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 leading practices and aligns with international guidelines that are tailored to the 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 the Corporation's business plans and strategy development.



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, as required.
- **The Senior Leadership Team** – supports the overall risk management program and actively engages in the day-to-day management of risks.

The Corporation's business is subject to a variety of risks, which are generally categorized into the following 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 OEB approval. The Corporation files applications to the OEB on an ongoing basis for rate adjustments to support the sustainment and growth of its distribution system, which includes distribution assets maintenance and expansion. OEB decisions to disallow or limit the recovery of costs and/ or earn the allowed ROE 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 ROE 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 reflect 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 and the political uncertainties around these actions could 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 the 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.

RISK MANAGEMENT AND RISKS (continued)

Regulatory & Compliance Risk (continued)

Compliance Risk (continued)

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.

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.

Risks Associated with Business Model

The Corporation's business model and strategic direction are based on certain assumptions, including the growth strategy 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, the business environment and conducts customer outreach to understand the evolving needs and expectations of its customers.

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 remit billed amounts accruing to these participants irrespective of whether such amounts are ultimately collected. This regulation exposes the Corporation 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. In addition, trends for customer collections, economic and other market conditions are incorporated in determining the ECLs on accounts receivable balances, which require estimates and judgements.

Risks Associated with Arranging Debt Financing

The Corporation relies on debt financing 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

RISK MANAGEMENT AND RISKS (continued)

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 position.

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, cybersecurity, supply chain, people and skills, labour relations, climate change, environmental and emergency preparedness/ business continuity risks.

Safety Risk

The Corporation is engaged in the construction, operation, and maintenance of high voltage electrical infrastructure throughout the communities it serves and is exposed to significant safety hazards associated with this work. In addition, the Corporation is subject to government legislation and regulations relating to health and safety. Failure to comply with these requirements and/ or to keep the public and employees safe could have adverse operational, financial, compliance and 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 psychological safety and additional support through the employee assistance program. The Corporation is also prepared to address future potential infectious disease emergencies to limit the health and safety exposures to the public and employees.

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 maintains cyber insurance and has a cybersecurity program that incorporates industry leading practices, which include employee training, protecting assets and safeguarding sensitive information, continuous monitoring of technology systems, and incident response procedures to minimize damage from a cyberattack, breach or other compromise.

RISK MANAGEMENT AND RISKS (continued)

Operational Risk (continued)

Supply Chain Risk

Global supply chains have been disrupted by factors such as macroeconomic conditions, the geopolitical environment, and labour markets constraints, which have resulted in increased material and equipment lead times and costs. Prices for key materials and equipment continue to evolve as the global economic recovery remains uncertain, due to the volatility in commodity prices, inflation, and interest rates. 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. The Corporation continues to diversify its supplier base to alleviate single point of supply issues 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 to meet the evolving needs of the business. 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 PWU and IBEW. The Corporation reached an agreement with the PWU, covering the period from June 1, 2022, to May 31, 2025. The collective agreement between the Corporation and IBEW expires on March 31, 2024. The inability to negotiate the collective agreement with PWU and IBEW on mutually acceptable terms could lead to work disruptions, resulting in adverse impacts to the Corporation's business including potential risk to its ability to sustain the continued supply of electricity to customers.

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, which could result in service disruption, and increased repair and replacement costs.

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.

RISK MANAGEMENT AND RISKS (continued)

Operational Risk (continued)

Environmental Risk

The Corporation is subject to Canadian environmental laws and regulations. Release of hazardous or other harmful substances (e.g. - asset leaks and spills) has the potential for adverse environmental impacts and could lead to governmental orders requiring the Corporation to investigate, control and remediate the effects of these substances. Failure to comply could subject the Corporation to injunction, fines, or other penalties.

The Corporation has a standardized response procedure to regularly inspect assets, investigate, remediate, and report on asset leaks and spills in a timely manner upon discovery. The Corporation monitors Canadian and Ontario regulation with respect to GHG emissions. Although the Corporation is not required by Ontario regulation to report on its GHG emissions at this time, it continues to track and voluntarily discloses Alectra Utilities' GHG emissions publicly.

Emergency Preparedness/ Business Continuity Risk

The Corporation's operations could be exposed to the effects of natural or human-caused hazards. These effects could result in operational disruptions, decrease in distribution revenue, and increase in costs to repair and restore operations.

The Corporation continues to place insurance where available to mitigate the risks associated with damage to assets or service disruption. 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 Corporation regularly monitors for industry events and makes improvements to the program to prepare for major operational threats, such as major power outages and infectious disease emergencies.

**Alectra Inc.
Review of the Financial Results
For the Year Ended December 31, 2023**

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Glossary of Acronyms and Abbreviations

AES	Alectra Energy Solutions	IR	Incentive Rate Setting
AESI	Alectra Energy Services Inc.	IRM	Incentive Regulation Model
AFFO	Adjusted Funds From Operations	IST	Information Systems & Technology
AMSP	Alectra Microgrid Services Master Limited Partnership	IT	Information Technology
APS	Alectra Power Services	LDC	Local Distribution Company
AUC	Alectra Utilities Corporation	LP	Limited Partnership
CAD	Canadian Dollar	LRAM	Lost Revenue Adjustment Mechanism
CCA	Capital Cost Allowance	M&A	Mergers and Acquisitions
CC&B	Customer Care and Billing	MAR	Miscellaneous Accounts Receivable
CCP	Community Conservation Program	MIFRS	Modified International Financial Reporting Standards
CDM	Conservation Demand Management	NRCAN	Natural Resources Canada
CIA	Customer Insights and Acquisitions	OCI	Other Comprehensive Income
CIP	Construction In Process	OEB	Ontario Energy Board
CIS	Customer Information System	OM&A	Operating, Maintenance and Administrative expenses
COVID	Coronavirus Disease of 2019	OMS	Outage Management System
CP	Commercial Paper	P	Permanent
C2M	Customer-to-Meter	PACE	PowerAssist Call Engine
DVA	Deferral & Variance Accounts	PCB	Poly chlorinated Biphenyls
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization	P4P	Pay For Performance
ERP	Enterprise Resource Planning	PILs	Payments in Lieu
GA	Global Adjustment	PP&E	Property, Plant and Equipment
GIS	Geographic Information System	Project Atlas (CX)	Customer Experience Project
GOCA	Getting Ontario Connected Act	RFSP	Ring-Fenced Solar Projects (previously PowerStream solar generation business)
GS	General Service	RoU	Right of Use
HCM	Human Capital Management	Shared	Excludes RFSP
HPS	Holland Power Services Inc.	S&P	Standard and Poor's
HuLRT	Hurontario Light Rail Transit	T	Temporary
HVAC	Heating, Ventilation and Air-Conditioning	TS	Transformer Station
ICI	Industrial Commercial and Institutional Customers	UA	Util Assist
ICM	Incremental Capital Module	USD	United States Dollar
IESO	Independent Electricity System Operator	YoY	Year Over Year
IFRS	International Financial Reporting Standards	YTD	Year-to-Date

Legend:

	YTD Variance is:			YTD Variance is:			YTD Variance is:	
	Higher	Lower		Lower	Higher		Lower	Higher
Revenue	↑	↓	Assets	↓	↑	Capital Expenditure	↓	↑
Expenses	↑	↓	Liabilities	↓	↑			

PREAMBLE

This Financial Report, is a review of the results of operations of Alectra Inc. (Alectra or the Corporation) for the year ended December 31, 2023, as compared to the 2023 Budget, and of the Corporation's financial condition.

The Corporation reports and evaluates its financial performance using a non-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. The reconciliation of MIFRS net income is disclosed within this Financial Report under the section IFRS adjustments.

This report should be read in conjunction with Alectra's consolidated financial statements for the year ended December 31, 2023 and 2022 (the Statements), and the notes to the respective financial statements. The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

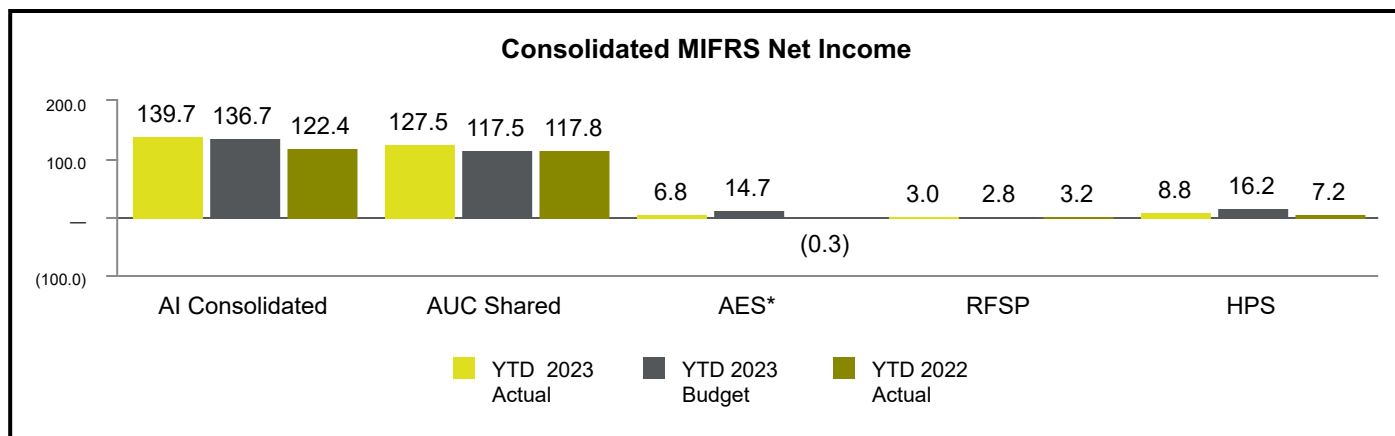
All amounts are in millions of Canadian dollars unless otherwise specified.

Forward Looking Statements and Information

This document contains statements about future events and financial and operating results of Alectra that are forward-looking. By their nature, forward-looking statements require the Corporation to make assumptions and are subject to inherent risks and uncertainties. There is risk that predictions and other forward-looking statements will not prove to be accurate. When used in this Financial Report, the words "may," "would," "could," "will," "intend," "plan," "anticipate," "believe," "seek," "propose," "estimate," "expect" and similar expressions, as they relate to the Corporation, are intended to identify forward-looking statements. Such statements reflect the Corporation's current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the Corporation's actual results, performance or achievements to vary from those described in this Financial Report. Should one or more of these risks or uncertainties materialize, or should assumptions underlying forward-looking statements prove incorrect, actual results may vary from those described in this Financial Report. "Intended", "planned", "anticipated", "believed", "estimated" or "expected" and other forward-looking statements included in this Financial Report herein should not be unduly relied upon. These statements speak only as at the date of this Financial Report. The Corporation does not intend, and does not assume any obligation, to update these forward-looking statements except as required by law, and reserves the right to change, at any time, at its sole discretion, the practice of updating annual targets and guidance.

Alectra Inc. Consolidated Results (MIFRS)

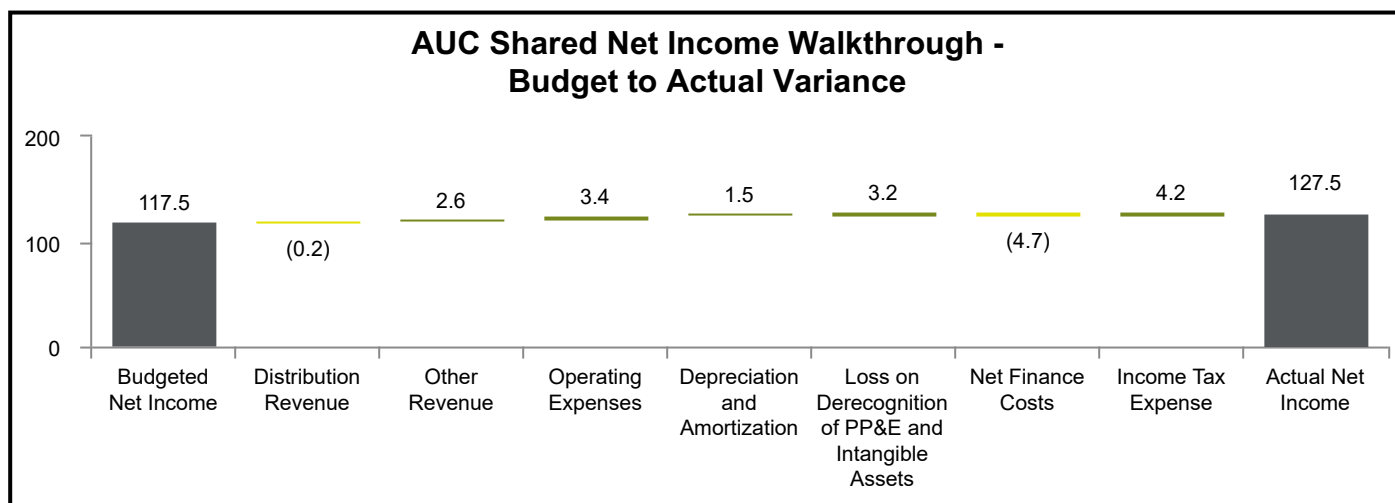
Alectra Inc. consolidated net income was \$139.7 and \$3.0 favourable to the budget of \$136.7.



* AES - 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 \$127.5 and \$10.0 favourable to the budget of \$117.5. The principal drivers of this variance are:

Alectra Utilities Shared (cont'd)

Revenue

Revenue, net of cost of power, was \$671.6 and \$2.4 favourable to the budget of \$669.2. The variance is principally explained by:

(\$MM)	Variance	Fav/ unfav		Principal Drivers of Variance
Other revenue	2.6	↑	(i)	higher revenue from third-party damage and accident claims (\$2.7); (ii) higher P4P incentive revenue from the IESO (\$2.5); and (iii) higher late payment charges due to an increase in energy arrears (\$0.9); partially offset by (iv) transfer of the locates costs included in base rates from April to December to the GOCA variance account (\$4.2).
Distribution revenue	(0.2)	↓	(i)	lower revenue from regulatory variance account adjustments primarily related to legacy utilities capitalization policies impact (\$1.5); partially offset by (ii) higher LRAM revenue due to the OEB approved CDM persistence savings from 2019 to 2022 projects (\$1.1).
Total favourable / (unfavourable)	2.4			

Operating Expenses

Operating expenses were \$286.1 and \$3.4 favourable to the budget of \$289.5. The variance is principally explained by:

(\$MM)	Variance	Fav/ unfav		Principal Drivers of Variance
Consulting costs	3.5	↓	(i)	lower consulting costs mainly due to project delays/ cancellations and lower strategic consulting costs.
Credit losses	2.0	↓	(i)	a lower provision resulting from a decrease in unbilled and MAR arrears (\$2.3).
Environmental expenditures	1.7	↓	(i)	lower expenditures due to fewer transformer sites requiring remediation (\$1.8).
IST licenses and maintenance	1.5	↓	(i)	lower IT license costs associated with the CC&B platform due to contract renegotiation (\$1.0); and (ii) a delay in the go live date for the Project Atlas (CX) to Q1 2024 (\$0.6).
Direct labour costs	(4.5)	↑	(i)	higher overtime for emergency/after hours trouble calls in Operations and System Control (\$3.7); (ii) higher benefit costs due to higher claims experience (\$1.9); (iii) unbudgeted employee settlements (\$1.4); and (iv) higher performance based compensation (\$1.1); partially offset by (v) higher net vacancies (\$3.7).
Repairs and maintenance	(3.4)	↑	(i)	higher costs for janitorial services, security services and monitoring costs, and other facilities costs (\$1.9); (ii) higher reactive fleet maintenance due to aging vehicles (\$1.0); and (iii) higher snow removal activities from major storms (\$0.7).
Other	2.6			
Total favourable / (unfavourable)	3.4			

Alectra Utilities Shared (cont'd)

Depreciation and Amortization

Depreciation and amortization expenses were \$164.2 and \$1.5 favourable to the budget of \$165.7. The variance is principally explained by:

(\$MM)	Variance	Fav/ unfav	Principal Drivers of Variance
Computer software	2.5	↓	delayed in-service additions of Project Atlas (CX) from 2022 to Q1 2024, OMS project and other computer software assets (\$2.1).
Right of Use Asset	(0.8)	↑	higher depreciation primarily due to the extension of the Sandalwood lease.
Other	(0.2)		
Total favourable/ (unfavourable)	1.5		

Loss on Derecognition of Property, Plant, Equipment and Intangible Assets

Loss on derecognition of property, plant, equipment and intangible assets was \$2.6 and \$3.2 favourable to budget of \$5.8. The variance is primarily due to:

(\$MM)	Variance	Fav/ unfav	Principal Drivers of Variance
Land and buildings	2.0	↑	gain on unbudgeted property sales.
Vehicles	0.6	↑	gain on unbudgeted fleet vehicle sales.
Office furniture	0.5	↑	gain on unbudgeted furniture sales.
Other	0.1		
Total favourable/ (unfavourable)	3.2		

Net Finance Costs

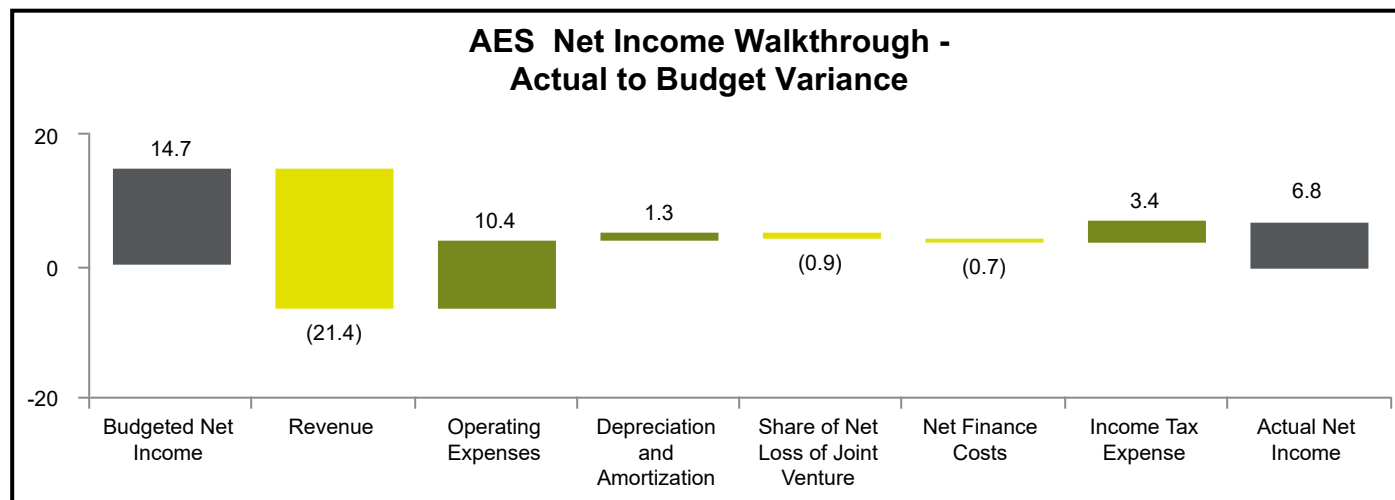
Net finance costs were \$82.7 and \$4.7 unfavourable to budget of \$78.0. The variance is primarily due to:

(\$MM)	Variance	Fav/ unfav	Principal Drivers of Variance
Short-term bank interest	(9.5)	↑	higher short-term interest rates and borrowing levels.
Long-term debt interest	(1.9)	↑	higher long-term debt interest due to the earlier issuance of a debenture at a higher than planned rate.
Regulatory interest	4.4	↑	higher regulatory interest due to higher Group 1 DVA balances and higher OEB prescribed interest rates.
Capitalized interest	1.8	↑	higher capitalized interest on projects under construction.
Other	0.5		
Total favourable/ (unfavourable)	(4.7)		

Income Tax Expense

Income tax expense was \$8.3 and \$4.2 favourable to budget of \$12.5. The variance is primarily due to a higher capital cost allowance based on higher distribution asset additions (\$4.3).

Alectra Energy Solutions



Alectra Energy Solutions net income was \$6.8 and \$7.9 unfavourable to the budgeted net income of \$14.7. The principal drivers of this variance are:

Revenue

Revenue was \$131.3 and \$21.4 unfavourable to the budget of \$152.7. The variance is principally explained by:

(\$MM)	Variance	Fav/ unfav	Principal Drivers of Variance
Holland Power Services Inc.	(24.9)	↓	lower revenue from storm response activities.
Util-Assist Inc.	3.7	↑	higher consulting revenue due to increased scope of work from an existing customer.
Alectra Power Services Inc.	2.1	↑	increased revenue from street lighting construction work.
Other	(2.3)		
Total favourable / (unfavourable)	(21.4)		

Operating Expenses

Operating expenses were \$104.8 and \$10.4 favourable to the budget of \$115.2. The variance is principally explained by:

(\$MM)	Variance	Fav/ unfav	Principal Drivers of Variance
HPS	14.9	↓	lower cost of services rendered due to lower storm response activities.
Util-Assist Inc.	(2.8)	↑	higher outside service provider costs to support the increased scope of work from an existing customer.
Alectra Power Services Inc.	(1.3)	↑	higher costs of services rendered for contract labour and material costs associated with the increased street lighting construction work.
Other	(0.4)		
Total favourable / (unfavourable)	10.4		

Alectra Energy Solutions (cont'd)

Depreciation and Amortization

Depreciation and Amortization expenses were \$10.0 and \$1.3 favourable to the budget of \$11.3, due to lower amortization on the acquisition-related intangible assets in AESI due to the write-off of the CCP and PACE assets in 2022 (\$0.6).

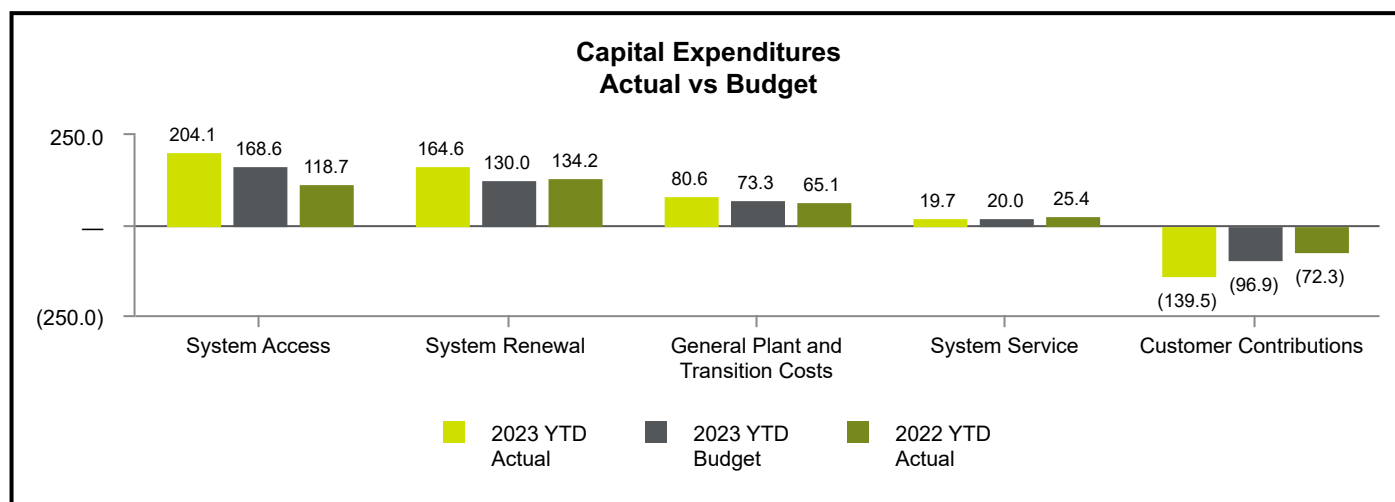
Income Tax Expense

Income taxes were \$3.5 and \$3.4 favourable to the budget of \$6.9, primarily due to lower income before tax.

Capital Expenditures

Alectra Inc. consolidated capital expenditures were \$346.5 and \$9.7 higher than the budget of \$336.8. This represents a 3.1% budget variance similar to last quarter. The main drivers of the higher pace are attributable to: (i) higher expenditures for transit related projects due to changing timelines; (ii) higher costs for underground asset renewal work due to the execution of 2023 OEB approved ICM projects; (iii) higher expenditures for the Kennedy Road project due to changes in scope; partially offset by (iv) lower capital expenditures in Microgrid due to the deferred acquisition of natural gas electricity generating assets until 2024.

Alectra Utilities Shared



Alectra Utilities Shared capital expenditures were \$329.5 and \$34.5 higher than the budget of \$295.0. The principal drivers for the variance from budget to actual are:

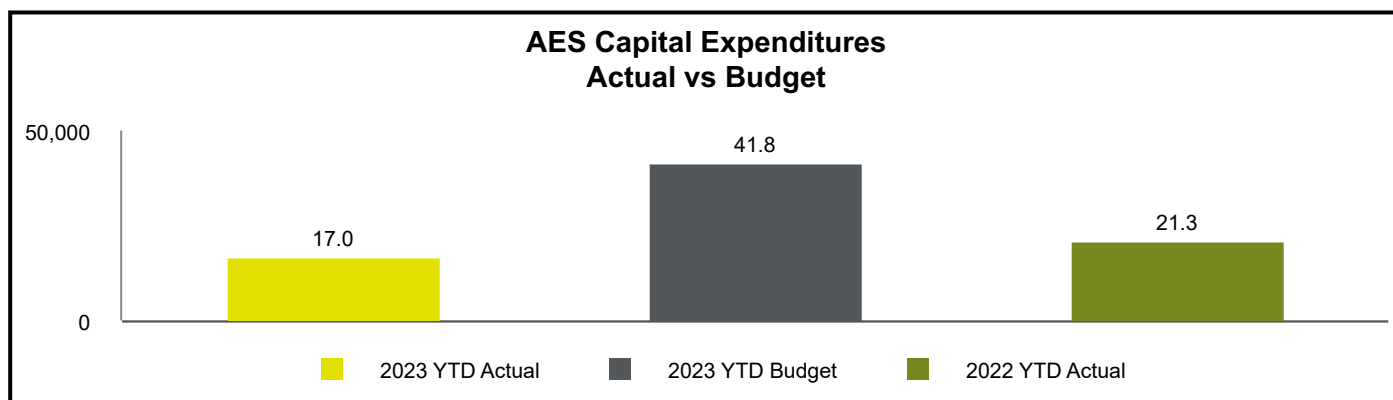
Category	Variance	Lower / higher	Principal Drivers of Variance
System Access	35.5	↑	<ul style="list-style-type: none"> (i) higher expenditures for transit related projects due to changing timelines, the transfer of HuLRT assets from Metrolinx (\$30.0); and (ii) higher expenditures for customer connections due to higher ICI and layout expenses and new subdivision development (\$24.9); partially offset by (iii) lower expenditures due to deferral of customer initiated distribution system projects (\$14.8); and (iv) lower expenditures due to deferrals of road authority projects (\$9.3).

Alectra Utilities Shared (cont'd)

Capital Expenditures (cont'd)

Category	Variance	Lower / higher	Principal Drivers of Variance
System Renewal	34.6	↑	(i) higher costs for underground asset renewal work due to the 2023 OEB approved ICM projects (\$15.7); (ii) higher reactive capital expenses due to unbudgeted costs to replace transformers and increased cable faults and outages due to aging infrastructure (\$11.1); and (iii) higher expenditures on overhead asset renewal work related to the carry-over of work from 2022 combined with an early start on 2024 program work (\$4.2).
General Plant and Transition Costs	7.3	↑	(i) higher expenditures for the Kennedy Road project due to changes in scope and costs for additional work (\$11.3); partially offset by (ii) lower expenditures due to a reduction in scope for the Meter to Cash CIS and CC&B upgrade project (\$4.8).
Customer Contributions	(42.6)	↑	(i) higher contributions for transit projects budgeted in prior years and the transfer of HuLRT assets from Metrolinx (\$30.3); and (ii) higher contributions for customer connections related to the ICI and subdivision projects (\$28.5); partially offset by (iii) lower contributions for customer initiated distribution system projects largely due to lower expenditures and the true-up of the contribution for the HULRT expansion project (\$12.6).
Other	(0.3)		
Total higher/ (lower)	34.5		

Alectra Energy Solutions



Alectra Energy Solutions capital expenditures were \$17.0 and \$24.8 lower than the budget of \$41.8. The principal drivers for this variance are:

Business Unit	Variance	Lower / higher	Principal Drivers of Variance
Alectra Microgrid Services Master Limited Partnership	(26.0)	↓	lower capital expenditures due to the deferred acquisition of natural gas electricity generating assets to 2024.
Alectra Energy Services Inc.	1.6	↑	higher capital expenditures due to the acquisition of submetering customer contracts that were delayed from 2022.
Other	(0.4)		
Total higher/ (lower)	(24.8)		

Alectra Net Income/ (Loss) by Entity

	Year Ended December 31 2023			Year Ended December 31 2022	
	Actual	Budget	Variance	Actual	YoY Variance
Alectra Inc. Consolidated					
Alectra Utilities Shared*	127.5	117.5	10.0	117.8	9.7
Alectra Energy Solutions	6.8	14.7	(7.9)	(0.3)	7.1
Alectra Solar Partnership	0.4	0.5	(0.1)	0.8	(0.4)
Alectra Inc. Unconsolidated**	2.0	1.2	0.8	0.9	1.1
Alectra Inc. Shared Consolidated	136.7	133.9	2.8	119.2	17.5
Alectra RFSP	3.0	2.8	0.2	3.2	(0.2)
Alectra Inc. Consolidated MIFRS net income	139.7	136.7	3.0	122.4	17.3
IFRS adjustments	6.6	6.6	—	(82.1)	88.7
Alectra Inc. Consolidated IFRS net income	146.3	143.3	3.0	40.3	106.0

* Excludes Alectra Solar Partnership

** Includes elimination entries

IFRS Adjustments

The IFRS adjustments amount to \$6.6. The adjustments relate to the following items:

- approved regulatory variance accounts dispositions that are being recovered through rate riders (\$81.4); partially offset by
- regulatory assets/liabilities representing differences between deferred taxes under MIFRS and IFRS (\$39.8);
- higher energy costs compared with energy revenue primarily attributed to timing differences with respect to billing global adjustment charges as customers are billed based on accrued estimates (\$16.7);
- higher energy costs related to transmission service charges attributed to lower OEB approved January 1, 2023 transmission rates (\$6.3); and
- other variances ultimately settled in rate applications to the OEB (\$12.0).

IFRS Equity Reconciliation

Alectra Inc. Consolidated

	Alectra Inc. Shared Consolidated	Alectra RFSP	Alectra Inc. Consolidated
Shareholders' equity as at January 1, 2023	1,727.0	8.8	1,735.8
Net income	143.3	3.0	146.3
Dividends paid / return of capital	(76.7)	(3.7)	(80.4)
OCI changes	(1.1)	—	(1.1)
Shareholders' equity as at December 31, 2023	1,792.5	8.1	1,800.6

Financial Metrics

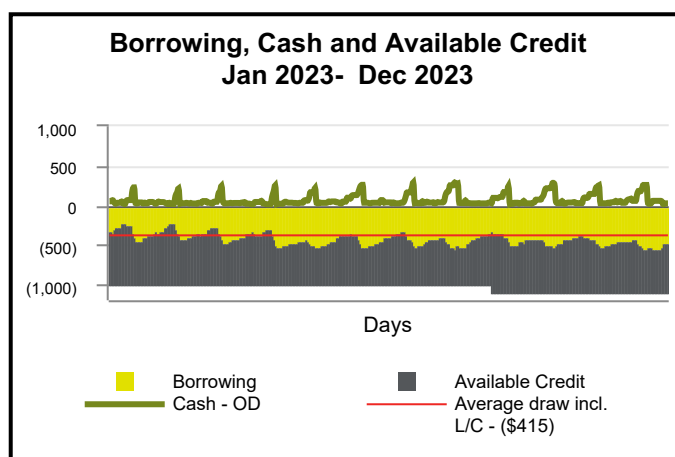
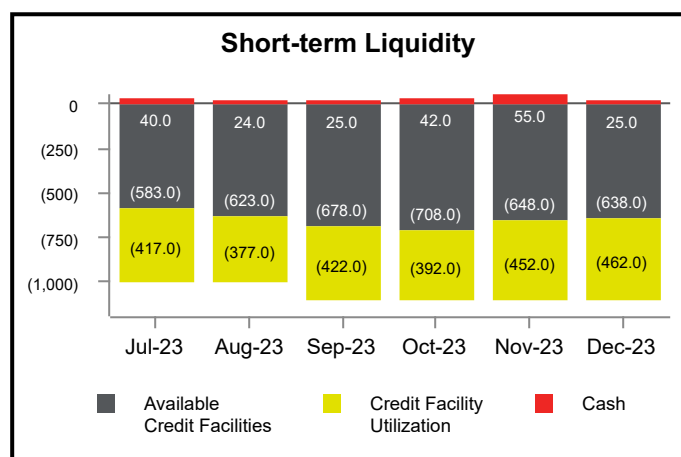
	2023 Actuals	2023 Budget
Current Ratio	0.55	0.66
Debt / Capitalization	56.8%	56.0%
Debt / Capitalization (excluding valuation adjustments)	63.4%	62.6%
AFFO / Debt (S&P Global)	14.4%	15.5%
AFFO / Interest	5.1x	6.2x
EBITDA / Interest	4.7x	4.9x
Return on closing equity (unadjusted)	6.8%	6.7%

The metrics in the table above are calculated on a MIFRS basis, except for the S&P AFFO/Debt ratio. This ratio is calculated on an 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 11.6%.

The IFRS-based ratio of 14.4% is higher than the MIFRS-based ratio, mainly due to recovery of 2021 regulatory variance account balances, resulting in a corresponding increase in IFRS EBITDA, as compared to MIFRS.

These ratios are calculated by Management and might differ from the actual ratios calculated by credit rating agencies due to changes in the methodology and/or other adjustments.

Credit Facilities



Alectra Inc. has access to short-term revolving liquidity as follows:

- (i) \$700 committed revolving facility (\$375 utilized) with an additional \$100 subject to mutual agreement with the financial institution;
- (ii) \$200 uncommitted letter of credit (\$87 utilized); and
- (iii) \$100 uncommitted revolving overdraft facility (\$nil utilized).

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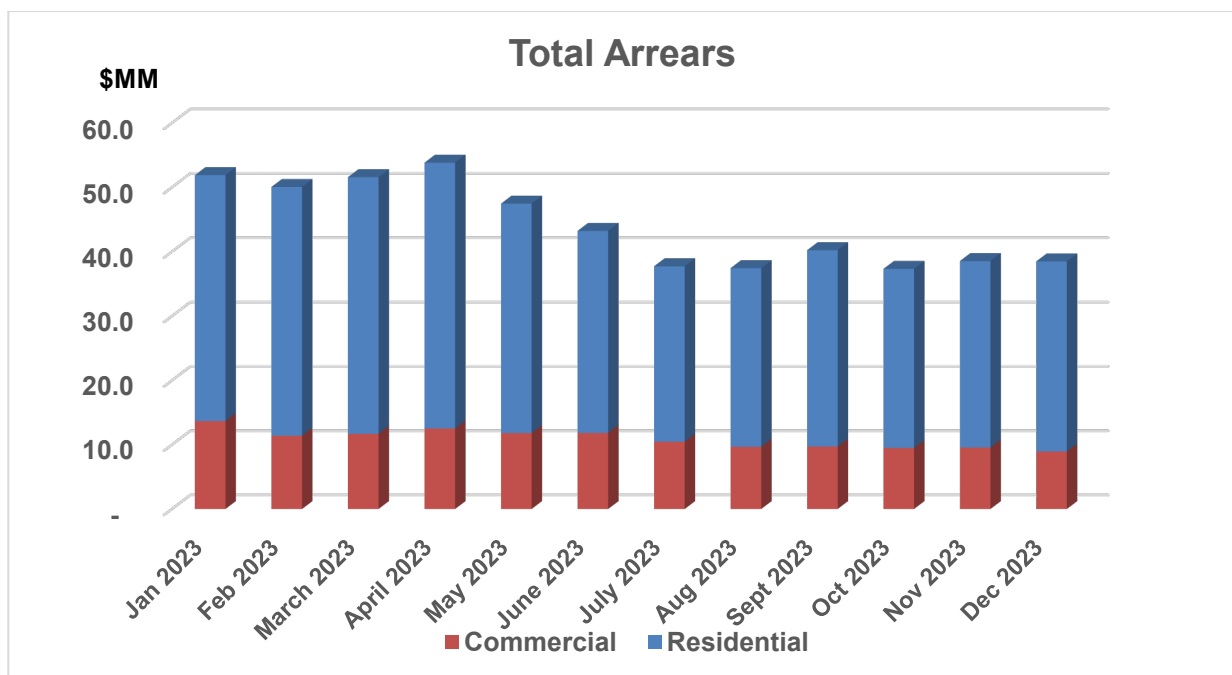
**QUARTERLY REPORT TO
SHAREHOLDERS**

Date of Report	March 1, 2024
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).

Customer Arrears

The following graph provides a trend of Alectra Utilities arrears over the past year.



Overall arrears greater than 30 days past due at December 31, 2023 is \$38.5MM or 26% lower than as of December 31, 2022. Commercial arrears have decreased by \$8MM (47%) in the same period with the decrease mainly in the over 90 days category; within this category, 2,860 commercial customers are in arrears. The number of customers in arrears within this category has decreased over the course of the last twelve months, with the average balance owing decreased to \$1,370, compared to \$2,285 in December 2022.

Residential arrears of \$29.6MM have decreased by \$5.8MM since December 2022, due to a decline in arrears greater than 90 days category. 27,990 customers are in arrears greater

than 90 days, with the average arrears balance per customer in this category decreasing by 31% compared to December 2022 (2023 - \$560, 2022 - \$808).

In accordance with the OEB's disconnection policy, as of November 15 residential accounts were no longer subject to disconnection. The policy stipulates that OEB-regulated electricity and natural gas distributors cannot disconnect residential customers for non-payment between November 15 and April 30. Following the winter disconnection ban, all disconnected residential customers were either successfully reconnected by December 1st or contacts attempted, in the event of an unoccupied property, to arrange for a reconnect.

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 provision rates have been applied to commercial, industrial and residential customer classes. Management believes that its credit loss provisions are consistent with emerging arrears and bankruptcy trends.

Regulatory Update

2024 Cable Renewal – Incremental Capital Application

Alectra filed an application with the Ontario Energy Board ("OEB") on July 21, 2023, seeking approval of \$25.1MM in Incremental Capital Module ("ICM") funding for urgent underground cable renewal investments in the PowerStream and Enersource Rate Zones. On February 13, 2024, the OEB issued its Decision and approved \$17.3MM, or 69% of Alectra Utilities' ICM request with new rates effective March 1, 2024.

2024 Electricity Distribution Annual Rate Adjustment Application

Alectra filed an application with the OEB for 2024 Electricity Distribution Rates (the annual adjustment) for all five Rate Zones on August 17, 2023, for rates effective January 1, 2024. Alectra received the OEB's Decision on the application and implemented new rates effective January 1, 2024.

Cable Locate Costs

In 2023, there have been several changes to the administration and funding of utility locates in the industry. Bill 93 introduced by the Ontario Government provides Ontario One Call ("OOC") new powers and creates a defined process for utilities requesting to use a Dedicated

Locator model. The changes in the process, driven by new legislation, are driving up the cost of locates and are representing a significant increase over what has been carried in the budget. Based on current pricing, Alectra 2023 total cost of locates is \$8.6MM, which is \$4.0MM higher than the 2022 actual of \$4.6MM.

To reduce the cost of locates in 2023, Management implemented the following cost reduction initiatives: i) expansion of the dedicated locator model and having a contract in place that allows reducing locate costs; and ii) working with excavators on alternative locate agreements that allow excavators to utilize vacuum excavation around underground power lines. This alternative does not require a physical locate and results in reduction in locate costs.

Alectra Utilities and other large Ontario natural gas and electricity local distribution companies worked with the OEB to establish a generic, sector-wide variance account to track the incremental costs of locates in 2023 and future years arising from the implementation of Bill 93. On October 31, 2023, the OEB issued a decision and an order, establishing a generic, sector-wide variance account with an effective date of April 1, 2023. The utilization of the locates variance account resulted in a net increase to net income before tax of \$3MM in 2023 because of qualifying deferrals to this account.