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

ALECTRA Inc.

Year ended December 31, 2021

GLOSSARY

The following acronyms and abbreviations are used in this document.

AES	Alectra Energy Solutions Inc.
AESI	Alectra Energy Services Inc.
AFFO	Adjusted Funds from Operations
Alectra Utilities	Alectra Utilities Corporation
AMSP	Alectra Microgrid Master Limited Partnership
APSI	Alectra Power Services Inc.
CC	Customer Contributions
CDM	Conservation and Demand Management
CEAP	COVID-19 Energy Assistance Program
CHI	Customer Hours of Interruption
CMC	California Mobility Centre
COVID-19	Coronavirus Disease 2019
CP	Commercial Paper
DBRS	Dominion Bond Rating Service
DER	Distributed Energy Resource
DSC	Distribution System Code
DSP	Distribution System Plan
EBITDA	Earnings before interest, taxes, depreciation, and amortization
ECL	Expected Credit Losses
ERM	Enterprise Risk Management
FFO	Funds from Operations
GA	Global Adjustment
GHG	Greenhouse Gas
GP	General Plant
HNE	Holland New England
HPSI	Holland Power Services Inc.
HPS	HPS Holdings Inc.
IAS	International Accounting Standards
IASB	International Accounting Standards Board

ICI	Industrial Conservation Initiative
ICM	Incremental Capital Module
IESO	Independent Electricity System Operator
IFRS	International Financial Reporting Standards
IR	Incentive Rate
kWh	Kilowatt-hour
LED	Light Emitting Diode
LDC	Local Distribution Company
LPC	Late Payment Charge
LRAMVA	Lost Revenue Adjustment Mechanism Variance Account
MD&A	Management Discussion and Analysis
MIFRS	Modified International Financial Reporting Standards
OEB	Ontario Energy Board
OEBA	Ontario Energy Board Act
OEFC	Ontario Electricity Finance Corporation
PP&E	Property, Plant and Equipment
ROE	Return on Equity
RPP	Regulated Price Plan
RRF	Renewed Regulatory Framework for Electricity Distributors
SA	System Access
SAIDI	System Average Interruption Duration Index
SAIFI	System Average Interruption Frequency Index
SCADA	Supervisory Control and Data Acquisition
SR	System Renewal
SS	System Service
TOU	Time-of-Use
UA	Util-Assist Inc.
WMS	Wholesale Market Service
YoY	Year over Year

FORWARD LOOKING STATEMENTS AND INFORMATION

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

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

Words such as “expect”, “anticipate”, “intend”, “attempt”, “may”, “plan”, “will”, “believe”, “seek”, “estimate”, “goal”, “aim”, “target”, and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve assumptions, risks and uncertainties that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed, implied or forecasted in such forward-looking statements.

The Corporation does not intend, and disclaims any obligation, to update any forward-looking statements, except as required by law. These forward-looking statements are based on a variety of factors and assumptions including, but not limited to the following:

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

FORWARD LOOKING STATEMENTS AND INFORMATION (continued)

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

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

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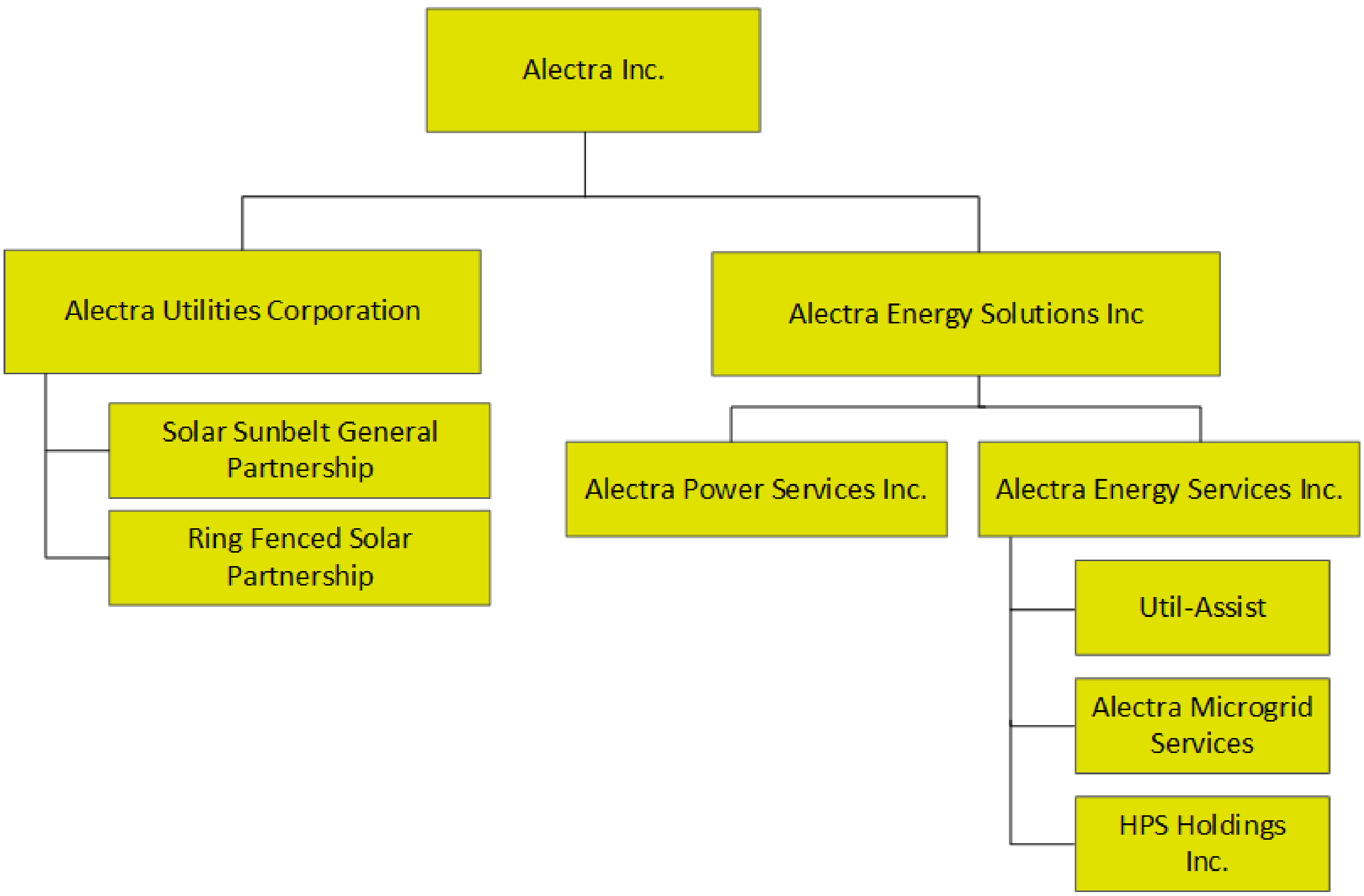
INTRODUCTION

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, 2021 (the "Consolidated Financial Statements").

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and in effect at December 31, 2021. All dollar amounts in the tables are in millions of Canadian dollars, which are presented in whole numbers.

CORPORATE OVERVIEW



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

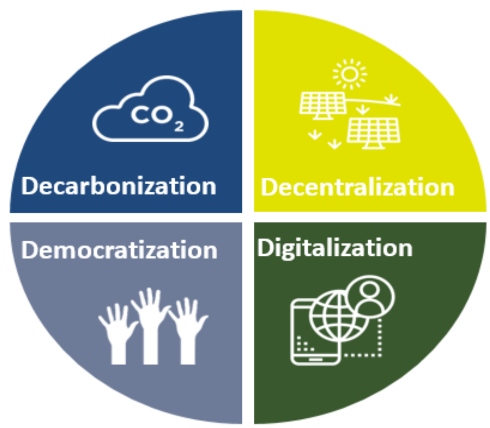
CORPORATE OVERVIEW (continued)

Alectra Inc. is an investment holding company that owns 100% of the common shares of each of: Alectra Utilities; Alectra Energy Solutions Inc. ("AES"); and Horizon Solar Corporation ("Horizon Solar"). The Corporation also indirectly wholly owns Alectra Energy Services Inc. ("AESI"), and Alectra Power Services Inc. ("APSI"). AESI, in turn, has wholly owned subsidiaries Util-Assist Inc. ("UA"), Alectra Microgrid Services Master Limited Partnership ("AMSP") and Alectra Microgrid Services Master General Partnership; and HPS Holdings Inc. ("HPS"). UA has one subsidiary: Util-Assist Corp. HPS has two subsidiaries: Holland Power Services Inc. ("HPSI") and Holland New England ("HNE").

Vision and Strategic Intent

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

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



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

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

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

CORPORATE OVERVIEW (continued)

Vision and Strategic Intent (continued)

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

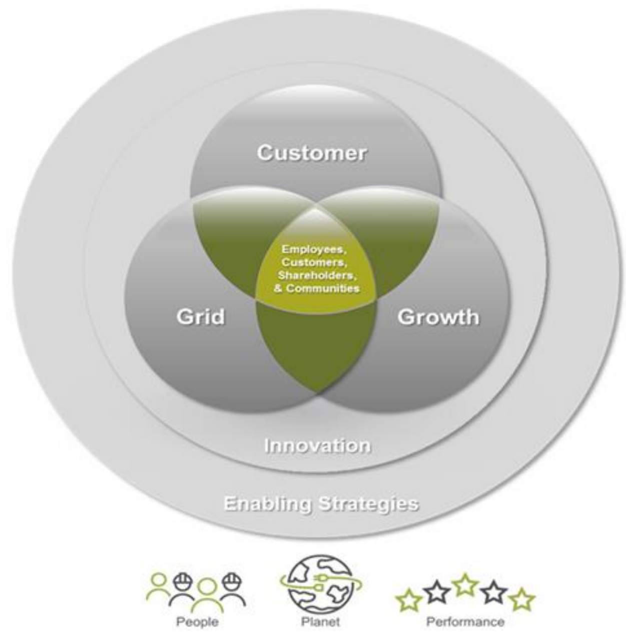
Digitalization is enabled through the development of Smart Communities. Communities interconnected to optimize the use of energy, water and information for consumers gain the value they demand. This new digital world now engages customers to have access to energy management systems for home or office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

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

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

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

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



The ability to prepare for and adapt to changing conditions as well as adapt to transformation is essential to achieving the objectives of Strategy 2.0. The strategy provides a roadmap for the Corporation's ongoing activities and sets its priorities in conjunction with foundational priorities of safety and sustainability. The three core strategies, Customer (Experience), Grid (Modernization), and Growth (Enterprise) ensure it has a firm foundation. In addition, the four enabling strategies of culture and talent management, technology and innovation, advocacy, and financing will provide Strategy 2.0 with greater reliability and resiliency.

CORPORATE OVERVIEW (continued)

Sustainability

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

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

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

REGULATED BUSINESS

Alectra Utilities Corporation

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

Industry Regulation

The Corporation, through Alectra Utilities, is regulated by the OEB. In its capacity to approve or set rates, the OEB has the authority to specify regulatory accounting treatments that differ from IFRS. The regulatory accounting treatments of the OEB require the recognition of regulatory assets and liabilities which do not meet the definition of an asset or liability under IFRS.

Rate Setting

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

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

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

REGULATED BUSINESS (continued)

Rate Setting (continued)

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

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

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

REGULATED BUSINESS (continued)

Rate Applications

2021 Rate Application

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

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

REGULATED BUSINESS (continued)

Rate Applications (continued)

2022 Rates Application

On August 18, 2021, Alectra Utilities filed an application for all five predecessor utility rate zones for the approval of 2022 electricity distribution rates, effective January 1, 2022 to December 31, 2022. On December 9, 2021, the OEB issued its Decision and Order, approving distribution rates effective January 1, 2022, as follows:

- Horizon Rate Zone – Price Cap adjustment under the OEB's Price Cap IR. The resulting change to the distribution portion of the bill for a typical residential customer consuming 750 kWh per month in the Horizon Rate Zone will be an increase of approximately 68 cents or 2.44%;
- Brampton Hydro Rate Zone – Price Cap adjustment under the OEB's Price Cap IR. The resulting change to the distribution portion of the bill for a typical residential customer consuming 750 kWh per month will be an increase of approximately 54 cents or 2.07%;
- PowerStream Rate Zone – Price Cap adjustment under the OEB's Price Cap IR. The resulting change to the distribution portion of the bill for a typical residential customer consuming 750 kWh per month will be an increase of approximately 57 cents or 1.91%;
- Enersource Rate Zone – Price Cap adjustment under the OEB's Price Cap IR. The resulting change to the distribution portion of the bill for a typical residential customer consuming 750 kWh per month will be an increase of approximately 60 cents or 2.29%; and
- Guelph Rate Zone – Price Cap adjustment under the OEB's Price Cap IR. The resulting change to the distribution portion of the bill for a typical residential customer consuming 750 kWh per month will be an increase of approximately 76 cents or 2.51%.

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

REGULATED BUSINESS (continued)

Select Energy Policies and Regulation Affecting the Corporation

The COVID-19 Pandemic Response

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

Government of Ontario Initiatives and Programs:

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

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

Ontario Energy Board Initiatives and Consultation:

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

REGULATED BUSINESS (continued)

Select Energy Policies and Regulation Affecting the Corporation (continued)

Ontario Energy Board Initiatives and Consultation (continued):

- Consultation on the Deferral Account – Impacts Arising from the COVID-19 Pandemic – In March 2020, the OEB acknowledged that electricity distributors may incur incremental costs as a result of the ongoing COVID-19 pandemic. The OEB ordered the establishment of a deferral account for electricity distributors to track incremental costs and lost revenues. On June 17, 2021, the OEB issued the Report of the Ontario Energy Board: *Regulatory Treatment of Impacts Arising from the COVID-19 Emergency* (the "Report"). The OEB determined that recovery of any balances recorded in the deferral account should be subject to evidence that any costs arising from the COVID-19 pandemic are reasonable and necessary for the utility to maintain its opportunity to earn a fair return over the long run.

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

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

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

(in millions of Canadian dollars)

KEY BUSINESS STATISTICS

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

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

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

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

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

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

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

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

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

COMPETITIVE BUSINESS

Overview of AES

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

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

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

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

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

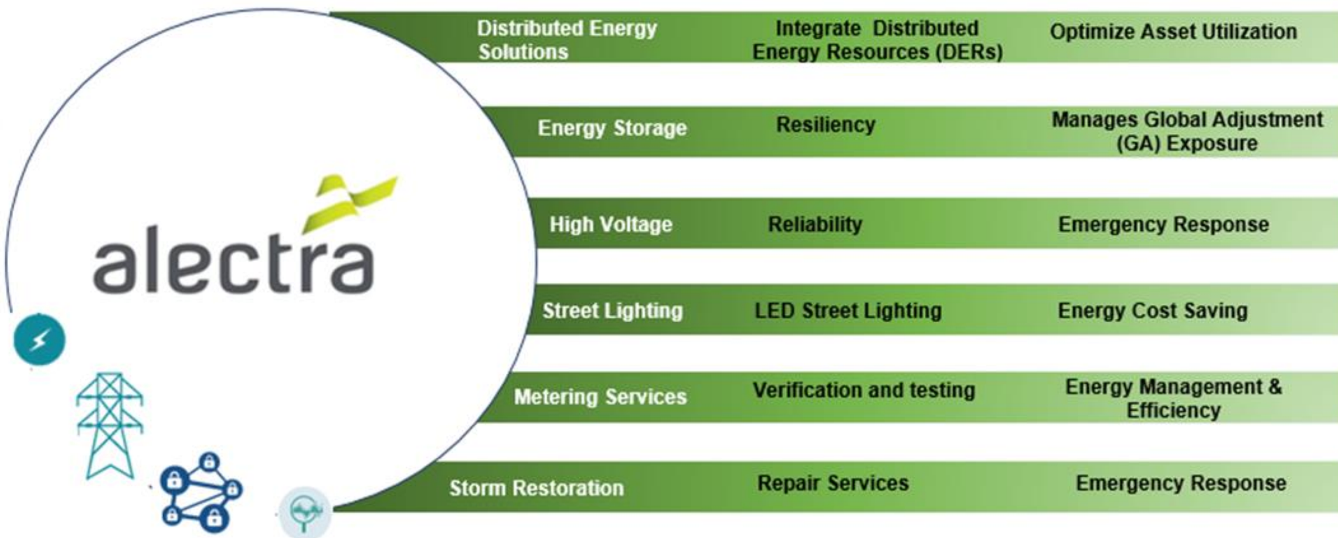
AMSP provides energy management services partnership which includes installing, owning and operating an industrial energy storage battery and gas system with a third party.

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

COMPETITIVE BUSINESS (continued)

Key Business Updates

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



Latest Investments

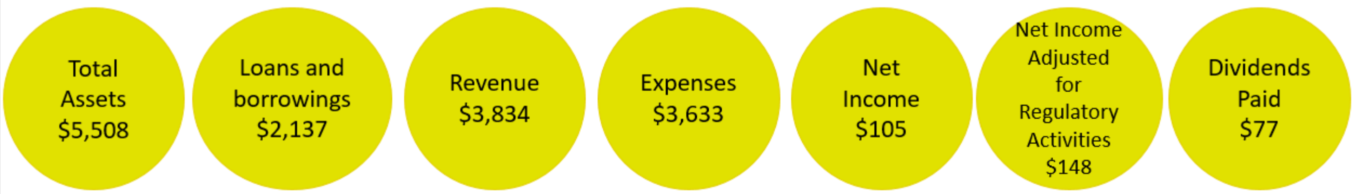
On January 4, 2021 AESI completed the acquisition of HPSI, a private company specializing in providing storm restoration services in Eastern Canada and the United States. Refer to *Note* 6 in the Consolidated Financial Statements for details.

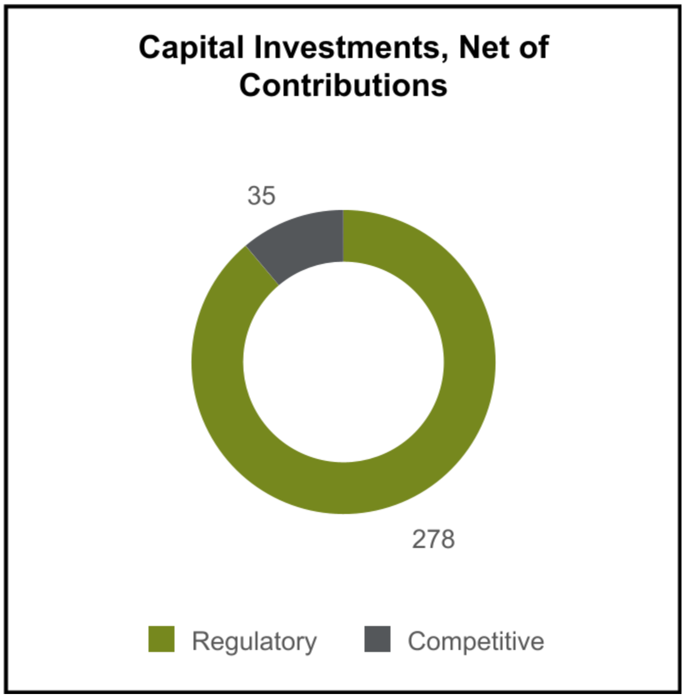
On September 29, 2021 AESI purchased a behind-the-meter generation portfolio of 14MW of natural gas fueled generation assets. The generation portfolio is situated across seven facilities in Ontario and will provide GA mitigation and will also assist in saving significant energy costs by participating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

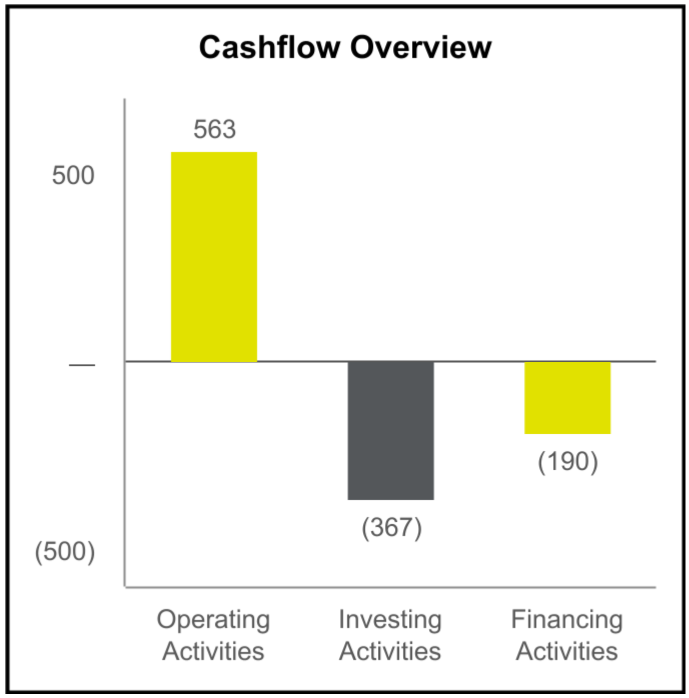
On October 27, 2021 AESI was announced as a Canadian member of the California Mobility Center ("CMC"). The CMC is a nonprofit, public-private entity that provides future mobility innovators and industry incumbents with access to programs and resources to accelerate the pace of commercialization in California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

2021 FINANCIAL RESULTS AT A GLANCE

Annual Results and Performance

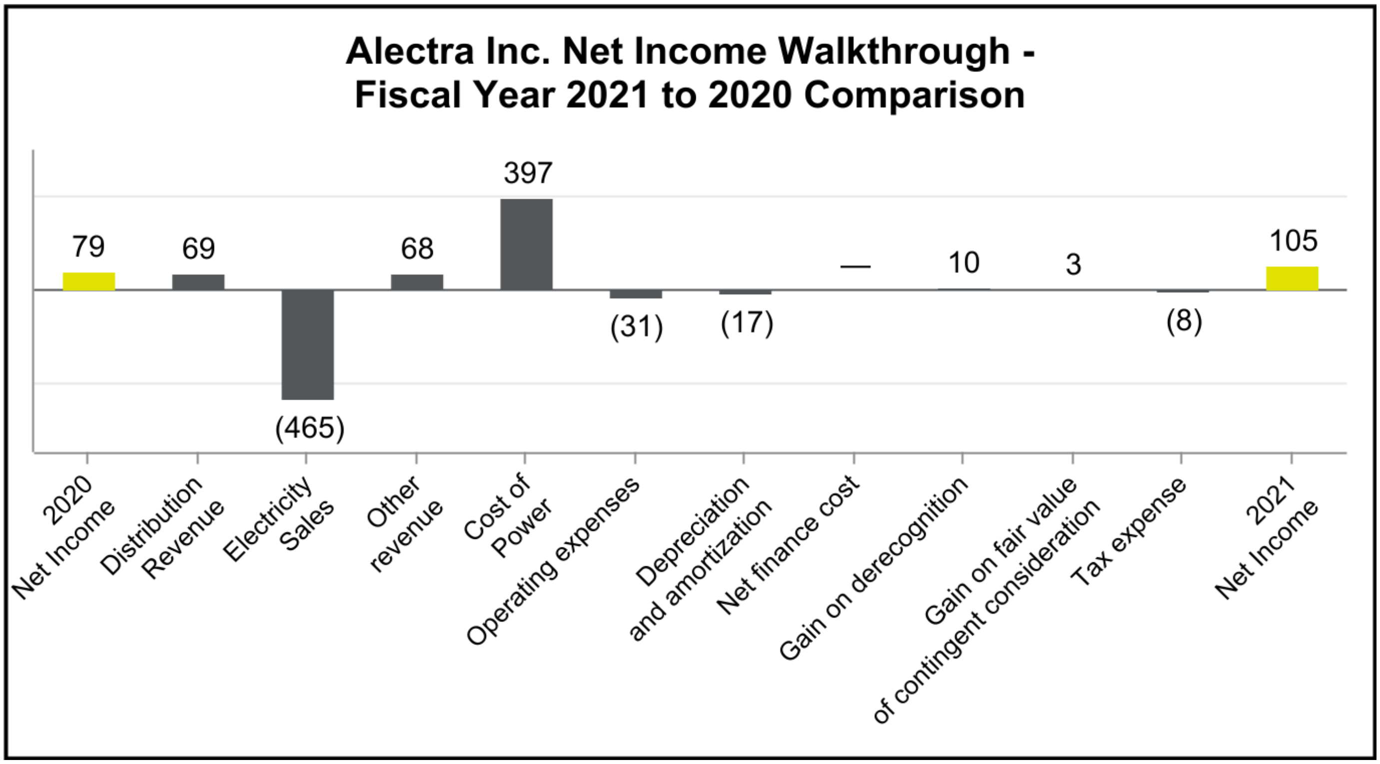






[1] Net Income Adjusted for Regulatory Activities represents the net income for the year, adjusted for the effect of rate regulation. Refer to Note 27 in the Consolidated Financial Statements for further details.

RESULTS OF OPERATIONS

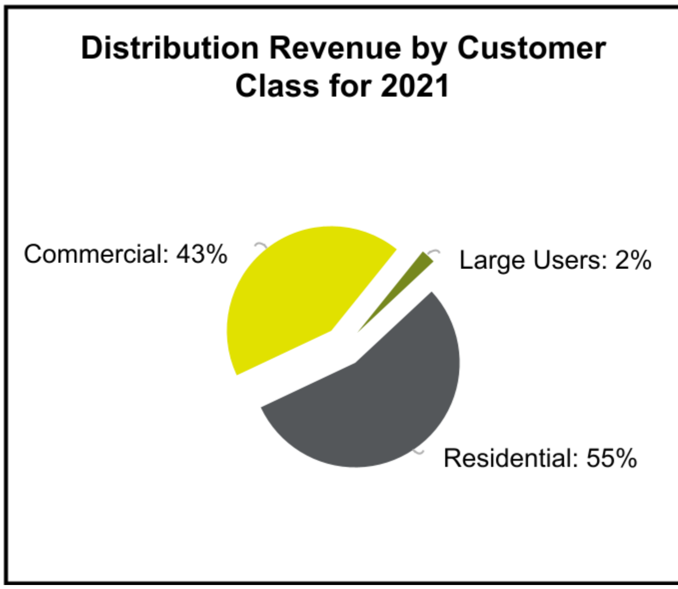


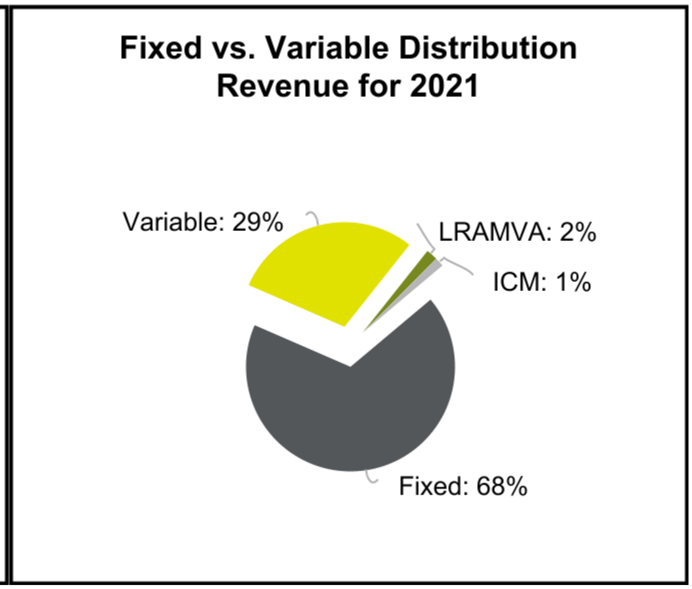
Net income for the year ended December 31, 2021 was $105 which is $26 higher than 2020 net income of $79. The increase in net income is principally attributable to: (i) a decrease in cost of power of ($397) as a result of lower wholesale electricity prices; (ii) higher distribution revenue of ($69) as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

RESULTS OF OPERATIONS (continued)

	2021	2020	Change
Distribution Revenue	628	559	69

Distribution revenue is recorded based on OEB-approved distribution rates to recover the costs incurred by Alectra Utilities in delivering electricity to customers. The increase in distribution revenue is mainly attributable to: (i) higher recovery from customers through OEB approved rate riders ($55); (ii) higher distribution rates ($11); and (iii) an increase in customer growth in the residential and small commercial classes ($3).





Alectra Utilities' customer classes are as follows:

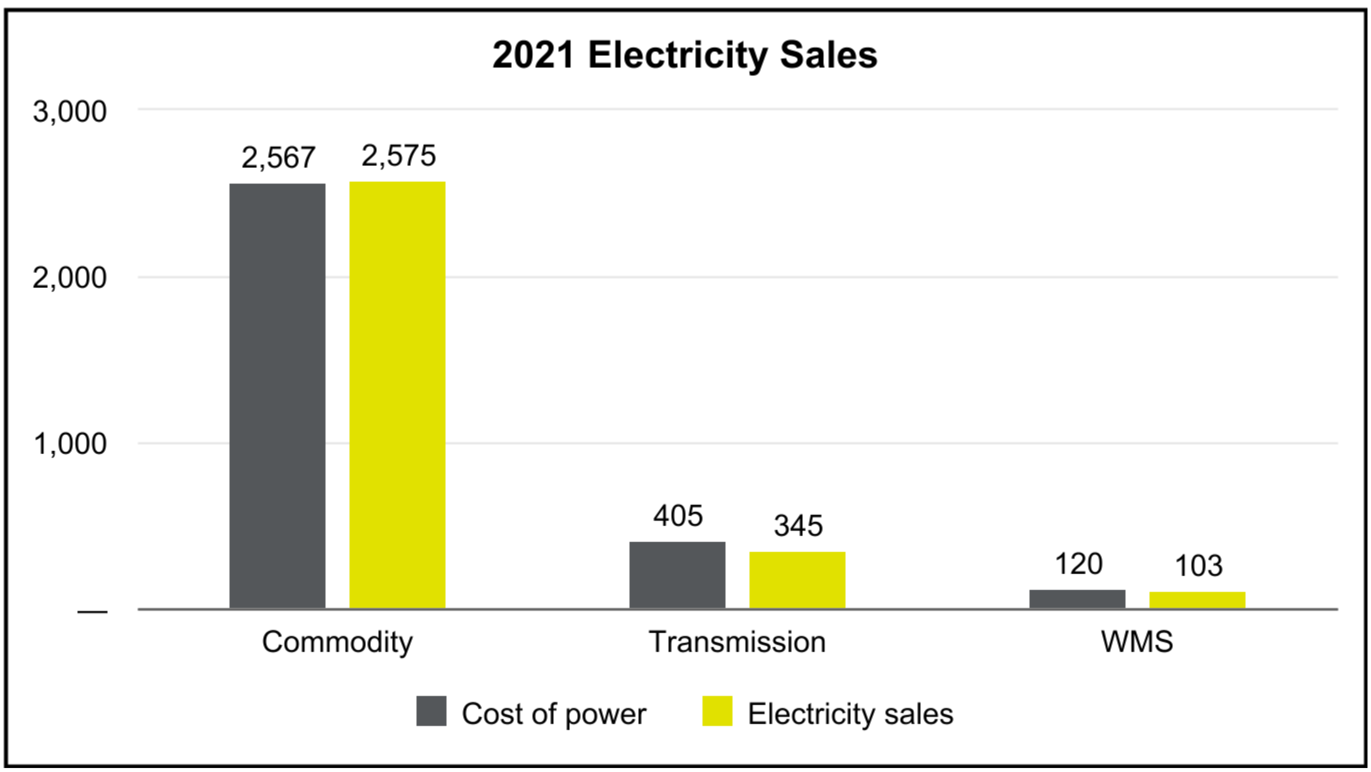
- Residential - the residential class includes single family or individually metered multi-family units and seasonal occupancy
- Commercial - the commercial class typically includes small businesses and bulk-metered multi-unit residential establishments that is provided to customers with a monthly peak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

RESULTS OF OPERATIONS (continued)

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

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

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



(in millions of Canadian dollars)

RESULTS OF OPERATIONS (continued)

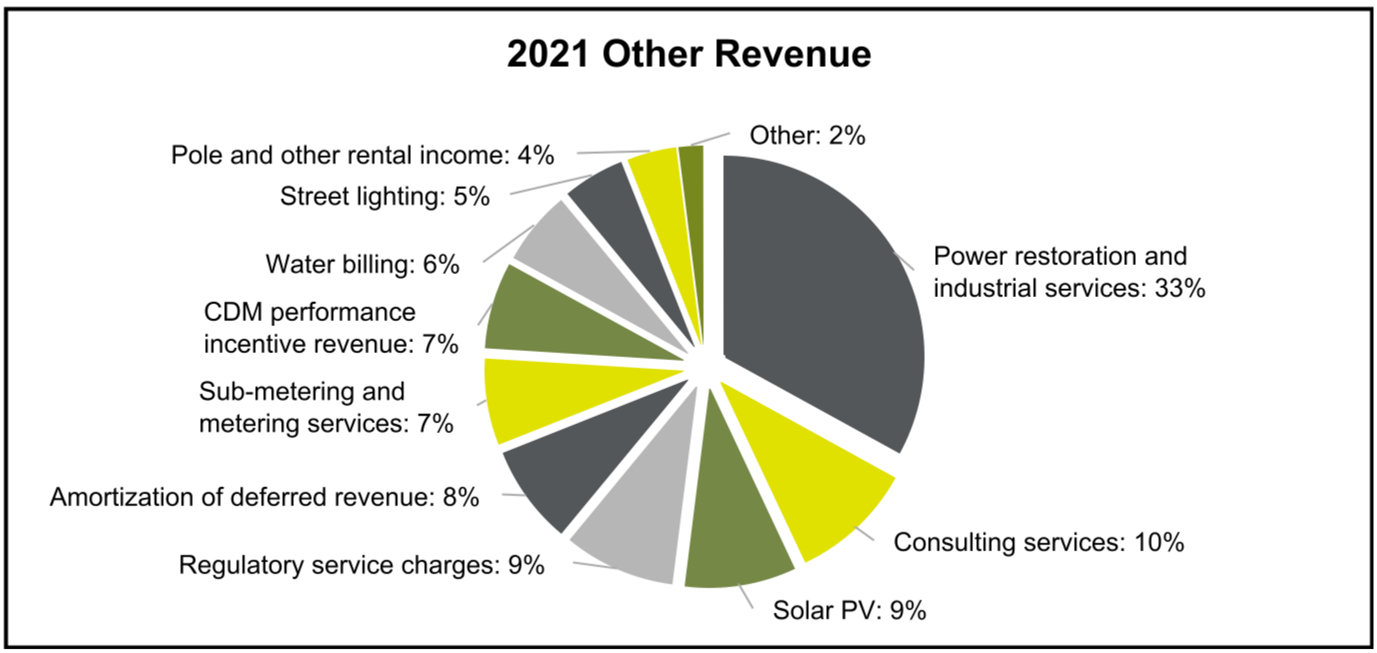
	2021	2020	Change
Other Revenue	183	115	68

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

- the amortization of deferred revenue related to capital contributions from developers;
- rates charged to customers for connections, reconnections, LPCs, ancillary services, and customer contributions;
- pole attachment charges to other utility service providers that attach equipment to poles owned by Alectra Utilities; and
- CDM incentives.

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

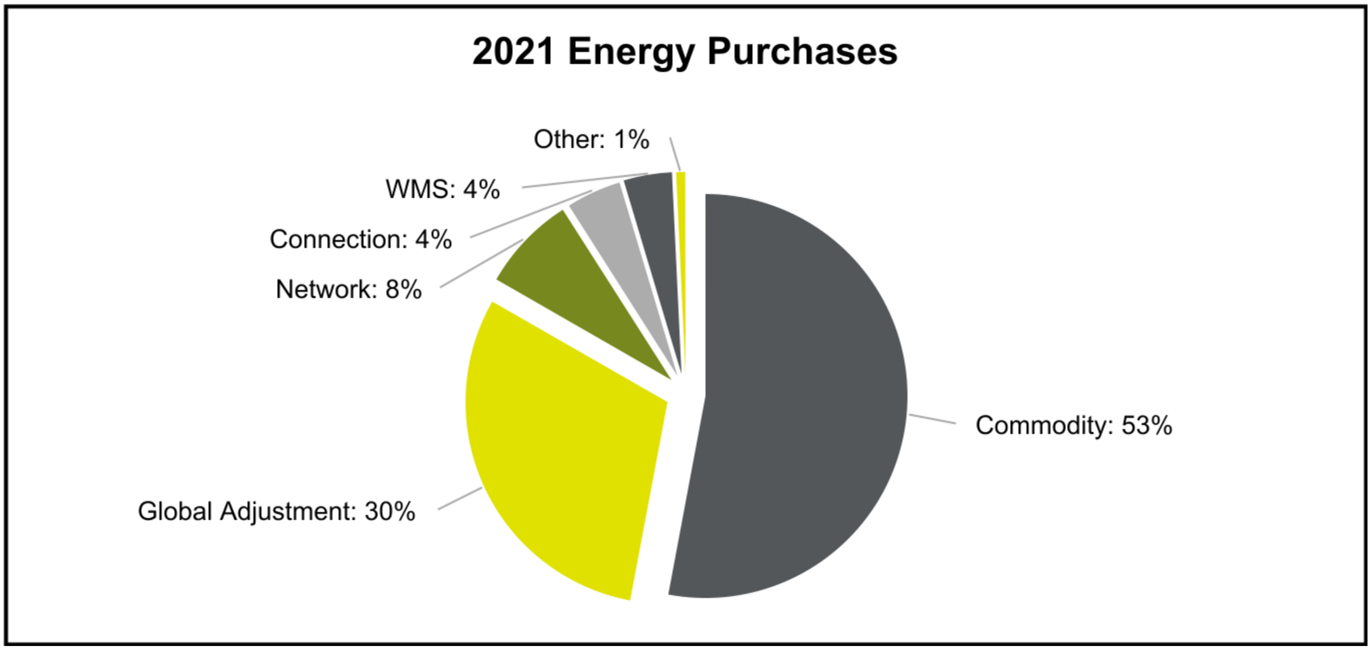
The increase in other revenue of $68 primarily relates to: (i) higher power restoration and industrial services revenue corresponding to the acquisition of HPS in 2021 ($61); (ii) higher CDM revenue ($12) as a result of performance incentives under Energy Conservation agreements with the IESO; (iii)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



RESULTS OF OPERATIONS (continued)

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

Cost of Power represents actual charges for electricity generated by third parties, which are delivered by Alectra Utilities and passed through to customers in the form of energy sales. The decrease in cost of power by ($397) is primarily as a result of lower wholesale electricity prices.



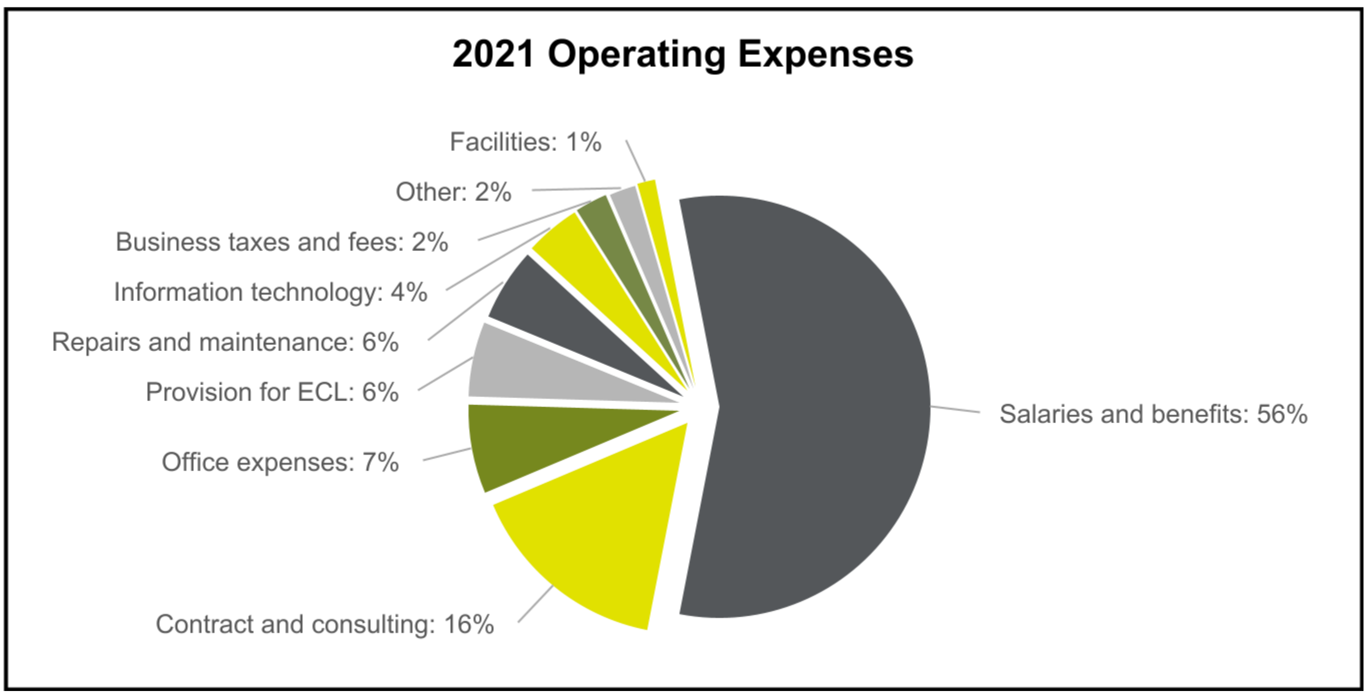
(in millions of Canadian dollars)

RESULTS OF OPERATIONS (continued)

	2021	2020	Change
Operating Expenses	359	328	(31)

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

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



(in millions of Canadian dollars)

RESULTS OF OPERATIONS (continued)

	2021	2020	Change
Depreciation and Amortization	182	165	(17)

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

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

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

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

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

	2021	2020	Change
Income Taxes	36	28	(8)

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

As a consequence of this exemption from income taxes under the Tax Acts, the Corporation is required to make payments in lieu of income taxes to the Ontario Electricity Finance Corporation ("OEFC"). These payments are calculated in accordance with the Tax Acts. These amounts are applied to reduce certain debt obligations of the former Ontario Hydro continuing in OEFC. AESI, HPS and UA are subject to the payment of tax under the Tax Acts.

The increase in income taxes by $8 primarily relates to higher net income before tax in 2021 relative to 2020.

Competitive Operations Variance Analysis

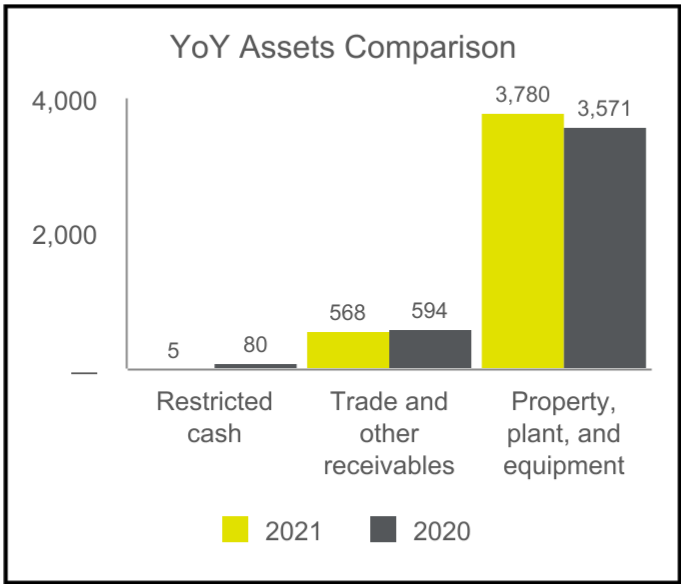
	2021	2020	Change
AES Net Income	5	2	3

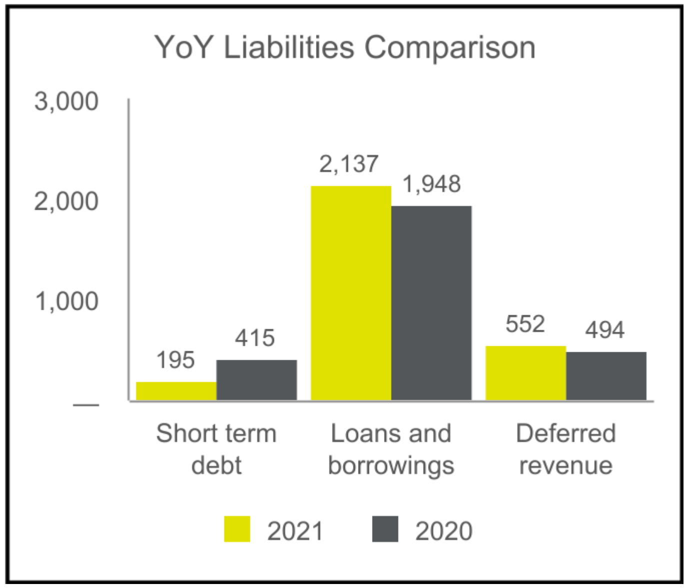
Net income for the year ended December 31, 2021 was $5 which is $3 higher than 2020 net income of $2. The increase in net income is due to the acquisition of HPS that occurred in 2021.

(In millions of Canadian dollars)

FINANCIAL POSITION

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





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

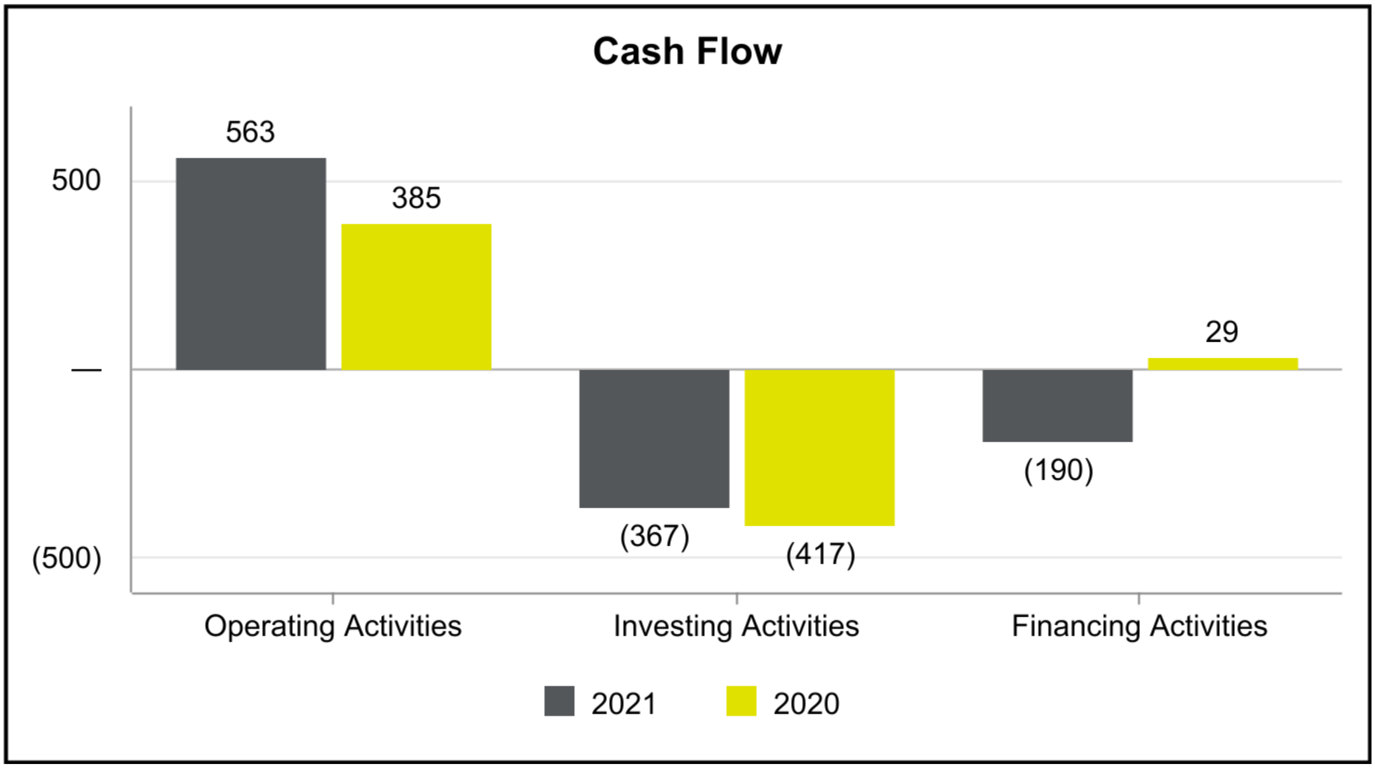
Liabilities	$ Change	% Change	Trend	Explanation
Short term debt	(220)	(53)%	↓	The decrease is primarily due to: (i) repayment of short term debt; partially offset by (ii) a debenture repayment.
Loans and borrowings	189	10 %	↑	The increase is primarily due to: (i) issuance of a new debenture in 2021;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

Total Assets	↑	$153
Total Liabilities	↑	$120

LIQUIDITY AND CAPITAL RESOURCES

Sources of Liquidity and Capital Resources

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



Operating Activities

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

Investing Activities

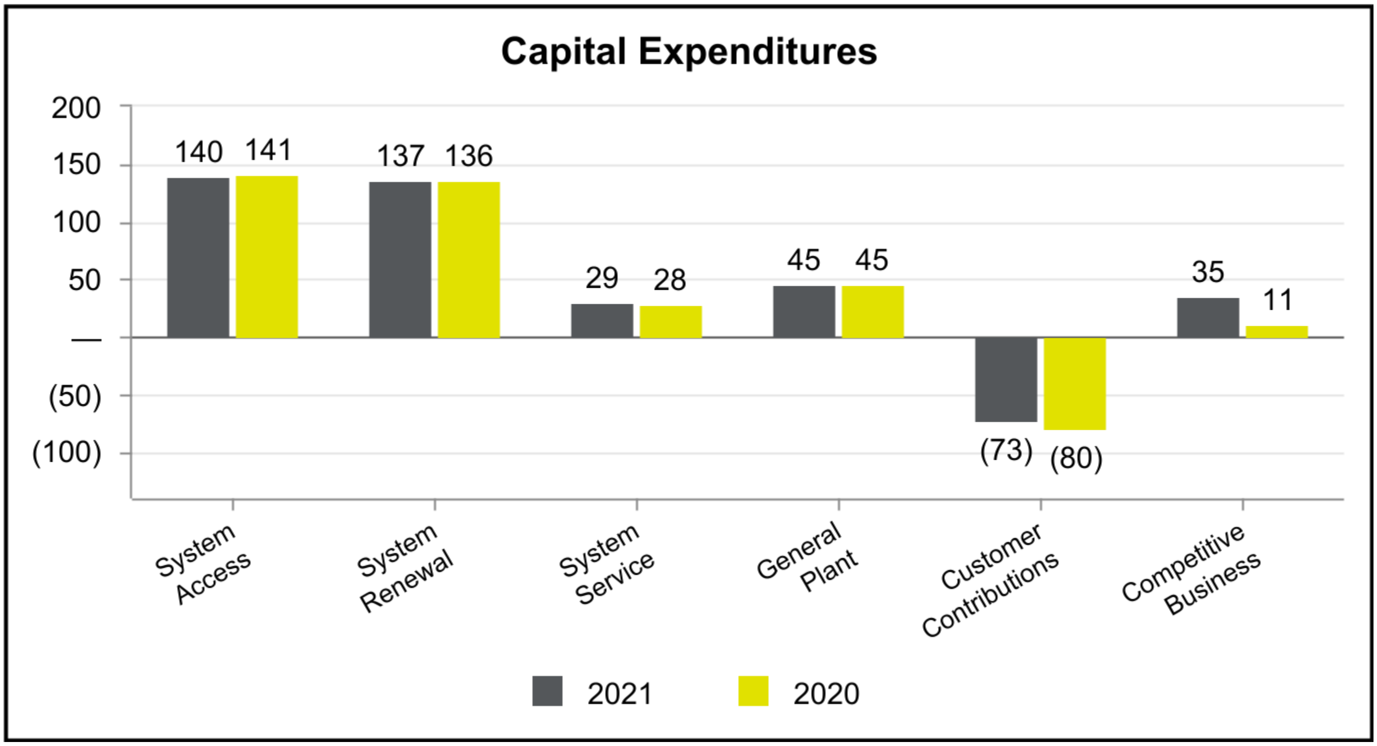
The decrease in cash used for investing activities by $50 from 2020 to 2021 was primarily due to: (i) the acquisition of HPS and a change in restricted cash ($88); partially offset by (ii) an increase in purchases of PP&E primarily related to distribution assets ($35).

LIQUIDITY AND CAPITAL RESOURCES (continued)

Sources of Liquidity and Capital Resources (continued)

Investing Activities (continued)

The Corporation's gross capital investments and customer contributions are presented below:



System Access ("SA") expenditures relate to projects required to meet customer service obligations in accordance with the DSC of the OEB and corporate Conditions of Service. Projects in this category include: connecting new customers; building distribution infrastructure for new subdivisions; and relocating system plant for roadway reconstruction and major transit initiatives. Capital expenditures in this category have decreased by $1 relative to 2020, principally as a result of: (i) lower investments in distribution assets to support transit projects ($16); and (ii) lower expenditures for municipal road widening projects ($3); partially offset by (i) increased distribution system expansion for new customers ($13); and (v) increased new connections activity for subdivision development ($5).

System Renewal ("SR") expenditures relate to long-term plans to replace assets that are at the end or nearing the end of their useful lives. Replacement strategies are prioritized based on the condition and reliability of the assets. Capital expenditures have increased by $1 relative to 2020, principally as a result of: (i) increased investments in overhead asset renewal projects ($7); and (ii) increased reactive expenditures to replaced failed equipment ($4); partially offset by lower investments in (iii) underground asset renewal projects ($6); and (iv) substation renewal ($3).

(In millions of Canadian dollars)

LIQUIDITY AND CAPITAL RESOURCES (continued)

Sources of Liquidity and Capital Resources (continued)

Investing Activities (continued)

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

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

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

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

Financing Activities

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

Credit Ratings

The Corporation's credit ratings are as follows:

	DBRS Morningstar			S&P Global Ratings		
	Date Confirmed	Credit Rating	Trend	Date Confirmed	Credit Rating	Outlook
Issuer rating	June 22, 2021	A	Stable	June 9, 2021	A	Negative
Senior unsecured debentures	June 22, 2021	A	Stable	June 9, 2021	A	Negative
Short term (Commercial Paper)	June 22, 2021	R1(low)	Stable			

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

LIQUIDITY AND CAPITAL RESOURCES (continued)

Credit Ratings (continued)

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

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

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

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

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

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

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

LIQUIDITY AND CAPITAL RESOURCES (continued)

Requirements for liquidity resources

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

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

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

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

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

Short-term loans at December 31, 2021 and 2020 consist of CP issued under the Corporation's CP program. These short-term loans are denominated in Canadian dollars and are issued with varying maturities of no more than one year. CP issuances bear interest based on the prevailing market conditions at the time of issuance. CP issuance at December 31, 2021 aggregated $195 (2020 - $415).

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

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

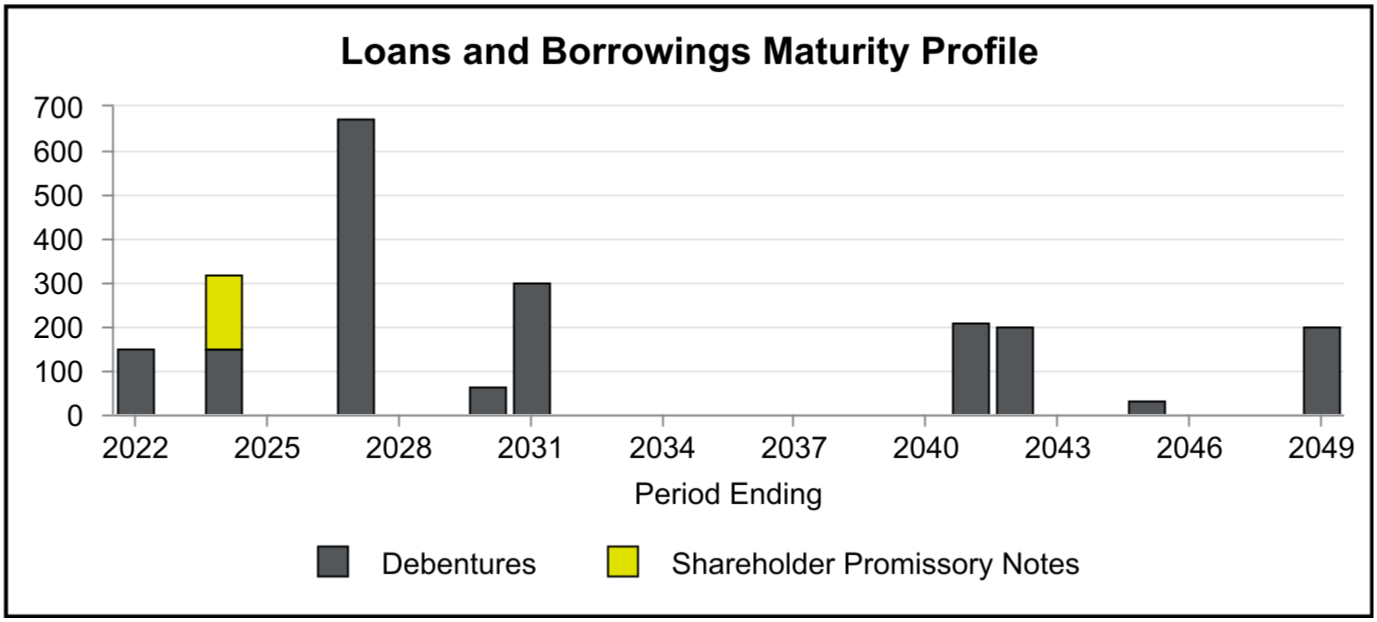
The Corporation has sufficient liquidity to meet the needs of its ongoing commitment to maintain, improve and expand its distribution system and competitive businesses, and invest in other infrastructure assets on a sustainable basis.

(In millions of Canadian dollars)

LIQUIDITY AND CAPITAL RESOURCES (continued)

Loans and borrowings maturities

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



Summary of contractual obligations and other commitments

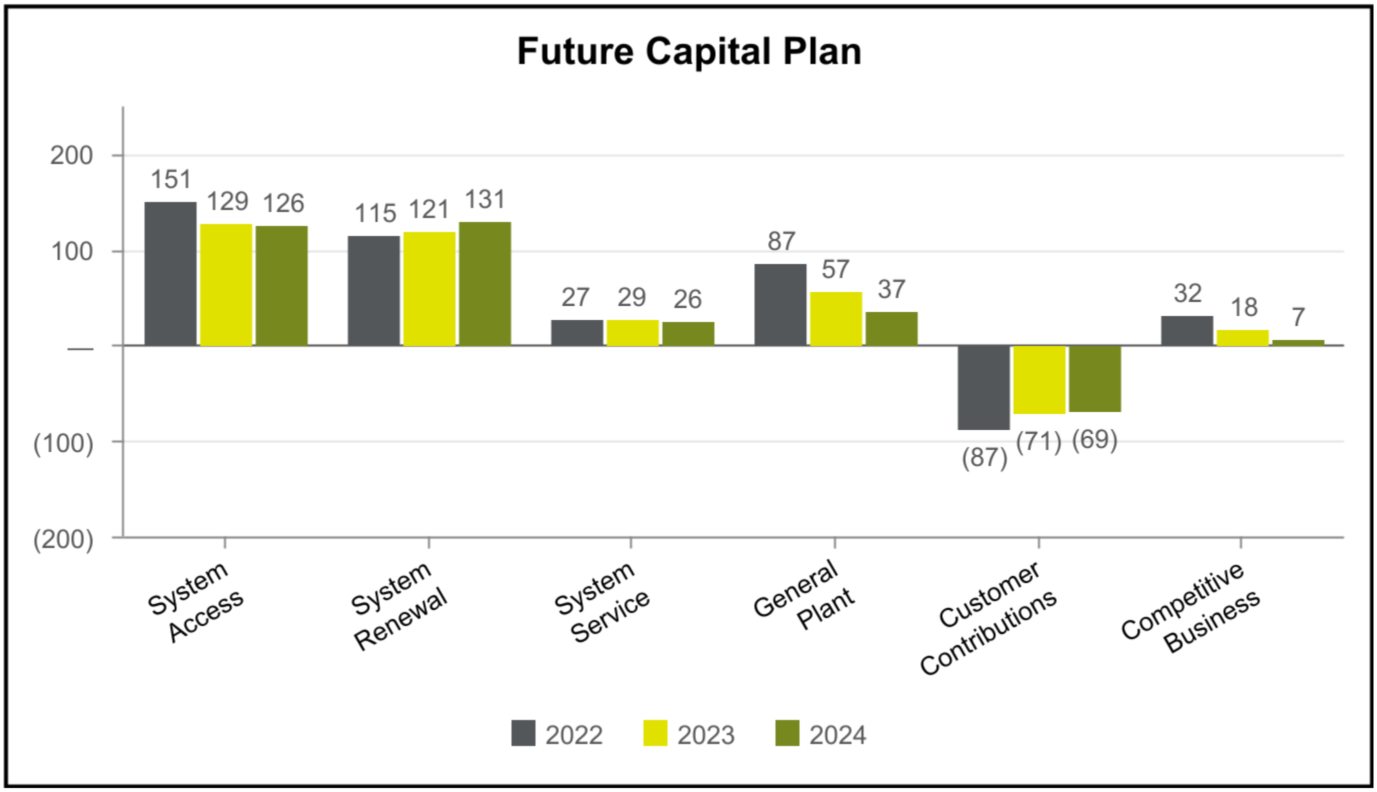
The following table presents a summary of the Corporation's debentures, major contractual obligations, and other commitments:

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

LIQUIDITY AND CAPITAL RESOURCES (continued)

Future Capital Plan

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



The three-year SA investment plan is primarily driven by the requirement to connect new residential and general service customers, accounting for approximately 51% of total SA expenditures. Alectra Utilities will also make significant investments in SA over the next three years to support road widening and transit infrastructure projects. Major transit projects include the Hurontario Light Rail Transit initiative in Peel Region and GO Transit Electrification projects across the Peel and York Regions and Simcoe County. Transit projects are predominantly funded by customer contributions from Metrolinx.

Approximately 41% of the capital to be invested in SR projects is focused on underground asset renewal, which is the primary contributor to declining reliability performance in the distribution system. Another third of the SR capital program will be invested in the renewal of overhead assets to address the impact of weather outages which have increased in both duration and severity.

LIQUIDITY AND CAPITAL RESOURCES (continued)

Future Capital Plan (continued)

The three-year expenditure plan for SS is primarily driven by the need to expand system capacity to support residential growth and expansion in Alectra Utilities' service areas. Over the next three years, 42% of the investment in SS will be for system expansion to support growth of residential, commercial, and industrial customers. In order to further increase utilization of its assets, Alectra Utilities plans to invest in automation equipment associated with controlling, monitoring, and protecting core system assets. In aggregate, 49% of the investment over the three-year plan is in automation, system control, and DER integration.

The three-year expenditure plan for GP addresses the need to upgrade corporate information systems such as the Customer Care & Billing system, implement innovative technology including the Customer Experience platform and renew aged and obsolete computing assets. This investment accounts for 50% of the total GP expenditures. In addition, 20% of total GP capital plan will be invested in updating transportation equipment to allow Alectra Utilities' crews to respond to distribution system needs efficiently and safely. Lastly, 43% of GP expenditures in 2022 and 19% of GP expenditures in 2023 correspond to the construction of a new operations centre, consolidating two former operations centres to be decommissioned and sold, and transition expenditures in relation to prior merger activities.

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

(In millions of Canadian dollars)

SHARE CAPITAL

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

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

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

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

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

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

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

In addition, a return of capital of $2 (2020 - $4) was declared and paid by the Corporation on Class S shares during the year.

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

Refer to *Note 17* in the Consolidated Financial Statements for details.

(In millions of Canadian dollars)

RELATED PARTIES BALANCES AND TRANSACTIONS

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

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

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

The amount due to/from related parties is comprised of amounts payable to/receivable from: the City of Barrie; the City of Guelph; the City of Hamilton; the City of Markham; the City of Mississauga; the City of St. Catharines; the City of Vaughan; and wholly-owned subsidiaries of related parties (refer to *Note 12)*.

Loans and borrowings comprise shareholder promissory notes owing to the City of Barrie, the City of Markham, and the City of Vaughan (refer to *Note 15*).

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

SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL JUDGMENTS AND ESTIMATES

The Corporation's critical accounting policies have been reviewed and approved by the Audit, Finance and Risk Management Committee and are outlined in *Note 4* of the Consolidated Financial Statements. Certain judgments, estimates and assumptions arising from these policies are inherently complex and subjective, changes to which could significantly impact the financial results especially considering the uncertainty surrounding the future impacts of the COVID-19 pandemic. The Corporation continues to monitor and assess the impacts of the COVID-19 pandemic and other potential impacts on critical accounting judgments, estimates, and assumptions.

Judgments and estimates are often interrelated. The areas which require management to make significant estimates and judgments in determining carrying values include: valuation of identifiable net assets acquired in a business combination; unbilled revenue; useful lives of depreciable assets; valuation of financial instruments; employee future benefits; ECLs; lease term; deferred tax assets and liabilities; provisions and contingencies; and goodwill in cash generating units. Refer to the relevant section within the basis of preparation note (*Note 2(c)*) and the significant accounting policies note (*Note 4*) for details on estimates and judgments.

FUTURE ACCOUNTING CHANGES

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

(a) *Effective January 1, 2022*

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

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

(b) *Effective January 1, 2023*

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

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

(In millions of Canadian dollars)

NON-IFRS FINANCIAL MEASURES

EBITDA

The Corporation uses earnings before interest, taxes, depreciation, and amortization ("EBITDA"), comparable net earnings, and funds from operations ("FFO") as financial performance measures under Modified International Financial Reporting Standards ("MIFRS"). MIFRS adjusts IFRS results for the effect of rate regulation. These measures do not have any standard meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies.

The purpose of these financial measures and their reconciliation to IFRS financial measures are provided below. These non-IFRS measures are consistently applied in the previous period, except where otherwise noted.

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

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

AFFO

Adjusted funds from Operations ("AFFO") is used as an additional metric of cash flow without regard to changes in the Corporation's non-cash working capital and adjusted for contributions in aid of construction. The table below summarizes the Corporation's AFFO as at December 31, 2021 and 2020.

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

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

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

RISK MANAGEMENT AND RISK FACTORS

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

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

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

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

- The Board of Directors – maintains a general understanding of the Corporation's risk profile and philosophy, and oversees the management of the Corporation's significant exposures, including review of risk assessment and risk management practices.
- The Executive Committee – ensures systems are in place to identify, manage and monitor risks and trends. The Executive Committee also ensures that key risks are escalated to the attention of the Board for discussion and action, as required.
- The Senior Leadership Team – supports the overall risk management program and actively engages in the day-to-day management of risks. Members of the Senior Leadership Team have been assigned as designated "risk owners" for managing and reporting on enterprise risks.

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

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

RISK MANAGEMENT AND RISK FACTORS (continued)

Regulatory/Political Risk

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

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

Safety and Wellness Risk

The Corporation is engaged in the construction, operation, and maintenance of high voltage electrical infrastructure throughout the communities it serves and, as such, is exposed to significant safety hazards associated with this work. The failure to keep members of the public and employees safe could have a material adverse effect on the Corporation. The Corporation's safety program is based on a continuous improvement principle through on-going review and audit. The Corporation is focused on continually enhancing its safety culture and strengthening its program to support safety performance and minimize associated threats.

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

Cultural and Organizational Change Risk

The Corporation continues to develop and define a unified corporate culture to support the achievement of its strategies and organizational sustainability. Cultural initiatives are designed to support and align with the Corporation’s values (Customer Service, Respect, Innovation, Excellence, and Safety) and ensure that the resulting behaviours (Prioritizes Well-Being, Is One Team, Ensures Clarity and Focus, Delivers What We Promise, and Is Customer Centric) are consistent with these values. Potential risks associated with resistance to cultural change and conformance include impairment in employee engagement, productivity, and/or satisfaction.

The Corporation has developed a culture transformation roadmap that identifies initiatives and actions towards the achievement of a unified corporate culture. These initiatives and actions include: building awareness and developing capabilities of leaders and employees to live and lead cultural and behavioural commitments; enhancing employee engagement through increased internal communications; supporting wellness, equity, diversity, and inclusion programs; and anchoring to the Corporation's values.

RISK MANAGEMENT AND RISK FACTORS (continued)

Cybersecurity Risk

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

Pandemic Risk

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

Operational changes associated with the COVID-19 pandemic may make the Corporation's responses to business interruption events less effective and more costly than under business-as-usual conditions. The Corporation has implemented various physical and procedural controls aimed at improving its operational resiliency through the pandemic. The effectiveness of these controls are continually reviewed and improvements and corrections are being introduced as required.

The Corporation proactively prepares for emergency situations such as the COVID-19 pandemic through its emergency preparedness and business continuity programs. These programs enable the organization to quickly identify and respond to emergency situations to ensure the safety of employees, public, and assets, as well as to ensure the continuity of operations.

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Pursuant to Provincial regulation, electricity distribution companies in Ontario are required to act as the billing agent for all industry participants and must remit billed amounts accruing to these participants irrespective of whether such amounts are ultimately collected. This regulation exposes the Corporation, through its electricity distribution operations, to credit risk, principally through the realization of our customer receivables.

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

RISK MANAGEMENT AND RISK FACTORS (continued)

Credit Risk (continued)

Management has incorporated additional estimates and judgments in the preparation of the ECLs on its accounts receivable balances, which are subject to a higher degree of estimation uncertainty than would have existed prior to the COVID-19 pandemic. This includes analyzing customers by class (i.e., residential, small commercial, large commercial, etc.) and applying provision rates based on recent and evolving trends for customer collections and current and forecasted economic and other conditions.

Risk Associated with Debt Financing

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

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

Climate Change Risk

The Corporation serves a large service territory in Southern Ontario and its energy-related infrastructure and other facilities are exposed to a wide variety of climatic conditions. It is the Corporation’s intention to design, operate and maintain its assets to be resilient to the climatic conditions within the service territory it serves.

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

Compliance Risk

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

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