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

ALECTRA Inc.

Year ended December 31, 2022

GLOSSARY

The following acronyms and abbreviations are used in this document.

AES	Alectra Energy Solutions Inc.	**ICM**	Incremental Capital Module
AESI	Alectra Energy Services Inc.	**IESO**	Independent Electricity System Operator
AFFO	Adjusted Funds from Operations	**IFRS**	International Financial Reporting Standards
Alectra Utilities	Alectra Utilities Corporation	**IR**	Incentive Rate
AMSP	Alectra Microgrid Master Limited Partnership	**kWh**	Kilowatt-hour
APSI	Alectra Power Services Inc.	**LDC**	Local Distribution Company
CC	Customer Contributions	**LED**	Light Emitting Diode
CC&B	Customer Care and Billing	**LPC**	Late Payment Charge
CDM	Conservation and Demand Management	**LRAMVA**	Lost Revenue Adjustment Mechanism Variance Account
CIS	Customer Information System	**MD&A**	Management Discussion and Analysis
COVID-19	Coronavirus Disease 2019	**MIFRS**	Modified International Financial Reporting Standards
CP	Commercial Paper	**OEB**	Ontario Energy Board
DBRS	Dominion Bond Rating Service	**OEBA**	Ontario Energy Board Act
DER	Distributed Energy Resource	**OEFC**	Ontario Electricity Finance Corporation
DSC	Distribution System Code	**OER**	Ontario Electricity Rebate
EBITDA	Earnings before interest, taxes, depreciation and amortization	**PP&E**	Property, Plant and Equipment
ECL	Expected Credit Loss	**PWU**	Power Workers' Union
ERM	Enterprise Risk Management	**RPQR**	Reliability and Power Quality Review
ERCC	Electricity Retailer Code of Conduct	**RRF**	Renewed Regulatory Framework for Electricity Distributors
ESG	Environmental, Social and Corporate Governance	**RSC**	Retail Settlement Code
EV	Electric Vehicles	**SA**	System Access
FFO	Funds from Operations	**SAIDI**	System Average Interruption Duration Index
GA	Global Adjustment	**SAIFI**	System Average Interruption Frequency Index
GHG	Greenhouse Gas	**SR**	System Renewal
GP	General Plant	**SS**	System Service
HNE	Holland New England	**UA**	Util-Assist Inc.
HPSI	Holland Power Services Inc.	**ULO**	Ultra-Low Overnight
HPS	HPS Holdings Inc.	**WMS**	Wholesale Market Service
IAS	International Accounting Standards	**YoY**	Year over Year
IASB	International Accounting Standards Board		

FORWARD LOOKING STATEMENTS AND INFORMATION

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

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

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

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

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

FORWARD LOOKING STATEMENTS AND INFORMATION (continued)

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

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

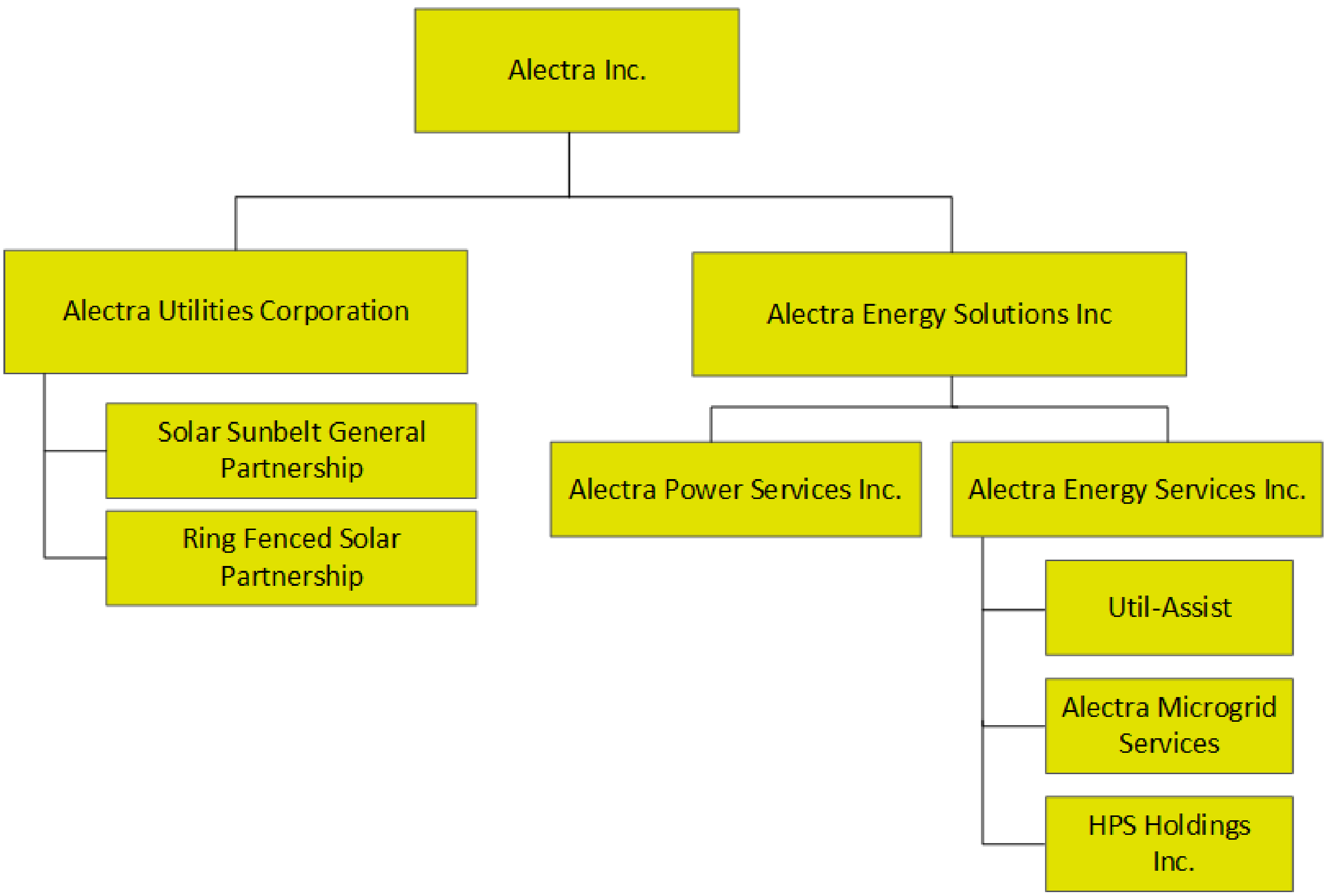
TABLE OF CONTENTS

INTRODUCTION

The following discussion and analysis of the consolidated financial condition and results of operations of the Corporation should be read together with its Consolidated Financial Statements and accompanying notes for the year ended December 31, 2022 (the “Consolidated Financial Statements”).

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board ("IASB") and in effect at December 31, 2022. All dollar amounts in the tables are in millions of Canadian dollars, which are presented in whole numbers.

CORPORATE OVERVIEW



Alectra Inc. is indirectly owned through holding companies by eight shareholders: the City of Barrie; the City of Hamilton; the City of Markham; the City of Mississauga; the City of St. Catharines; the City of Vaughan; the City of Guelph; and BPC Energy Corporation.

Alectra Inc. is an investment holding company that owns 100% of the common shares of each of: Alectra Utilities; Alectra Energy Solutions Inc. ("AES"); and Horizon Solar Corporation ("Horizon Solar"). The Corporation also indirectly wholly owns Alectra Energy Services Inc. ("AESI"), and Alectra Power

CORPORATE OVERVIEW (continued)

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

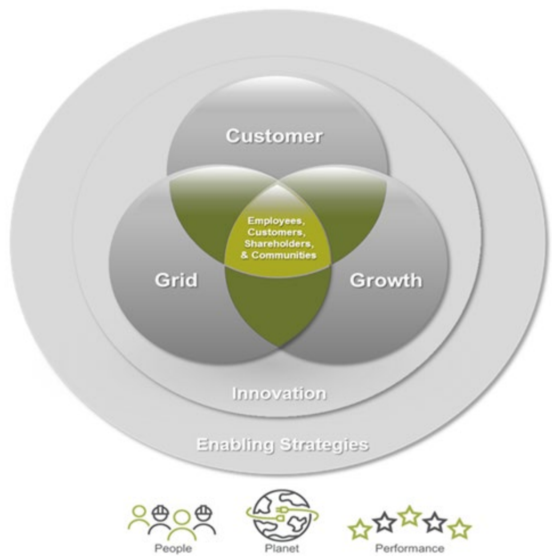
Vision and Strategic Intent

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

Responding in part to the profound transformation that the electricity sector is experiencing, and the risks and opportunities it creates, in 2020, the Corporation evolved its strategy beyond the initial merger transaction and integration. "Strategy 2.0" builds upon the Corporation's integration and synergy successes achieved to date. The ability to prepare for and adapt to changing conditions as well as adapt to transformation is essential to achieving the objectives of Strategy 2.0.

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

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



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

Sustainability / ESG

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

CORPORATE OVERVIEW (continued)

Sustainability / ESG (continued)

AlectraCARES is the umbrella program and framework that embeds sustainability principles into the Corporations core business strategy and operations helping to create enduring value, and connects the Corporation to the three pillars of sustainability: People, Planet, and Performance.

For further details on the values and the mission of the Corporation, please review Alectra's 2022 Annual ESG Reports on the Corporation's website at:
https://www.alectra.com/annual-sustainability-report

REGULATED BUSINESS

Alectra Utilities Corporation

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

Industry Regulation

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

Rate Setting

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

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

REGULATED BUSINESS (continued)

Rate Setting (continued)

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

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

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

REGULATED BUSINESS (continued)

Rate Setting (continued)

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

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

Rate Applications

2022 Rate Application

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

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

REGULATED BUSINESS (continued)

Rate Applications (continued)

2023 Rates Applications

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

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

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

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

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

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

REGULATED BUSINESS (continued)

Select Energy Policies and Regulation Affecting the Corporation

Government of Ontario Initiatives and Programs:

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

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

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

Ontario Energy Board Initiatives and Consultation:

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

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

(in millions of Canadian dollars)

KEY BUSINESS STATISTICS

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

[1] The Average Urban Distributor is based on the average 2021 SAIDI and SAIFI performance results for Urban Ontario Distributors with at least 50k customers from the 2021 yearbook of the OEB.

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

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

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

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

Alectra Utilities' SAIDI and SAIFI were 0.88 and 1.07, respectively, in 2022, compared to SAIDI and SAIFI of 0.98 and 1.15, respectively, in 2021.

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

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

COMPETITIVE BUSINESS

Overview of AES

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

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

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

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

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

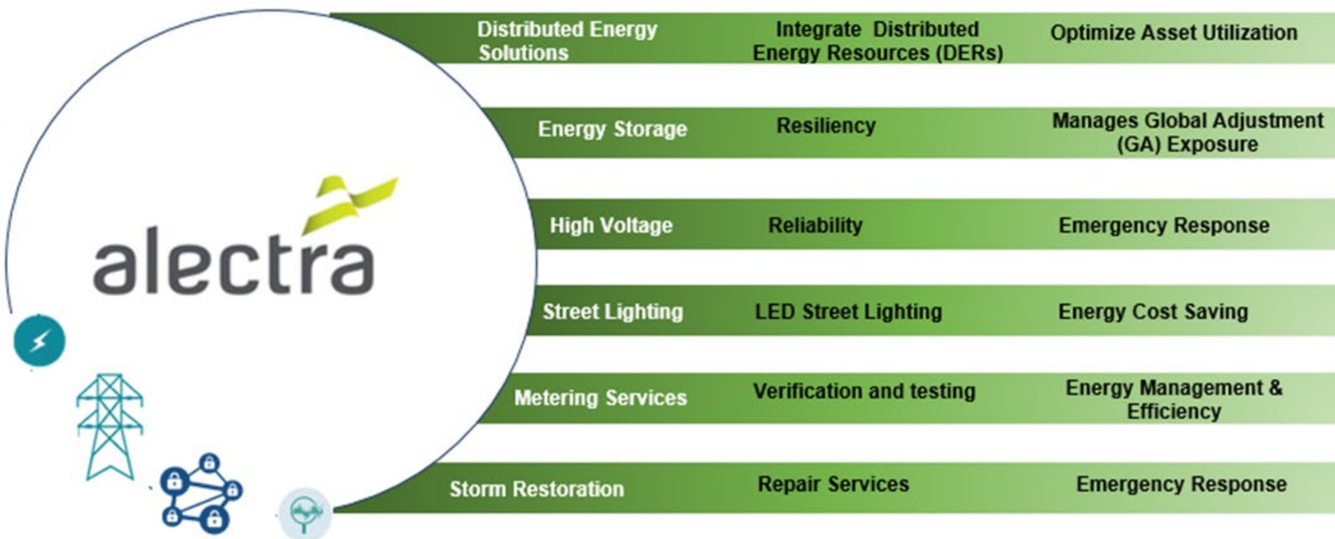
AMSP provides energy management services partnership which includes installing, owning and operating an industrial energy storage battery and gas system with a third party.

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

COMPETITIVE BUSINESS (continued)

Key Business Updates

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



Latest Investments

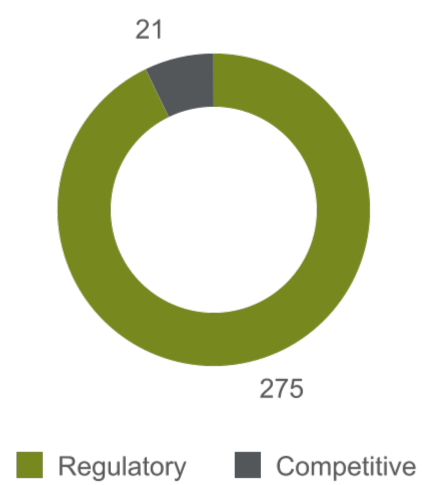
During 2022, AESI acquired a partial ownership stake in Global Strategic Mobility Fund L.P. The fund is based in the United States and is engaged in investment activities in the e-mobility space.

2022 FINANCIAL RESULTS AT A GLANCE

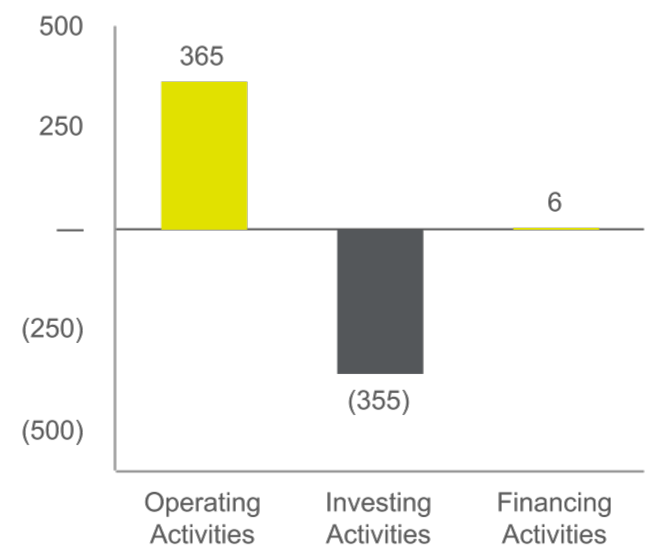
Annual Results and Performance

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

Capital Investments, Net of Contributions

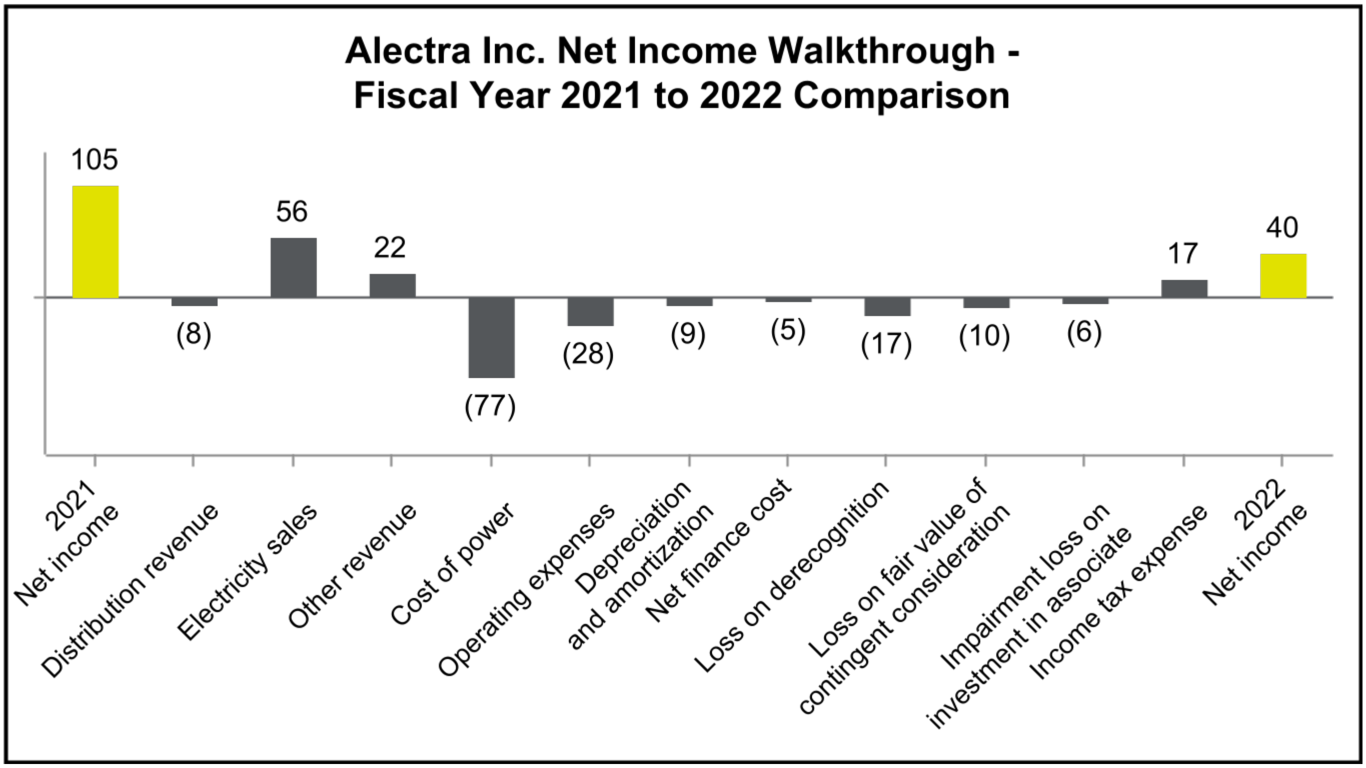


Cashflow Overview



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

RESULTS OF OPERATIONS

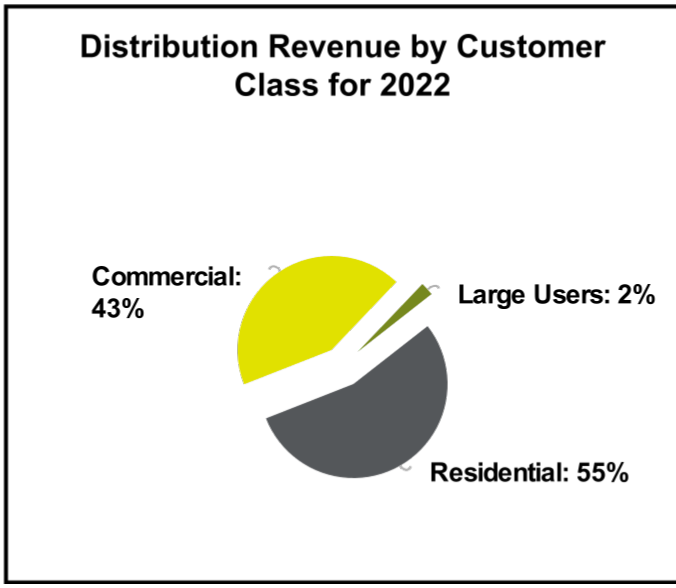


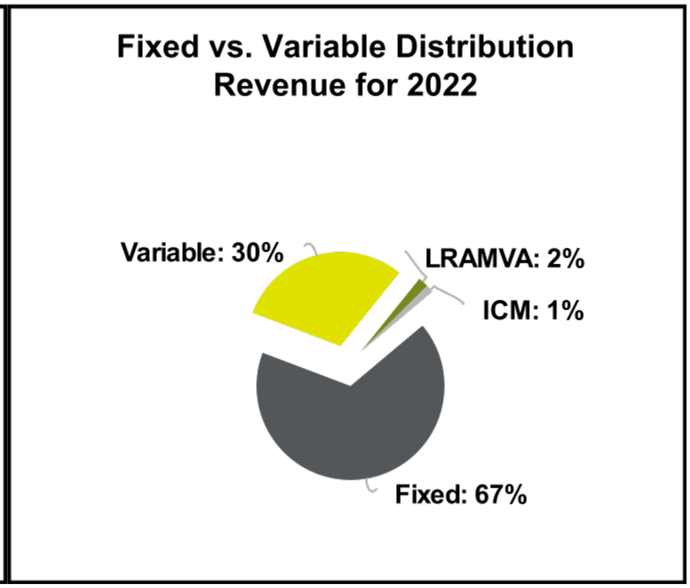
Net income for the year ended December 31, 2022 was $40 which is $65 lower than 2021 net income of $105. The decrease in net income is principally attributable to: (i) an increase in cost of power ($77) as a result of higher wholesale electricity consumption; (ii) higher operating expenses of ($28) mainly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

RESULTS OF OPERATIONS (continued)

	2022	2021	Change
Distribution Revenue	620	628	(8)

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





Alectra Utilities' customer classes are as follows:

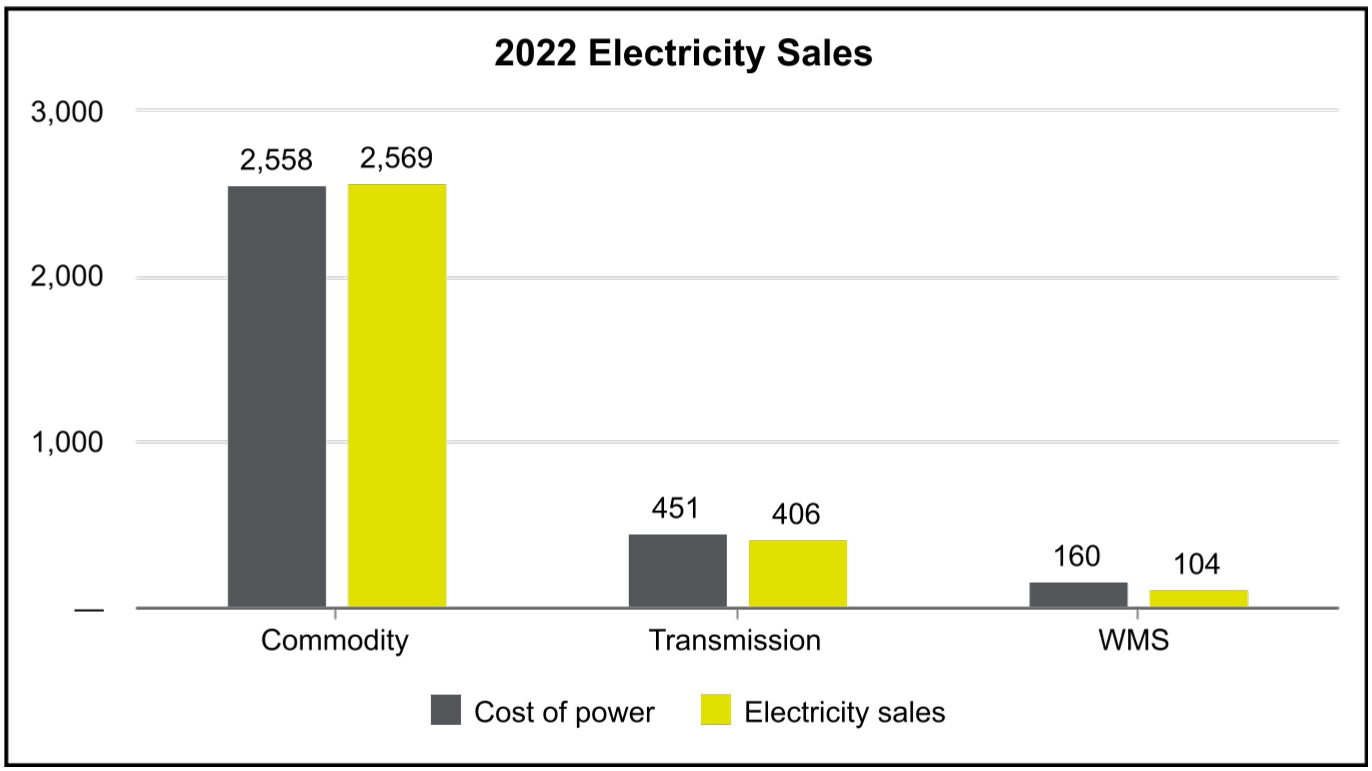
- Residential - the residential class includes single family or individually metered multi-family units and seasonal occupancy;
- Commercial - the commercial class typically includes small businesses and bulk-metered multi-unit residential establishments that is provided to customers with a monthly peak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

RESULTS OF OPERATIONS (continued)

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

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

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



RESULTS OF OPERATIONS (continued)

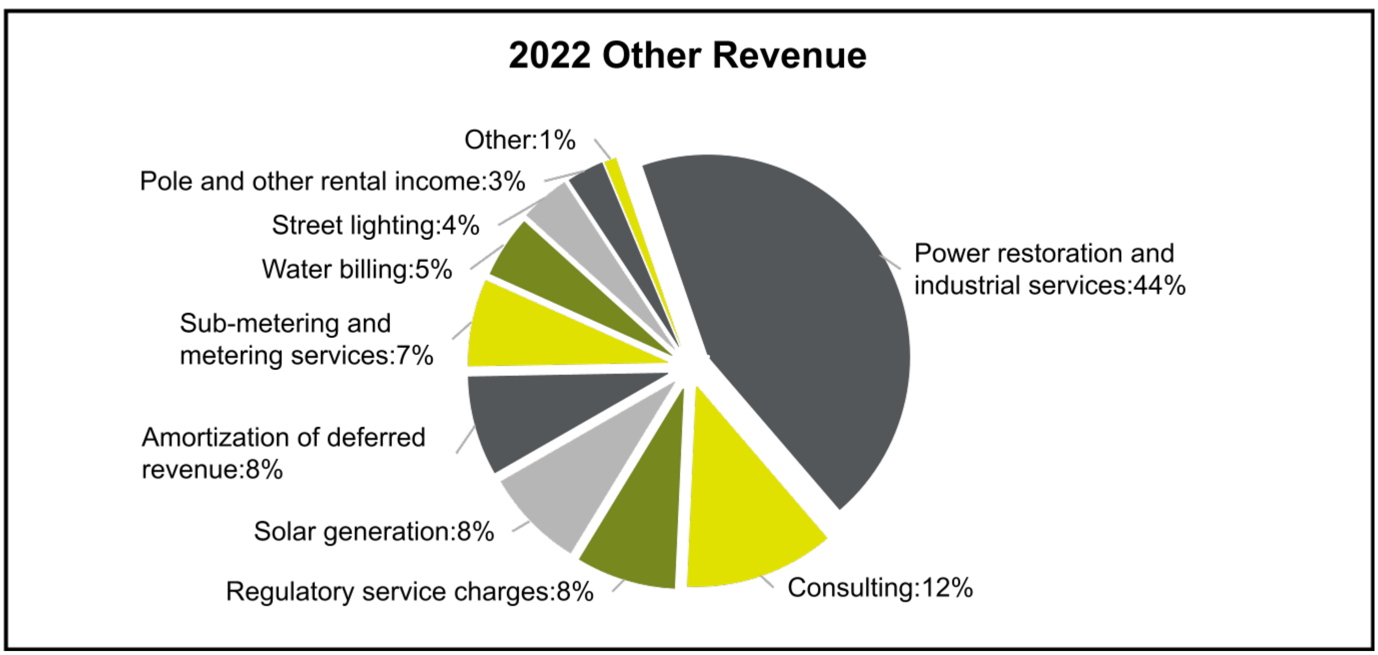
	2022	2021	Change
Other Revenue	205	183	22

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

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

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

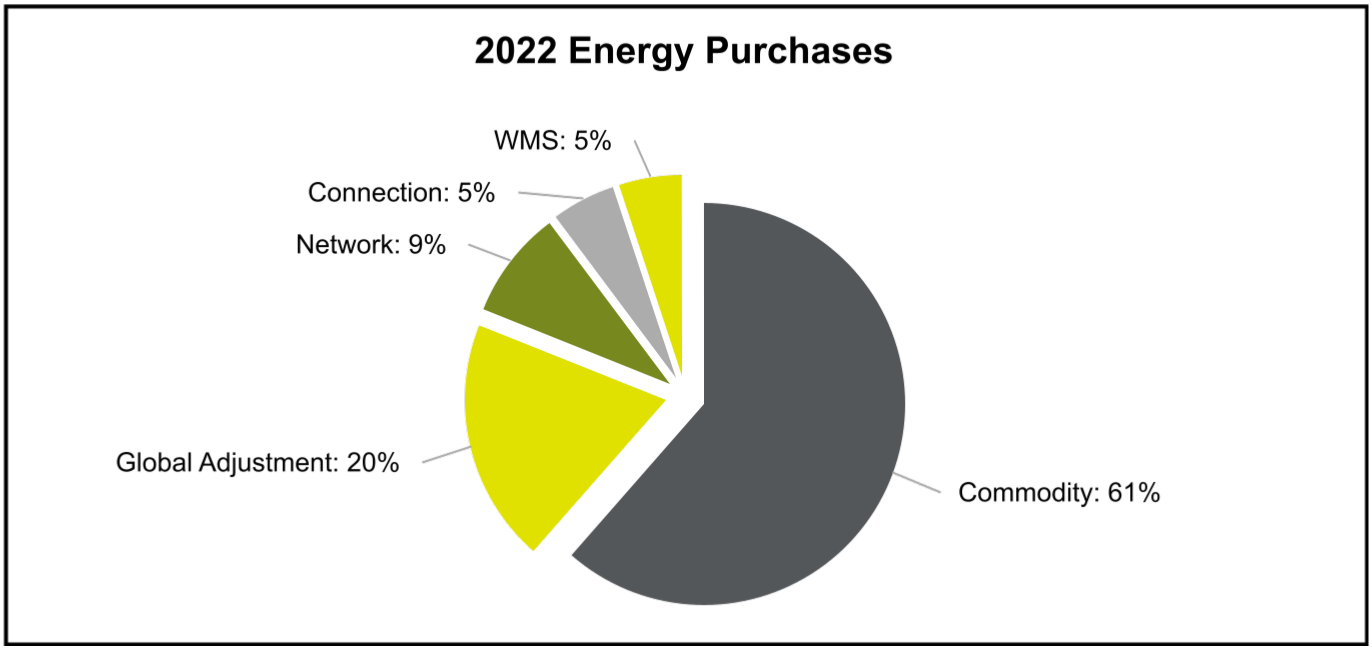
The increase in other revenue of $22 primarily relates to: (i) higher power restoration and industrial services revenue corresponding to higher storm response activities in the competitive business ($29); and (ii) higher consulting revenue ($5); partially offset by (iii) lower CDM revenue related to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



RESULTS OF OPERATIONS (continued)

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

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



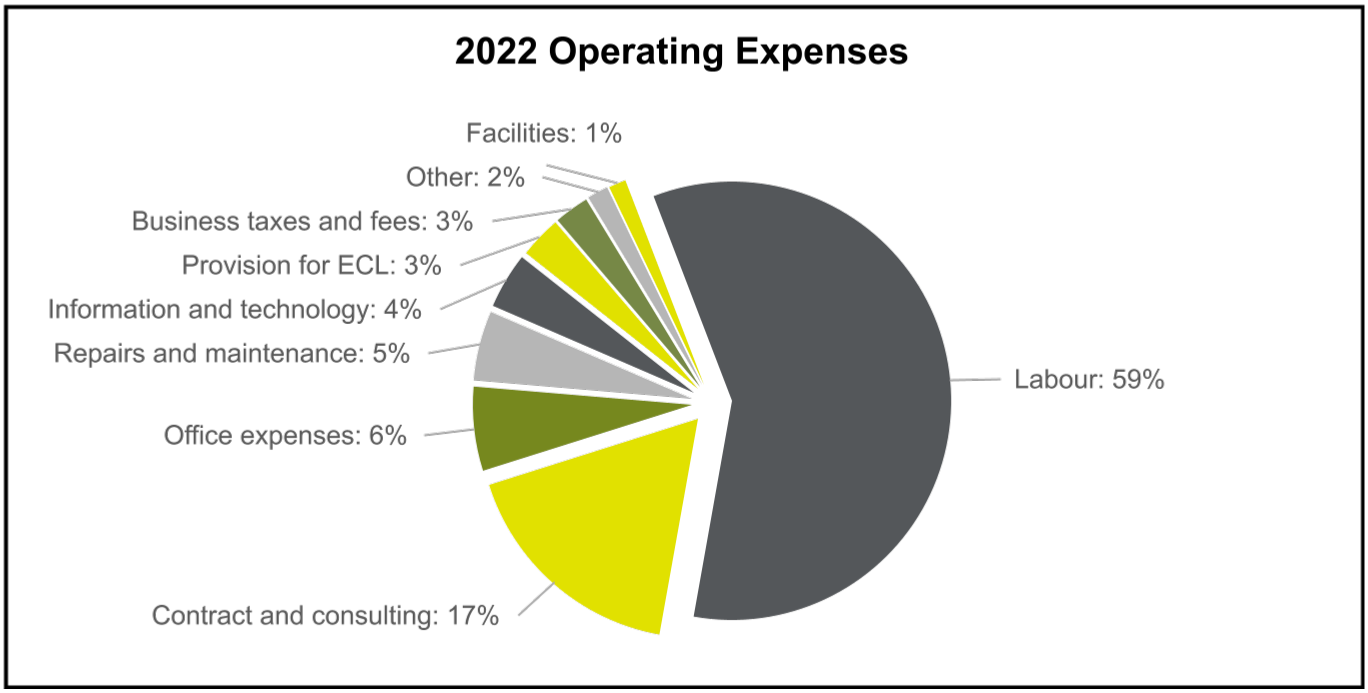
(in millions of Canadian dollars)

RESULTS OF OPERATIONS (continued)

	2022	2021	Change
Operating Expenses	387	359	(28)

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

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



	2022	2021	Change
Depreciation and Amortization	191	182	(9)

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

(in millions of Canadian dollars)

RESULTS OF OPERATIONS (continued)

	2022	2021	Change
Net finance costs	79	74	(5)

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

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

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

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

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

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

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

	2022	2021	Change
Income tax expense	19	36	17

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

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

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

(in millions of Canadian dollars)

RESULTS OF OPERATIONS (continued)

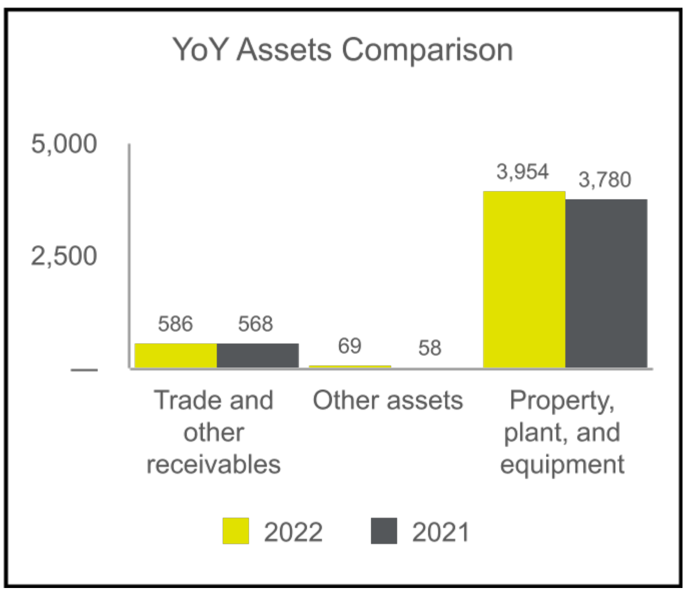
Competitive Operations Variance Analysis

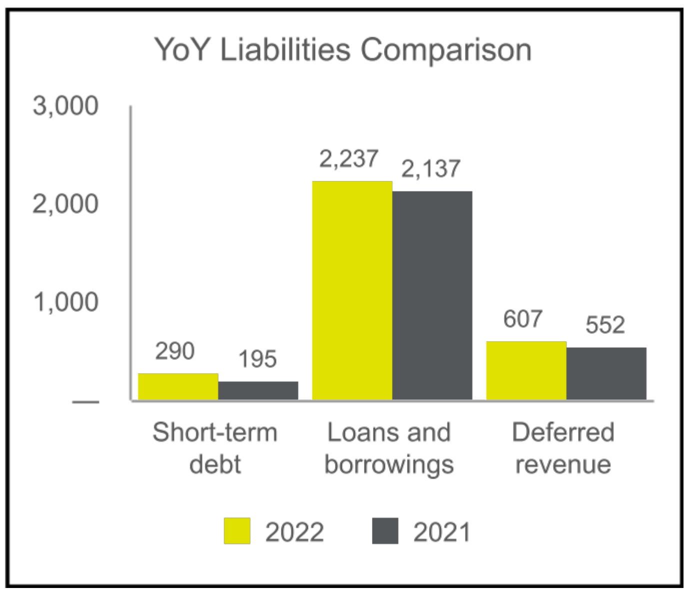
	2022	2021	Change
AES Net Income	—	5	(5)

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

FINANCIAL POSITION

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





(in millions of Canadian dollars)

FINANCIAL POSITION (continued)

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

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

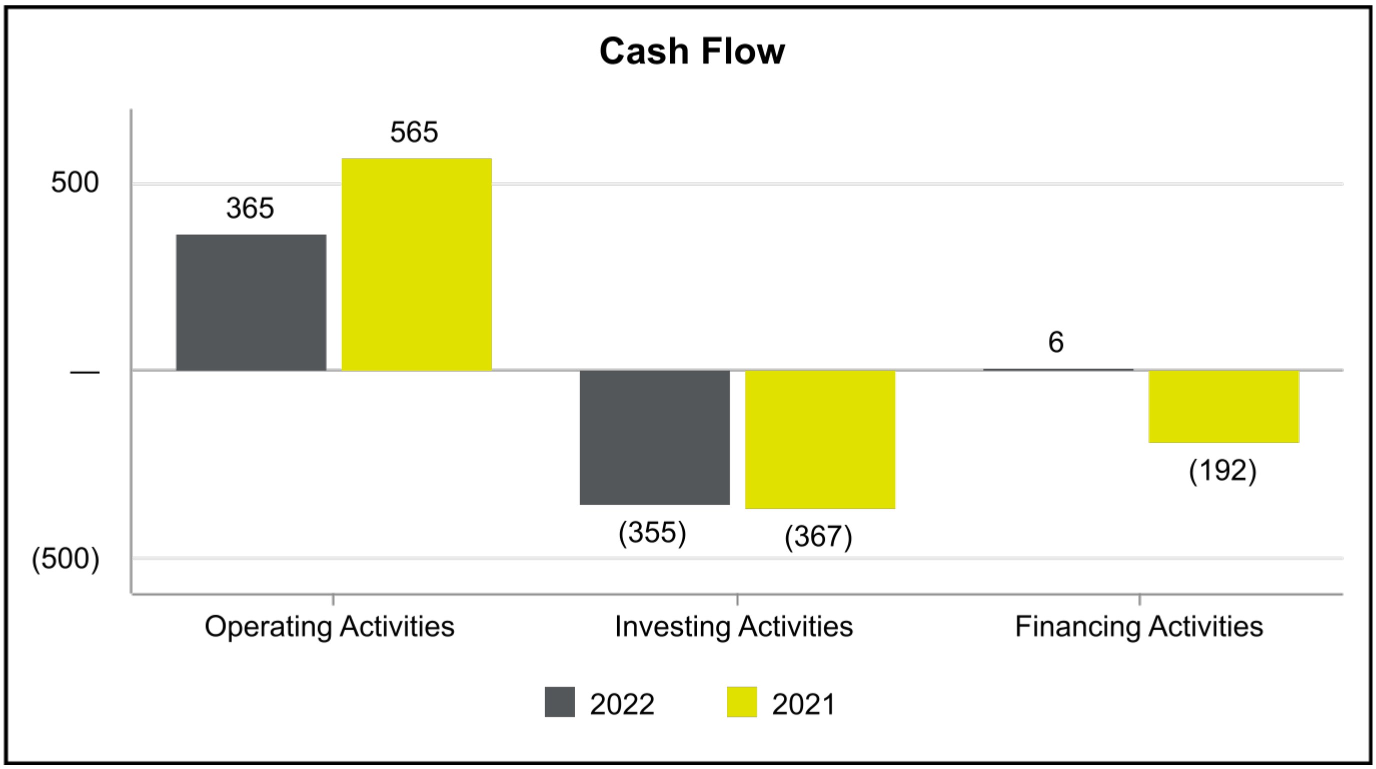
LIQUIDITY AND CAPITAL RESOURCES

Sources of Liquidity and Capital Resources

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

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

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



Operating Activities

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

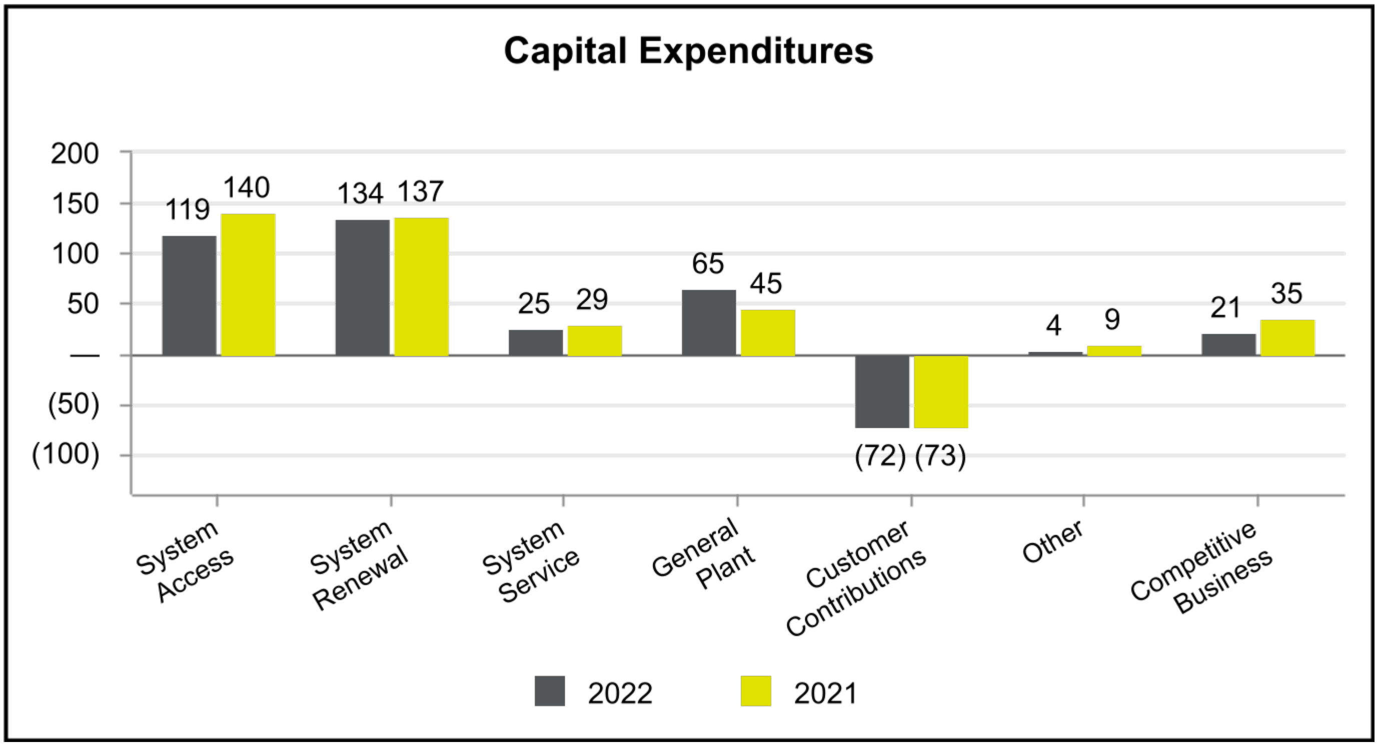
LIQUIDITY AND CAPITAL RESOURCES (continued)

Sources of Liquidity and Capital Resources (continued)

Investing Activities

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

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



System Access ("SA") expenditures relate to projects required to meet customer service obligations in accordance with the DSC of the OEB and corporate Conditions of Service. Projects in this category include connecting new customers; building distribution infrastructure for new subdivisions; and relocating system plant for roadway reconstruction and major transit initiatives. Capital expenditures in this category have decreased by $21 relative to 2021, principally as a result of: (i) lower expenditures for municipal road widening projects ($7); (ii) lower investments in distribution assets to support customer initiated projects ($7); and (iii) lower new connections activity for subdivision development ($6).

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

LIQUIDITY AND CAPITAL RESOURCES (continued)

Sources of Liquidity and Capital Resources (continued)

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

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

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

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

Financing Activities

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

(in millions of Canadian dollars)

LIQUIDITY AND CAPITAL RESOURCES (continued)

Credit Ratings

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

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

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

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

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

Requirements for liquidity resources

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

- $900 in aggregate revolving unsecured credit facilities comprising: (i) $700 committed revolving facility with four banks maturing September 29, 2027 ("Revolving Facility"); (ii) $100 uncommitted facility with a bank which is callable by the bank; and (iii) an additional credit facility to support Letters of Credit of up to $100.
- The committed facility is also used to support outstanding commitments under the CP program by way of same day market rate advances. The CP program was increased from a maximum of $500 to $700 in 2022.
- Issuance of senior unsecured debentures with various maturity dates under established Trust Indentures.

The Revolving Facility contains certain covenants, including a requirement that the Corporation's debt to capitalization ratio not exceed 75%. As at December 31, 2022, the Corporation was in compliance with all covenants included in its Revolving Facility agreement.

LIQUIDITY AND CAPITAL RESOURCES (continued)

Requirements for liquidity resources (continued)

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

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

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

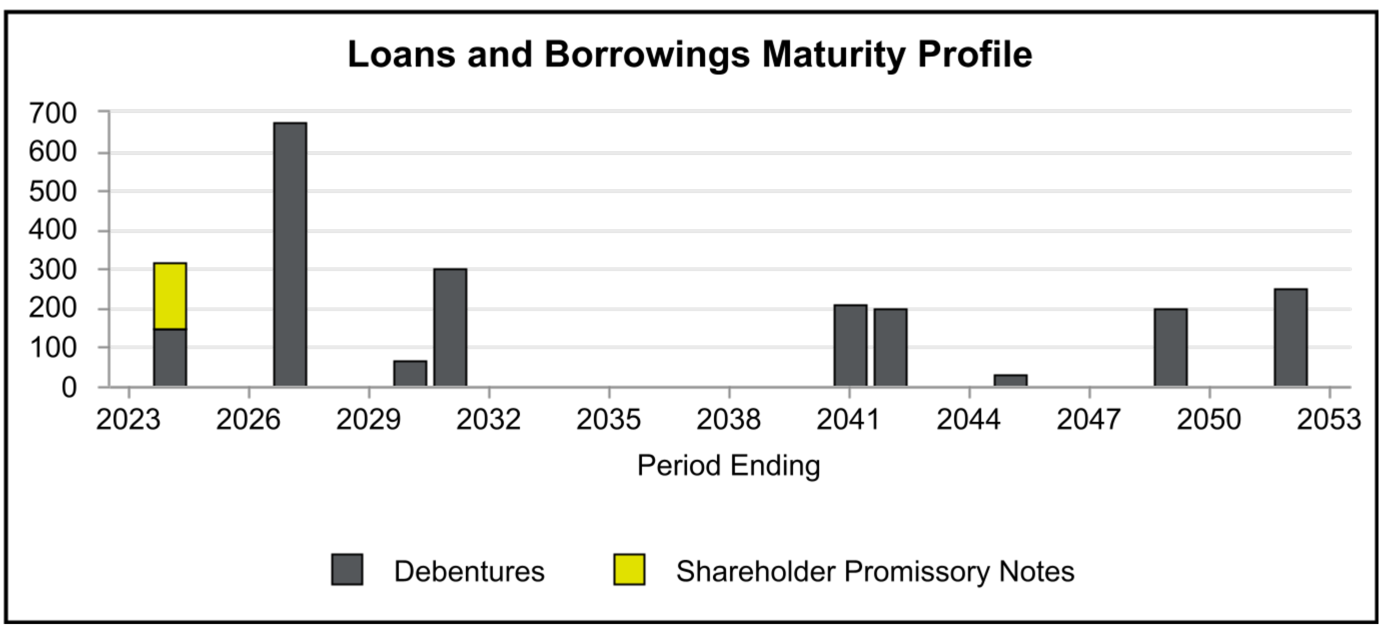
Long-term liquidity is available through the Corporation's ability to issue senior unsecured debentures under an established Trust Indenture. The rates of interest on such debentures comprise: government of Canada bond yields with terms of maturity corresponding to the terms of issued debentures; market-based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

Refer to *Note 17* in the Consolidated Financial Statements for details of the Corporation's long-term borrowings.

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

Loans and borrowings maturities

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



(in millions of Canadian dollars)

LIQUIDITY AND CAPITAL RESOURCES (continued)

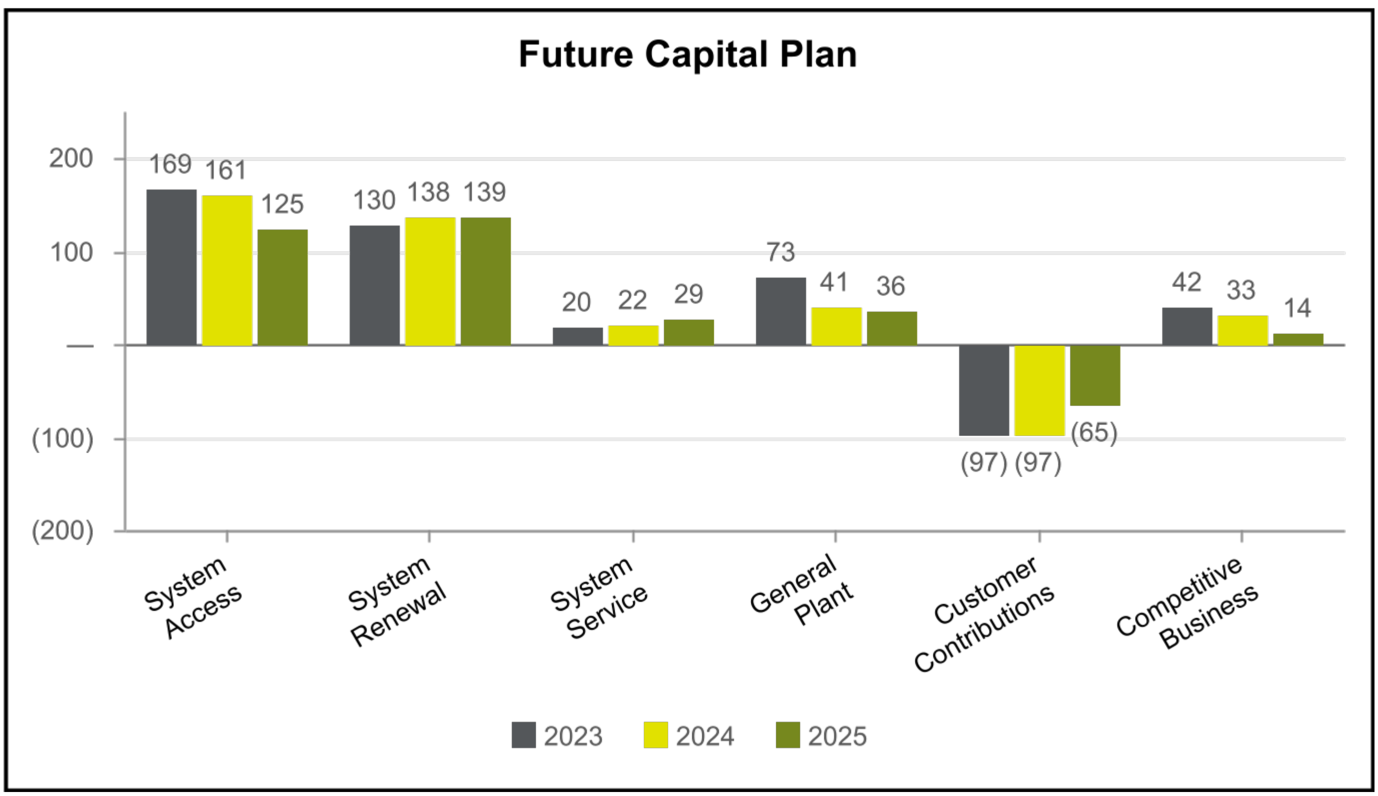
Summary of contractual obligations and other commitments

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

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

Future Capital Plan

The three-year capital expenditure plan structure corresponds to the OEB's Renewed Framework for Electricity Distributors along with Competitive Business Plans. The total net capital expenditure plan is $913 over the 2023-2025 period as outlined in the table below:



LIQUIDITY AND CAPITAL RESOURCES (continued)

Future Capital Plan (continued)

The three-year SA investment plan is primarily driven by the requirement to connect new residential and general service customers as well as customer initiated expansion requirements, accounting for approximately 63% of total SA expenditures. Alectra Utilities will also make significant investments in SA over the next three years to support municipal road widening, transit infrastructure and network metering projects. Major transit projects include the Hurontario Light Rail Transit initiative in Peel Region, and GO Transit electrification projects across the Peel and York Regions and Simcoe County. Transit projects are predominantly funded by customer contributions from Metrolinx.

Approximately 38% of the capital to be invested in SR projects is focused on underground asset renewal, which is the primary contributor to declining reliability performance in the distribution system. Another third of the SR capital program will be invested in the renewal of overhead assets to address the impact of weather outages which have increased in both duration and severity.

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

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

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

(in millions of Canadian dollars)

SHARE CAPITAL

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

	2022		2021	
	Number of Shares	Amount	Number of Shares	Amount
Authorized				
Unlimited Class A through G common shares				
Issued and outstanding	10,485,000	953	10,485,000	953
Authorized				
Unlimited Class S shares				
Issued and paid				
Class S shares	99,999	39	99,999	41
Total share capital	10,584,999	992	10,584,999	994

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

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

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

During the year ended December 31, 2022, the Corporation declared and paid dividends as follows:

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

In addition, a return of capital of $2 (2021 - $2) was declared and paid by the Corporation on Class S shares during the year.

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

Refer to *Note 19* in the Consolidated Financial Statements for details.

(in millions of Canadian dollars)

RELATED PARTIES BALANCES AND TRANSACTIONS

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

	2022	**2021**
Transactions		
Revenue	82	81
Expenses	6	6
Return of capital	2	2
Dividends declared and paid	96	77
Balances		
Due from related parties	9	9
Due to related parties	52	46
Loans and borrowings	166	166

Services provided to related parties include electricity distribution, street lighting, road projects, and water and sewage billing. Expenses incurred include municipal taxes and facilities rental (refer to *Note 13 (a)*).

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

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

The annual compensation of key management personnel that is directly or indirectly attributable to the Corporation was $17 (2021 - $16) (refer to *Note 13 (b)*).

SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL JUDGMENTS AND ESTIMATES

The Corporation's critical accounting policies have been reviewed and approved by the Audit, Finance and Risk Management Committee and are outlined in *Note 4* of the Consolidated Financial Statements.

Certain judgments, estimates and assumptions arising from these policies are inherently complex and subjective, changes to which could significantly impact the financial results. The changes in the economic environment arising from geopolitical events and high inflation has slowed down the momentum of the global economic recovery even after COVID – 19 pandemic restrictions were eased during the year. Such uncertainty could generate, in future periods, a risk of adjustments to the carrying amounts of balances subject to estimates and judgments.

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

FUTURE ACCOUNTING CHANGES

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

(a) Regulatory Assets and Regulatory Liabilities

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

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

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

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

Effective Date January 1, 2023

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

Effective Date January 1, 2024

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

(in millions of Canadian dollars)

NON-IFRS FINANCIAL MEASURES

EBITDA

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

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

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

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

(in millions of Canadian dollars)

NON-IFRS FINANCIAL MEASURES (continued)

AFFO

Adjusted funds from Operations ("AFFO") is used as an additional metric of cash flow without regard to changes in the Corporation's non-cash working capital and adjusted for contributions in aid of construction. The table below summarizes the Corporation's AFFO as at December 31, 2022 and 2021.

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

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

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

RISK MANAGEMENT AND RISKS

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

The Corporation is subject to various hazards that could impact the achievement of its strategic objectives. As a result, the Corporation has adopted an enterprise-wide approach to risk management, which is governed by its Enterprise Risk Management ("ERM") Program. The ERM Program incorporates industry best practices and aligns with international guidelines that are tailored to the Corporation's business.

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

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

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

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

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

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

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

RISK MANAGEMENT AND RISKS (continued)

Regulatory & Compliance Risk

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

Regulatory Risk

The electricity distribution business in Ontario is regulated, which poses risks to the financial and operational aspects of the Corporation's rate regulated business. All requests for changes in electricity distribution charges require the approval of the OEB. The Corporation files applications to the OEB on an ongoing basis for rate adjustments in support of the sustainment and growth of its electricity distribution system. OEB decisions to disallow or limit the recovery of costs on applications could have a material adverse effect on the Corporation's distribution revenue. There is no assurance that resulting decisions issued by the OEB will permit the Corporation to recover all costs actually incurred or to earn the allowable rate of return that permits the financial sustainability of its operations.

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

Political Risk

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

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

Compliance Risk

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

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

RISK MANAGEMENT AND RISKS (continued)

Strategic Risk

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

Risk Associated with Business Model

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

Cultural Risk

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

Financial Risk

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

Credit Risk

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

The Corporation has implemented credit and collection policies in compliance with OEB regulation to mitigate the exposure to credit risk, and records credit losses in the period in which, in management's opinion, the collection of related receivables becomes doubtful. Additional estimates and judgments have been incorporated in the preparation of ECLs on its accounts receivable balances, which includes analyzing customers by class (i.e. residential, small commercial, large commercial, etc.) and applying provisions based on trends for customer collections, economic and other market conditions.

RISK MANAGEMENT AND RISKS (continued)

Financial Risk (continued)

Risks Associated with Arranging Debt Financing

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

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

Operational Risk

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

Safety and Wellness Risk

The Corporation is engaged in the construction, operation and maintenance of high voltage electrical infrastructure throughout the communities it serves and, as such, is exposed to significant safety hazards associated with this work. The failure to keep the public and employees safe could have adverse operational, financial, and/or reputational impact on the Corporation. The Corporation's safety management program is based on a continuous improvement principle, which includes measures such as equipment inspections, employee training, and safety audits. In addition, the Corporation continually strengthens its safety culture program to support safety performance and minimize associated threats.

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

RISK MANAGEMENT AND RISKS (continued)

Operational Risk (continued)

Cybersecurity Risk

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

Supply Chain Risk

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

People and Skills Risk

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

Labour Relations Risk

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

RISK MANAGEMENT AND RISKS (continued)

Operational Risk (continued)

Climate Change Risk

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

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

Emergency Preparedness/ Business Continuity Risk

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

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