Elexicon Corporation

Management Discussion and Analysis

Year ended December 31, 2021

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Executive Summary

Elexicon Corporation is a relatively new utility, formed in April 2019 from the merger of Veridian Connections and Whitby Hydro. Since the organization's creation, it has worked strategically to implement efficiencies; build out a strong corporate structure; and adapt to a rapidly changing electricity sector. In 2021, the organization successfully managed impacts from the COVID-19 pandemic and embraced new policy directions on: data sharing (Green Button); electrification and electric vehicle adoption; and supported customer choice with various rate options. Further, the organization delivered strong financial results of $14 million adjusted net income to shareholder communities. The organization also increased capital asset investments by 41% over prior year and met the dividend target to its shareholders.

Note to readers:
Any statements contained in this document that refer to future events of other non-historical facts are forward-looking statements that reflect Elexicon Corporation's (the "Corporation") current perspective of existing trends and information as of the date of this document. Except as expressly required by law, the Corporation disclaims any intent or obligation to update these forward-looking statements.

Introduction

The following discussion and analysis should be read in conjunction with the audited consolidated financial statements and accompanying notes of Elexicon Corporation (the "Corporation") for the year ended December 31, 2021. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") in effect at December 31, 2021.

Corporate Overview

Elexicon Corporation was formed in April 2019 through the merger of two local distribution companies ("LDC"), Veridian Connections and Whitby Hydro. The governance structure consists of a corporate board, Elexicon Corporation, and two operating companies, Elexicon Energy Inc. and Elexicon Group Inc.

Elexicon Corporation (the "Corporation") is a holding company, 100 per cent owned by five municipal shareholders: the Town of Whitby (32.0%), the City of Pickering (27.9%), the Town of Ajax (21.8%), the Municipality of Clarington (9.2%) and the City of Belleville (9.0%). The Corporation consists of two wholly owned subsidiary operating companies: Elexicon Energy Inc. and Elexicon Group Inc.

Elexicon Energy Inc. ("EEI") is a regulated electricity distribution company that delivers electricity to approximately 170,000 homes and businesses located in the following ten municipalities in east-central Ontario: Ajax, Belleville, Brock, Clarington, Gravenhurst, Pickering, Port Hope, Scugog, Uxbridge and Whitby. EEI is regulated by the Ontario Energy Board ("OEB"), an independent regulatory body. The OEB is 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.

Elexicon Group Inc. ("EGI") is a 100% wholly owned subsidiary of Elexicon Corporation. EGI is an emerging market leader in reducing energy costs and improving sustainability for private and public sector clients. EGI believes that the two most powerful ways it can make a difference is making buildings more energy efficient and accelerating the adoption of electric vehicles; buildings and vehicles make up over 70% of all energy costs and carbon emissions in Canada. EGI's Envision Utility Management program uses measurement, data and insights to identify and deliver innovative and best in class energy solutions for our clients, including system design, recommissioning, and retrofits. EGI's joint venture EVSTART, aims to lead the Canadian market in the implementation of electric vehicle ("EV") charging stations which is the precursor of the future of electric vehicles. EGI relentlessly pursues innovation and challenges the status quo in the pursuit of better bottom lines for its clients and a bright future for the environment.

STRATEGIC DIRECTION AND VISION

Elexicon Corporation is an innovative and environmentally conscious organization and has recently reviewed the organization's strategic narrative. The Corporation board has a responsibility, first and foremost, to consider the best interest of the Corporation while then serving and delivering on the expectations of its shareholders and communities. Elexicon Corporation's core strategic elements include its investment strategy, brand, risk management profile and merger and acquisition opportunities. Central to the organization's strategy is making decisions with three values in mind: empowerment, energy innovation and a clean, better future.

- **Empowerment**: Empowerment is at the core of everything Elexicon Corporation does, and why the organization exists (its "Purpose"); empowerment means creating more opportunities for customers, the community and employees.

- **Energy Innovation:** Elexicon Corporation is an avid fast follower and adopter of new technologies, solutions, and products. Being an avid fast follower balances the implementation of new innovations with value for customers.

- **Cleaner, Better Future:** The end result of the Corporation's efforts will be a brighter future for the environment, communities and customers.

Elexicon Corporation works toward this common purpose while keeping three keystones at the heart of how work is performed:

- **Health and Safety:** Elexicon Corporation and its subsidiaries consider the safety of its people and the public as paramount when conducting business operations.

- **Diversity, Equity, and Inclusion:** Elexicon Corporation and its subsidiaries are employers that foster a work environment that promotes the representation and participation of the full spectrum of individuals, including people of all ages, races and ethnicities, abilities, gender expression, religions, cultures and sexual orientations. The Corporation and its subsidiaries embrace people with diverse backgrounds, experiences, skills and expertise, making it a desired place to work for all.

- **Environmental and Social:** Elexicon Corporation and its subsidiaries are focused on enhancing the criteria for the manner in which the enterprise performs as a steward of nature and social criteria related to the manner in which the Corporation manages its relationships with employees, suppliers, customers, and the communities in which it operates.

In addition to the purpose described, EGI aims to deliver strong growth in revenue and returns for Shareholders by providing solutions to clients that reduce energy and utility costs and improve sustainability. This is accomplished by focusing on organic growth, owning long-term income producing assets and expanding the business through potential merger and acquisition ("M&A") opportunities.

EEI aims to fulfill its own vision of empowering the communities we serve and helping customers seize opportunities and its mission: to provide customers with reliable, affordable energy services and to continuously improve to meet their needs, while meeting the needs of our shareholders and stakeholders. This is accomplished by focusing on four strategic pillars: customer centricity, operational excellence, economic development and strategic investment.

Electricity Sector Overview

ELECTRICITY PLAYERS

Ontario's electricity sector involves multiple participants working in tandem to take electricity from large generating stations (or distributed energy resources) and deliver it to the homes, business and industrial facilities of the customers. The roles of sector participants are described below.

Ministry of Energy: The Government of Ontario, through the Ministry of Energy, sets the overall policy for the energy sector. It does this through laws, regulations, directives and mandate letters.

Electricity Generators: Electricity in Ontario is generated at facilities across the province. The electricity supply mix comes from the following sources: nuclear (34%), gas/oil (28%), hydro (23%), wind (13%), solar (1%) and biofuel (<1%). Nuclear and run-of-the-river hydroelectric generation form the baseload generation that is the generation that is always being supplied. Other technologies like natural gas and hydroelectric reservoirs with storage are used to produce additional supply during times of peak electricity usage. In the coming years, nuclear facilities will be retired or closed for refurbishment and other electricity sources will play a greater role.

Electricity Transmitter: Electricity flows from generation facilities to large industrial customers and local distribution companies by a network of high-voltage transmission lines, stations and towers across the province. These transmission lines are primarily owned by Hydro One.

Electricity Distributors: EEI is a local distribution company. Local distribution companies (also known as electricity distributors) deliver electricity to homes, small businesses, and industrial customers. In order to reach the end-user, the electricity moves from Hydro One's high-voltage transmission lines to the infrastructure of local distribution companies where it can be delivered to customers at lower voltages. Local distribution companies interact directly with the customer and maintain the local infrastructure. In recent years, the role of the distributors has expanded to support the adoption of new technologies such as electric vehicles and distributed energy resources ("DERs").

The System Operator: In Ontario, the Independent Electricity System Operator ("IESO") operates and settles the wholesale electricity markets The IESO connects all the industry players – generators, transmitters, local distribution companies, and large industry who purchase directly from the electricity market. The organization balances the supply and demand in the market on a second-by-second basis and directs the flow of electricity along the transmission lines. The IESO forecasts and assesses the province's current and short-term electricity needs, as well as the adequacy and reliability of the integrated power system. The organization is responsible for electricity planning at a bulk and regional level and releases reports on Ontario's future electricity supply. The IESO is responsible for procuring supply based on its forecasts for the province and uses a number of methods to do so including an annual capacity auction. The IESO may also receive directives from the Ministry of Energy around Ontario's supply mix. In 2021, the organization received a directive to enter negotiations on contracts with specific generating facilities and investigate options for eliminating the use of natural gas as part of Ontario's supply mix.

The Regulator: The OEBA conferred on the OEB powers and responsibilities to regulate the electricity industry in Ontario. These powers and responsibilities include: approving or fixing rates for the transmission and distribution of electricity; providing continued rate protection for rural and remote residential electricity consumers; and ensuring that distribution companies fulfill obligations to connect and service customers. The OEB may also prescribe license requirements and conditions of service to LDCs, such as EEI, which may include, among other things: record keeping; regulatory accounting principles; separation of accounts for distinct business; and filing and process requirements for rate setting purposes.

RATES EXPLAINED

Electricity distribution rates differ from one distributor to another. Rates are determined by several factors. They include: the age and condition of each utility's equipment; the size of the utility's service area; customer density and the location of the customers relative to one another; the number of residential customers compared to business and industrial customers; and the geographic location of the customers, as well as the complexity of maintaining equipment. EEI's distribution rates are approximately 20% of the customer's total bill, depending on their usage. The balance of the bill is a pass through of costs for power, transmission and other charges cleared through the IESO. Due to the merger, EEI has two rate zones for its customers, and will assess the harmonization of rates at its next rebasing, anticipated for the 2029 rate year.

RATE SETTING

EEI's distribution rates and other regulated charges are determined to allow shareholders the opportunity to earn a regulated Return on Equity on deemed shareholder equity. Annually, EEI makes applications to the OEB for rate setting under the Incentive Rate Mechanism ("IRM") for both rate zones. The organization may also apply for an Incremental Capital Module ("ICM") for additional capital funding. In 2021, EEI applied to the OEB for ICM funding for the Seaton Transformer Station

("Seaton TS") and the Bus Rapid Transit ("BRT") projects in the Veridian rate zone. This option allows for a utility to apply for funding specifically needed for capital infrastructure during the time between rebasing applications.

EEI also filed its first consolidated Distribution System Plan ("DSP") as required from the merger decision. The DSP looks forward five years to guide the utility in its investment planning for system access, system service, system renewal and general plans across its service territory.

2021 RATE APPLICATIONS

In December 2021, the OEB approved annual IRM applications for the Whitby rate zone, under the Annual Incentive Rate ("Annual IR") process and the Price Cap Incentive ("Price Cap IR") process for the Veridian rate zone for changes to distribution rates effective January 1, 2022. Included in this approval was the ICM for the Seaton TS as well as the BRT for the Veridian rate zone. The monthly total bill increases associated with the applications was $2.59 for a residential customer in the Veridian Rate Zone based on a consumption of 750 kWh, and a monthly total bill increase of $0.88 for a residential customer in the Whitby Rate Zone based on a consumption of 750 kWh. This increase does not reflect all the rate changes such as connection and network charges, the Ontario Electricity Rebate or applicable taxes that customers will see on their bills.

2021 CUSTOMER RATE OPTIONS (TIME-OF-USE AND TIERED RATES)

Residential and small business customers have the option of choosing between two different Regulated Price Plans (RPP): time-of-use ("TOU") or tiered pricing. Under the TOU price plan, customers pay for electricity depending on what time during the day it is used. There are three price periods: off-peak, mid-peak and on-peak. Off-peak prices occur when electricity usage is typically lower for the province and peak-periods are when electricity is most used. This pricing option was established to encourage customers to shift their electricity usage to off-peak periods. Most customers are on TOU electricity plans. Starting in November 2020, customers across Ontario were offered the option of switching to a new price plan, tiered pricing. Under the tiered option, customers pay a lower rate up to a threshold and then pay a higher price if the threshold is surpassed.

GOVERNMENT RATE FREEZES

In order to support Ontarians staying home during the rapidly evolving COVID-19 pandemic, the Government of Ontario implemented an emergency rate relief program for households, farms, and small businesses that pay RPP electricity rates to off-peak rates 24 hours a day, seven days a week. In 2021, the emergency rate relief program was set at a fixed price of 8.5 ¢/kWh for electricity consumed from January 1, 2021 until February 22, 2021. The fixed price was equal to the off-peak price set by the OEB for January 1, 2021.

ENVIRONMENTAL AND POLICY IMPACTING THE CORPORATION

Green Button: As of November 1, 2021, the government is requiring nearly all regulated Ontario electricity and natural gas utilities to provide Green Button to their customers within twenty-four months. Green Button allows customers to download their natural gas and hourly electricity data in a standardized format from their utility and authorize the secure transfer of this data to applications of their choice. This real-time data can then be accessed on their smartphone or computer. These apps can also analyze the energy data and provide customers with helpful energy-saving tips to reduce their energy bills and personalize retrofit options to achieve long-lasting savings.

Bill 257, Supporting Broadband and Infrastructure Expansion Act, 2021: *The following information is taken from the Legislation of Ontario website:* The Act aims to expedite the delivery of broadband projects of provincial significance. Provisions are made to require co-operation from electricity distributors and transmitters to complete work that is necessary for the deployment of a project. The Minister may give a distributor or transmitter notice of work required. A notice may be given only if the Minister has determined that the distributor or transmitter has not met a prescribed requirement relating to when something must be done. The proponent of the project and the distributor or transmitter are required to enter into negotiations to co-ordinate the work. A provision is made for the apportionment of the costs of the work. If the distributor or transmitter fails to complete the work, the Minister may order them to do so or may authorize the proponent to carry out the work. A distributor or transmitter that fails to complete the work is also required to compensate the proponent.

New Lower Overnight Electricity Rate: In November 2021, the Minister of Energy wrote to the OEB to require the regulator to examine, report back and advise on the design(s) of an optional enhanced TOU rate to further incent demand-shifting away from peak periods to lower-demand periods. This new TOU rate is to be informed by work of the low-overnight-pricing pilot. The new rate could appeal to electric vehicle users, and to other customers that may benefit from the price plan due to shift work, lifestyle, or other factors. The OEB will report on options for the new rate by April 1, 2022.

COVID-19 Pandemic: The World Health Organization declared the outbreak of a strain of novel coronavirus disease, COVID-19, a global pandemic on March 11, 2020. The virus has had devastating results around the globe from the perspective of human health and the economy since that time. In 2021 Ontario went through a number of varying stages of restrictions and partial openings while the provincial government attempted to balance health with the needs of businesses and the economy. The full financial impact of the COVID-19 pandemic has not been fully realized and will continue to have an effect on the economic future of the province.

However, the development and distribution of an effective vaccine along with booster shots continue to help limit and minimize health impacts as new variants of the virus continue to surface. During the COVID-19 pandemic, governments and regulatory bodies provided unprecedented relief programs and temporary measures to facilitate the continued operation of the global economy and financial system, all of which are intended to provide support to individuals and businesses.

Elexicon Corporation continues to closely monitor the potential continued effects and impacts of the COVID-19 pandemic. Much will depend on future developments that are difficult to predict, including the scope, severity, duration and additional subsequent waves of the COVID-19 pandemic, as well as the effectiveness of actions and measures taken by government and regulatory authorities.

COVID-19 Relief Programs: In order to support communities dealing with the impacts of the COVID-19 pandemic, the government introduced two relief programs: the COVID-19 Energy Assistance Program ("CEAP") and COVID-19 Energy Assistance Program for Small Business ("CEAP-SB"). These programs provide one time, on-bill credits to eligible customers to help them catch up on their energy bills and resume regular payments. As of June 23, 2021, the organization had depleted its funds for the CEAP and CEAP-SB programs to its customers. A total of $0.8M was allocated to residential customers and small business customers through 2020 and 2021 that had enrolled in these programs. This program was finalized in October, 2021.

Moratorium on Disconnections: As outlined by the Ontario Energy Board, in a normal year, electricity distributors are prohibited from disconnecting residential customers for non-payment between November 15th to April 30th, but can continue to charge late payment fees on past due amounts during this period. On April 13th, 2021 the Ontario Energy Board issued a notice prohibiting all electricity distributors from issuing disconnection notices to residential customers until June 2nd. The impacts of COVID-19 and the moratorium have resulted in a large number of overdue accounts beyond what is typically experienced.

CONSERVATION AND DEMAND MANAGEMENT UPDATE ("CDM")

On March 21, 2019, the Ontario government issued a directive to the IESO giving the IESO responsibility for delivering the CDM programs instead of local distribution companies. EEI ceased marketing and business development for all CDM programs immediately and wound down the delivery of programs. Amounts received from the IESO for the funding of projects under the participant agreements but not spent, are presented on the Consolidated Balance Sheets under current liabilities as deferred revenue. Settlement with the IESO will continue until all projects are completed and a compliance audit will be completed thereafter.

The OEB has established a mechanism to compensate distributors for revenue losses related to the reduction of load or energy usage associated with the distributors' CDM activities. During rate setting, a forecasted impact on revenues due to CDM activities is included within rates and any variance from that forecast is recorded in a variance account ("LRAMVA") to be settled in the future.

In 2021, the OEB approved the recovery of the LRAMVA for both rate zones for the 2018 year. EEI will continue to apply for recovery of the embedded CDM revenue loss annually.

Assets, Systems, Processes and Capabilities

Elexicon Corporation's capability to reach its strategic objectives is attributed to its assets including human capital / people, capabilities, systems, processes across the following areas.

DISTRIBUTION SYSTEM AND OTHER ASSETS

Elexicon Corporation boasts an asset base comprised of property, plant & equipment ("PP&E") and intangible assets of $520.6 million, with ongoing investment in distribution, energy management, renewable energy resources and technology systems. Like most other companies, Elexicon Corporation has been affected by rapidly evolving technological advancements, aging infrastructure and increased demand for energy resources. The corporation manages its assets by carefully analyzing its investments over time and through Elexicon Energy's DSP, ensuring fiscal accountability and prudence. In 2021, Elexicon Corporation invested $22.6 million to maintain its distribution system and an additional $15.8 million to expand the systems it needs to meet the growing needs of its service territory. Elexicon Corporation also continued to expand its energy management and renewable energy assets through both its subsidiaries.

PEOPLE

Elexicon Corporation and its subsidiaries understand that its people are its most valued asset and that an inclusive diverse, collaborative, healthy and safe workforce will be what drives its strategy forward. As an enterprise, Elexicon Corporation employed 257 people at the end of 2021, with EEI employees comprising 96% of the workforce. Elexicon Corporation fosters a work environment that promotes the representation and participation of different groups of individuals, including people of different ages, races and ethnicities, abilities, gender expressions, religions, cultures and sexual orientations. This includes people with diverse backgrounds, experiences, skills and expertise. In 2021, EEI was the first company to sign Electricity Human Resources Canada ("EHRC") Expanded Leadership Accord on Diversity, Equity and Inclusion ("DEI") and held employee and management training sessions for all its employees. In anticipation of future skills and talent requirements, a talent management framework and culture strategy was developed to ensure the organization could attract, acquire, retain and promote the right people.

PROCESSES AND SYSTEMS

Elexicon Corporation continues to invest in processes and systems to enhance the capabilities of its subsidiaries and deliver a best-in-class customer experience, as well as deliver on its merger synergies and strategic objectives. This includes merger integration to its customer information and billing systems, information and operational technologies, cyber security and business continuity and outage management systems and protocols.

In millions of Canadian dollars

Enhanced capabilities underway in 2021 that will be ready for 2022 include:

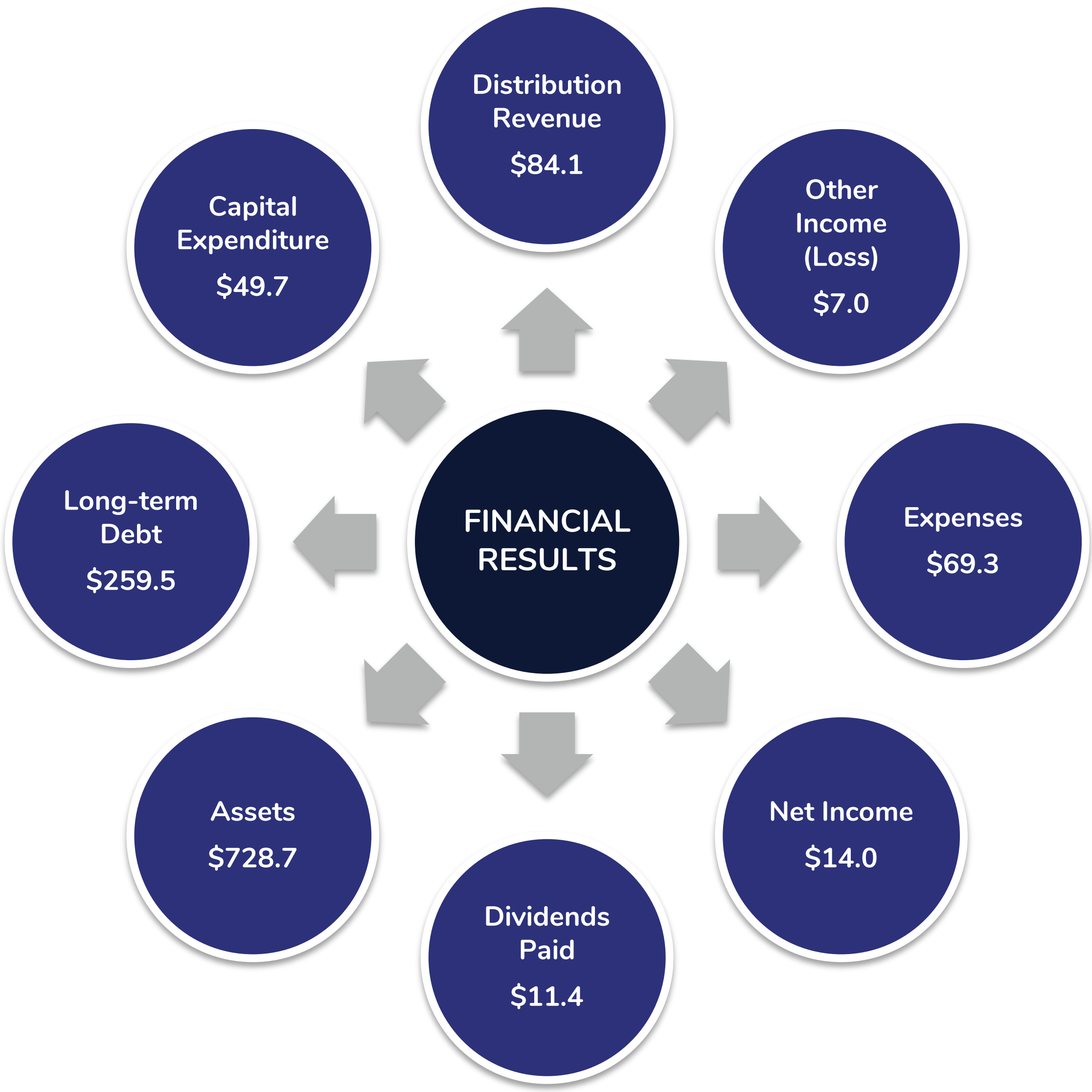
- A new mobile workforce management system
- Fully mobile responsive and *Accessibility for Ontarians with Disabilities Act* ("AODA") compliant integrated website for residential, business and contractor/developer customers
- Customer Relationship Management system to deliver a customer-centric experience
- A new Advanced Distribution Management Solution ("ADMS") to help automate outage restoration and optimize the performance of EEI's distribution grid
- Modernized IP Telephony system
- New Human Resources Payroll Management System

Key Business Statistics

Key Business Statistics		
Metric	***2020***	***2021***
Average System Availability Index (ASAI)	99.98%	99.99%
System Average Interruption Duration Index (SAIDI)	1.37	1.17
System Average Interruption Frequency Index (SAIFI)	1.014	1.12
Momentary Average Interruption Frequency	2.348	2.453
New Residential/Small Businesses connected	2,284	2,354
New Residential/Small Businesses connected on time	93.74%	96%

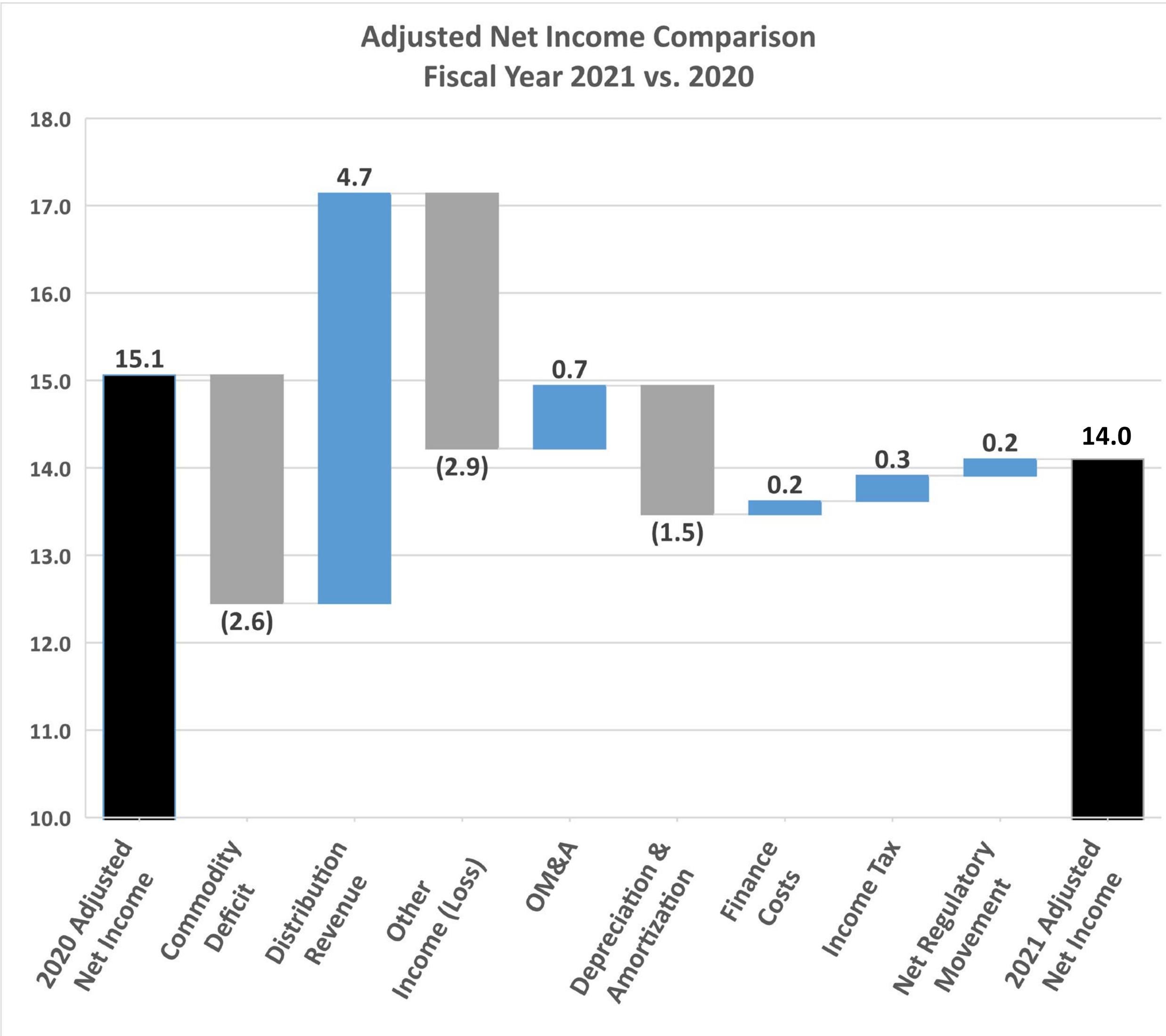
Results of Operations

2021 FINANCIAL RESULTS AT A GLANCE



Note: *Adjusted Net Income excludes unrealized gains or losses on interest rate swap derivatives and deferred tax impacts.*

RESULTS OF OPERATIONS



Note: Adjusted Net Income excludes unrealized gains or losses on interest rate swap derivatives and deferred tax impacts.

Adjusted net income for the year ended December 31, 2021 reported at $14.0 was $1.1 lower than 2020 adjusted net income of $15.1.

The decrease in adjusted net income is primarily related to:

- Higher commodity deficit ($2.6) due to costs exceeding revenue in wholesale market service ("WMS") charges, network, connection and low voltage ("LV") charges;

In millions of Canadian dollars

- Lower other income (loss) ($2.9) mainly due to lower construction revenue on the combined heat and power ("CHP") projects; and
- Higher depreciation & amortization cost ($1.5) due to new in-service capital additions.

The decrease in adjusted net income is offset by:

- Higher distribution revenue ($4.7) due to annual rate increase, foregone revenue recovery, increase in consumption and demand, LRAMVA recovery as a result of CDM program coupled with an increase in customer growth;
- Lower OM&A ($0.7) due to lower consulting and renewable project costs, partially offset by higher customer premise isolations, metering, and station maintenance;
- Lower income tax ($0.3) due to lower deferred tax partially offset by higher current tax as a result of higher taxable income in 2021;
- Higher net regulatory movement ($0.2) due to timing of cost and revenue differences as they flow through these accounts and;
- Lower finance costs ($0.2) mainly due to lower interest rates.

DISTRIBUTION REVENUE

Distribution revenue is collected from customers using the approved OEB distribution rates. Due to the merger of the two distribution companies in April 2019, there are two rate zones in EEI's service territory: the former Whitby and former Veridian rate zones.

	2021	2020	Variance	
			$	%
Distribution Revenue	84.1	79.4	4.7	5.9%

The increase in distribution revenue of $4.7 is mainly due to:

- Higher distribution rates ($1.9);
- An increase in consumption and demand from all general service customers ($1.0);
- Forgone revenue recovery ($0.6);
- LRAMVA recovery from the CDM program ($0.7); and
- An increase in customer growth in the residential and small commercial classes ($0.4).

EEI customer classes are as follows:

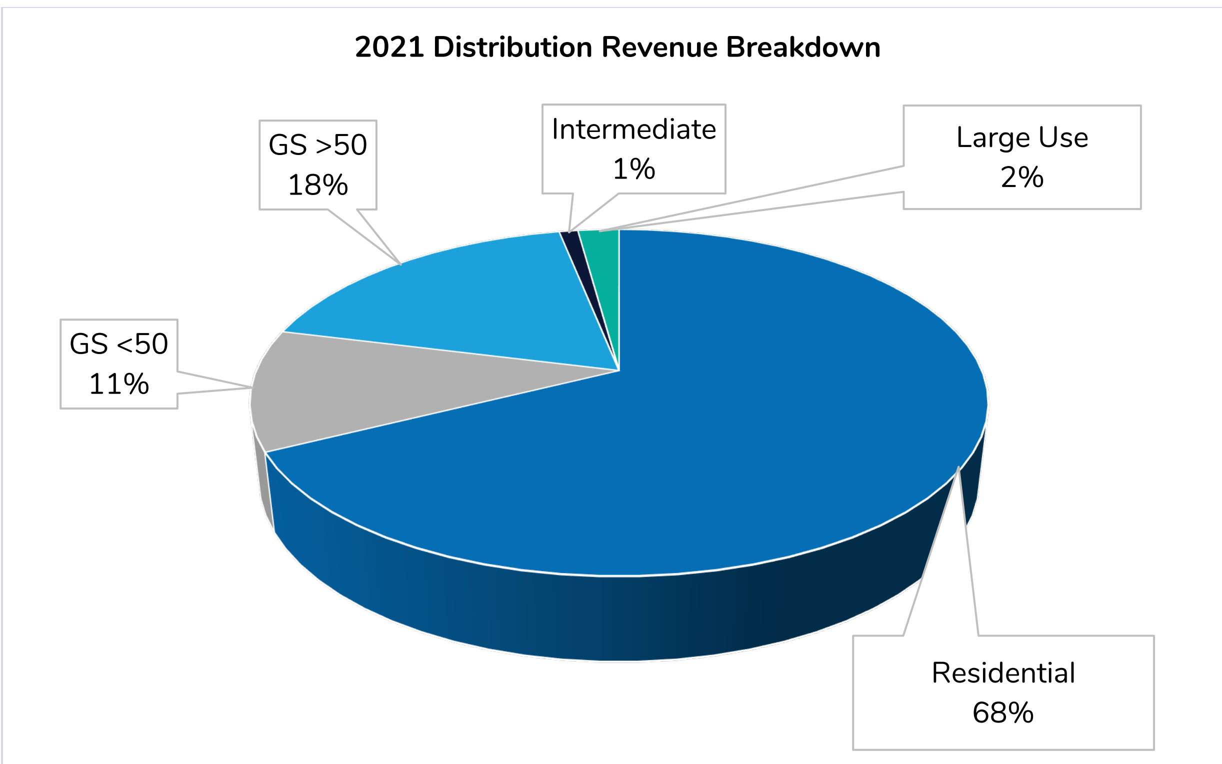
Residential (68%) - this classification includes single-family residences and multi-family units that are individually metered. A small portion of this class of customers have seasonal occupancy only.

General Service less than 50kW ("GS <50") (11%) - this classification applies to non-residential accounts whose average monthly maximum demand is less than, or is forecast to be less than 50 kW.

General Service greater than 50 kW but less than 3,000 kW ("Intermediate") (1%) - this classification applies to a non-residential account whose average monthly maximum demand used for billing purposes is equal to or greater than, or is forecast to be equal to or greater than 50 kW but less than 3,000 kW.

General Service greater than 50kW ("GS >50") (18%) - this classification applies to a non-residential account whose average monthly maximum demand used for billing purposes is equal to or greater than, or is forecast to be equal to or greater than, 50 kW but less than 5,000 kW and includes apartment buildings, and commercial, industrial, and institutional developments.

Large Use (2%) – these customers have a monthly peak demand of 5,000 kW or greater averaged over a twelve-month period.



In millions of Canadian dollars

OTHER INCOME (LOSS)

Other income (loss) is earned from both the regulated electricity distribution activities for EEI and unregulated activities from EGI and Elexicon Corporation. Other income (loss) include:

- Amortization of deferred contributions from developers;
- Pole rental income generated from other utility service providers that attach equipment to poles owned by EEI;
- Customer charges including reconnection/disconnection, collection and change of occupancy charges from customers;
- Late payment charges on customer overdue balances;
- Miscellaneous renewable projects and related consulting revenues, gain on sale of scrap and material, CDM incentives, recovery jobs and foreign exchange offset with loss on retirements from disposal of poles, padmounts, switches, meters and etc.

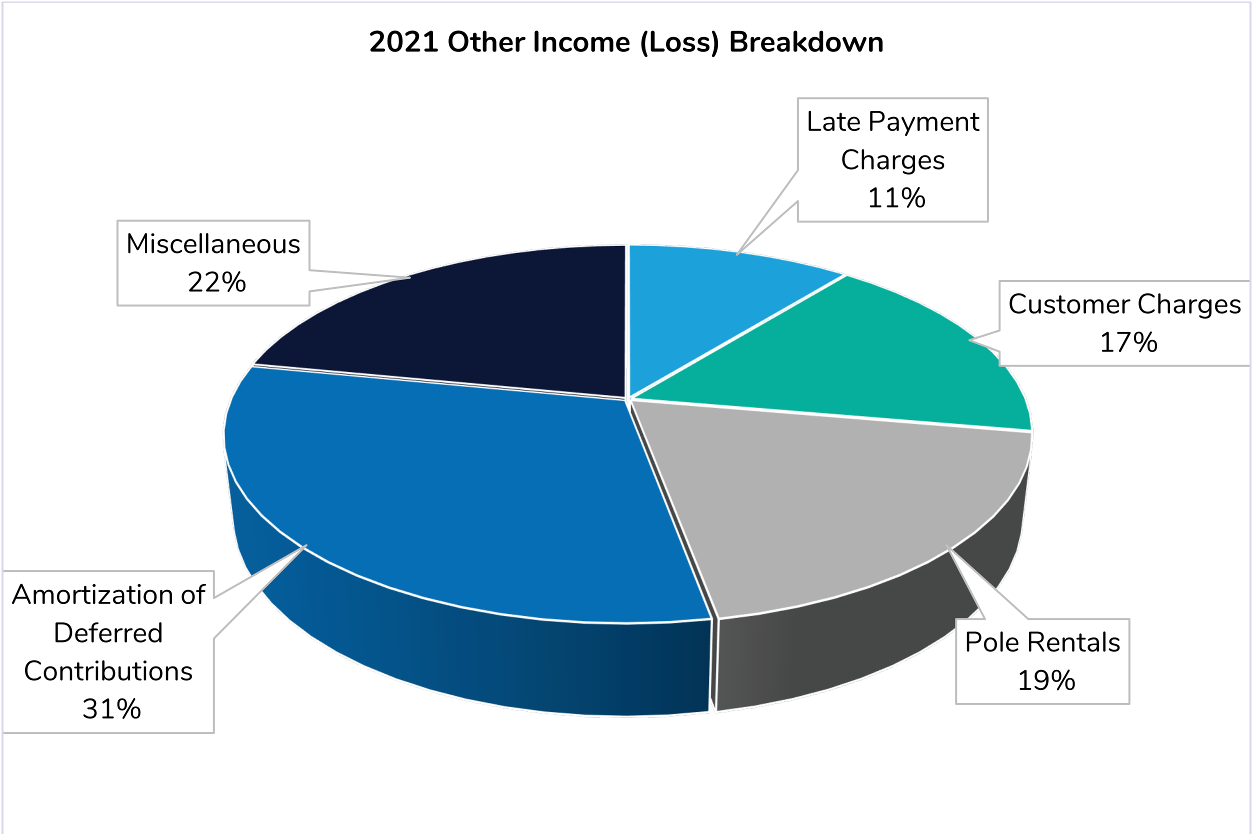
	2021	2020	Variance	
			$	%
Other Income (Loss)	7.0	9.9	(2.9)	(29.3%)

The decrease in other income (loss) of $2.9 is mainly due to:

- Lower miscellaneous revenues ($2.4) mainly due to lower construction revenue on CHP projects offset by lower disposal of PP&E;
- Lower customer charges ($0.6) due to less disconnects/reconnects and fewer customer occupancy changes; and
- Lower late payment charges ($0.4) due to billing system transition.

The decrease in other income (loss) is offset by:

- Higher amortization of deferred contributions ($0.4) due to additional in-service systems access projects completed.



OPERATIONS, MAINTENANCE AND ADMINISTRATION ("OM&A")

OM&A expenses include salaries and benefits, external services, materials and supplies, vehicle and other costs to support the business activities of Elexicon Corporation and its subsidiaries including:

- Operating and Maintenance
- Administration

	2021 Actuals	2020 Actuals	Variance $	Variance %
OM&A	48.6	49.3	0.7	1.4%

The decrease in OM&A expense of $0.7 is mainly due to:

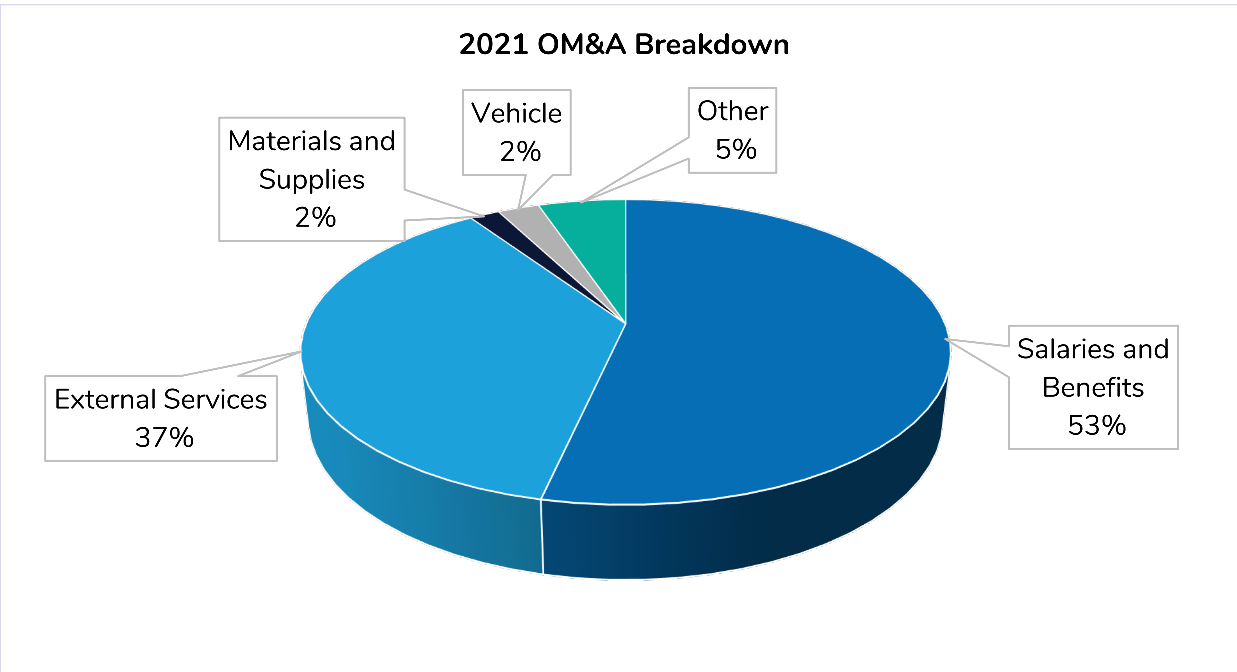
- Lower external services ($2.8) due to lower expenses in EGI as a result of fewer CHP projects; and

In millions of Canadian dollars

- Lower other costs ($1.1) due to lower accounts receivable (“AR”) provision expense as 2020 included an additional provision for the COVID-19 pandemic.

The decrease in OM&A expense is offset by:

- Higher salaries and benefits ($2.6) due to higher headcount and annual merit/ burden increase;
- Higher vehicle costs ($0.3) due to higher fuel prices and maintenance costs; and
- Higher materials and supplies ($0.3) due to pandemic related supplies.



OTHER EXPENSES

	2021	2020	Variance	
			$	%
Depreciation and Amortization	20.7	19.2	(1.5)	(7.8%)

The increase in depreciation and amortization expense of $1.5 is mainly due to new in-service capital additions.

In millions of Canadian dollars

	2021	2020	Variance	
			$	%
Finance Costs, net	5.7	5.9	0.2	3.4%

The decrease in net finance costs of $0.2 are mainly due to lower interest rate on operating credit facility and higher interest capitalization.

	2021	2020	Variance	
			$	%
Income Tax Expense	5.8	6.1	0.3	4.9%

The decrease in income tax expense of $0.3 is mainly due to lower deferred tax partially offset by higher current tax.

In millions of Canadian dollars

Financial Position

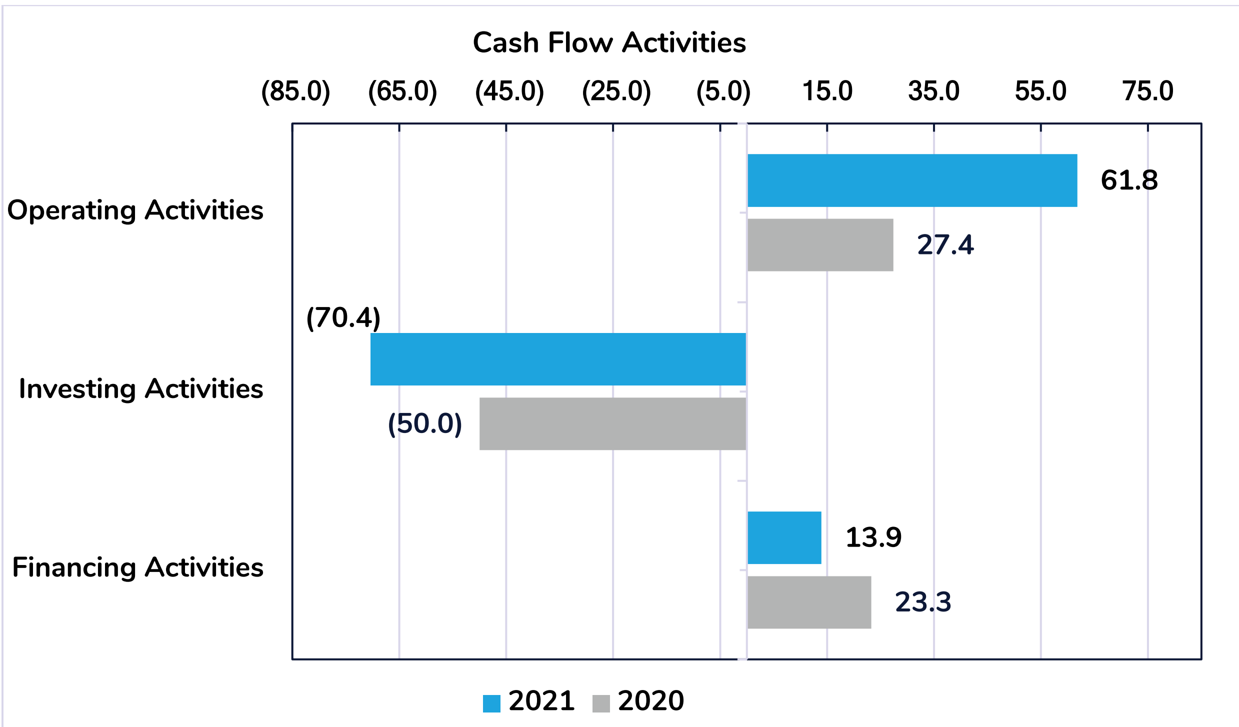
A description of the some of the major changes in the financial position of Elexicon Corporation:

	2021	2020	Variance $	Variance %	Description of Variance
ASSETS					
Cash	13.1	7.8	5.3	68.1%	Due to higher net cash from operating and financing activities; partially offset by higher capital investment
Accounts Receivable	82.6	85.0	(2.4)	(2.8%)	Due to increase of A/R provision and lower receivable from completion of CHP projects, partially offset by an increase in HST receivable
Materials and Supplies	6.5	5.2	1.3	25.2%	Increase is mainly due to stocking of material and supplies during COVID-19 period
Prepaid Expenses	2.0	0.6	1.4	248.3%	Increase is from the timing of comprehensive insurance prepayment
Property, plant and equipment	513.2	463.6	49.6	10.7%	Increase is from additional investment in distribution system assets
Regulatory Balances	39.2	26.9	12.3	45.5%	Increase is from changes in Retail Settlement Variance Accounts ("RSVAs") (including Low Voltage) and Regulatory assets related to deferred tax
LIABILITIES					
Accounts payable and accrued liabilities	61.9	54.0	7.9	14.6%	Increase is primarily due to lower Ontario Energy Rebate balances being net to nil as per OEB 2021 guidance, higher Power Bill accruals; partially offset by lower CDM incentive payable
Short-term debt	-	13.1	(13.1)	(100.0%)	Decrease is from the repayment of the credit line
Deferred contributions	108.0	88.1	19.9	22.6%	Increase is from developers / customers to fund additional projects
Long-term debt	259.5	215.4	44.1	20.5%	Increase is mainly due to additional draws from the credit facility
Unrealized loss on interest rate swaps	3.7	6.6	(2.9)	(44.2%)	Decrease is from unrealized gains in interest rate swaps in the 2021
Deferred tax liabilities	13.1	7.4	5.7	77.0%	Increase is mainly due to deferred taxes related to book and tax value of PP&E/intangibles; partially offset by deferred taxes related to unrealized gain (loss) on interest rate swaps

Liquidity and Capital Resources

CASH FLOW ACTIVITIES

Elexicon Corporation's sources and usage of cash are from operating, financing and investing activities.



Operating Activities

The increase in net cash from operating activities is mainly due to:

- Higher cash receipts from customers, lower accounts payable (AP) disbursements and higher customer contributions

Investing Activities

The increase in cash used for investing activities is mainly due to:

- Higher capital investment in system renewal, system service and general plant projects

Financing Activities

The decrease in cash from financing activities is mainly due to:

- Repayment of the short-term loans from the operating credit facility

LIQUIDITY AND FINANCING ACTIVITIES

Elexicon Corporation's debt to capitalization ratio on December 31, 2021 was 50.8%. This debt includes $89.1 million in shareholder promissory note debt, as well as a $41.0 million committed reducing term facility, and an available $170.0 million committed or demand revolver facility with $135.0 million outstanding. These facilities carry covenants normally associated with long-term debt, including debt to capitalization and debt service coverage ratios. The corporation complies with all bank covenants as at December 31, 2021.

On May 5, 2021, the Dominion Bond Rating Service ("DBRS") confirmed the Issuer Rating of Elexicon Corporation at "A" with a stable trend. The DBRS report noted that Elexicon Corporation's rating continues to be supported by its stable regulated operations, reasonable financial profile and supportive shareholders.

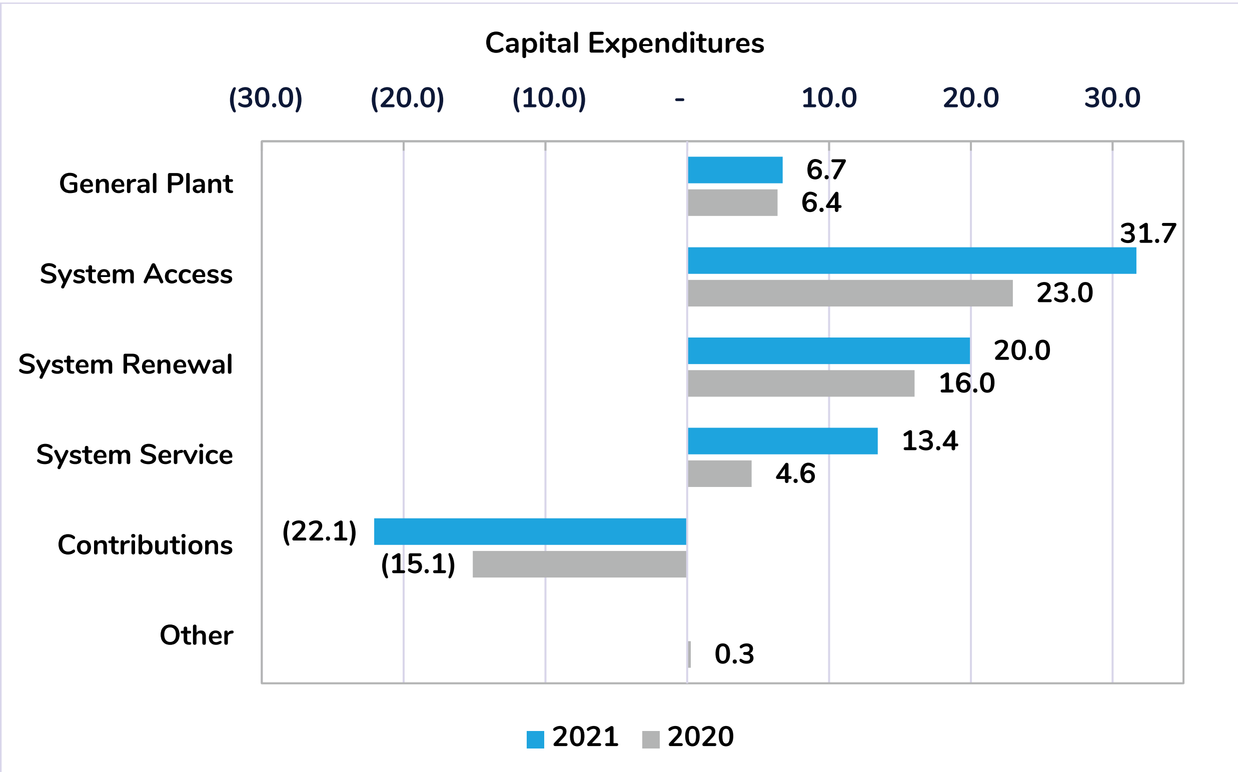
Elexicon Corporation's operating activities and these credit facilities are the primary sources of funds for liquidity and capital resource requirements. These resources are required for the following:

- Capital expenditures to maintain, improve and modernize the electricity distribution system;
- Servicing and repayment of debt;
- Purchased power expense;
- Prudential requirements;
- Other investing activities; and
- Dividends.

Management will continue to assess Elexicon Corporation's financial capital requirements and capacity as the capital needs evolve to meet all stated corporate strategic objectives.

CAPITAL EXPENDITURES

The gross capital investments of the Corporation are represented by the various groupings in the table below:



The General Plant investment category includes modifications, replacements, or additions to EEI's assets that are not part of its distribution system – this includes land and buildings, tools and equipment, rolling stock and electronic devices, and software used to support daily business and operations activities. Drivers for this investment category include Business Operations Efficiency, Non-Systems Physical Plant and Capital Maintenance Support. Capital expenditures in this category have increased by $0.3 compared to 2020, primarily due to the purchase of more vehicles, some of which had been deferred from 2020.

The System Access investment category includes investments that enable EEI to fulfill its obligation to provide customers with access to electricity services through the distribution system (including modifications such as asset relocations). The primary drivers for this investment category are Customer Service Requests, Third Party Infrastructure Development Requests, and Mandated Service Obligations (e.g., as per the Distribution System Code). Capital expenditures in this category have increased by $8.7 compared to 2020, primarily due to the increase in customer requested work and connections of new services.

The System Renewal investment category includes investments to replace or refurbish the distribution system assets to manage the risks associated with aged and deteriorated plant and maintain EEI's ability to provide customers with electricity services. Drivers for this investment category include Assets at the End of Their Service Life and Asset Failure. The former covers all proactive renewal programs whereas the latter corresponds to the Reactive Renewal program. Capital expenditures in this category have increased by $4.0 compared to 2020, primarily due to projects being deferred from 2020 to 2021, as a result of project delays created by the COVID-19 pandemic.

The System Service investment category includes investments which modify EEI's distribution system to ensure that it continues to meet its operational objectives while addressing anticipated future customer service requirements, as well as enhancing, and modernizing the system's operability. Drivers for this investment category include System Capacity, System Operational Objectives: Reliability and System Operational Objectives: Environmental. Capital expenditures in this category have increased by $8.8 compared to 2020, primarily due to the purchase of the land for the Seaton TS and the expansion of the Whitby substation.

Contributions are customer deposits collected to fund capital construction expenditures. Customer contributions have increased by $7.0 compared to 2020, primarily due to an increase in customer requested work and connections of new services.

Other are capital investments by Elexicon Corporation and EGI related to unregulated activities. Capital expenditures have decreased by $0.3 compared to 2020, due to the Quinte CHP installation in 2020.

In millions of Canadian dollars

Share Capital

SHAREHOLDERS' EQUITY AND RETURNS FOR SHAREHOLDERS

	Balance 31-Dec-20	Net Income	Other comp. gain	Dividends paid	Balance 31-Dec-21
Share Capital	$ 97.69				$ 97.69
Contributed Capital	0.03				0.03
Contributed Surplus	79.30				79.30
Accum. other comprehensive loss	(1.82)		0.56		(1.26)
Retained Earnings	88.08	16.93			105.02
Dividends	(18.28)			(11.38)	(29.66)
Total Equity	**$ 245.01**	**$ 16.93**	**$ 0.56**	**$(11.38)**	**$ 251.12**

In 2021, the shareholders' equity position increased from $245.0 to $251.1 million, an increase of $6.1 million.

Net income realized after net movements in regulatory balances was $16.9 million inclusive of the unrealized interest rate swap gain. There is a $0.6 million other comprehensive gain from the re-measurement of employee future benefits liability that is recognized as part of the accumulated other comprehensive loss. This actuarial gain was due to a 0.30% increase in the discount rate from 2.70% (2020) to 3.00% (2021) thereby decreasing the present value of the employee future benefit liability.

Municipal shareholders benefit from distributions of Elexicon Corporation's earnings through annual dividends. For the year ended December 31, 2021, Elexicon Corporation recorded dividends paid to shareholders of $11.4 million.

In millions of Canadian dollars

Related Parties Balances and Transactions

The Corporation provides electricity and services to its principal shareholders, the Town of Ajax, the Municipality of Clarington, the City of Pickering, the City of Belleville and the Town of Whitby (collectively, the "shareholders"). Electrical energy is sold to the shareholders at the same prices and terms as other electricity customers consuming equivalent amounts of electricity.

	2021	2020
Electricity and services revenue	7.9	9.2
Other Income	0.2	0.1
Finance costs on the notes payable	3.0	3.7
Property taxes paid	0.6	0.6
Accounts receivable balance	1.2	1.1
Dividends paid	11.4	11.3

	2021	2020
Compensation paid to key management personnel (1)	3.4	3.2

Note 1: Compensation to key management personnel comprises of the senior management team and members of the Board of Directors. The compensation includes salaries, performance pay and taxable benefits.

Environment, Social and Governance (ESG)

Elexicon Corporation recognizes that adopting an ESG mindset is essential to creating value to its shareholders, customers and communities. The corporation contributes to a cleaner and sustainable future by actively contributing to the regional, provincial, national, and global environmental efforts. The enterprise will do this by reducing its own ecological footprint, and where possible enhancing the environment and social fabric of the communities. Through its subsidiaries, Elexicon Corporation has outlined the importance of defining ESG goals and values to design a set of actions to address the issues that affect its people, planet and community. Elexicon Corporation is committed to operating safely in an environmentally and socially responsible manner; driving clean and sustainability-based change within its own operations, and for the communities in which it operates and serves. Elexicon Corporation's 2021 CESR Report is available at https://elexiconcorp.com/annual-report/corporate-giving-impact and identifies progress on operating safely, sustainability and building relationships with communities and achieving a more diverse workforce.

Risk Management

Elexicon Corporation completed substantial work with PricewaterhouseCoopers LLC in 2021 to create a new Enterprise Risk Management ("ERM") Framework. The ERM Framework is a thorough and robust method to identify and mitigate, where possible, key risks that may impede the ability to execute this strategy and achieve its corporate objectives, including financial performance. The ERM Framework includes annual and quarterly processes for identifying, assessing and reporting risk. Additionally, the ERM Framework supports and complements the Corporation's strategic planning and business planning cycles through environmental scans and regular reviews of assumptions. Risks being managed include, but are not limited to: cyber vulnerability; supply chain shortages; data and privacy; aging asset infrastructure; climate and environmental incidents; culture and organization; regulatory and political; debt financing; health, safety and wellness; and the COVID-19 pandemic. Additional details are provided in this section.

CYBER VULNERABILITY

Cyber risks are constantly evolving and changing and security measures are only as good as the last attack. A cyber-attack could result in loss of key sensitive and private data. It could also result in power outages and loss of access to critical systems leading to reputational damage and potential legal and regulatory consequences. Tactics for managing cyber security threats include ongoing cyber security training/communications with employees, firewall and anti-virus protection, and security monitoring. In 2021 the Corporation made significant strides to reduce cyber vulnerability and advanced the corporation's maturity score.

SUPPLY CHAIN SHORTAGES

There is an increasing shortage of critical material and equipment affecting many organizations, including Elexicon Corporation. Elexicon Corporation is working around supply chain shortages by being proactive and planning system upgrades sooner. The Corporation is also reaching out to all the municipalities within its service territory to understand their future electricity needs sooner and to procure and place orders for materials in advance.

DATA AND PRIVACY

Data pertaining to customers and operational matters is not readily available to support EEI in decision-making processes or to help facilitate some shareholder reporting requirements. Current processes require manual data extraction or third-party vendors to pull data. Automating data gathering capabilities, ensuring data integrity and privacy are critical for the current and foreseeable future. In 2021 the Corporation approved a new privacy framework.

AGING ASSET INFRASTRUCTURE

Aging assets, pertaining to the entire distribution network overall, have the potential to cause a system wide impact on reliability and a backlog of capital expenditures. Maintenance schedules are in place. System spares are being ordered for long delivery items (i.e., station transformers). There is an ongoing refresh of the distribution system plan and asset management plan to ensure there is sufficient backup and capacity and to determine critical areas of focus.

CLIMATE CHANGE AND ENVIRONMENTAL INCIDENTS

Climate change issues are increasing incidences of flooding, hailstorm, snow/ice storm, forest fire and other natural disasters that pose a threat to system reliability. Extreme weather also results in more electricity usage during peak periods (i.e., customers increase air conditioning load during heat waves and increase heating during extreme cold weather events) leading to potential supply issues. The organization has created emergency preparedness plans in the event of outages caused by weather-related events and actively encourages customers to shift usage away from peak periods.

CULTURE AND ORGANIZATIONAL

An organization's culture is not something that happens naturally or by chance. Building and sustaining an inspiring, engaging, values-aligned culture requires intentional efforts and design. The Elexicon One Culture initiative is meant to bring together two companies and establish the "Elexicon Energy way" of doing things when it comes to aspects such as: how the organization operates; how to collaborate; how people are trained; how everyone across the organization is engaged; and how to celebrate meaningful events and initiatives.

REGULATORY AND POLITICAL

Policy changes can necessitate a major organizational shift with limited notice. Regulatory non-compliance can result in large fees and penalties and brand impact. The organization regularly receives updates from the regulator and follows changes to rules and reporting closely. The organization also stays in regular contact with the various elected officials and ministerial staff to discuss priorities and the operational change impacts that result from new policy directions.

DEBT FINANCING

Elexicon Corporation relies on shareholder promissory note debt along with term credit facilities and a committed or demand revolver facility to finance its ongoing business operations including capital expenditures. There are a number of risk factors that could impact the corporation's ability to arrange sufficient and cost-effective debt financing, including:

- Ratings assigned to its debt securities by credit rating agencies;
- Financial market and economic conditions;
- The regulatory environment;
- Operations, financial results and prospects;
- Compliance with covenants;
- Timing of debt maturities and;
- COVID-19 pandemic impacts.

These factors may lead to a direct negative impact on the Corporation's operating results and financial position in the future from changes in cash flow, working capital levels and debt balances.

Management has taken proactive measures to ensure the interest rate risk is effectively managed, including the use of an interest rate swap derivative agreements that reduce the impact of fluctuating interest rates on long-term debt.

COVID-19 PANDEMIC

The COVID-19 pandemic has and may continue to result in disruptions to customers and the way in which business is conducted including prolonged duration of staff working from home, and changes to operations due to higher volumes of customer requests. To date, the corporation has taken proactive measures through business continuity plans and pandemic response plans to adapt to the ongoing work from home arrangements and carefully plan for the return to premise of some employees. The plans ensure the continuation of critical projects while also preserving the well-being of employees and customers. The corporation continues to communicate with partners, suppliers and selective customers to assess impacts to work in progress and make adjustments as necessary.

HEALTH, SAFETY AND WELLNESS

While Elexicon Corporation's safety metrics are very strong, there is a potentially larger threat to health and safety due to the nature of the work that Elexicon Corporation employees perform. Ongoing training and reinforcement of safety practices is essential. The pandemic created a new set of health and wellness challenges. The organization put in place a Mandatory Vaccine Policy, increased cleaning and social distancing practices, and adopted a new app, company-wide, for reporting symptoms and illness. The organization also put a focus on mental health with a Bell Let's Talk campaign. The campaign featured staff and Management as they discussed mental health challenges from the pandemic and included a video in partnership with Ontario Shores.

Industry Outlook

The following sections identify and comment on key policy changes and sector issues expected to affect the organization.

NET ZERO

Local, provincial and federal governments across EEI's service territory all have ambitious net zero targets and local distribution companies are being called on to help achieve these goals. In December 2021, Prime Minister Justin Trudeau sent a mandate letter to Minister Guilbeault, Minister of Environment and Climate Change instructing him to work with the Minister of Natural Resources to introduce a Clean Electricity Standard to achieve a net-zero clean electricity grid by 2035 and achieve a 100 per cent net-zero emitting electricity future.

NATURAL GAS PHASE-OUT

On October 7, 2021 the IESO released its Gas Phase-Out Impact Assessment (the "Assessment"). The Assessment concluded that it is not technically or economically feasible to phase out natural gas generation by 2030. After reviewing the report, the Minister of Energy issued a directive letter requesting the IESO to evaluate a moratorium on the procurement of new natural gas generating stations in Ontario. This will be a challenge with the upcoming electricity supply shortage. The IESO has been asked to evaluate the moratorium and a feasible plan for natural gas phase-out and report back by November 2022.

ELECTRICITY SUPPLY GAP

The IESO puts out an annual document that forecasts Ontario's electricity needs. The document, titled the Annual Planning Outlook ("APO"), predicts Ontario's electricity trends for the near term and long term, and forecasts electricity demand yearly for the next 20 years. The APO released in 2021 highlighted the increase in demand growth expected from electric vehicles and electrification of the industrial sector, the looming supply shortages as nuclear facilities retire while demand increases, expected marginal price increases within the market, and the possible impacts related to natural-gas filling the immediate supply shortages.

Expansion to system capacity will be required starting in 2023 for both summer and winter periods. The IESO's projections on supply in the medium term are driven by Pickering nuclear retirements and load increases in later years. The APO shows a sustained summer need of approximately 3,500 MW beginning about 2026 and about 1,700 MW of winter need. Early in the 2030s this need begins to grow to about 3,900 MW during the summer period.

The IESO's main approach to meeting this looming supply shortage is to be addressed by its Resource Adequacy Framework, a multi-pronged approach that includes a Capacity Auction, Medium-Term Request for Proposals and Long-Term Request for Proposal.

MARKET RENEWAL

The IESO's Market Renewal Program is an initiative to change the current electricity market's design to address misalignments between price and dispatch and increase efficiencies. The initiative will replace the two-schedule market with a single schedule market and introduce a new day-ahead market to provide greater operational certainty to the IESO and greater financial certainty to market participants. Overall the initiative will move the current electricity market from the day-ahead to real-time through the enhanced real-time unit commitment initiative. The Market Renewal Program is expected to be complete in 2023 and will impact Elexicon Corporation as a new settlement system will be required to interact in the newly designed market.

ELECTRIFICATION

The Prime Minister's mandate letter also put a focus on electrification and the move to electric vehicles. The letter instructed Minister Guilbeault to work with industry, labour and other stakeholders to develop a regulated sales mandate that at least 50 per cent of all new light duty vehicle sales be zero emissions vehicles in 2030, as an interim step toward achieving Canada's mandatory target of 100 per cent by 2035, and a regulated sales requirement that 100 per cent of medium- and heavy-duty vehicles sales be zero emission by 2040, where feasible.

The provincial government is partnering with the federal government and auto sector to build at least 400,000 electric and hybrid vehicles by 2030. Premier Ford has announced a plan to partner with the auto sector on a number of objectives from attracting a new battery assembly plant to setting up an electricity battery supply chain that connects Northern Ontario minerals to Southern manufacturing.

In December 2021, the Ministry of Energy announced plans to bring electric vehicle ("EV") fast chargers directly to the province's busiest highways with the deployment of Ivy Charging Network chargers at all ONroute locations. Chargers at 17 ONroute locations will be open in time for next summer, with another three ONroute locations opening before the end of 2022. These chargers will further encourage the electrification of the transportation sector in Ontario by making EV charging more accessible, and as the EV population grows more chargers may be added at each site.

DIGITALIZATION, DECARBONIZATION, DEMOCRATIZATION AND DECENTRALIZATION (THE "4 DS")

The electricity sector is facing a time of both challenges and opportunities. Adaptation to new technologies is no longer a requirement but a necessity. The industry is being moved forward by the four Ds of electricity transformation: decarbonization, decentralization, digitalization and democratization. This transformation is partly due to the global call to reduce greenhouse gas emissions and attempts to mitigate harm caused by climate change. It is also partly being demanded by consumers that want to take advantage of new technologies and have more choice when it comes to their electricity consumption and production.

Decarbonization involves efforts to slow or stop the global temperature increases by bringing greenhouse gas emissions (mainly carbon dioxide) to a net zero. This transition involves an increased adoption of renewable energy, energy storage and electrification (including EV adoption).

Digitalization involves incorporating the use of new technologies to allow for transactive energy markets, the two-way flow of energy and data, new block chain technology, smart devices, consumer energy technology and digitized grid operations.

Decentralization relies on digitalization as it requires real-time data about energy production and consumption at various points in the grid and must be accessible and reliable.

Democratization involves enabling customers to become prosumers who will both consume and produce electricity. The utility customer of tomorrow will increasingly be seeking opportunities to sell excess power from their rooftop solar installation or stored in their electric vehicle battery to their neighbours or the grid.

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