

DBRS Morningstar Confirms Rating on Elexicon at “A” With a Stable Trend

UTILITIES & INDEPENDENT POWER

DBRS Limited (DBRS Morningstar) confirmed the Issuer Rating of Elexicon Corporation (Elexicon or the Company) at “A” with a Stable trend. Elexicon was formed on April 1, 2019, through the amalgamation of Veridian Corporation and Whitby Hydro Energy Corporation. Elexicon's rating continues to be supported by its stable regulated operations and reasonable financial profile.

Elexicon's financial risk profile weakened moderately in 2021 compared with 2020 as a result of its increased total debt and modestly weaker net income. DBRS Morningstar expects that Elexicon's income will improve in 2023 following the addition of the Seaton Municipal Transformer Station project (Seaton TS; estimated cost of \$40 million) to Elexicon's rate base in Q4 2022. The Ontario Energy Board (OEB) approved the addition of Seaton TS through an incremental capital module (ICM) in December 2021. DBRS Morningstar expects that Elexicon will complete average annual capital expenditures (capex) of \$48 million per year over the next five years, which is line with historical levels. Capex is expected to be funded prudently with a combination of debt and equity with Elexicon targeting a debt to capital structure near the OEB's deemed 60:40 debt to equity level.

DBRS Morningstar expects Elexicon's operating efficiency will underperform its OEB-approved regulated return on equity (ROE) over the medium term. Underperformance is expected because of higher inflation and increased operating costs from new corporate initiatives. DBRS Morningstar expects this underperformance to result in a modest deterioration in Elexicon's financial metrics going forward. DBRS Morningstar, however, expects the financial metrics to continue to support the rating over the medium term.

DBRS Morningstar does not expect to take a positive rating action on Elexicon in the near term. However, a negative rating action could occur if the Company's operating efficiency continues to deteriorate, leading to key credit metrics no longer in line with the current rating. DBRS Morningstar notes that approximately 34% of Elexicon's total debt outstanding is owed to its shareholders, which provides the Company with some flexibility.

There were no Environmental/Social/Governance factor(s) that had a significant or relevant effect on the credit analysis.

A description of how DBRS Morningstar considers ESG factors within the DBRS Morningstar analytical framework can be found in the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings at www.dbrsmorningstar.com/research/396929.

Notes:

All figures are in Canadian dollars unless otherwise noted.

The principal methodology is Rating Companies in the Regulated Electric, Natural Gas, and Water Utilities Industry (September 24, 2021; <https://www.dbrsmorningstar.com/research/384922>), which can be found on dbrsmorningstar.com under Methodologies & Criteria. Other applicable methodologies include the DBRS Morningstar Criteria: Approach to Environmental, Social, and

Governance Risk Factors in Credit Ratings (May 17, 2022; www.dbrsmorningstar.com/research/396929).

The related regulatory disclosures pursuant to the National Instrument 25-101 Designated Rating Organizations are hereby incorporated by reference and can be found by clicking on the link under Related Documents or by contacting us at info@dbrsmorningstar.com.

The rated entity or its related entities did participate in the rating process for this rating action. DBRS Morningstar had access to the accounts and other relevant internal documents of the rated entity or its related entities in connection with this rating action.

The conditions that lead to the assignment of a Negative or Positive trend are generally resolved within a 12-month period. DBRS Morningstar trends and ratings are under regular surveillance.

For more information on this credit or on this industry, visit www.dbrsmorningstar.com or contact us at info@dbrsmorningstar.com.

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Ratings

Ellexicon Corporation

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
29-Jul-22	Issuer Rating	Confirmed	A	Stb	CA

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