Elexicon Corporation

Management Discussion and Analysis

Year ended December 31, 2023

elexicon CORP

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Executive Summary

In 2023, Elexicon Corporation (the "Corporation") continued to deal with multiple challenges, primarily: deteriorating economic conditions; geopolitical and supply chain issues leading to inflationary pressures and a high interest rate environment; and an extremely tight labour market. The Corporation successfully navigated through these challenges to deliver a net income after net movements in regulatory balances, normalized for unrealized gain and loss net of taxes, of $8.0 million compared to $12.0 million in the prior period. The Corporation incurred capital expenditures of $49.6 million in 2023, compared to $80.6 million in 2022, mainly related to its investments in distribution assets.

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 the Corporation's 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 the Corporation for the year ended December 31, 2023. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") in effect as at December 31, 2023.

Corporate Overview

The governance structure consists of a holding company, Elexicon Corporation, and two operating companies, Elexicon Energy Inc. and Elexicon Group Inc.

Elexicon Corporation ("EC") is a holding company, 100% 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%). EC is the parent of two wholly owned subsidiary operating companies: Elexicon Energy Inc. and Elexicon Group Inc. Approximately, 99% of the revenues of Elexicon Corporation are from Elexicon Energy Inc.; the remaining are from Elexicon Group Inc.

Elexicon Energy Inc. ("EE") is a regulated electricity distribution company that delivers electricity to approximately 178,000 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. EE is regulated by the Ontario Energy Board (the "OEB"), an independent regulatory body. EE is guided by its four strategic pillars: customer centricity, operational excellence, economic development and strategic investment. With the end-customer in mind, the organization invests in grid modernization, resiliency and the integration of innovative technologies within its distribution system. This forward-thinking approach ensures the delivery of safe, reliable, adaptable and cost-effective electricity both now and into the future.

Elexicon Group Inc. ("EG") is focused on reducing energy costs and improving sustainability for private and public sector clients. EG's joint venture, EVSTART, aimed to lead the Canadian market in the implementation of electric vehicle ("EV") charging stations, the precursor of the future of EV.

Electricity Sector Overview

MARKET PARTICIPANTS

Ontario's electricity sector involves multiple participants working in tandem to take electricity from large generating stations (or distributed energy resources ("DERs")) and delivering it to the homes, business, and industrial facilities of 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 legislation, regulations, directives, and mandate letters.

The Regulator: 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. The OEBA conferred powers and responsibilities on the OEB to regulate the electricity industry in Ontario. These powers and responsibilities include: approving or setting just and reasonable rates for the transmission and distribution of electricity; providing continued rate protection for rural and remote residential electricity consumers; ensuring that distribution companies fulfill obligations to connect and service customers; and facilitate innovation in the sector, among other things. The OEB prescribes license requirements and conditions of service to local distribution companies ("LDCs"), also known as electricity distributors, such as EE, which include, among other things: record keeping; regulatory accounting principles; separation of accounts for distinct businesses; and filing requirements for rate setting purposes.

The System Operator: In Ontario, the Independent Electricity System Operator ("IESO") operates and settles the wholesale electricity markets. The IESO connects all of the industry players – generators, transmitters, LDCs, and large industry that purchase directly from the electricity market. The IESO balances the supply and demand in the market on a second-by-second basis. It also directs the flow of electricity along the transmission lines. The IESO forecasts and assesses the province's current and long-term electricity needs, as well as the adequacy and reliability of the integrated power system. It is responsible for electricity planning at a bulk and regional level and releases reports on Ontario's future electricity supply. The IESO is also responsible for procuring supply based on its forecasts for the province. It uses several methods to do so, including request for proposals and an annual capacity auction. The IESO may also receive directives from the Ministry of Energy regarding Ontario's supply mix.

Electricity Generators: Ontario's electricity capacity comes from facilities across the province. Traditionally, electricity capacity has been connected to the transmission grid. The province's transmission-connected capacity comes from the following resources: nuclear (34%), gas/oil (27%), hydro (23%), wind (13%), solar (1%) and biofuel (<1%). Transmission-connected resources are connected directly to the high-voltage provincial grid, which is controlled by the IESO. Increasingly, there are also distribution-connected resources which may feed to customers or directly to local distribution grids. These are typically small-scale generators, demand response resources or energy storage that are owned and maintained by individuals, local facilities or other businesses. Distribution-connected capacity includes: solar (61%), wind (17%), hydro (9%), Gas (9%), biofuel (3%) and waste (<1%).

Electricity Transmitter: Electricity flows from generation facilities to large industrial customers and LDCs by a network of high-voltage transmission lines, stations and towers across the province. These transmission lines are primarily owned by Hydro One Networks Inc. ("Hydro One").

Electricity Distributors: EE is an LDC. LDCs 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 LDC's distribution infrastructure, where it can be delivered to customers at lower voltages. LDCs interact directly with the customer and maintain the local infrastructure. In recent years, the role of the electricity distributor has expanded to support the adoption of new technologies such as EVs and DERs.

RATES EXPLAINED

Electricity bills include costs for the electricity generated that customers use, the services of transmitters that bring generated power to LDCs, the services of LDCs and other regulatory costs. Electricity distributor's rates differ from one another. Distributor rates are determined by several factors. These factors include the age and condition of the utility's equipment; the size of the utility's service area; customer density and location of the customers relative to one another; the number of residential customers compared to business and industrial customers; the geographic location of the customers; and the complexity of maintaining equipment. Additionally, LDCs through their normal course of business or through specific rate making actions would from time to time seek additional funding or recovery of costs/refunds to customers through additional temporary monthly charges on the bill, referred to as "rate riders". EE's distribution rates comprise approximately 25% of the customer's total bill, depending on their usage. The balance of the bill is comprised of pass-through costs for generation, transmission and other charges cleared through the IESO. Due to the merger, EE has two rate zones for its customers.

RATE SETTING

EE'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, EE makes applications to the OEB for rate setting under the Incentive Rate-Setting Mechanism ("IRM") for both rate zones. Under an IRM, rates are mechanistically adjusted each year by inflation less an amount to incent productivity. The organization may also file for an Incremental Capital Module ("ICM") application for additional capital funding for discrete projects that meet certain regulatory requirements.

RATE APPLICATIONS

In December 2023, the OEB approved EE's IRM application for changes to distribution rates for the Veridian and Whitby rate zones, effective January 1, 2024. The monthly bill increases associated with the application was \$1.32 and \$1.55 for a residential customer in the Veridian rate zone and Whitby rate zone, respectively. This increase does not reflect other rate changes such as connection and network charges, the Ontario Electricity Rebate ("OER") or applicable taxes that customers will see on their bills.

In June 2023, the OEB approved a Z-factor application which utilities can access to recover costs associated with unforeseen events that are outside the control and their ability to manage. The decision approved the recovery of $4.1 million in restoration costs associated with a major windstorm that occurred within EE's service territory on May 21, 2022.

In July 2023, the OEB approved $8.8 million in ICM funding for the proposed Whitby Smart Grid project commencing 2025. The Whitby Smart Grid project involves deployment of a suite of technologies that would provide increased grid operational awareness through real time data collection and reduction in restoration times among other benefits.

ENVIRONMENT AND POLICY IMPACTING THE CORPORATION

The Corporation continues to adapt to the changing needs of customers and new governmental requirements. In 2023, the Corporation began to offer customers Green Button and a new ultra-low overnight electricity rate as per new Ministry of Energy requirements. 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. The ultra low overnight electricity rate is a third-rate option for regulated price plan ("RPP") customers designed to incent greater charging of EVs during off-peak hours.

The Building Infrastructure Safely Act, 2023 received its first two readings and introduced proposed amendments to the Ontario Underground Infrastructure Notification System Act, 2012. The proposed amendment prohibits infrastructure owners (such as EE) from charging for locate requests. The cost of outsourcing locate requests has increased over the last year due to Bill 93, Getting Ontario Connected Act, S.O. 2022 ("Bill 93" or "GOCA") and the introduction of new penalties for locate requests not completed within certain time frames. The penalties are now set to begin May 1, 2024. As organizations work to upgrade their systems and secure resources to increase compliance on locates there is an increased cost. The OEB established a generic, sector-wide variance account, the GOCA variance account, to specifically track incremental costs of locates in 2023 and future years arising from the recent implementation of Bill 93.

The Electrification and Energy Transition Panel (the "Panel") was established by the Government of Ontario as a short-term advisory body to help Ontario's economy prepare for electrification and the energy transition. The Panel advises the government on high-value short, medium and long-term opportunities in the energy sector. The Panel will be creating a report to the government to advise on topics including: helping to enable investment and job creation in Ontario by keeping energy rates low and creating a more predictable and competitive investment environment; ensuring a reliable, affordable and clean electricity supply; strengthening Ontario's long-term energy planning process by better coordinating the fuels and the electricity sectors. EE met with Panel members and provided considerations for the report which was released on January 19, 2024.

CONSERVATION AND DEMAND MANAGEMENT UPDATE ("CDM")

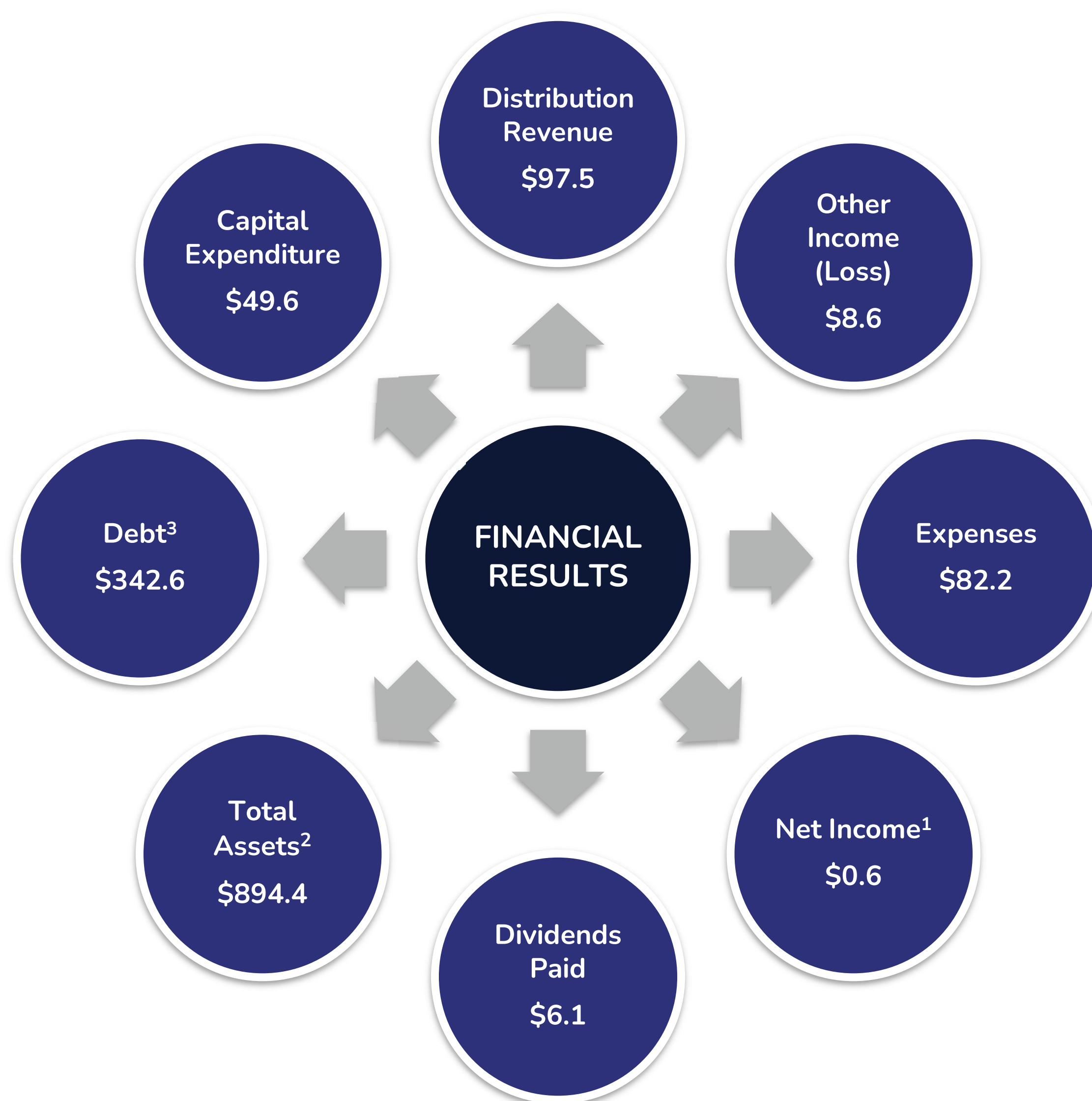
On March 21, 2019, the Ontario government issued a directive to the IESO giving the IESO responsibility for delivering the CDM programs instead of LDCs. EE ceased marketing and business development for all CDM programs immediately and wound down the delivery of programs. Amounts received from the IESO 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 established the Lost Revenue Adjustment Mechanism ("LRAM") to compensate electricity distributors for revenue losses related to the reduction of load or energy usage associated with their CDM activities for all pre-2019 programs administered by the LDC. 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 the 2022 annual application, the OEB approved the recovery of $3.7M LRAM for both rate zones consisting of lost revenues from 2020-2022 in 2023 fiscal year.

In the 2022 annual application, the OEB also prospectively approved LRAM-eligible amounts for 2023 to 2028, arising from persisting savings from completed CDM programs. These amounts will be adjusted mechanistically by the approved inflation factor. For the 2023 fiscal year, the OEB approved the recovery of the LRAM-eligible amount of $1.2M. In the 2023 annual application, the OEB approved the recovery of the mechanistically adjusted LRAM-eligible amount of $1.1M in 2024 fiscal year.

Results of Operations

2023 FINANCIAL RESULTS AT A GLANCE



[1]*Net Income refers to net income after net movements in regulatory balances.*

[2]*Total Assets include regulatory balances.*

[3]*Debt includes both long-term and short-term balances.*

NET INCOME AFTER NET MOVEMENTS IN REGULATORY BALANCES

Consolidated Statement of Income

Year Ended December 31 (in millions of Canadian dollars)

	2023	2022	Variance
Commodity			
Commodity revenues	421.5	430.1	(8.6)
Commodity costs	(412.9)	(434.6)	(21.7)
Commodity variance	8.6	(4.5)	13.1
Net movements due to commodity variance[1]	(8.6)	4.5	(13.1)
Revenues			
Distribution revenue	97.5	84.6	12.9
Other Income	8.6	9.0	(0.4)
	106.1	93.6	12.5
Expenses			
Operating, maintenance and administration	57.5	52.3	5.2
Depreciation and amortization	24.7	22.7	2.0
	82.2	75.0	7.2
Finance costs, net	(15.4)	(8.5)	(6.9)
Unrealized (loss) gain on interest rate swaps	(11.1)	6.5	(17.6)
Income before income taxes	(2.6)	16.6	(19.2)
Income tax expense	(1.8)	(6.1)	4.3
	(4.4)	10.5	(14.9)
Net income for the period	(4.4)	10.5	(14.9)
Net movements in regulatory balances[1]	(0.5)	1.1	(1.6)
Income tax on net movement on regulatory balances	5.5	5.2	0.3
Net income after net movements in regulatory balances	0.6	16.8	(16.2)

[1] *Total amount shown as net movements in the regulatory balances in the consolidated statement of income.*

Net income after net movements in regulatory balances for the year ended December 31, 2023, was $0.6 million compared to $16.8 million for prior year. After normalization for the unrealized gain and loss in both 2023 and 2022, the net income after net movements for year ended December 31, 2023 was $8.0 million compared to $12.0 million for prior year.

The decrease in net income of $16.2 million was primarily due to unrealized loss related to the interest rate swaps ($17.6 million), higher finance costs ($6.9 million), higher operating, maintenance, and administration ("OM&A") costs driven by regulatory application costs for ICM and Z-factor, grid maintenance and reactive work, unregulated business development costs and other corporate initiatives ($5.2 million), unregulated combined heat and power project write off ($2.5 million) and higher depreciation and amortization expense ($2.0 million). These higher costs were offset by higher distribution revenue ($12.9 million) and lower income tax expense ($4.3 million). During 2023, the Corporation entered into two 5-year swap agreements to stabilize its financing costs (refer to Liquidity and Capital Resources).

Commodity variance has no impact on net income after net movements in regulatory balances as there is a corresponding offset in net movements. This variance is recorded as a settlement variance within regulatory accounts in the Corporation's consolidated balance sheets for future settlement with customers through OEB approved rate riders.

COMMODITY REVENUES AND COMMODITY COSTS

Commodity revenues include amounts billed or billable to customers based on regulated rates for energy costs including global adjustment ("Commodity"), wholesale market services ("WMS"), retail transmission service rate revenues ("RTSR"). Commodity costs consist of actual charges for electricity generated by third parties which are passed through to customers. Commodity costs are billed monthly by the IESO and Hydro One and includes Commodity, WMS and RTSR charges. For any given period, commodity revenues should be equal to commodity costs. However, differences arise between commodity revenues and commodity costs as a result of timing variance related to the regulated commodity rates charged by the Corporation to its customers and the actual commodity costs billed by the IESO and Hydro One to the Corporation on a monthly basis. The difference is recorded as a regulatory debit or credit in the consolidated balance sheet through net movements and represents amounts to be collected or refunded to customers through future OEB approved rate riders. Commodity revenues include OEB approved rate riders related to collection or refund of prior period commodity differences.

Commodity Costs, Commodity Revenues, Rate Riders and Variances
For Year Ended December 31, 2023
(in millions of Canadian dollars)

	Commodity Costs	Commodity Revenues	Variance
Commodity charges	334.6	333.8	0.8
WMS charges	15.4	18.6	(3.2)
RTSR charges	62.9	60.6	2.3
Total	412.9	413.0	(0.1)
Rate rider		8.5	(8.5)
Total	412.9	421.5	(8.6)

Commodity Costs, Commodity Revenues, Rate Riders and Variances
For Year Ended December 31, 2022
(in millions of Canadian dollars)

	Commodity Costs	Commodity Revenues	Variance
Commodity charges	354.8	355.8	(1.0)
WMS charges	21.5	14.2	7.3
RTSR charges	58.3	51.2	7.1
Total	434.6	421.2	13.4
Rate rider	-	8.9	(8.9)
Total	434.6	430.1	4.5

The commodity variance of ($0.1) million was recorded in the consolidated balance sheet for collection in future period and represents a decrease of $13.5 million from prior year. The decrease was mainly due to WMS charge variance of $10.5 million and RTSR charge variance of $4.8 million.

For the year ended December 31, 2023, the Corporation collected $8.5 million of rate riders related to prior period commodity variance regulatory assets. For the year ended December 31, 2022, the Corporation collected $8.9 million through rate riders related to commodity variance regulatory liabilities. The rate riders have no impact on net income.

DISTRIBUTION REVENUE

Distribution revenue is collected from customers using OEB approved distribution rates and rate riders. Rate riders have no impact on the net income after net movements in regulatory balances as there is a corresponding offset in the net movements in regulatory balances.

	2023	2022	Variance
Distribution revenue *(in millions of Canadian dollars)*	97.5	84.6	12.9

The increase in distribution revenue of $12.9 million was mainly due to higher ICM revenues ($3.4 million), higher 2023 distribution rates ($3.2 million), higher rate riders ($1.9 million) and higher LRAM ($1.2 million). Additionally, revenues in 2022 includes a settlement reached with the OEB related to a billing system error ($2.7 million) which has since been resolved. The ICM revenues relate to Seaton Municipal Transformer Station and Bus Rapid Transit ("BRT") project approved in 2022.

EE distribution revenue by customer classes are as follows:

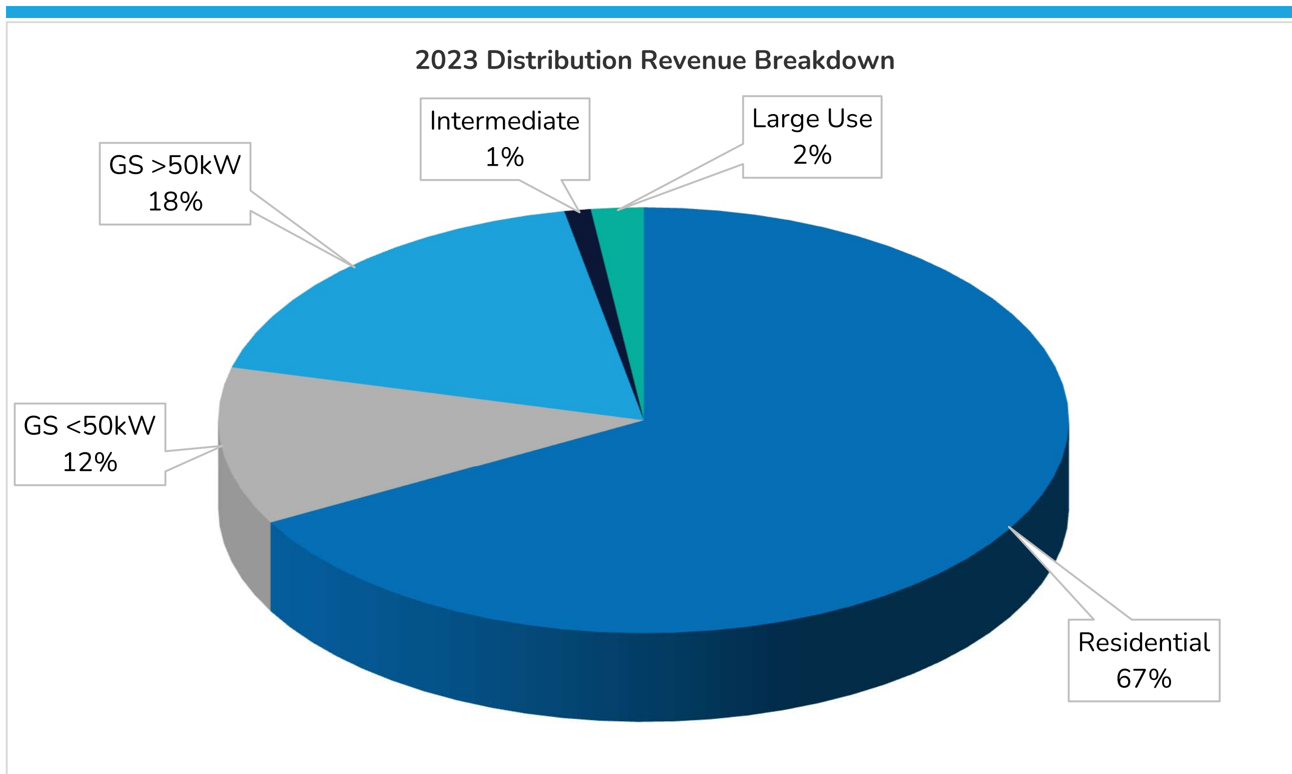
Residential (67%) - this classification includes single-family residences and multi-family units that are individually metered. A small portion of this class of customers have seasonal occupancy only.

General Service less than 50 kW ("GS <50kW") (12%) - 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 50 kW ("GS >50kW") (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 12-month period.



OTHER INCOME

Other income is earned from both the regulated electricity distribution activities for EE and unregulated activities from EG and EC. Other income includes:

- Amortization of deferred contributions from developers;
- Pole rental income generated from other utility service providers that attach equipment to poles owned by EE;
- 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 gain or loss on retirements and disposals of assets.

	2023	2022	Variance
Other income *(in millions of Canadian dollars)*	8.6	9.0	(0.4)

The decrease in other income of $0.4 million was mainly due to unregulated combined heat and power project write-off ($2.5 million), partially offset by higher unregulated EV charging station project income ($1.1 million) and realized swap gain ($0.7 million).

OPERATIONS, MAINTENANCE AND ADMINISTRATION

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.

	2023	2022	Variance
OM&A *(in millions of Canadian dollars)*	57.5	52.3	5.2

The increase in OM&A expense of $5.2 million was mainly due to regulatory application costs for ICM and Z-factor ($1.2 million), increased grid maintenance and reactive work ($1.2 million), unregulated business development costs ($0.9 million) and other corporate initiatives ($0.8 million).

DEPRECIATION AND AMORTIZATION

	2023	2022	Variance
Depreciation and amortization *(in millions of Canadian dollars)*	24.7	22.7	2.0

The increase in depreciation and amortization expense of $2.0 million was due to new in-service capital additions.

FINANCE COSTS

	2023	2022	Variance
Finance Costs, net *(in millions of Canadian dollars)*	15.4	8.5	6.9

The increase in net finance costs of $6.9 million was mainly due to higher interest rates on credit facilities.

INCOME TAX EXPENSE AND INCOME TAX RECORDED IN NET MOVEMENTS IN REGULATORY BALANCES

(in millions of Canadian dollars)	2023	2022	Variance
Income tax expense	1.8	6.1	(4.3)
Income tax on net movements in regulatory balances	5.5	5.2	0.3
	7.3	11.3	(4.0)

The decrease in income tax expense of $4.3 million is mainly due to deferred tax recovery related to unrealized interest rate swap loss. The increase in income tax on net movements in regulatory balances of $0.3 million is due to a reduction in deferred tax related to regulatory balances, offset by higher net deductions in temporary differences between accounting and tax treatments.

NET MOVEMENTS IN REGULATORY BALANCES

(in millions of Canadian dollars)	2023	2022	Variance
Net movements in regulatory balances[1]	(0.5)	1.1	(1.6)
Net movements due to commodity variance[1]	(8.6)	4.5	(13.1)
Income tax on net movement on regulatory balances	5.5	5.2	0.3
	(3.6)	10.8	(14.4)

[1] *Total amount shown as net movements in the regulatory balances in the consolidated statement on income*.

For the year ended December 31, 2023, the decrease of $2.3 million in regulatory debits and increase of $1.3 million in regulatory credits in the consolidated balance sheet equals the sum of $3.6 million of net movements in regulatory balances, net movements due to commodity variance and income tax on net movements in regulatory balances.

Net movements in regulatory balances, excluding net movements due to commodity variance, for the year ended December 31, 2023, was a charge of $0.5 million compared to a recovery of $1.1 million in the prior year. The decrease of $1.6 million is primarily due to higher rate riders ($1.9 million) offset by regulatory adjustment related to the locates variance account ($0.4 million).

FINANCIAL POSITION

The following table outlines significant changes in the consolidated balance sheet as at December 31, 2023 compared to December 31, 2022.

Significant in Changes in Consolidated Balance Sheet
(in millions of Canadian dollars**)**

Balance Sheet Account	Increase (Decrease)	Explanation of Change
Assets		
Accounts receivable	9.7	The increase was due to an increase of electricity account receivables balances, unbilled revenue and customer contribution receivables.
Material and supplies	3.6	The increase was driven by planned inventory purchases.
Property, plant and equipment, including intangible assets	59.6	The increase was mainly due to additional investments in the distribution grid offset by depreciation and loss on retirements.
Regulatory balances	(2.3)	The decrease was mainly due to amounts collected through OEB approved rate riders offset by amounts deferred into various regulatory accounts for collection in future periods.
Liabilities		
Accounts payable and accrued liabilities	(5.2)	The decrease was mainly due to lower electricity costs payable and accruals for capital projects.
Short-term debt	(134.7)	The decrease was due to the reclassification of external debt to long-term debt (refer to Liquidity and Capital Resources).
Deposits and developer obligations	(1.8)	The decrease is due to lower developer and customer deposits.

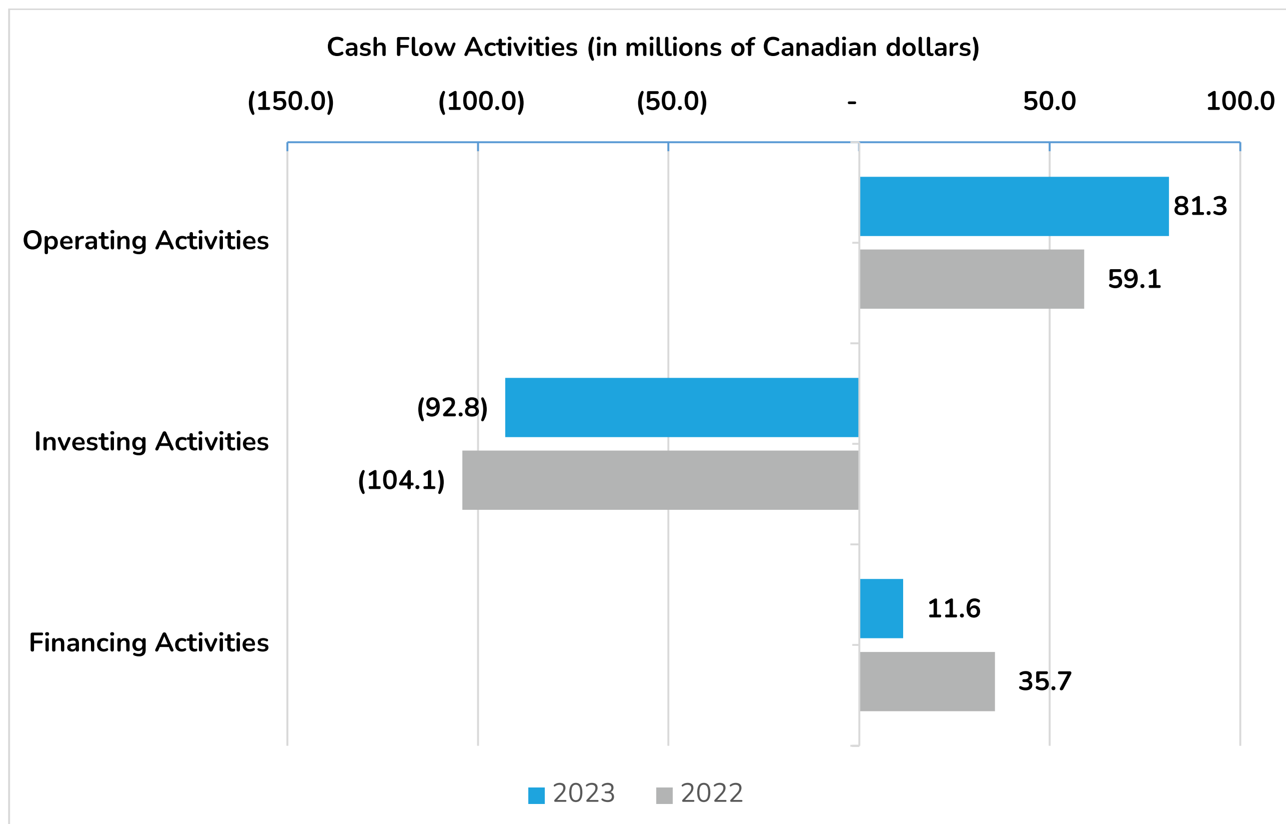
Significant in Changes in Consolidated Balance Sheet
(in millions of Canadian dollars)

Balance Sheet Account	Increase (Decrease)	Explanation of Change
Deferred contributions	36.8	The increase was due to capital contributions received.
Long-term debt	164.3	The increase was mainly due to reclassification from short term debt and new withdrawal from credit facilities (refer to Liquidity and Capital Resources).
Unrealized (loss) on interest rate swap derivatives	13.9	The increase was due to the lower interest swap rates of 3.87% and 3.84% when compared to the initial swap rates of 4.84% and 5.10% for the $220.0 million and $33.4 million swap loans respectively (refer to Liquidity and Capital Resources).
Regulatory liabilities	1.3	The increase was mainly due to legislative tax changes on capital cost allowance the impact for which is required to be returned to rate payers.

Liquidity and Capital Resources

CASH FLOW ACTIVITIES

The 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 capital contributions related to customer driven projects offset by timing differences in settlement of payables and receivables.

Investing Activities

The decrease in cash used for investing activities is mainly due to lower capital investments in system renewal, system service and general plant projects.

Financing Activities

The decrease in cash from financing activities is mainly due to repayment of short-term facilities and higher financing costs in 2023.

LIQUIDITY AND FINANCING ACTIVITIES

During 2023, the Corporation increased a committed credit facility from $170 million to $220 million and then combined its two committed credit facilities into a single committed credit facility of $253.6 million. Subsequently, the Corporation obtained an amendment from the Bank to increase the facility from $253.6 million to $353.6 million. The Corporation's debt to capitalization ratio on December 31, 2023 was 56.9%. This debt includes $89.1 million in shareholder promissory note debt, as well as the $353.6 million committed revolver facility with $253.4 million outstanding. These facilities carry covenants normally associated with long-term debt, including debt to capitalization and interest coverage ratios. The corporation also entered into swap agreements for $33.4 million and $220.0 million to lock in the interest rates for part of the committed revolver facility at 4.84% and 5.10% respectively. Additionally, the Corporation has access to uncommitted revolving demand credit facilities of $60.0 million and $5.0 million with nil balance outstanding, respectively. The Corporation is compliant with all bank covenants as at December 31, 2023.

On July 5, 2023, the Dominion Bond Rating Service ("DBRS") confirmed the Corporation's Issuer Rating at "A" with a stable trend. The DBRS report noted that the Corporation's rating continues to be supported by its stable regulated operations and reasonable financial profile.

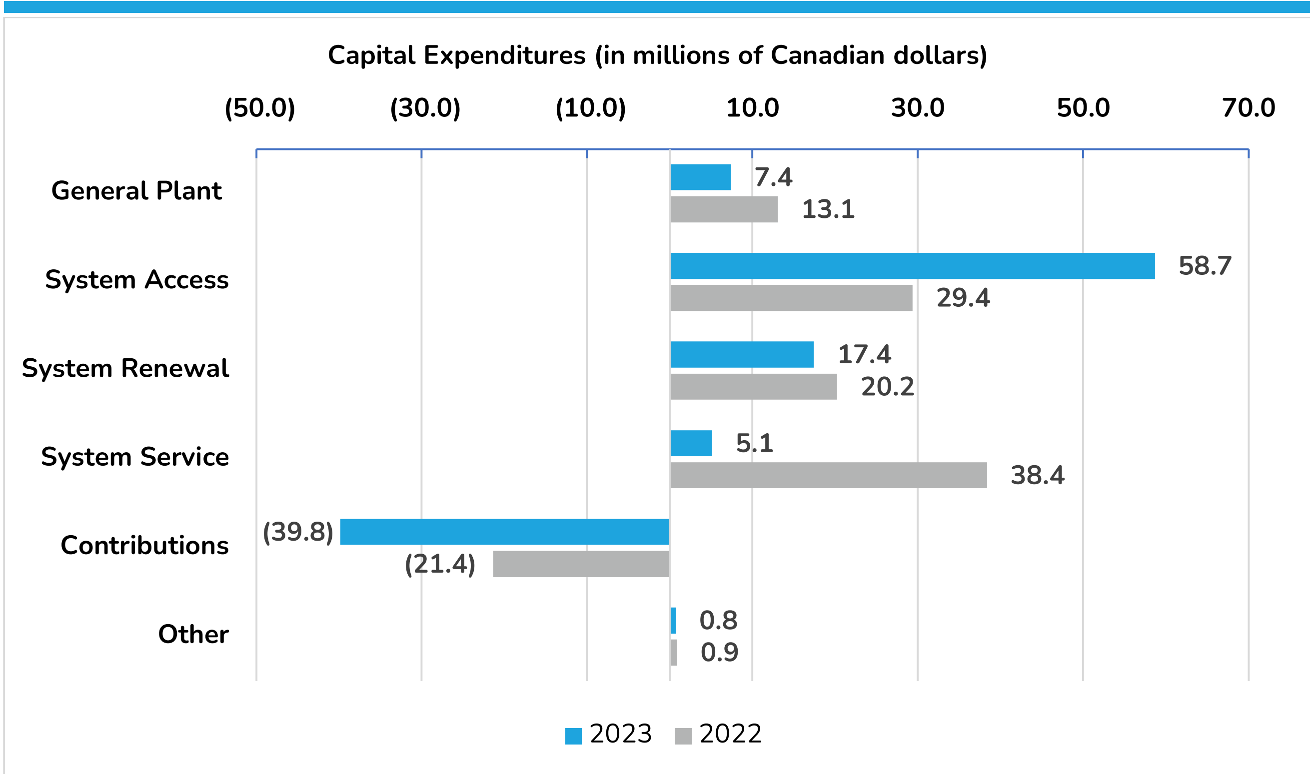
The Corporation's operating activities and these credit facilities are the primary sources of funds for liquidity and capital resource requirements. These resources are required for the following:

- 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 the Corporation's financial capital requirements and capacity as the capital needs evolve to meet all stated corporate strategic objectives.

CAPITAL EXPENDITURES

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



The General Plant investment category includes modifications, replacements, or additions to Corporation'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. Capital expenditures in this category have decreased by $5.7 million compared to 2022, primarily due to the Belleville building relocation project which was completed in 2022.

The System Access investment category includes investments that enable the Corporation to fulfill its obligation to provide customers with access to electricity services through the distribution system (including modifications such as asset relocations). Capital expenditures in this category have increased by $29.3 million compared to 2022, primarily due to large increases in road relocation projects related to Metrolinx and BRT initiatives in Pickering, Ajax and Whitby, and connections of new services, especially in Durham Region.

The System Renewal investment category includes investments to replace or refurbish distribution system assets to manage risks associated with aged and deteriorated infrastructure and maintain the Corporation's ability to provide customers with electricity services. Capital expenditures in this category have decreased by $2.8 million compared to 2022, due to lower emergency management capital expenditures in 2023.

The System Service investment category includes investments which modify the Corporation'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. The capital expenditures in this category returned to more typical levels without the impact of the Seaton Municipal Transformer Station project seen in 2022 expenditures, resulting in a reduction of $33.3 million compared to 2022.

Contributions are customer payments collected to fund capital construction expenditures. Customer contributions have increased by $18.4 million compared to 2022, primarily due to increase in customer requested work including relocation projects and connections of new services.

Other are capital investments related to unregulated activities. Unregulated capital expenditures have decreased by $0.1 million compared to 2022.

Share Capital

Share capital consists of:

(in millions Canadian dollars)	**2023**	**2022**
Authorized: 100,000 unlimited common shares Issued	97.7	97.7

Related Party 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"). Electricity is sold to the shareholders at the same prices and terms as other electricity customers consuming equivalent amounts of electricity.

Related Party Balances and Transactions (in millions of Canadian dollars)		
	2023	**2022**
Electricity and services revenues	9.3	8.5
Finance costs on notes payable	3.7	3.7

Property taxes paid	0.7	0.6
Accounts receivable balance	1.2	0.8
Dividends paid	6.1	9.4

Risk Management

The Corporation, through its operating entities (EE and EG) has continued to leverage the Enterprise Risk Management ("ERM") program developed and implemented, with the support of PricewaterhouseCoopers LLC, to build on the ERM foundation put in place in 2021. The ERM program consists of a robust framework and a cyclical process that is used to identify and mitigate, where possible, key risks that may impede the Corporation's ability to execute its strategy and achieve its corporate objectives, including financial performance. At the entity level, the ERM program includes annual and quarterly processes for identifying, assessing and reporting the Corporation's risks. Additionally, the program is embedded within each organizations strategic planning and business planning cycles to ensure risks are properly considered and managed.

The top risks being managed by EE include, but are not limited to, cyber vulnerability, supply chain shortages, collections, resource constraints, net income erosion, environmental incidents, aging asset infrastructure, shareholders' expectations, capital allocation and financial operations risk. More details pertaining to each of these risks are set out below.

In relation to EG, it commenced its Enterprise Risk Management program in 2022 with the development of their enterprise risk register. Following the identification of EG's top risks, for 2023, action plans were developed and monitored to ensure the risks are managed within tolerable limits. Looking forward, the EG will be reassessing and reprioritizing its risk on an annual basis. Top risks being managed by EG include, but are not limited to, sales pipeline, operational performance, retention and recruiting, health and safety, capital funding and cyber security.

CYBER VULNERABILITY

As the cyber security landscape continues to evolve, the Corporation maintains its focus on strengthening its cyber security posture through: upgrading systems and processes; monitoring internal and external environments; responding to threats and incidents in a timely manner; and creating a risk-aware culture through training and phishing campaigns. The continually evolving geopolitical landscape, exemplified by ongoing tensions such as those involving Russia, Ukraine, China, Iran and India, remains an ongoing source of heightened cyber security risk for the energy and

electricity sectors. Ransomware continues to pose the highest risk to Canadian organizations. When considering the risk exposure of the electrical grid and related assets, a cyberattack could result in power outages, loss of access to critical systems and loss of key sensitive and personal data, leading to reputational damage and potential legal and/or regulatory consequences. The Corporation's Information Technology/Operational Technology (IT/OT) operating model is expected to significantly address its technological obsolescence, simultaneously enhancing organizational efficacy and mitigating vulnerabilities inherent in legacy systems. Additionally, the Corporation implemented an Information Technology incident response framework that included a ransomware table-top exercise with the Executive Leadership Team and the Board of Directors to elevate the Corporation's incident response preparedness.

SUPPLY CHAIN SHORTAGES

The Corporation has seen a gradual improvement in certain items within its supply chain. However, it continues to experience material and equipment shortages, along with long and uncertain delivery timelines for items such as: cables; power transformers; and fleet, leading to challenges in project planning. In addition, increasing inflation and higher fuel prices continue to drive raw material prices upward, resulting in increased operating costs. To mitigate this, the Corporation is using a 2-year capital planning cycle to allow the ordering of required major equipment and materials well ahead of project completion timelines. Additionally, the Corporation has developed several alliance relationships with key suppliers and manufacturers, offsite material storage, diversification in sourcing, increases in minimum inventory levels, and other technological solutions.

COLLECTIONS

The Corporation began 2023 with higher than forecasted aged accounts receivable ("AR") attributed to the financial challenges customers are experiencing, specifically high inflation combined with high interest rates and the enduring impacts of the COVID-19 pandemic. Furthermore, the annual winter disconnection ban for residential customers commenced in November 2022, and continued through April 2023, impacting customers' propensity to pay. In response, the Corporation implemented a tiered collection strategy designed to improve cash flow and AR, by optimizing customer outreach and communications and encouraging customer contact, resulting in payment or a negotiated payment agreement. New performance reports and monitoring capabilities were developed to measure the effectiveness of the strategy, including cash flow and AR performance. The Corporation's AR has been reduced because of the effectiveness of the tiered collections strategy however, it is projected to increase during winter months due to the resumption of the winter disconnection ban for residential customers and the sustained economic factors that is expected to continue impacting our customers' ability or willingness to pay.

RESOURCE CONSTRAINTS

Throughout 2023, economic instability continued to put pressure on individual earnings. This, coupled with expectations for more flexible work arrangements and a competitive labour market for skilled and experienced workers, led to a relatively high level of turnover and a longer lead time to fill vacancies. Additionally, the workforce is demanding a more dynamic approach, given that it is multi-generational. These factors are not unique to the Corporation, although the organization has a lower rate of turnover and vacancy-fill lead time than the broader energy sector. To mitigate this risk, the Corporation continues to look at optimal ways of utilizing its human resources to maximize effectiveness and efficiency. There is also continued effort through the Corporation's Talent Management Framework to focus on: attracting; developing; and growing our internal and external talent network, with the purposes of increasing retention and providing a level of insulation from the competitive external labour market.

NET INCOME EROSION

Various factors continue to influence and impact the Corporation's net income, including the duration of time since the last rebasing of rates which has resulted in rates that do not reflect the Corporation's current cost structures; higher financing costs driven by higher interest rates; higher debt to fund customer-driven capital investments and critical infrastructure; and increasing account receivables due to seasonal restrictions on collection activities and the current economic instability. While some factors are beyond the control of the Corporation, the organization has implemented several strategies to stabilize its net income. This includes the execution of an interest rate swap loan that converted the organization's variable-interest debt to a fixed-rate instrument; implemented a tiered collection strategy designed to improve cash flow and AR, by optimizing customer outreach and communications and encouraging customer contact; and cost avoidance through prudent management. Furthermore, the Corporation continues to pursue available regulatory funding mechanisms to reduce the erosion to net income. These include the successful completion of both an ICM and Z-factor application as approved by the OEB and leveraging available OEB deferral accounts to defer costs for future recovery.

ENVIRONMENTAL INCIDENTS

Climate change has resulted in increased severe weather events, such as extremes in heat, cold, precipitation, forest fires and other natural disasters, which pose a threat to the Corporation's infrastructure, system reliability and its ability to operate in a safe and healthy environment. This is evidenced by the poor air quality from the forest fires in the summer, which restricted working capacity in the field. In 2023, the Corporation held a workshop with its key accounts and large customers (e.g., Ministry of Transportation, Lakeridge Health, etc.) from across its service territory that resulted in a prioritized list of customers to inform power restoration efforts. To further mitigate this risk, an environmental incident procedure was formalized, and the incident reporting process was revised as

part of the greater Health, Safety and Environment incident management system. In addition, a spill prevention and preparedness procedure was developed, and employees were trained on the spill reporting process. Furthermore, the Corporation is upgrading and weather-hardening its distribution assets to better withstand natural events.

AGING ASSET INFRASTRUCTURE

Acknowledging that the Corporation's distribution system infrastructure is aging, throughout 2023, the Corporation continued to prioritize the upgrade and timely replacement of its assets based on their condition and end-of-life assessment. Financial restrictions, supply chain limitations, human resources constraints, and more frequent and impactful weather events continue to create challenges in mitigating this risk. On an annual basis, the Corporation refreshes the asset condition assessment and an asset replacement plan to support its capital investment program by prioritizing the replacement of the Corporation's assets. To address the reliability concerns with the Corporation's asset infrastructure, several key projects are planned for 2024 and beyond to modernize the grid and improve on the declining reliability metrics for the System Average Interruption Duration Index. In addition, the Corporation has an ongoing maintenance program that includes, but is not limited to: pole testing; tree trimming; transformer replacements; cable injections; station renewals; and switch maintenance.

SHAREHOLDERS' EXPECTATIONS

While the Corporation's strategy is primarily aligned with the shareholder's expectations, maintaining and increasing the level of dividends on an annual basis and meeting shareholder expectations in relation to development and growth within their respective territories continues to be a key focus to ensure ongoing alignment. Current economic and social factors such as high inflation and interest rates, as well as seasonal restrictions on collection activities, are affecting customers' ability to pay their debt, therefore decreasing the Corporation's cashflow and putting pressure on net income. Additionally, a customer base that is not increasing at the anticipated rate following the merger (of Whitby Hydro Energy Corporation and Veridian Corporation), new government policy to "build homes faster" and the limited ability to increase rates to reflect the organization's current cost structures are some of the main factors to manage with the shareholders. To keep shareholders informed, the Corporation provides quarterly updates to the Board on its strategy execution progress; provides financial reporting to the municipal Chief Administration Officers ("CAOs") and treasurers; and develops touchpoints with its shareholders on their plans to develop their municipalities and address customer issues.

CAPITAL ALLOCATION

As the Corporation continues to face the need to continuously update its aging asset infrastructure, the increasing population growth within its service territory is driving increased demand for new

connections and for more electricity capacity. All of these factors are competing for finite capital resources available to the Corporation. In order to successfully mitigate this risk, two separate but interrelated parts are continuously considered by the Corporation: the financial constraints component, which considers the amount of funds that are available for a defined period; and the operational component, which considers how the organization prioritizes and utilizes the finite funds within that defined period in the most efficient and effective manner. To accommodate the growth in population and capacity needs, and to meet the regulatory obligation of connecting customers on time, the Corporation prioritizes the capital funds to ensure that the projects with the highest impact on safety and reliability are executed. In addition, in 2023, the Corporation consolidated the distribution operations and asset management departments and hired a senior leader to oversee these core functions to ensure a holistic view within the Corporation from asset planning to implementation and operations. The Corporation is also looking at alternate funding mechanisms through its regulators to better balance its regulatory commitments (to connect customers on time) with the need to continuously update and improve its infrastructure.

FINANCIAL OPERATIONS RISK

Similarly, and closely aligned with the net income erosion risk, are the factors that are impacting the Corporation's financial operations. Current economic and social factors, such as high inflation and interest rates, are affecting customers' ability to pay, thereby decreasing the Corporation's cashflow. While these balances are further impacted by seasonal restrictions on collection activities, the duration since the last rebasing of rates to reflect the Corporation's current cost structures puts added pressure on the Corporation in relation to this risk. In 2023, the Corporation implemented a tiered collection strategy designed to improve cash flow, by optimizing customer outreach and communications and encouraging customer contact, resulting in payment or a negotiated payment agreement; increased the organization's credit operating facility; and implemented strategies for cost avoidance through prudent management. Additionally, the Corporation has successfully applied for alternative funding mechanisms through its regulators (i.e., ICMs).

Significant Accounting Policies

The significant accounting policies of Elexicon Corporation are summarized in Note 1 of the consolidated financial statements. The consolidated financial statements have been prepared in accordance with the IFRS.

Selected Annual Financial Information

Selected Annual Financial Information (in millions of Canadian dollars)		
	2023	**2022**
Year Ended December 31		
Total revenues[1,2]	527.6	523.7
Net income after net movements in regulatory balances[2]	0.6	16.8
Adjusted net income[3,2]	8.0	12.0
As at December 31		
Total assets and regulatory balances[4]	894.4	827.5
Debt[5]	342.6	313.0
Equity	256.8	262.9
Dividends	6.1	9.4

[1] Total revenues include commodity, distribution and other revenues
[2] Refer to "Results of Operations" for further details.
[3] Adjusted net income excludes unrealized gain (loss) on interest rate swap and related taxes.
[4] Refer to "Financial Position" for significant changes in balance sheet items.
[5] Debt includes both short-term and long-term balances.

Industry Outlook

Increasing electrification means the important role that electricity plays in peoples' lives will only continue to increase. More and more people have moved from filling their vehicle with gasoline to plugging it in with over 150,000 vehicles now registered in Ontario. LDCs must continue to work closely with government and the electricity regulator to ensure that Ontario's framework adequately supports the adoption of innovative new technologies. The increased occurrence of severe weather events as a result of climate change must also be incorporated into planning efforts to ensure a resilient and reliable grid. As EE and other LDCs modernize their systems, there may be new opportunities for a total distribution operator system model that could help to leverage increasing DERs in local communities to provide benefits to the local distribution system and bulk electricity system and maximize the benefits these resources can provide to the electricity grid and to the benefit of our customer base.

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