Elexicon Corporation

Management Discussion and Analysis

Year ended December 31, 2024

Table Of Contents

Executive Summary

In 2024, Elexicon Corporation (the "Corporation") continued to deal with multiple challenges, including rising customer demands for connection to grid, aging infrastructure, and a changing regulatory environment. 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 $6.5 million compared to $8.0 million in the prior period. The Corporation incurred gross capital expenditures of $94.6 million in 2024 compared to $89.4 million in 2023 (net capital expenditures of $69.2 million in 2024 (excluding a capital contribution reclass of $12.9 million, refer to Capital Expenditures section for more detail), compared to $49.6 million in 2023), 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, 2024. The consolidated financial statements are prepared in accordance with IFRS Accounting Standards ("IFRS") in effect as at December 31, 2024.

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 (9.3%) 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 EC 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 180,000 homes and businesses located in the following ten municipalities across 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. In six short years, Elexicon Energy has become one of the most successful and well-respected local distribution companies ("LDC") in the energy sector, while powering the lives of customers and the communities it serves. It does this through four strategic pillars of customer centricity, operational excellence, economic development and strategic investment. Beyond the provision of dependable energy, EE takes pride in proactively working towards a better tomorrow that's simply better, for all.

Elexicon Group Inc. ("EG") is currently in the process of organization restructure. On January 31, 2025, EG sold its Rate Switch business and shares in EVSTART to Wyse. EG has 120 days after the transaction date to assign remaining contracts over to Wyse for additional consideration. Once the 120-day period has ended, the activity in EG is expected to be minimal as the restructuring plan will have been completed.

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 and Electrification (the "Ministry"): The Government of Ontario, through the Ministry, 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 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 Ministry can issue directives to the OEB and they must be implemented.

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 industries 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 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 (33%), gas/oil (28%), hydro (24%), 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 energy distributor (also called 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". Approximately 25% of the customer's total bill, depending on usage, is comprised of EE's distribution rates. The balance of the bill consists 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, the Veridian Rate Zone ("VRZ") and the Whitby Rate Zone ("WRZ").

RATE SETTING

EE's distribution rates and other regulated charges are determined to allow shareholders the opportunity to earn a regulated Return on Equity ("ROE") on deemed shareholder equity. 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 2024, the OEB approved EE's IRM application for changes to distribution rates for the VRZ and WRZ, effective January 1, 2025. The monthly bill increases associated with the application was $1.55 and $1.75 for a residential customer consuming 750 kWh in the VRZ and WRZ, 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 May 2024, the OEB approved EE's proposed Earnings Sharing Mechanism ("ESM") methodology as filed, effective January 1, 2024, and continuing until EE's next rebasing. Specifically, the OEB approved EE's proposed 50/50 sharing of excess earnings above 300 basis points of its weighted deemed ROE commencing with EE's year six (2024) audited results, computed annually thereafter until the next rebasing.

ENVIRONMENT AND POLICY IMPACTING THE CORPORATION

Last Mile Connections and Regulatory Changes

In December 2024, the Ministry issued a directive to the OEB. The directive provides insight into the future of the sector. The government emphasized that planning and regulatory frameworks will need to look for ways to be flexible and get infrastructure and resources built quickly and cost-effectively to support the government's pro-growth agenda. The government has asked the OEB to consider how to balance a fair rate of return to enable rational expansion and maintenance of the electricity and natural gas systems with the need for continued affordability for customers.

Last mile connections are a priority for this government. "Last mile customers" is typically a shorthand for referring to customers that are connected to the distribution grid. Last mile connections reference new customers (i.e., often developers) that are seeking to connect new buildings to the distribution grid. The new customer connections often require new lines and other investments from the distribution companies. The Ministry has instructed the OEB to amend the Distribution System Code ("DSC") to extend the connection horizon for new electricity distribution lines for multi-phased housing development projects to a maximum of 15 years (up from five years) and establish a capacity allocation model for these projects by March 2025. Furthermore, the Ministry stated it will be proposing new regulations in 2025 that would, if approved, reduce the upfront capital cost burden on first-mover connection customers where future load is highly likely to materialize. However, The Ministry has asked the OEB to work with the IESO, licenced transmitters, LDCs, municipalities, and other stakeholders to consider how the beneficiary' pays principle can best be modified or applied to ensure that LDCs and others are kept whole in the face of this change. Overall, it is anticipated that LDCs will be required to fund a greater share of the costs for new connections as a result of these changes.

Ontario's First Integrated Energy Plan

In 2025, the Ministry will be introducing Ontario's first ever Integrated Energy Plan ("IEP"), one of the recommendations made to the government by the EETP. The Ministry announced in their vision paper, Ontario's Affordable Energy Future: The Pressing Case for More Power, that one IEP would be published for the province in 2025. The Ministry also held consultations with stakeholders in late 2024 about what should be included in the plan. Historically, planning for the province has been overseen by the IESO, who divided the province into 21 regions, with each region undergoing a planning exercise approximately every five years. The new IEP should provide clear messages to large customers and industry players about where the industry is headed.

Locate Compliance Changes

The *Building Infrastructure Safely Act, 2024* (Bill 153) amended the *Ontario Underground Infrastructure Notification System Act, 2012*, and among other changes, enabled Ontario One Call to charge penalties to infrastructure owners (including EE) for locate requests not completed within the allotted time frame. Ontario One Call is permitted to issue penalties for late locates at the organization's discretion and the penalties can be steep. The penalties came into effect on May 1, 2024. Over the year, EE put a focus on increasing compliance on locate requests and joined a voluntary program for Ontario One Call. EE hired new staff in this area and made efficiencies to significantly increased locate performance. Due to strides made in this area, the organization did not receive any penalties for late locates in 2024. Keeping performance high will need to continue to be an area of focus moving forward.

CONSERVATION AND DEMAND MANAGEMENT UPDATE ("CDM")

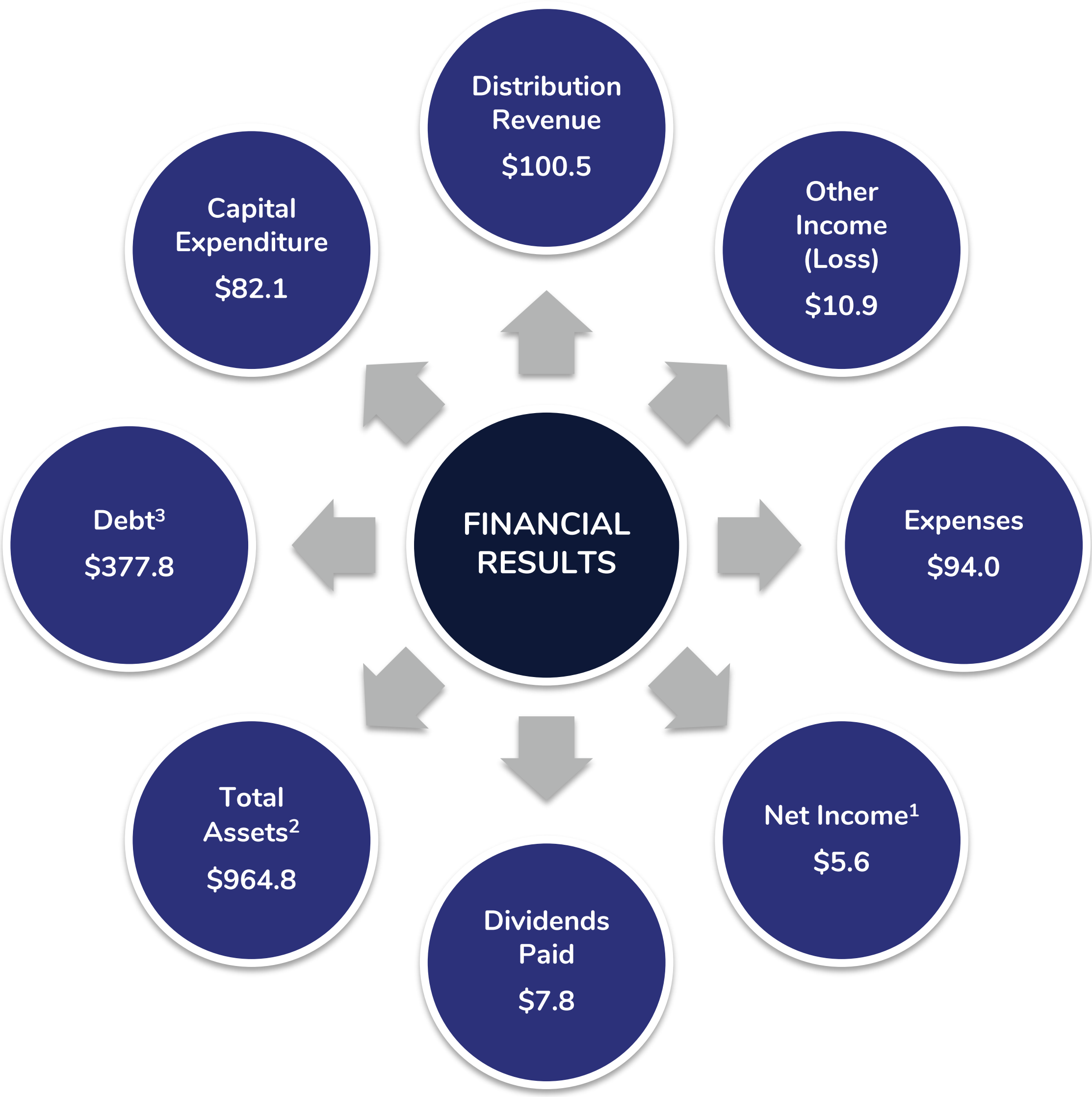
Ontario's next energy efficiency framework will have an extended timeframe (12-years) offering benefits to customers and utilities in terms of consistency and will begin January 2025. There is $10.9 billion budgeted for the framework over this period. The framework will include 14 programs, 12 of which are continuing or expanding and two are new. For perspective, the previous 2021-2024 framework had a budget of $1 billion dollars. During 2024, the Company received notice from the IESO with respect to bringing the wind-down of the CDM programs under the 2021-2024 framework to a close. A reconciliation was performed and the pre-funding amounts were returned to the IESO. Under the new 12-year framework, province-wide programs will continue to be centrally delivered by the IESO (as they have been since 2019). However, going forward there will be more LDC opportunities and involvement. LDCs will be able to apply for funding through the IESO for local programs that address system needs, as well, LDCs will be eligible for funding in order to support customer engagement in province-wide programs (e.g., marketing and outreach activities).

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.

In the 2022 annual rate application, the OEB 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 2024 fiscal year, the OEB approved the recovery of the LRAM-eligible amount of $1.1 million. In the 2024 annual application, the OEB approved the recovery of the mechanistically adjusted LRAM-eligible amount of $1.1 million in 2025 fiscal year.

Results of Operations

2024 FINANCIAL RESULTS AT A GLANCE (in $ millions)



[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)

	2024	2023	Variance
Commodity			
Commodity revenues	464.4	421.5	42.9
Commodity costs	(454.3)	(412.9)	(41.4)
Commodity variance	10.1	8.6	1.5
Net movements due to commodity variance[1]	(10.1)	(8.6)	(1.5)
Revenues			
Distribution revenue	100.5	97.5	3.0
Other Income	10.9	9.9	1.0
	111.4	107.4	4.0
Expenses			
Operating, maintenance and administration	(66.7)	(57.5)	(9.2)
Depreciation and amortization	(27.3)	(26.0)	(1.3)
	(94.0)	(83.5)	(10.5)
Finance costs, net	(15.3)	(15.4)	0.1
Unrealized (loss) gain on interest rate swaps	(1.2)	(11.1)	9.9
Income before income taxes	0.9	(2.6)	3.5
Income tax recovery (expense)	0.4	(1.8)	2.2
	1.3	(4.4)	5.7
Net income for the period	1.3	(4.4)	5.7
Net movements in regulatory balances[1]	6.7	(0.5)	7.2
Income tax on net movement on regulatory balances	(2.4)	5.5	(7.9)
Net income after net movements in regulatory balances	5.6	0.6	5.0

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

Net income after net movements in regulatory balances for the year ended December 31, 2024, was $5.6 million compared to $0.6 million for the prior year. After normalization for the unrealized gain and loss in both 2024 and 2023, the net income after net movements for year ended December 31, 2024, was $6.5 million compared to $8.0 million for the prior year.

The increase in net income of $5.0 million was primarily due to lower unrealized loss related to the interest rate swaps ($9.9 million), higher distribution revenue ($3.0 million), lower income tax expense ($2.2 million) and higher other income ($1.0 million). These lower costs were partially offset by higher operating, maintenance, and administration ("OM&A") costs driven by increased system maintenance costs, reactive work, bad debts, inventory write-offs, and corporate initiatives ($9.2 million), higher depreciation and amortization expense ($1.3 million) and decrease in net movements in regulatory balances excluding commodity variance, net of tax ($0.7 million).

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") and 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 a 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, 2024 (in millions of Canadian dollars)			
	Commodity Costs	Commodity Revenues	Variance
Commodity charges	365.2	362.1	3.1
WMS charges	21.4	21.3	0.1
RTSR charges	67.7	66.2	1.5
Total	454.3	449.6	4.7
Rate rider		14.8	(14.8)
Total	454.3	464.4	(10.1)

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)

The commodity variance of $4.7 million was recorded in the consolidated balance sheet for collection in future periods and represents an increase of $4.8 million from prior year. The increase was mainly due to WMS variance increase of $3.3 million due to WMS revenue and cost approximately equal in 2024, and Commodity variance increase of $2.3 million due to higher actual Global Adjustment ("GA") rates charged to EE compared to GA rates used for billing customers.

For the year ended December 31, 2024, the Corporation collected $14.8 million of rate riders related to prior period commodity variance regulatory assets. For the year ended December 31, 2023, the Corporation collected $8.5 million of rate riders related to prior period commodity variance regulatory assets. 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 line.

	2024	2023	Variance
Distribution revenue *(in millions of Canadian dollars)*	100.5	97.5	3.0

The increase in distribution revenue of $3.0 million was mainly due to higher 2024 distribution rates ($5.3 million), partially offset by the removal of expiring LRAM rate riders ($2.6 million).

EE distribution revenue by customer classes are as follows:

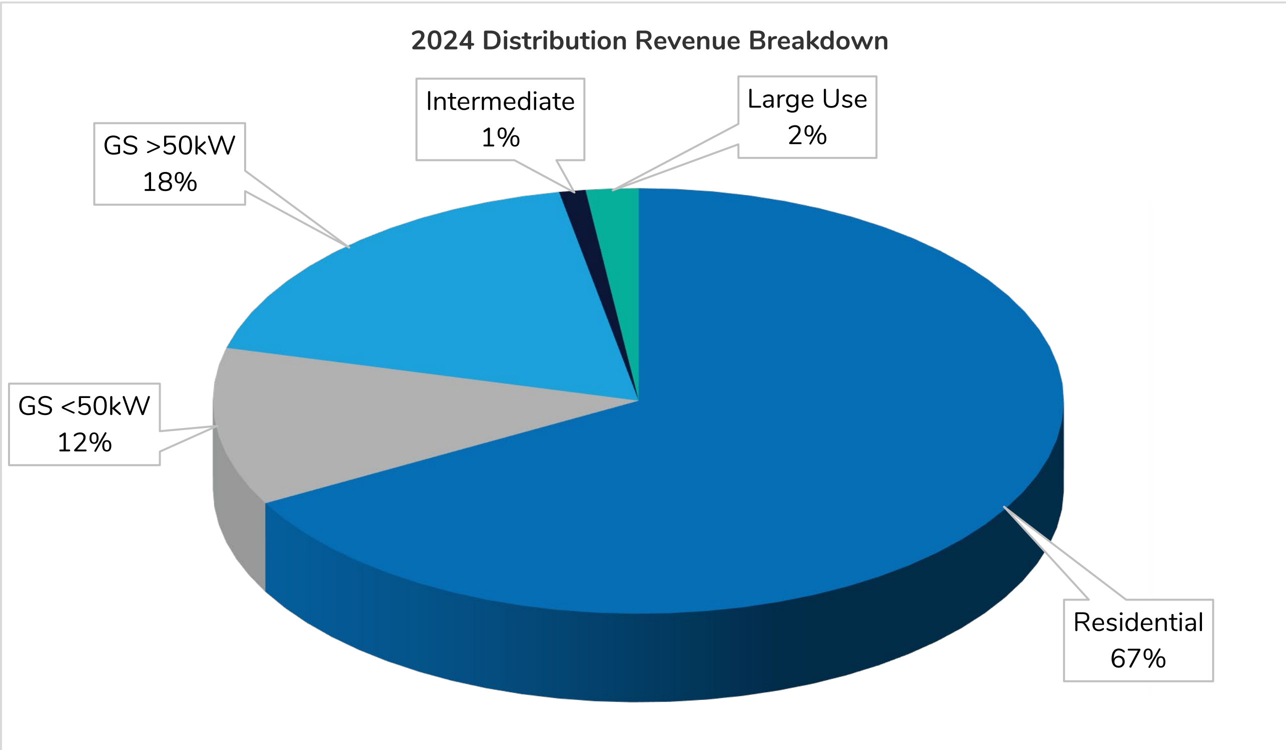
Residential (67%) - this classification includes single-family residences and multi-family units that are individually metered. A small portion of this class of customers have seasonal occupancy only.

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 50 kW to 2,999 kW (18%) - this classification applies to non-residential accounts 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 3,000 kW to 4,999 kW ('Intermediate') (1%) - this classification applies to non-residential accounts 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, 3,000 kW but less than 5,000 kW, and includes apartment buildings as well as 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; and
- 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.

	2024	2023	Variance
Other income *(in millions of Canadian dollars)*	10.9	9.9	1.0

Other income is $1.0 million higher in 2024 mainly due to unregulated combined heat and power project impairment in 2023 ($2.5 million), partially offset by lower unregulated income ($0.8 million) and realized swap gain in 2023 ($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 EC and its subsidiaries.

	2024	2023	Variance
OM&A *(in millions of Canadian dollars)*	66.7	57.5	9.2

The increase in OM&A expense of $9.2 million was mainly due to increased system maintenance, including environmental remediation costs at a station property, maintenance programs and reactive work ($3.4 million), higher labour costs ($2.8 million), and corporate initiatives ($2.3 million).

DEPRECIATION AND AMORTIZATION

	2024	2023	Variance
Depreciation and amortization *(in millions of Canadian dollars)*	27.3	26.0	1.3

The increase in depreciation and amortization expense of $1.3 million was due to new in-service capital additions.

FINANCE COSTS

	2024	2023	Variance
Finance Costs, net *(in millions of Canadian dollars)*	15.3	15.4	0.1

The decrease in net finance costs of $0.1 million was mainly due to lower interest rates on credit facilities ($0.3 million), mostly offset by higher debt ($0.2 million).

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

(in millions of Canadian dollars)	2024	2023	Variance
Income tax (expense) recovery	(2.0)	3.7	(5.7)
Income tax on net movements in regulatory balances	2.4	(5.5)	(7.9)
	0.4	(1.8)	2.2

The decrease in income tax expense of $2.2 million is mainly due to lower income tax on net movements in regulatory balances. This is partially offset by lower deferred tax recovery related to unrealized interest rate swap loss and higher deferred tax expense related to regulatory balances and deferred revenue.

The decrease in income tax on net movements in regulatory balances of $7.9 million is due to a reduction in deferred tax related to regulatory balances and lower deferred tax expense related to temporary differences between accounting and tax values.

NET MOVEMENTS IN REGULATORY BALANCES

(in millions of Canadian dollars)	2024	2023	Variance
Net movements in regulatory balances[1]	6.7	(0.5)	7.2
Net movements due to commodity variance[1]	(10.1)	(8.6)	(1.5)
Income tax on net movement on regulatory balances	(2.4)	5.5	(7.9)
	(5.8)	(3.6)	(2.2)

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

For the year ended December 31, 2024, the decrease of $2.5 million in regulatory debits and increase of $3.3 million in regulatory credits in the consolidated balance sheet equals the sum of $5.8 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 and tax, for the year ended December 31, 2024, was $6.7 million compared to $(0.5) million in the prior year. The increase of $7.2 million is primarily due to $2.6 million LRAM rate riders, $1.9 million Collection of Account deferral and variance account ("DVA") and $0.6 million due to new Cloud Computing DVA.

FINANCIAL POSITION

The following table outlines significant changes in the consolidated balance sheet as at December 31, 2024, compared to December 31, 2023.

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

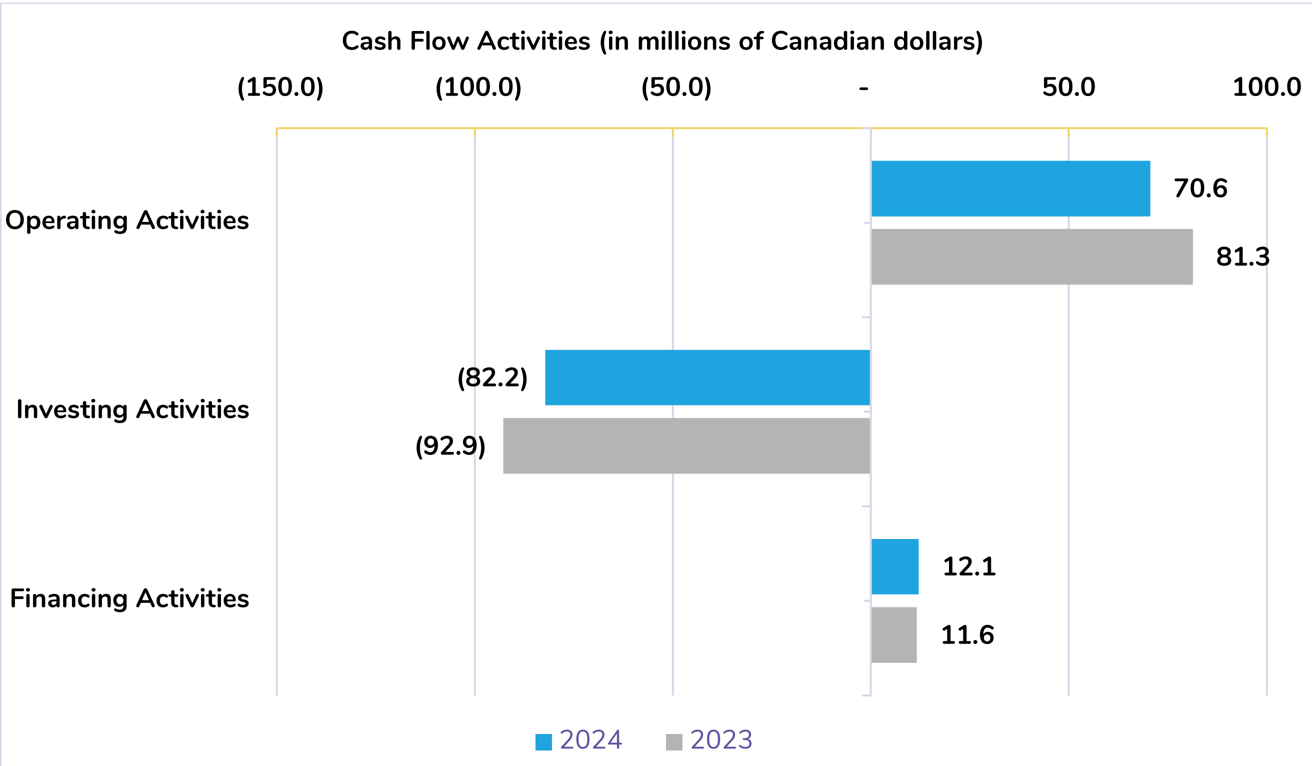
Balance Sheet Account	Increase (Decrease)	Explanation of Change
Assets		
Accounts receivable	8.8	The increase was due to an increase of electricity accounts receivable balances, unbilled revenue, HST receivables, and lower accounts receivable provision.
Material and supplies	(1.6)	The decrease was driven by planned inventory movement.
Property, plant and equipment, including intangible assets	65.3	The increase was mainly due to additional investments in the distribution grid offset by depreciation and loss on retirements.
Regulatory balances	(2.5)	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	17.0	The increase was mainly due to higher accruals for capital projects.
Short-term debt	5.2	The increase was due to working capital requirements (refer to Liquidity and Capital Resources).
Deposits and developer obligations	3.2	The increase was due to higher 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	21.9	The increase was due to capital contributions received from developers to fund capital asset investments.
Long-term debt	30.0	The increase was due to external long term debt financing to fund capital investment. (refer to Liquidity and Capital Resources).
Unrealized (loss) on interest rate swap derivatives	1.2	The increase was due to the lower 2024 interest rates compared to initial swap rates on interest rate swap loans (refer to Liquidity and Capital Resources).
Regulatory liabilities	3.3	The increase was mainly due to regulatory tax liability and by amounts deferred into various regulatory accounts to be refunded to customers in future periods.

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 decrease in net cash from operating activities is mainly due to lower 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 cash capital investments in system renewal, system service and general plant projects.

Financing Activities

The increase in cash from financing activities is mainly due to higher external financing in 2024.

LIQUIDITY AND FINANCING ACTIVITIES

During 2024, the Corporation drew $30 million on the committed credit facility of $353.6 million. The Corporation's debt to capitalization ratio on December 31, 2024, was 59.8%. This debt includes $89.1 million in shareholder promissory note debt, as well as the $353.6 million committed revolver facility with $283.4 million outstanding. These facilities carry covenants normally associated with long-term debt, including debt to capitalization and interest coverage ratios. Additionally, the Corporation has access to uncommitted revolving demand credit facilities of $60.0 million with $5.2 million outstanding and $5.0 million with nil balance outstanding, respectively. The Corporation is compliant with all bank covenants as at December 31, 2024.

On June 21, 2024, Morningstar DBRS ("DBRS") credit rating service confirmed the Corporation's Issuer Rating at "A" and changed the trend to Negative from Stable. The DBRS report noted that the trend change reflects the expectation that the Corporation's financial risk assessment will be weak for the rating category in 2024 and 2025.

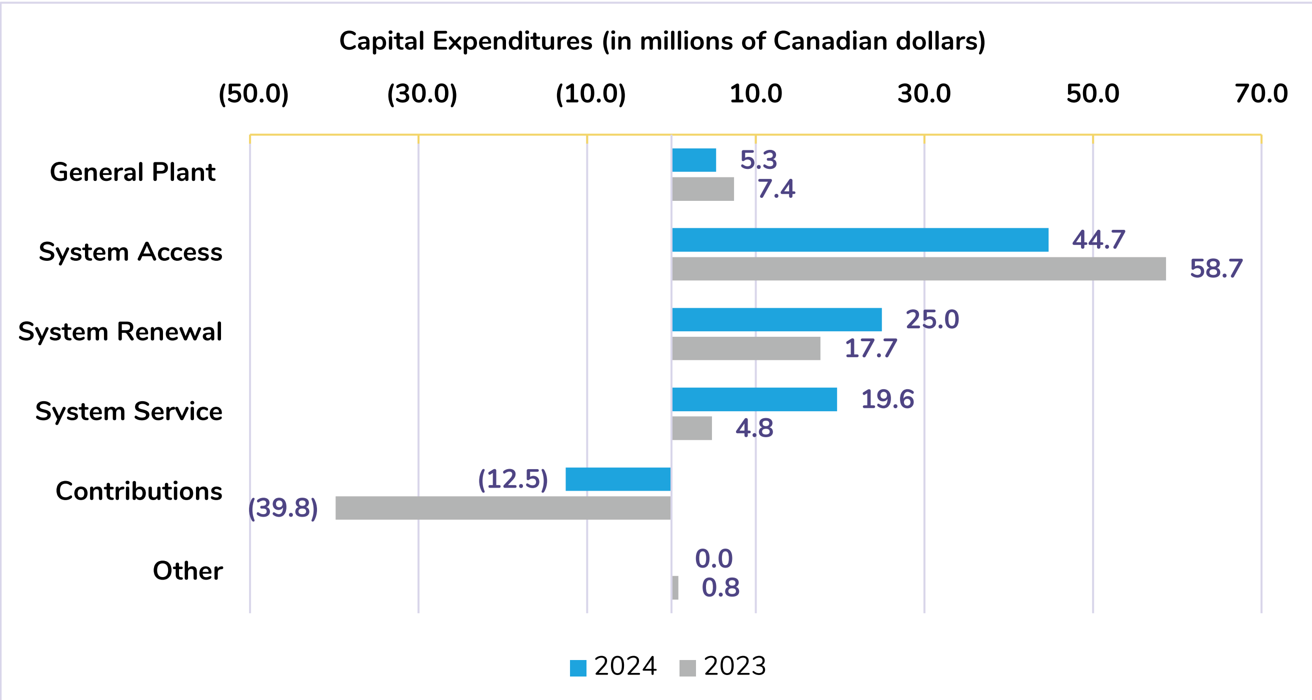
The Corporation's operating activities and these credit facilities are the primary sources of funds for liquidity and capital resource requirements. These resources are required for the following:

- 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 the 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 $2.1 million compared to 2023, due to lower spending in three areas: fleet vehicles, facilities and Information Technology.

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 decreased by $14.0 million compared to 2023, primarily due to large decreases in municipality driven road relocation projects including Metrolinx initiatives and decreases in spending related to connections of new service.

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 increased by $7.3 million compared to 2023, due to higher spending in substation renewal projects and equipment replacement following outages.

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 increased by $14.5 million compared to 2023, due to Connection and Cost Recovery Agreement ("CCRA") true up payments to Hydro One for the Whitby Municipal Transformer Station, Seaton Municipal Transformer Station and spending on large scale capital expansion projects.

Contributions are customer payments collected to fund capital construction expenditures. The decrease of $27.3 million in capital contributions is mainly due to $14.4 million of contribution reduction in customer road relocation and new service connections projects and a reclass of $12.9 million related to advance customer contributions receipt from construction work in progress. There is considerable volatility in customer driven contributions due to the dynamic nature of customer needs and timelines.

Other are capital investments related to unregulated activities. Unregulated capital expenditures have decreased by $0.8 million compared to 2023.

Share Capital

Share capital consists of:

(in millions Canadian dollars)	**2024**	**2023**
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 Whitby, the City of Pickering, the Town of Ajax, the Municipality of Clarington and the City of Bellville (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)		
	2024	**2023**
Electricity and services revenues	9.1	9.3
Finance costs on notes payable	3.7	3.7
Property taxes paid	0.7	0.7
Accounts receivable balance	1.2	1.2
Dividends paid	7.8	6.1

Risk Management

The Corporation, through its operating entities EE and EG, has continued to leverage the Enterprise Risk Management ("ERM") program established in 2021 which 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 organization's 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, net income, cyber security, shareholders' expectations, asset infrastructure, distribution system capacity and expansion, data and information management, technology and innovation, change management, health and safety, succession planning and financial capital constraints. More details pertaining to each of these risks are set out below.

In relation to EG, due to ongoing corporate changes, monitoring and tracking risks is being managed through a special committee of the Corporation that was selected to oversee these ongoing changes.

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 expenses, higher debt to fund customer-driven capital investments and critical infrastructure and an increasing aged accounts receivable balance 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 help stabilize its net income. This includes partially offsetting or mitigating costs through favourable financing options, the adjustment of provisions to align with recent regulatory decisions, and a review of the capitalization policy to ensure its optimization while ensuring compliance to accounting standards. The Corporation also continued its tiered collection strategy designed to improve cash flow and reduce aged accounts receivables. Furthermore, the Corporation continues to pursue available regulatory funding mechanisms to reduce the erosion to net income. In 2025, EE will apply for incremental capital funding for its 2026 rates. In addition, EE intends to apply for rebasing with respect to the 2027 to 2031 rate period, which would end its ten-year deferred rebasing period two years earlier than scheduled, substantially increasing revenues in 2027 instead of 2029.

CYBER SECURITY

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, China, Iran and India, remains an ongoing source of heightened cyber security risk for the energy sector. Nation-state actors are increasingly prepositioning themselves within critical infrastructure, potentially causing havoc in the future if conflicts arise between countries. Ransomware continues to pose the highest risk to Canadian organizations. Additionally, there has been a significant increase in identity-based attacks, which target personal and organizational credentials to gain unauthorized access to systems and data. 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. Through a modern workplace initiative and a multi-year Enterprise Resource Planning initiative, the Corporation's Information Technology/Operational Technology (IT/OT) operating model is expected to significantly address its technological obsolescence, simultaneously enhancing organizational efficiency and mitigating vulnerabilities inherent in legacy systems. Additionally, the Corporation is continuously designing and implementing compensating controls, including restricting access, monitoring, alerting, and reporting on out-of-date operating systems.

SHAREHOLDERS' EXPECTATIONS

The Corporation's strategy focuses on meeting shareholder expectations, particularly by increasing value in the Corporation and maintaining dividends, as well as supporting development and growth in their municipalities. However, challenges such as high inflation, interest rates, increasing infrastructure investment requirements, and increasing aged receivables balance are reducing cash flow and pressuring net income. Environmental remediation costs in 2024 also increased operational costs. Government policies to speed up home construction and limited ability to raise rates to cover current costs are key issues to manage with shareholders. To keep shareholders informed, EE provides quarterly updates to the Board of the Corporation (its shareholders) on its strategy progress, shares financial reports with municipal Chief Administration Officers ("CAOs") and treasurers annually, and has updated its Shareholder Engagement Strategy based on feedback from meetings with its shareholder municipalities. This updated strategy will help the Corporation to continually engage and communicate with shareholders, align actions on relevant topics, and increase the understanding of all parties needs.

ASSET INFRASTRUCTURE

Acknowledging that the Corporation's distribution system infrastructure is aging, throughout 2024, 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 and more frequent and impactful weather events continue to create challenges in mitigating this risk. In 2024, the Corporation reorganized the Asset Management division to better serve the needs of the communities serviced by the Corporation and bring increased focus on reliability improvements and load forecasting. To address the reliability concerns with the Corporation's aging asset infrastructure, several key projects are planned for 2025 and beyond to modernize the grid and improve on the deteriorating reliability metrics for the System Average Interruption Duration Index ("SAIDI"). In addition, the Corporation has an ongoing maintenance program that includes but is not limited to pole testing, tree trimming, transformer inspections and switch maintenance. Financial constraints are currently limiting management's ability to adequately invest in the 2025 capital and maintenance execution work programs, which are crucial for minimizing reliability issues due to defective equipment and tree contacts .

DISTRIBUTION SYSTEM CAPACITY AND PLANNING

Various levels of government are providing incentives to municipalities to meet their housing targets, and the push to meet these targets is increasing the request for residential connections. Also, there is an increasing demand for commercial connections because of the availability of real estate and attractiveness to commercialize within the Corporation’s service territory. This increasing demand for connection, both commercial and residential, combined with population growth and electrification of transportation and home heating, is raising the risk of the Corporation’s assets not being able to provide sufficient capacity to meet its customer needs and may impact the organization’s ability to connect customers on time. To mitigate this risk, the Corporation is planning to apply for early rebasing so that the financial capital requirements match the customer demands. Also, in 2024, the organization successfully secured land from the Town of Whitby to build a new municipal station in North Brooklin. It also participated in the regional infrastructure planning session with the IESO and Hydro One to address the additional capacity requirements in the City of Belleville due to industrial load growth. Additionally, recurring touchpoints are scheduled with the communities served by the Corporation to obtain community energy plans and municipal energy plans so that they can be incorporated into the organization’s load forecasting.

DATA AND INFORMATION MANAGEMENT

The Corporation recognizes the importance of data and information management to strategy and decision-making, the ability to efficiently and effectively operate, and overall business continuity. As the Corporation expands to meet stakeholder needs, more data and information needs to be captured, made accessible and useable to support operations and achieve strategic objectives, and managed to limit risks and costs associated with over-retention. Additionally, given emerging technologies, including the dynamic nature of the cyber security landscape, new ways of working, as well as regulatory requirements and stakeholder expectations, the Corporation can benefit from better retention capabilities, more stringent audit functionalities, more user functions and advanced protections and controls. Recognizing the current and future needs, the Corporation established an information management framework to inform prioritization of the next steps in program development and maturity, based on best practices and industry standards. Significant progress has been made with the completion of several important governance documents, including a retention schedule, disposition protocol and digital use policy, all of which further mitigate exposure associated with this risk. Furthermore, the Corporation has launched two separate projects, the Modern Workplace initiative and an Enterprise Resource Planning initiative, each of which moves aspects of the organization's operations from legacy on-premises systems to cloud-hosted solutions that will enable modern information governance, data classification, improved efficiency in search and retrieval, and advanced data and information protections and controls.

TECHNOLOGY AND INNOVATION

Elexicon Corporation faces growing operational challenges and security vulnerabilities due to the obsolescence of many of its Information Technology ("IT") systems. As these outdated systems no longer receive vendor maintenance or support, the organization is at an increased risk of cyber threats and regulatory non-compliance, which jeopardizes its ability to meet the demands of customers, regulators, and other stakeholders. Furthermore, running multiple disparate legacy systems leads to integration hurdles, inconsistent user experiences, and the proliferation of data silos, all of which increase complexity and administrative burden. In response, the Corporation has launched a comprehensive, multi-year Enterprise Resource Planning ("ERP") initiative aimed at gradually replacing and upgrading its technology stack, thereby enhancing security and enabling better data management. The organization has also adopted a unifying Microsoft reference architecture through a Modern Workplace initiative, standardizing its systems and ensuring consistent user experiences. By proactively patching, upgrading, refreshing, operating, and monitoring its technology assets, the Corporation is striving to maintain a modern, secure, and agile IT environment capable of supporting the organization's evolving needs.

CHANGE MANAGEMENT

The Corporation anticipates significant changes in the coming years, with initiatives aimed at enhancing and modernizing its systems and operations. The successful implementation of these new technologies and processes will depend on high levels of adoption and engagement from our teams and stakeholders. To manage this risk, the organization has initiated ongoing employee engagement and communication efforts throughout 2024 to keep its teams informed about the progress of these initiatives. The Corporation has also adopted a leading best practice change management framework, which will be launched in 2025, and will work closely with its technology implementation partner in 2025 to support a robust change management plan, including a comprehensive communication and training strategy to support teams during this transition. Finally, the organization leverages change management experts as needed.

HEALTH AND SAFETY

While the Corporation's safety metrics showed positive trends in 2024, several factors continue to cause the Corporation concern from a risk perspective. These include the ongoing maintenance and repair of aging infrastructure, the demanding nature of the industry necessitating robust mental health support, the emergence of new technologies increasing training demands, and adverse weather conditions heightening the risk of incidents and accidents. Addressing these challenges is crucial for maintaining and improving safety standards. In 2024, the Corporation made significant progress in reducing reportable safety incidents, achieving a substantial decrease from 4.68% in 2023 to 1.82%. This improvement is largely due to the establishment of a new Incident Review and Continuous Improvement Committee ("IRCIC"), and the implementation of new metrics and dashboards for monitoring and reporting. The Corporation's commitment to achieving ISO 45001 certification remains steadfast, reflecting its dedication to maintaining the highest safety standards. As the Corporation continues to prioritize ongoing staff training, the active use of a hazard and risk registry assists the organization to identify and mitigate risks. The Corporation's journey towards health and safety excellence will continue into 2025 and beyond, reinforcing its commitment to a safer and healthier workplace.

SUCCESSION PLANNING

The Corporation recognizes that there is a sustained, tight and highly competitive labour market. This, mixed with an aging workforce, evolving customer needs, and new enabling technologies, requires a thoughtful people strategy focusing on performance, development, and succession planning. In response to this risk, the Corporation continues to implement its integrated Talent Management program whereby succession plans are refreshed and current and future skills requirements for the workforce analyzed. In 2024, the Corporation completed the rollout of its behavioral competency model to all employees, and performance discussions were completed across the entire organization and are ongoing, providing timely and relevant data for improvement.

FINANCIAL CAPITAL CONSTRAINTS

As the Corporation continues to face the ongoing need to update its aging asset infrastructure, the increasing population growth and the availability of real estate that attracts commercialization within its service territory are driving increased demand for new connections and more electricity capacity - requiring additional debt to fund these critical infrastructure investments. Furthermore, the duration of time since the last rebasing of rates, has resulted in rates that do not reflect the Corporation's current cost structures, and has put significant limitations on the Corporation's ability to fund the critical customer-driven projects without impairing or putting undue pressure on its financial metrics. In order to successfully mitigate this risk, two separate but interrelated activities have been undertaken 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. In 2024, the Corporation continued to closely monitor its financial metrics and manage borrowings aligned with its financial covenants. Additionally, the Corporation's board appointed a special committee to explore capital financing options and solutions to remediate its financial constraints.

Significant Accounting Policies

The significant accounting policies of the Corporation are summarized in Note 3 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)		
	2024	**2023**
Year Ended December 31		
Total revenues[1,2]	575.9	528.9
Net income after net movements in regulatory balances[2]	5.6	0.6
Adjusted net income[2,3]	6.5	8.0
As at December 31		
Total assets and regulatory balances[4]	964.8	894.4
Debt[5]	377.8	342.6
Equity	254.5	256.8
Dividends	7.8	6.1

[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

Electricity demand continues to grow thanks to a combination of population growth and the electrification of vehicles, industry and homes. According to the IESO’s 2024 Forecast Update, demand for affordable, reliable and clean electricity is expected to increase by 75% by 2050 – higher than the previous year’s forecast of 60%. EE and other LDCs will have more opportunities in 2025 for communicating and marketing conservation programs to their customers, and in the near future, will have increased financial support for creating their own unique conservation programs to manage specific local electricity grid constraints. An Integrated Energy Plan for Ontario will be released in early 2025, which will be a key planning document for those in the sector. LDCs will need to work closely with the government and sector as new regulations are etched out on how upfront capital costs are managed, and as customer connections and revenue horizons are extended.

-end-