Elexicon Corporation

Management Discussion and Analysis

Year ended December 31, 2022

elexicon CORP

Table Of Contents

Executive Summary

Elexicon Corporation (the "Corporation") was formed in April 2019, following the merger of Veridian Corporation and Whitby Hydro Energy Corporation. Since the Corporation's creation, it has worked strategically to implement efficiencies; build out a strong corporate structure; and adapt to rapidly changing electricity sector. In 2022, the Corporation continued to deal with complex business conditions related to: the COVID 19 pandemic; economic conditions; geopolitical issues leading to inflationary pressures, and supply chain issues and an extremely tight labour market. Despite the multiple challenges, the Corporation delivered a net income after net movements in regulatory balances of $16.8 million compared to $16.9 million in the prior period. The Corporation incurred capital expenditures of $80.6 million in 2022, compared to $49.7 million in 2021, 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, 2022. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") in effect as at December 31, 2022.

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 per cent owned by five municipal shareholders: the Town of Whitby (32.0%), the City of Pickering (27.9%), the Town of Ajax (21.8%), the Municipality of Clarington (9.2%) and the City of Belleville (9.0%). EC consists of two wholly owned subsidiary operating companies: Elexicon Energy Inc. and Elexicon Group Inc. Approximately, 98% 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 175,000 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. 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. EE through its investments, considers grid modernization and integration of innovative technologies to its distribution network to provide reliable and cost-effective services, to meet the current and future needs of its customers.

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

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 laws, regulations, directives, and mandate letters.

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

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

Electricity Distributors: EE is a local distribution company ("LDC"). LDC's, also known as electricity distributors deliver electricity to homes, small businesses, and industrial customers. In order to reach the end-user, the electricity moves from Hydro One's high-voltage transmission lines to 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 distributors has expanded to support the adoption of new technologies such as EVs and DERs.

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, local distribution companies, 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 a number of methods to do so, including an annual capacity auction. The IESO may also receive directives from the Ministry of Energy regarding Ontario's supply mix. In 2021, the IESO received a directive to enter negotiations on contracts with specific generating facilities and to investigate options for eliminating the use of natural gas as part of Ontario's supply mix.

The Regulator: The OEBA conferred on the OEB powers and responsibilities to regulate the electricity industry in Ontario. These powers and responsibilities include: approving or 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 may also prescribe license requirements and conditions of service to LDCs, such as EE, which may include, among other things: record keeping; regulatory accounting principles; separation of accounts for distinct businesses; and filing requirements for rate setting purposes.

RATES EXPLAINED

Electricity distribution rates differ from one distributor to another. Rates are determined by several factors. They include: the age and condition of each utility's equipment; the size of the utility's service area; customer density and the location of the customers relative to one another; the number of residential customers compared to business and industrial customers; 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 20% 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 apply for an Incremental Capital Module ("ICM") for additional capital funding for discrete projects that meet certain regulatory requirements.

RATE APPLICATIONS

In December 2022, the OEB approved EE's IRM application for changes to distribution rates for the Veridian and Whitby rate zones, effective January 1, 2023. The monthly bill increases associated with the applications was $0.97 and $1.14 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. EE had also applied for ICM funding for its Whitby Smart Grid project and Sustainable Brooklin Project. An OEB decision regarding rate recovery of EE's ICM requests are expected in Q2 2023.

In December 2021, the OEB approved annual IRM applications for changes to distribution rates for the Veridian and Whitby rate zones, effective January 1, 2022. Included in this approval was the ICM for the Seaton Municipal Transformer Station ("Seaton TS") as well as the Bus Rail Transit for the Veridian rate zone. The monthly bill increases associated with the applications were $2.59 and $0.88 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, OER or applicable taxes that customers will see on their bills.

ENVIRONMENT AND POLICY IMPACTING THE CORPORATION

The Corporation continues to adapt to the changing needs of customers and new governmental requirements. In 2022, the Corporation continued work to ready its systems for the implementation of new customers options, including Green Button and a new ultra-low overnight electricity rate. The provincial government is requiring all regulated electricity and natural gas to offer Green Button data to their customers before November 1, 2023. The ultra low overnight electricity rate is a third-rate option for regulated price plan ("RPP") customers designed to incent greater charging of EVs in off-peak hours. While RPP prices are pass-through costs for distributors, LDCs are required to ensure that their systems will allow customers to have the ability to opt into this new pricing scheme as soon as May 1, 2023, and no later than November 1, 2023. Elexicon Energy is currently working with its partners to ensure its billing systems are ready in time to meet this new requirement.

Bill 93, Getting Ontario Connected Act (the "Act"), S.O. 2022, received royal assent on April 14, 2022. The Act extended the powers of the Ministry of Public and Business Service Delivery and Ontario One Call with the goal of enabling broadband and modernizing Ontario One Call. The Act also enables Ontario One Call to enforce penalties against members (such as the Corporation) if they are unable to complete a locate within set timelines. The related regulations have not yet passed and in the interim the corporation is planning a new approach to locate requests to mitigate or minimize the likelihood of experiencing penalties.

The Corporation continues to prepare for changes expected as a result of the Supporting Broadband and Infrastructure Expansion Act, 2021 and Building Broadband Faster Act, 2021 ("BBAF"). The legislation in combination with the Accelerated High-Speed Internet Program ("AHSIP") identifies new expectations for LDCs in regard to working with Internet Service Providers ("ISPs") and providing access to utility infrastructure for the purposes of increasing broadband across the province. The Corporation did not receive any requests related to BBAF in 2022 but met frequently with ISPs to plan requests expected in 2023.

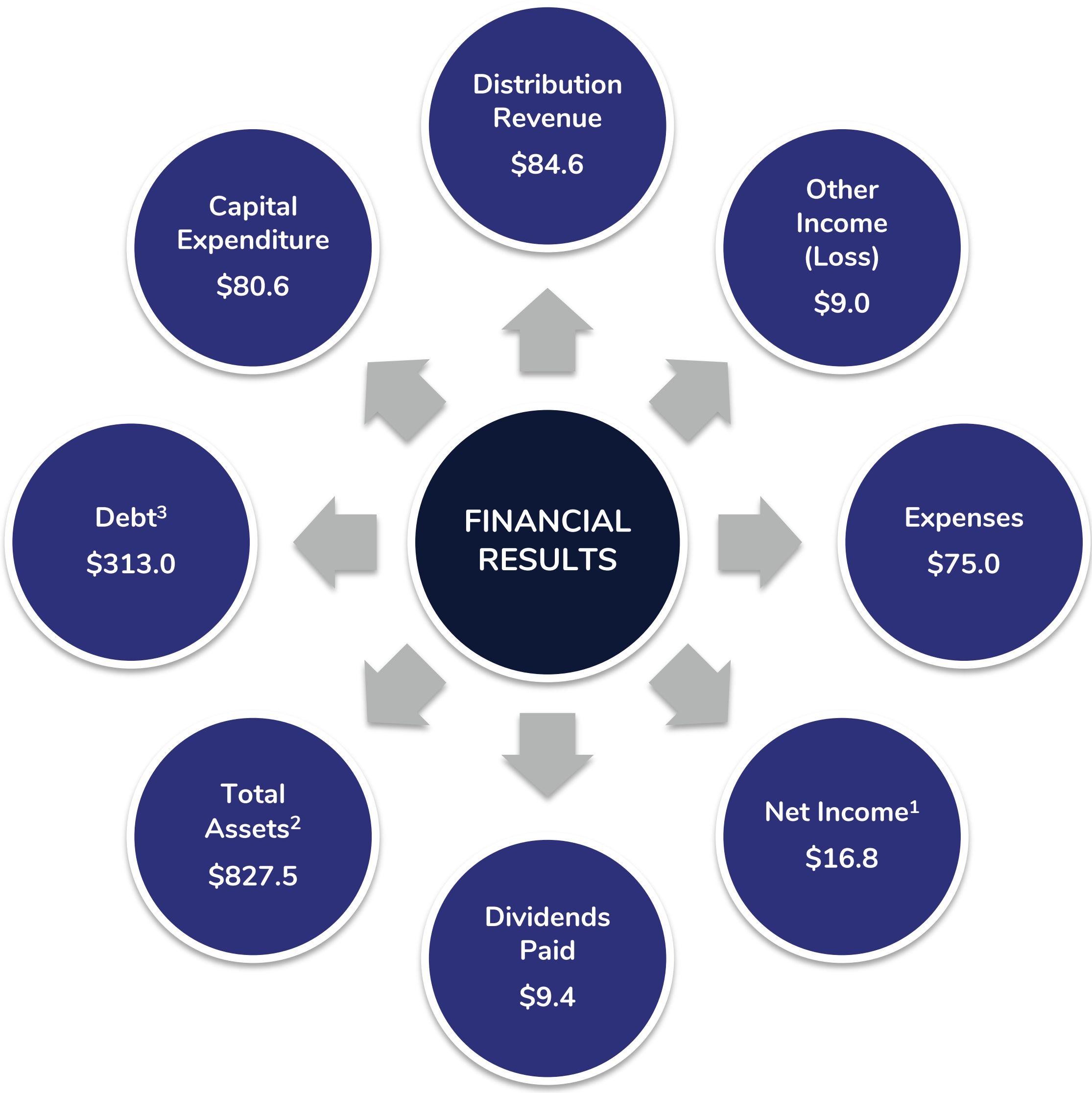
CONSERVATION AND DEMAND MANAGEMENT UPDATE ("CDM")

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. Elexicon Energy ceased marketing and business development for all CDM programs immediately and wound down the delivery of programs. Amounts received from the IESO for the funding of projects under the participant agreements but not spent, are presented on the Consolidated Balance Sheets under current liabilities as deferred revenue. Settlement with the IESO will continue until all projects are completed and a compliance audit will be completed thereafter.

The OEB has established the Lost Revenue Adjustment Mechanism ("LRAM") to compensate distributors for revenue losses related to the reduction of load or energy usage associated with the distributors' 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 2021 annual applications, the OEB approved the recovery of $1 million LRAMVA for both rate zones in the 2022 fiscal year. EE will continue to apply for recovery of the persistent CDM revenue loss annually. Going forward, utilities will not be compensated for revenue losses associated with IESO-delivered CDM programs.

Results of Operations

2022 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)

	2022	2021	Variance
Commodity			
Commodity revenues	430.1	417.3	12.8
Commodity costs	(434.6)	(426.2)	(8.4)
Commodity variance	(4.5)	(8.9)	4.4
Net movements due to commodity variance[1]	4.5	8.9	(4.4)
Revenues			
Distribution revenue	84.6	84.1	0.5
Other Income	9.0	7.0	2.0
	93.6	91.1	2.5
Expenses			
Operating, maintenance and administration	52.3	48.6	3.7
Depreciation and amortization	22.7	20.7	2.0
	75.0	69.3	5.7
Finance costs, net	(8.5)	(5.7)	(2.8)
Unrealized gain on interest rate swaps	6.5	3.0	3.5
Income before income taxes	16.6	19.1	(2.5)
Income tax expense	(6.1)	(5.9)	(0.2)
	10.5	13.2	(2.7)
Net income for the period	10.5	13.2	(2.7)
Net movements in regulatory balances[1]	1.1	(1.7)	2.8
Income tax on net movement on regulatory balances	5.2	5.4	(0.2)
Net income after net movements in regulatory balances	16.8	16.9	(0.1)

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

Net income after net movements in regulatory balances for the year ended December 31, 2022, was $16.8 million compared to $16.9 million for prior year. The decrease in net income was primarily due to higher operating, maintenance, and administration ("OM&A") costs driven by increased EV charging station projects, information technology and other corporate initiatives (3.7 million), higher finance costs ($2.8 million) and higher amortization expense ($2.0 million). These costs were offset by higher unrealized gain on interest rate swap ($3.5 million), higher regulatory adjustments including LRAM ($2.8 million) and higher other income ($2.0 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"), 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 EE to its customers and the actual commodity costs billed by the IESO and Hydro One to EE 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, 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

Commodity Costs, Commodity Revenues, Rate Riders and Variances **For Year Ended December 31, 2021** (in millions of Canadian dollars)			
	Commodity Costs	**Commodity Revenues**	**Variance**
Commodity charges	360.2	360.9	(0.7)
WMS charges	16.4	14.0	2.4
RTSR charges	49.6	44.3	5.3
Total	426.2	419.2	7.0
Rate rider	-	(1.9)	1.9
Total	426.2	417.3	8.9

The commodity variance of $13.4 million was recorded in the consolidated balance sheet for collection in future period and represents an increase of $6.4 million from prior year. The increase was mainly due to WMS charge variance of $4.9 million when compared to prior year.

For the year ended December 31, 2022, the Corporation collected $8.9 million of rate riders related to prior period commodity variance regulatory assets. For the year ended December 31, 2021, the Corporation refunded $1.9 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.

	2022	**2021**	**Variance**
Distribution revenue *(in millions of Canadian dollars)*	84.6	84.1	0.5

The increase in distribution revenue of $0.5 million was mainly due to higher 2022 distribution rates ($3.1 million) partially offset by a settlement reached with OEB related to a billing system error ($2.7 million). This has since been resolved.

EE distribution revenue by customer classes are as follows:

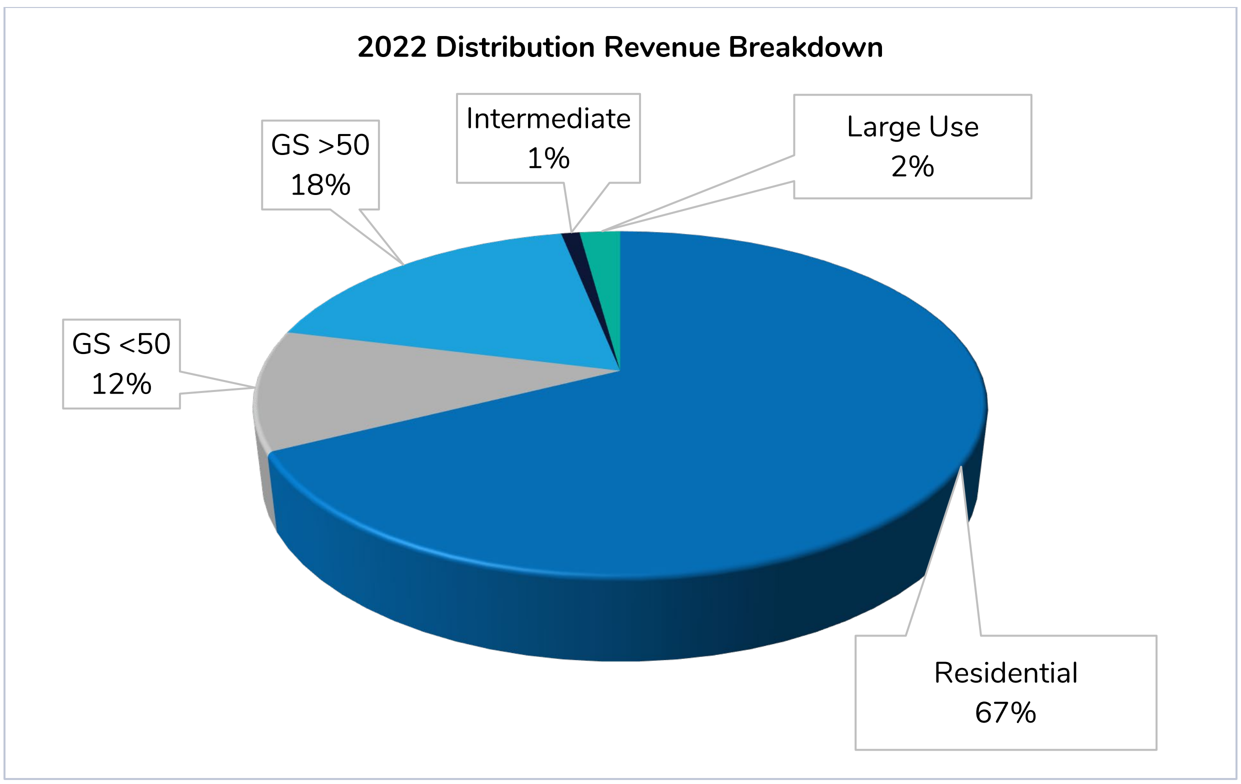
Residential (67%) - this classification includes single-family residences and multi-family units that are individually metered. A small portion of this class of customers have seasonal occupancy only.

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

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



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.

	2022	**2021**	**Variance**
Other income *(in millions of Canadian dollars)*	9.0	7.0	2.0

The increase in other income of $2.0 million was mainly due to higher EV charging station projects ($1.4 million) and higher late payment charges ($0.6 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.

	2022	**2021**	**Variance**
OM&A *(in millions of Canadian dollars)*	52.3	48.6	3.7

The increase in OM&A expense of $3.7 million was mainly due to increased EV charging station projects ($1.4 million) and higher expenses related information technology and other corporate initiatives ($2.0 million).

DEPRECIATION AND AMORTIZATION

	2022	2021	Variance
Depreciation and amortization *(in millions of Canadian dollars)*	22.7	20.7	2

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

FINANCE COSTS

	2022	2021	Variance
Finance Costs, net *(in millions of Canadian dollars)*	8.5	5.7	2.8

The increase in net finance costs of $2.8 million were mainly due to higher interest rates on credit facilities ($3.1 million) offset by higher interest capitalization ($0.3 million).

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

(in millions of Canadian dollars)	2022	2021	Variance
Income tax expense	6.1	5.9	0.2
Income tax on net movements in regulatory balances	5.2	5.4	(0.2)
	11.3	11.3	-

The income tax expense including income tax on net movements in regulatory balances were in line with prior year. The increase in income tax expense of $0.2 million is mainly due to higher deferred tax related to unrealized interest rate swap gain. The decrease in income tax on net movements in regulatory balances of $0.2 million is due to higher net deductions in permanent and temporary deductions between accounting and tax treatments.

NET MOVEMENTS IN REGULATORY BALANCES

(in millions of Canadian dollars)	2022	2021	Variance
Net movements in regulatory balances[1]	1.1	(1.7)	2.8
Net movements due to commodity variance[1]	4.5	8.9	(4.4)
Income tax on net movement on regulatory balances	5.2	5.4	(0.2)
	10.8	12.6	(1.8)

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

For the year ended December 31, 2022, the increase of $13.7 million in regulatory debits and increase of $2.9 million in regulatory credits in the consolidated balance sheets equals the sum of $10.8 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 for the year ended December 31, 2022, were a recovery of $1.1 million compared to a charge of $1.7 million in the prior year. The increase of $2.8 million is primarily due to higher LRAM recognition ($1.1 million), higher rate riders ($0.7 million) and other regulatory adjustments ($1.0 million).

FINANCIAL POSITION

The following table outlines significant changes in the consolidated balance sheet as at December 31, 2022 compared to December 31, 2021.

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

Balances Sheet Account	Increase (Decrease)	Explanation of Change
Assets		
Cash	(9.4)	The decrease due to higher capital investments partially offset by cash from operating and financing activities.
Accounts receivable	5.3	The increase was driven by unbilled receivables mainly due to higher commodity prices.
Material and supplies	2.4	The increase was driven by planned inventory purchases.
Property, plant and equipment	76.3	The increase was mainly due to additional investments in the distribution grid offset by depreciation and loss on retirements.
Unrealized gain on interest rate swap derivative	6.5	The increase is due to higher interest swap rates of 3.51% when compared to 2021 swap rate of 2.14% for the swap loan principal remaining balance of $34.3 million.
Regulatory balances	13.7	The increase was mainly due to variances in rate regulated billing to customers for commodity costs and the actual monthly amounts billed by IESO and Hydro One related to commodities, higher deferred taxes and LRAM, partially offset by amounts disposed through OEB approved rate riders.
Liabilities		
Accounts payable and accrued liabilities	4.3	The increase was mainly due to accruals related to the Seaton TS project.

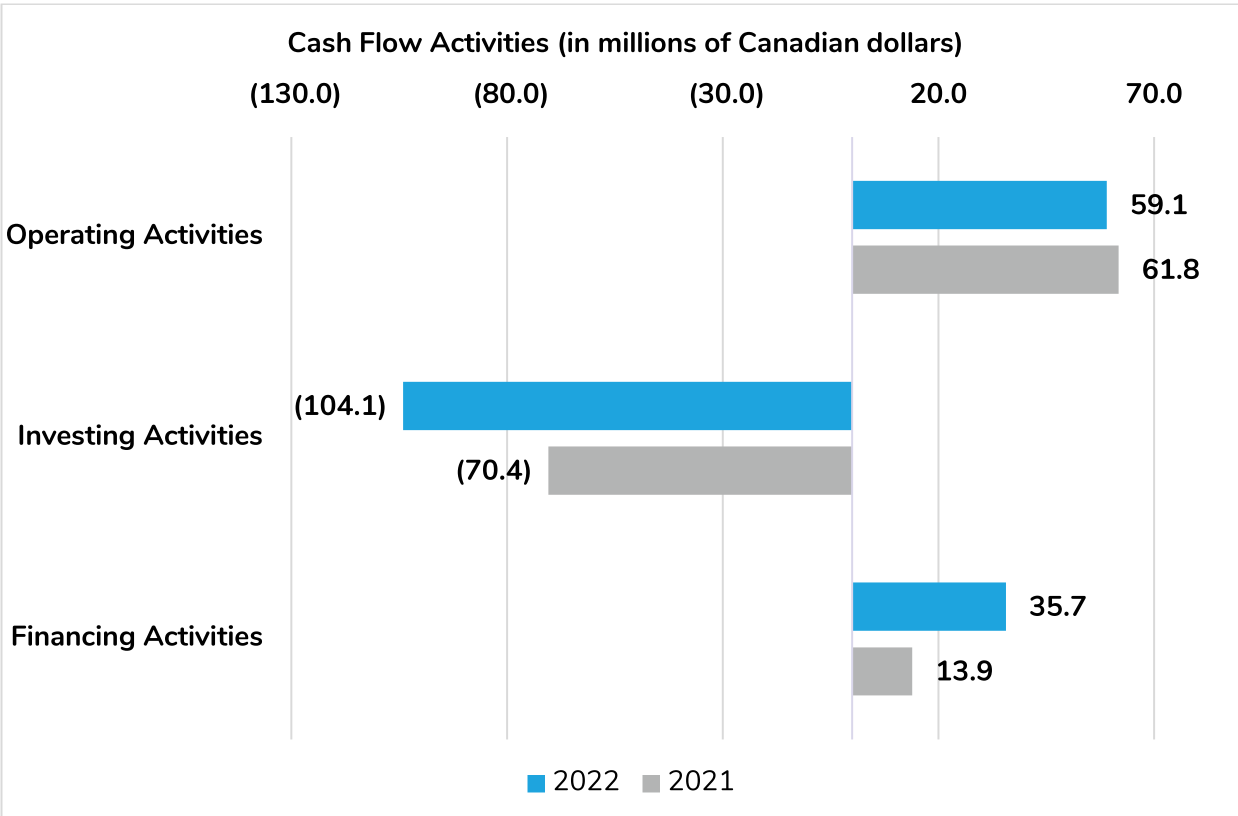
Significant in Changes in Consolidated Balance Sheet
(in millions of Canadian dollars)

Balances Sheet Account	Increase (Decrease)	Explanation of Change
Short-term debt	223.8	The increase was due to the reclassification of credit facilities to short-term (refer to Liquidity and Capital Resources).
Deferred contributions	18.4	The increase was due to capital contributions received.
Long-term debt	(170.3)	The decrease was mainly due to reclassification to short term (refer to Liquidity and Capital Resources).
Deferred tax liabilities	6.0	The increase was mainly due to lower tax values as compared to accounting values of property, plant and equipment and intangibles.
Regulatory liabilities	2.9	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 decrease in net cash from operating activities is mainly due to:

- Higher unbilled revenues and lower receipts from customers related to lower demand billable work.

Investing Activities

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

- Higher capital investment in system renewal, system service and general plant projects. In 2022, EE completed the Seaton TS project.

Financing Activities

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

- Proceeds from draws on the capital expenditure credit facility and short-term loans from the operating credit facility.

LIQUIDITY AND FINANCING ACTIVITIES

The Corporation's debt to capitalization ratio on December 31, 2022, was 54.4%. This debt includes $89.1 million in shareholder promissory note debt, as well as a $41.0 million committed reducing term facility with $34.3 million outstanding, and an available $170.0 million committed or demand revolver facility with $167.0 million outstanding. These facilities carry covenants normally associated with long-term debt, including debt to capitalization and debt service coverage ratios. Additionally, the Corporation has access to an uncommitted revolving demand credit facility of $40.0 million and $5.0 million with $22.5 million and nil balance outstanding, respectively. The Corporation complies with all bank covenants as at December 31, 2022, with the exception of the debt service coverage financial covenant ratio. As a result, all debt instruments applicable to the committed and demand credit facilities have been reclassified and presented as short-term liability as at December 31, 2022. Subsequent to the year end, the Corporation obtained a waiver from the bank.

On July 29, 2022, 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.

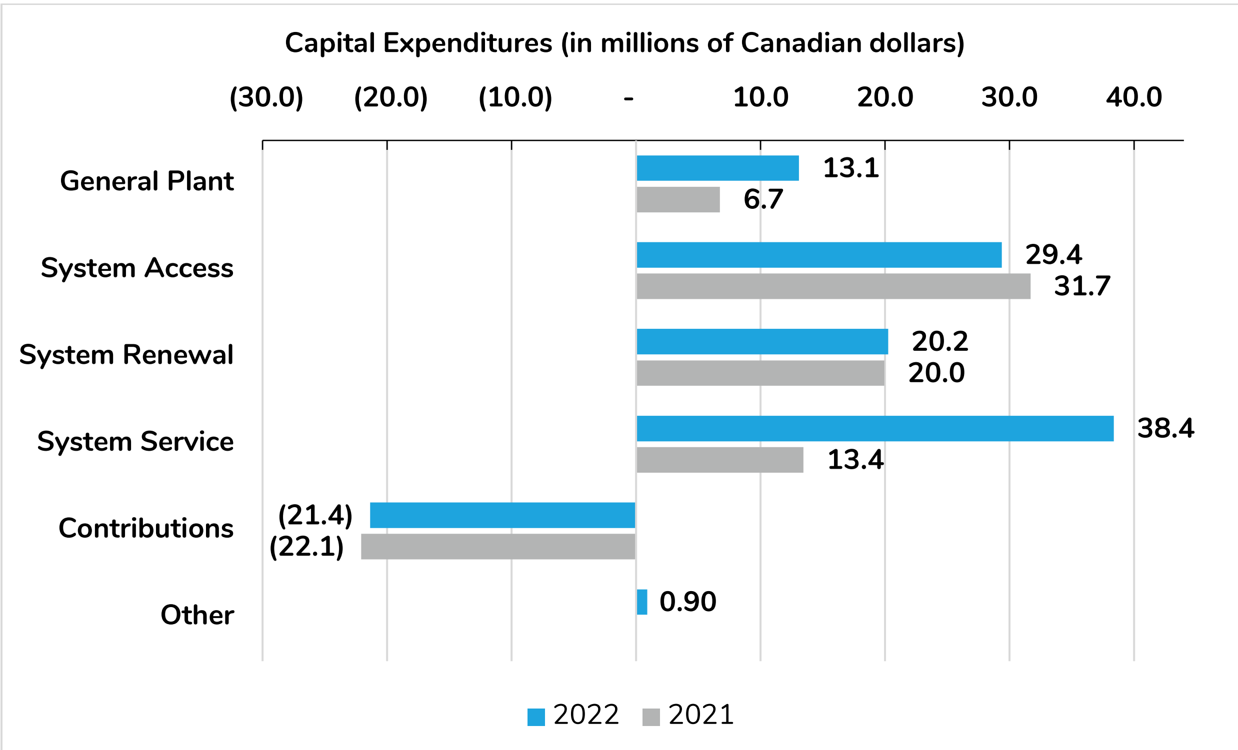
The Corporation's operating activities and these credit facilities are the primary sources of funds for liquidity and capital resource requirements. These resources are required for the following:

- 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 increased by $6.4 million compared to 2021, primarily due to the Belleville building relocation project and the purchase of large vehicles.

The System Access investment category includes investments that enables 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 $2.3 million compared to 2021, primarily due to a decrease in customer requested work and connections of new services.

The System Renewal investment category includes investments to replace or refurbish the distribution system assets to manage the risks associated with aged and deteriorated plant and maintain the Corporation's ability to provide customers with electricity services. Capital expenditures in this category have increased by $0.2 million compared to 2021, which was mainly driven by the extraordinary weather event in May, offset by a decrease of approximately $6.0 million in proactive renewal programs.

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 have increased by $25.0 million compared to 2021, primarily due to the Seaton TS going into service in December 2022. This is the first municipal transformer station wholly owned and operated by the Corporation and will provide connection capacity for about 20,000 new homes, as well as business and industrial customers in the City of Pickering.

Contributions are customer deposits collected to fund capital construction expenditures. Customer contributions have decreased by $0.7 million compared to 2021, primarily due to decrease in customer requested work and connections of new services.

Other are capital investments relate to unregulated activities. Unregulated capital expenditures have increased by $0.9 million compared to 2021.

Share Capital

Share capital consists of:

(in millions Canadian dollars)	**2022**	**2021**
Authorized: 100,00 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)		
	2022	**2021**
Electricity and services revenues	8.5	8.1
Finance costs on notes payable	3.7	3.0
Property taxes paid	0.6	0.6
Accounts receivable balance	0.8	1.2
Dividends paid	9.4	11.4

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; resource constraints; data application/ lack of data; collections; succession planning; privacy; aging asset infrastructure; culture; environmental incidents and health and safety. More details pertaining to each of these risks is set out below.

In relation to EG, it commenced its Enterprise Risk Management program in 2022 with the development of its enterprise risk register. Following the identification of EG's top risks, for 2022/2023, action plans were developed and are being 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 include, but are not limited to: resourcing; access to capital; financial performance; inability to convert funding to projects; sales cycle conversion; reputation & performance; and right value proposition.

CYBER VULNERABILITY

As the cyber security landscape continues to evolve, the Corporation will maintain its' focus on strengthening the Corporation's 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 evolving geopolitical landscape (e.g., Russia/Ukraine, China, Iran) has heightened the cyber security risk within the energy and electricity sector. When considering the risk exposure of the electrical grid and related assets, a cyber-attack could result in power outages, loss of access to critical systems, and loss of key sensitive and private data, leading to reputational damage and potential legal and regulatory consequences. A key focus area for 2022 was to review all the cyber and incident response policies and procedures and the development of key playbooks to ensure timely and effective responses to threats and incidents.

SUPPLY CHAIN SHORTAGES

The Corporation continues to experience material and equipment shortages along with long and uncertain delivery timelines leading to challenges in project planning. Also, the increase in high impact weather-related events has put pressure on supplier-dedicated inventory levels, and key reactive hardware materials, for emergency response. To mitigate this, the Corporation is using a 2-year capital planning cycle to allow 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.

RESOURCE CONSTRAINTS

While inflation and flexible work arrangements are key factors driving a highly competitive labour market, the most challenging factor in the war for talent continues to be scarce resources, especially for key positions (i.e., low supply to number of vacancies). With high turnover rates being a further consideration, which is not unique to the Corporation. The Corporation is continually looking at ways to fill its current and future needs including through leveraging an internal recruiter focused on hiring. With the implementation of a new people management software tool, Ceridian Dayforce (implemented in Q4 2022), the Corporation can now use internal recruitment modules from, along with other social media platforms and networks to enhance its recruiting process. In addition to the above, the Corporation has also applied for funding opportunities and are participating in various working groups and networking groups to build its recruitment brand and awareness for job seekers.

DATA APPLICATION/ LACK OF DATA

The Corporation identified the lack of data and access to customer information as a risk to its ability to advance key aspects of its strategic plan. In 2022, the Corporation onboarded new resources to focus on, customer analytics and operational performance reporting. The focus is to create a central repository of customer data, and improve access and reliability of data to drive strategic decision making and planning.

COLLECTIONS

Accounts receivables ("AR") increased in 2022, with a further financial increase projected for 2023. Although the rate of the increase in 2022 had slowed relative to 2021, the enduring effects of the pandemic, combined with recent economic factors are projected to continue into 2023. The Corporation is taking a strategic approach to collection activities, focusing on customers with a history of non-payment, non-responsiveness to outreach and with a large past due balance. The Corporation remains focused on providing support to customers and communities by encouraging payment, negotiating payment arrangements, and promoting financial assistance programs. Enhanced reporting and access to better information has improved the Corporation's ability to be agile and responsive to changes in customer payment behaviour. The Corporation continues its focus on improving internal processes, including introducing automation to maximize operational efficiency and financial return.

SUCCESSION PLANNING

The Corporation recognizes that, with a tight and highly competitive labour market, mixed with an ageing workforce, there is a need to have succession plans in place. In order to mitigate this risk, the Corporation is implementing an integrated talent management program. The first and second phases were implemented in 2022 and involves identifying all the key positions that require a succession plan, identifying the unique skill sets, and assessing the Corporation's readiness status for those positions. In addition, the Corporation is rolling out a behavioral competency model to all employees. As part of phase three, people leader training has commenced and will continue through 2024.

PRIVACY

Privacy and security of customer and corporate data and information is of increasing concerns for every organization, including the Corporation's, from both a physical and cyber perspective. While a hybrid work environment has become the new norm, continuing technological challenges around data and information storage, access and security create privacy concerns. To mitigate this risk, in addition to leveraging appropriate insurance coverage, in 2022, the Corporation made improvements to its privacy program by, among other activities, rolling out privacy training, development of key privacy processes and procedures, retention of Privacy Counsel to assist with crisis management, incident response activities and program improvements. In 2023, the Corporation will bring on additional resources to ensure the continued maturity of the privacy program.

AGING ASSET INFRASTRUCTURE

Acknowledging that the Corporation's distribution system infrastructure is aging, throughout 2022, the Corporation continued to prioritize its upgrade and timely replacement of 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 ("ACA") and an asset replacement plan ("ARP") to support our capital investment program by prioritizing the replacements of our assets. In addition, the Corporation has an ongoing maintenance program that includes, but is not limited to: pole testing; tree trimming; cable injections; and switch maintenance, etc.

CULTURE

An organization's culture is not something that happens naturally or by chance. Building and sustaining an inspiring, engaging, values-aligned culture requires intentional efforts and design. The One Elexicon Culture initiative is meant to bring together two companies and establish the "Elexicon Energy way" of doing things when it comes to aspects such as: how the Corporation operates; how to collaborate; how people are trained; how everyone across the Corporation is engaged; and how to celebrate meaningful events and initiatives. Considering this, the Corporation has embarked on several initiatives, in 2022, to develop and sustain the "Live it, Lead it" culture. The Corporation has rolled out its why, way and how; increased employee engagement and communication; and developed and rolled out leadership and employee training. This is particularly, and importantly, tied to its Integrated Talent Management Program.

ENVIRONMENTAL INCIDENTS

Climate change has resulted in increased severe weather events, such as extremes in heat, cold, rain, wind, ice, and snow, as well as flooding, forest fires and other natural disasters that pose a threat to the Corporation's infrastructure and system reliability. These extreme weather events also result in more electricity usage during peak periods leading to potential supply issues, and compromised or failed distribution assets. In response, the Corporation has developed and continues to test, on an annual basis, its emergency preparedness plans in the event of damage and outages. Trained system operators prioritize damage assessment and outage restorations while the response crews are dispatched to customer service-related deficiencies to repair and replace system components and restore power. In 2022, the Corporation issued new standard operating procedures ("SOP") to its dispatchers and system operators for the recently energized Seaton TS. These SOP will assist dispatchers and system operators with their daily operations as well as during emergency situations. In addition, the Corporation is upgrading the distribution assets to better withstand natural events and are proactively communicating and encouraging its customers about safety and the use of electricity during peak periods.

HEALTH AND SAFETY

While the Corporation's safety metrics continue to trend positively in 2022, various factors, both internal and external, increase its concerns with health, safety, and wellness. Effects from climate change (increased weather-related events), an aging infrastructure, increasing and evolving viral infections, are some of the main contributors to the health and safety concerns. In 2022, a workshop was held to enhance leaders' skills with the identification of, leading rather than lagging, health and safety risk indicators. Also, the 'right to refuse work' policy was developed. In addition to the update and enhancement to all other health and safety related policies and procedures. Additionally, the Corporation conducts annual rescue training with field staff, which includes, but is not limited to, pole rescue, bucket rescue, and confined space rescue. Throughout the year, first aid training was conducted to update and certify employees. In 2022 and going into 2023, the Corporation will continue with a hybrid work model for employees/positions that will allow this flexibility, continue the new hire mandatory vaccine policy (COVID-19), and continue driving a culture of safety and wellness through employee engagement in its Health and Safety Management Program.

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)		
	2022	**2021**
Year Ended December 31		
Total revenues[1,2]	523.7	508.4
Net income after net movements in regulatory balances[2]	16.8	16.9
Adjusted net income[3,2]	9.9	14.0
As at December 31		
Total assets and regulatory balances[4]	827.5	734.5
Debt[5]	313.0	259.5
Equity	262.9	251.1
Dividends	9.4	11.4

[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 deferred 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

The Ontario government commissioned a panel called the Electrification and Energy Transition Panel to examine some of the challenges facing the sector and how Ontario can create a comprehensive electricity plan. The Panel will advise the government on the highest value short, medium, and long-term opportunities for the energy sector to help Ontario's economy prepare for electrification and the energy transition. Electricity will continue to be an in-demand resource and electrification will only intensify that demand. Electricity companies will need to continue to upgrade their systems for new technologies needed to help Ontario and Canada achieve net zero targets, and to strengthen their systems against increasing severe weather events.

-end-