

Elexicon Corporation

Financial Trajectory Review — 2022 to 2025 (Updated)

Prepared for Shaun Rickard, Candidate for Mayor of Pickering

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Purpose and Source

This briefing summarizes the financial trajectory of Elexicon Corporation — the electricity distributor in which the City of Pickering holds a municipal shareholding — based on the Corporation's audited consolidated financial statements for fiscal years 2022 through 2025 (KPMG LLP, auditor), and on a public staff report presented to Special Council of the Municipality of Clarington on August 11, 2025 (Report FSD-026-25). All financial figures are in thousands of Canadian dollars unless noted. This is a factual summary intended to raise questions for public discussion, not investment or legal advice, and not an allegation of wrongdoing. Source documents should be reviewed directly, and the City of Pickering and Elexicon Corporation should be given the opportunity to respond, before any conclusions are drawn.

Executive Summary

- **Profitability has declined even as revenue grew.** Total comprehensive income fell from \$21.2M (2022) to \$1.2M (2025) — a decline of roughly 94% — despite revenue rising from about \$514M to \$590M over the same period.
- **Pickering is Elexicon's second-largest municipal shareholder, at 27.88%,** behind the Town of Whitby at 32.00%. (An earlier version of this briefing described Pickering as the largest shareholder; that has been corrected using ownership figures published in Clarington's own staff report.)
- **Pickering's ownership stake mechanically fell as a result of the September 2025 issuance.** Because Pickering did not purchase any of the newly issued shares, its stake fell from 27.880% to approximately 24.80% of the enlarged company — a direct arithmetic consequence of the transaction, not an estimate (see Section 2.3).
- **The City of Pickering did not participate in a September 2025 shareholder recapitalization that the other four municipal shareholders joined.** Ajax, Whitby, Belleville, and Clarington converted their shareholder loans into new equity; Pickering's \$25.1M loan remains outstanding as debt, and dividends to all shareholders — including Pickering — were suspended for 2025.
- **Pickering and the Town of Ajax were, until July 2025, in the same position.** The two municipalities had jointly retained legal counsel in 2024 to explore selling their combined Elexicon shares, and both formally withdrew from that process on the same day — July 18, 2025. Two months later, Ajax converted its loan to equity; Pickering did not.
- **The rationale for converting debt to equity may be tied to regulatory capital requirements, not just growth strategy.** Clarington's staff report ties the recapitalization to Ontario Energy Board capital-structure expectations for distribution companies, describing it as something that "may require shareholders to maintain equity" in the company — a different frame than a purely discretionary investment decision.
- **Debt has grown substantially and is increasingly bank-financed.** Total debt rose from \$313.0M (2022) to \$365.4M (2025), and Elexicon entered a new \$550M syndicated credit facility on December 30, 2025.
- **A liquidity metric flagged by Clarington's own staff report is worth noting:** Elexicon's current ratio stood at 0.64 as of the most recent reporting period, meaning current liabilities exceeded current assets, though Clarington staff noted cash and receivables still cover payables.
- **Administrative costs have risen sharply** — up roughly 48% from 2023 to 2025 — alongside a new 10-year, \$48.8M technology platform commitment signed in December 2024.

Taken together, these are questions worth asking publicly and directly of the City and of Elexicon — not conclusions about any individual's judgment or motives.

1. Financial Trajectory, 2022–2025

1.1 Bottom-Line Profitability

The figure that flows through to retained earnings each year — net income after net movements in regulatory balances — is one measure of underlying financial performance for a rate-regulated utility. It has declined since 2022:

Metric (\$000s)	2022	2023	2024	2025
Net income (before reg. movements)	6,014	4,239	11,483	9,629
Net income after reg. balance movements	16,797	624	5,633	3,374
Total comprehensive income	21,184	5	5,542	1,198

Total comprehensive income — the broadest measure of the year's result — dropped to near zero in 2023, recovered modestly in 2024, and declined again to \$1.2M in 2025. This appears to be a multi-year pattern rather than a single unusual year, though readers should review the audited statements directly for full context.

1.2 Revenue Growth vs. Margin Pressure

Metric (\$000s)	2022	2023	2024	2025
Commodity revenue	430,139	421,522	464,462	485,257
Distribution revenue	84,574	97,459	100,500	105,038
Other income	10,136	9,769	10,929	10,686
Administration expense	35,805	39,751	43,905	59,029

Administration expense rose approximately 48% from 2023 to 2025 (from \$39.8M to \$59.0M), notably outpacing distribution revenue growth (roughly 8% over the same period). External services costs rose by roughly 72% over the same window (\$23.4M to \$40.3M), which appears to be driven in part by a new 10-year, \$48.8M cloud/technology platform contract signed in December 2024 (\$42.3M still owed as of year-end 2025).

1.3 Debt and Capital Structure

Metric (\$000s)	2022	2023	2024	2025
Short-term debt	223,815	89,132	94,332	25,069
Long-term debt	89,209	253,465	283,463	340,341
Total debt	313,024	342,597	377,795	365,410
Shareholders' equity	262,878	256,768	254,463	318,478
Cash	3,703	3,806	4,196	18,524

On December 30, 2025 — the final day of the fiscal year — Elexicon replaced its prior credit facilities with a new \$550M syndicated credit facility. Financial covenants require a consolidated debt-to-capitalization ratio no greater than 0.75 and require Elexicon Energy Inc.'s regulated EBIT to represent at least 80% of the Corporation's consolidated EBIT. The Corporation reports compliance with all covenants; the scale of the new facility does, however, point to continued reliance on debt financing going forward — which is part of why the September 2025 equity decisions are worth understanding in more detail.

1.4 Capital Spending Outpacing Cash Flow

Property, plant and equipment grew from \$589.6M (2022) to \$778.8M (2025). Annual additions to PP&E ranged from roughly \$77M to \$103M. Net cash used in investing activities was negative every year (-\$82.2M to -\$104.2M), consistently exceeding cash generated from operations. This gap has been funded through increased borrowing and, in 2025, the new equity issuance described in Section 2.

2. The September 2025 Shareholder Recapitalization — Pickering Did Not Participate

This is the most directly relevant development for Pickering's position as a shareholder. On September 15, 2025, Elexicon Corporation, Elexicon Energy Inc., and four of the five municipal shareholders — the Town of Ajax, the Town of Whitby, the City of Belleville, and the Municipality of Clarington — signed a Memorandum of Understanding under which those four municipalities:

- Agreed to have their existing shareholder promissory notes (totalling \$64.1M) repaid in cash by the Corporation, and
- Simultaneously purchased \$62.15M of newly issued common shares in the Corporation (12,430 new shares, bringing total shares outstanding from 100,000 to 112,430).

The City of Pickering was not a participating shareholder in this MOU.

Shareholder	Ownership % (FSD-026-25)	Promissory note, Dec 31 2024 (\$000s)	Promissory note, Dec 31 2025 (\$000s)
Town of Whitby	32.000%	28,338	0
City of Pickering	27.880%	25,069	25,069
Town of Ajax	21.828%	19,610	0
Municipality of Clarington	9.248%	8,321	0
City of Belleville	9.044%	7,794	0

Note: ownership percentages are as reported in Clarington's August 11, 2025 staff report (FSD-026-25) and reflect the position before the September 2025 share issuance. Pickering's post-issuance percentage is independently calculable (approximately 24.80%; see Section 2.3) because Pickering's own share count did not change. Post-issuance percentages for the four participating municipalities individually have not been confirmed and should be requested directly from the City or Elexicon.

2.1 A Closer Comparator: Pickering and Ajax

Clarington's staff report indicates that Ajax and Pickering jointly retained Borden Ladner Gervais LLP in July 2024 to explore a sale of their combined Elexicon shares. On July 18, 2025, both municipalities separately notified Elexicon that they were terminating that process and not proceeding with a sale. At that point, the two municipalities appear to have been in a comparable position. Two months later, Ajax joined the equity conversion; Pickering did not.

This raises a more specific question than a general comparison to "the other four" shareholders: what did Pickering's decision-makers consider — and what, if anything, did they conclude differently from Ajax — between July 18 and September 15, 2025? This is a factual question best answered by the City directly, and is a focus of the accompanying Freedom of Information request.

2.2 A Possible Regulatory Dimension

Clarington's staff report links the recapitalization to Ontario Energy Board capital-structure expectations for distribution companies, noting that rising debt levels may pressure a company's debt-to-equity position against OEB-prescribed targets, and that this "may require shareholders to maintain equity within the company." That is a different framing than a purely discretionary growth investment, and it raises a fair question: if other shareholders viewed an equity contribution as necessary to support Elexicon's regulatory capital position, what analysis did Pickering's Council receive on that same point,

and why did it reach a different conclusion? This should be treated as an open question, not an assumption — Pickering's council may have received and weighed the same information and made a reasoned decision not to participate.

2.3 Why This Matters for Pickering

- **Calculable dilution:** because Pickering did not purchase any of the newly issued shares, its ownership stake fell as a direct arithmetic consequence of the issuance, regardless of exactly how the new shares were split among the four participating municipalities. Pickering's pre-issuance 27.880% stake corresponds to 27,880 of the 100,000 shares outstanding before September 2025; with total shares outstanding now at 112,430 and Pickering's own share count unchanged, its stake falls to approximately 24.80% — a decline of roughly 3.1 percentage points, or about 11% in relative terms. This figure reflects Pickering's own position only; the resulting post-issuance percentages for the four participating municipalities individually have not been confirmed, since the exact allocation of new shares among them is not disclosed in the public record reviewed here.
- **Pickering remains a creditor, not a larger equity holder:** its \$25.1M note is repayable on demand with 60 days' written notice and carries interest at 4.13%. This is a different position than being a larger direct equity owner of a growing capital base, though it is not necessarily a worse one — creditor status has its own protections.
- **Dividend suspension affected everyone, not just Pickering:** as part of the same MOU, participating shareholders agreed to suspend Elexicon's dividend for 2025, affecting all shareholders including Pickering regardless of participation. Notably, Clarington's own staff report independently projects continued dividend pressure for all shareholders going forward due to Elexicon's 2027–2031 capital plan — suggesting the 2025 suspension may not be attributable to Pickering's decision specifically.
- **Worth asking directly:** why the City chose not to (or could not) participate, what analysis supported that decision, what the City's current percentage ownership of Elexicon is following the share issuance, and how that decision compares to Ajax's, given their similar starting position in July 2025.

3. Other Risks and Watch Items

3.1 Receivables and Credit Quality

Accounts receivable outstanding more than 120 days rose from \$6.5M (2024) to \$7.6M (2025), and the allowance for expected credit losses increased from \$5.3M to \$7.6M over the same period. Management attributes part of this to an Ontario Energy Board (OEB) moratorium on service disconnections, which limits the Corporation's ability to manage customer non-payment.

3.2 Interest Rate Exposure

Elexicon carries interest rate swap derivatives to hedge a large portion of its long-term debt. The mark-to-market position on these swaps has swung from an unrealized gain of \$2.8M (2022) to unrealized losses of \$11.1M (2023), \$12.3M (2024), and \$10.2M (2025). These are non-cash unless the swaps are unwound, but they indicate meaningful interest-rate sensitivity given the size of the debt book.

3.3 Regulatory Rate Uncertainty

Elexicon Energy Inc. deferred its Cost of Service rate rebasing (originally due by 2029) and has filed a Custom Incentive Rate application for rates effective 2027, with a custom rate formula running 2028–2031. A meaningful share of the Corporation's future revenue certainty depends on the outcome of this still-pending regulatory process.

3.4 Goodwill Carrying Value

Elexicon carries \$64.3M of goodwill on its balance sheet, unchanged and unimpaired since amalgamation. Annual impairment testing relies on management-selected assumptions (a 5.8% discount rate and 2.0% terminal growth rate in the most recent test) rather than external market validation. No impairment has been recorded to date.

3.5 Pension Funding

Elexicon participates in the OMERS multi-employer pension plan, which was 98% funded as of 2025 (up from 95% in 2022). The Corporation states it "is not able to assess the implications" of OMERS' strategy to return the plan to full funding, or of other participating employers withdrawing from the plan, on Elexicon's future required contributions.

3.6 Effective Tax Rate Volatility

Elexicon's reported effective tax rate has swung significantly year to year (-71.6% in 2025, -4.2% in 2024) due to regulatory-balance-related tax movements. This makes simple year-over-year net income comparisons less reliable without adjusting for these items.

3.7 Liquidity: Current Ratio

Clarington's staff report flags Elexicon's current ratio at 0.64, meaning current liabilities exceed current assets — a metric worth watching. Clarington staff noted, however, that cash and receivables still cover accounts payable, and this should be understood as one liquidity indicator among several rather than a standalone red flag. Confirmation and further context should be sought directly from Elexicon's most recent audited statements.

4. Summary for Consideration

Elexicon's asset base and revenue are growing, consistent with a capital-intensive, rate-regulated utility investing in its distribution network. The trajectory since 2022 also shows profitability compressing, debt rising and becoming more bank-dependent, and administrative costs growing faster than revenue. Most notably for Pickering specifically, a September 2025 recapitalization saw every other municipal shareholder — including Ajax, which had been in an identical position to Pickering just two months earlier — increase its equity position, while Pickering's stake did not, coinciding with a dividend suspension affecting all shareholders.

These are presented as fact-based questions for public discussion regarding the City's oversight of, and strategy toward, its shareholding in Elexicon Corporation — not as findings of error or wrongdoing by any individual. The City of Pickering may have sound reasons for its decision that are not reflected in the public record reviewed here, and it should have the opportunity to explain its reasoning directly.

Sources: Elexicon Corporation Consolidated Financial Statements, fiscal years 2022, 2023, 2024, and 2025 (audited by KPMG LLP); Municipality of Clarington Staff Report FSD-026-25 to Special Council, August 11, 2025 (Deputy CAO/Treasurer Trevor Pinn). This summary is provided for informational purposes to support public questions and discussion; it is not legal or financial advice, and original source documents should be consulted, with the City and Elexicon given an opportunity to respond, before any public conclusions are drawn.