



February 12, 2021

June Gallagher
Municipal Clerk
The Corporation of the Municipality of Clarington
40 Temperance Street
Bowmanville, Ontario
L1C 3A6

Delivered electronically

Re: Elexicon Your File # PG.25.06

Dear Ms. Gallagher,

I am writing in response to the Council of the Municipality of Clarington's request for additional information in relation to Elexicon's 2019 financial performance.

Below are Elexicon Corporation's responses to the requested information.

A. "full explanation in the drop in revenue of \$1.2M to Clarington in 2019"

Response:

Elexicon Corporation has reviewed its records and those of Veridian LLC for calendar years 2019 and 2018. There was no decrease in revenues to the Municipality of Clarington from 2018 to 2019. The total payments to the Municipality increased by \$124,108 or approximately 11.9%.

Elexicon Corporation came into existence on April 1, 2019 as a result of the merger of Veridian LLC and Whitby Hydro Energy Corporation.

Elexicon Corporation made

- promissory note payments of \$257,743 (\$85,914 in June 2019 and \$171,829 in December 2019), and
- dividend payments of \$651,750 (\$260,700 in June 2019, \$260,700 in September 2019 and \$130,350 in December 2019). Please note that the December 2019 payment was 50% of the fourth quarter advance of the target dividend for 2019. The Shareholders Agreement between Elexicon Corporation and its Shareholders specifies that the remainder of the Fourth Quarter Advance is to be paid after the Corporation's financial statements for the year are audited and approved.

Veridian made

- total promissory note payments of \$101,995 in March 2019; and,
- a dividend payment of \$159,800 in March 2019.

The total cash flowing to the Municipality of Clarington from Veridian and Elexicon Corporation was \$1,171,288 for the 2019 Calendar Year. This compares to the \$1,047,180 the Municipality received from Veridian for the 2018 Calendar Year (total promissory note payments of \$407,980 and dividend payments of \$639,200).

B. “a pro-forma profit and loss statement for the non-regulated entity for 2019, as opposed to just a top line revenue”

Response:

When the merger of Veridian LLC and Whitby Hydro Energy Corporation was under discussion, the strategic underpinnings were:

- The technologies for providing electric supply, distribution and use were expected to change dramatically and would, over time, result in decreased earnings for the regulated distribution entities and reduced shareholder dividends.
- Significant synergies could be achieved by merging the distribution entities with the resulting savings flowing to the municipal shareholders initially and their customers ultimately.
- The evolving technologies would provide opportunities for an unregulated enterprise to utilize the “historical” brand strengths of Veridian and Whitby Hydro Electric Corporation to capture business that regulated distribution entities were precluded from pursuing by the Ontario Energy Board. The successful growth of the unregulated enterprise would offset the decreased earnings of the regulated subsidiary.

These underpinnings were reflected in the Business Case that was provided to Shareholders of Veridian LLC and Whitby Hydro Energy Corporation in support of gaining their approval of the merger.

Elexicon Group was established on April 1, 2019 following the merger between Veridian LLC and Whitby Hydro Energy Corporation. Unlike Elexicon Energy, which was created from two well established existing regulated entities (Veridian Connections LLC and Whitby Hydro Electrical Corporation), Elexicon Group is unregulated and is operating as a start-up entity building primarily on the unregulated activities undertaken by Whitby Hydro Energy Services.

Elexicon Group’s financial statements are unaudited and reported within Elexicon Corporation’s Audited Consolidated Financial Statements. The following pro-forma profit and loss statement is extracted from those Consolidated Statements.

| | April 1 to December 31, 2019 |
|--|-------------------------------------|
| Revenue | \$142,000 |
| Expenses | <u>(\$307,000)</u> |
| Income Before Income Taxes | <u>(\$165,000)</u> |
| Income Tax Expenses | <u>\$121,000</u> |
| Income from Continuing Operations | <u>(\$44,000)</u> |
| Other Comprehensive Gain (Loss), net of tax | <u>(\$11,000)</u> |
| Total Comprehensive Income | <u>(\$55,000)</u> |
| Adjusted for Deferred Tax Expense (Recovery) | <u>(\$121,000)</u> |
| Adjusted Net Income | <u>(\$176,000)</u> |

C. "a breakdown of the 2020 year to date revenue"

Response:

Ellexicon Corporation provided dividend and promissory note payments to the Municipality of Clarington during the 2020 calendar year totalling \$1,389,213.

- Dividend Payments totaled \$1,045,555.
 - \$130,350 in June 2020 for the True-Up Portion of Fourth Quarter Advance on the target 2019 Dividend (decision deferred from March 2020 due to COVID19 impact uncertainty);
 - \$261,487 in September 2020 for the First Quarter Advance on the target 2020 Dividend (decision deferred from June 2020 due to COVID19 impact uncertainty);
 - \$261,487 in December 2020 for the Second Quarter Advance on the target 2020 Dividend (decision deferred from September 2020 due to COVID19 impact uncertainty);
 - \$261,487 in December 2020 for the Third Quarter Advance on the target 2020 Dividend (decision deferred from September 2020 due to COVID19 impact uncertainty); and,
 - \$130,644 in December 2020 for 50% of the Fourth Quarter Advance of target 2020 Dividend.

- Promissory Note Payments totaled \$343,657.
 - \$171,829 in June 2020 as scheduled; and,
 - \$171,829 in Dec 2020 as scheduled.

I trust the responses provide the information requested by Council Resolution #GG-463-20.

Yours truly,



Patrick McNeil
Chair
Board of Directors
Ellexicon Corporation

Cc: T. Pinn, Director Financial Services/Treasurer
Mayor Adrian Foster
K. Chandler, Ellexicon Corporation
L. Lombardi, Ellexicon Corporation