MANAGEMENT'S
DISCUSSION AND ANALYSIS

CONSOLIDATED FINANCIAL STATEMENTS

The following discussion and analysis should be read in conjunction with the audited consolidated financial statements and accompanying notes of Veridian Corporation ("Veridian" or the "Corporation") for the year ended December 31, 2016. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"). Effective January 1, 2015, Veridian and all of its subsidiary companies adopted IFRS as the basis of preparing and disclosing its consolidated and individual company financial statements. Adopting IFRS required that 2014 financial results be restated to align with the new standard for comparability purposes. Financial results and data from years prior to 2014 were prepared in accordance with Canadian generally accepted accounting principles ("CGAAP").

BUSINESS OF VERIDIAN

Veridian Corporation is 100% municipally owned by four shareholders: the City of Pickering (41.0%), the Town of Ajax (32.1%), the Municipality of Clarington (13.6%) and the City of Belleville (13.3%).

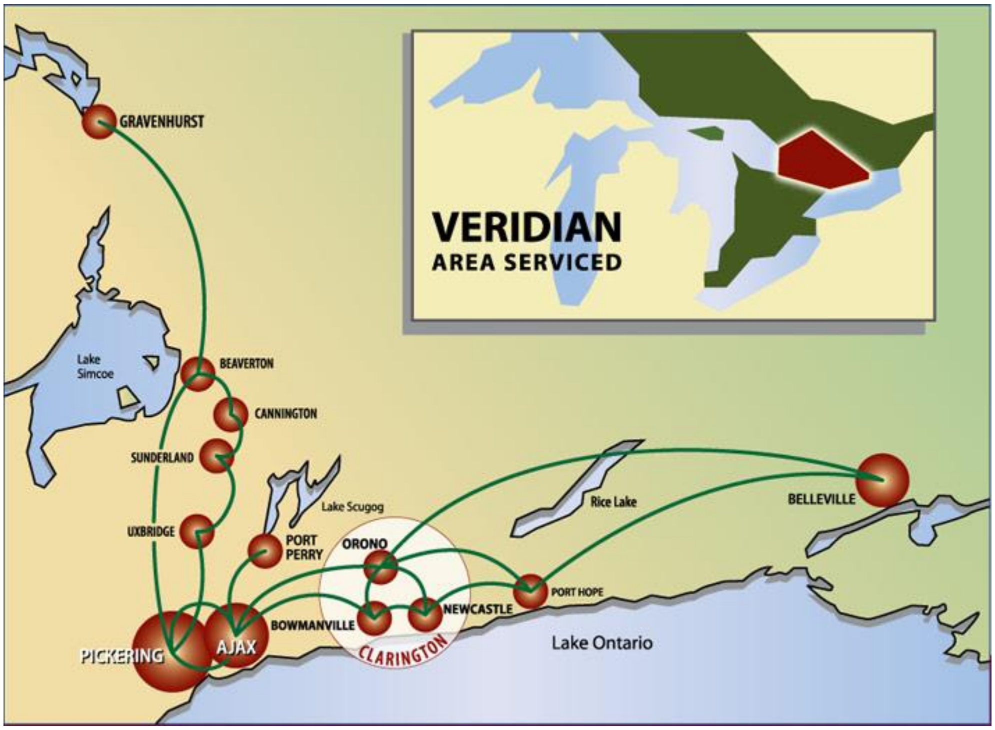
Veridian Corporation provides, through affiliated companies, energy-related services to approximately 121,000 customers located in nine municipalities in east-central Ontario. The core business is distribution of electricity and is provided through the wholly-owned regulated subsidiary, Veridian Connections Inc ("VCI"). A small business focused on renewable energy generation is operated through VCI, separate from the regulated business. Historically, ancillary businesses were operated within Veridian Energy Inc. ("VEI"), a wholly-owned unregulated subsidiary. VEI is currently inactive.

VCI's geographic service area is over 630 square kilometres with an asset base of $316M. The company delivers approximately 2,660 gigawatt hours of electricity to customers annually.

VERIDIAN CORPORATION ENTERPRISE STRUCTURE

Veridian Corporation wholly owns
Veridian Connections Inc. and Veridian Energy Inc.

VCI holds a distribution licence issued by the Ontario Energy Board ("OEB" or "the Board") that entitles the local distribution company ("LDC") the exclusive right to distribute electricity to all customers within its prescribed service territories. VCI distributes electricity to residential and business customers throughout a non-contiguous service area in southern Ontario.



VALUES AND STRATEGY

Veridian's core values:

- Integrity in dealing with customers, employees, shareholders and business partners
- Health and safety of employees and members of the public
- Growth and development of employees in a challenging, rewarding and innovative work environment
- Value creation for customers and shareholders
- Excellence in all aspects of our business

Veridian focuses on the following strategic themes to achieve its business goals:

- Customer Experience
- Infrastructure Renewal
- Operational Excellence
- Growth and Sustainability
- Safe, Engaged and Productive Workforce
- Pursuit of new business lines that increase shareholder and customer value

VCI earns its revenues through charges to its customers for delivery of electricity through its electricity distribution network. Distribution charges have two components; being a fixed monthly service charge and a volumetric charge based on electricity consumption or demand. VCI's rates are regulated and approved by the OEB. In 2015, the OEB released a policy requiring a transition to fully fixed monthly service charges for residential customers. The policy set out that the transition to a fully fixed rate would occur over four years beginning in 2016. Accordingly VCI's 2016 OEB-approved rates reflect that transition to the fully fixed rate for residential customers.

In 2009, the government enacted the *Green Energy Act ("GEA")*, legislation that changed the role of distribution utilities in the areas of power generation, Conservation and Demand Management ("CDM") programs and development of smart grid assets.

The GEA permits distributors to own and operate a portfolio of eligible renewable power generation assets. Related OEB regulatory and accounting guidelines require separate accounting for these generation operations within the distribution utility company.

Under these provisions, VCI has made small scale investments in rooftop solar-photovoltaic ("PV") generation assets and operations.

VEI in prior years had operated unregulated businesses such as water heater and equipment rentals as well as other energy-related services. VEI disposed of its unregulated water heater and sentinel light operations in 2011 for the purposes of regulatory compliance and strategic alignment of investments. As a result, VEI became dormant in 2011 and this status was maintained during 2016.

REGULATORY ENVIRONMENT

ELECTRICITY REGULATION

In Ontario, the OEB has powers and responsibilities for regulation of the electricity industry, including all electricity distributors such as VCI. These include approving or fixing distribution rates, setting service standards, ensuring that distribution companies fulfill obligations to connect and service customers and prescribing conditions of license requirements. These conditions can include specific programs and investments such as CDM, record keeping and filing requirements; connecting and enabling renewable generation facilities and specific requirements for rate setting.

RATE SETTING

VCI'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 as determined by regulation. Periodically VCI makes applications to the OEB for rate setting under various mechanisms.

Under the OEB's October 18, 2012 *Report of the Board – A Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach* ("RRFE"), VCI is provided with three different rate setting options: 1) Price Cap Incentive Rate-setting,

2) Custom Incentive Rate-setting, and 3) Annual Incentive Rate-setting Index. The Price Cap Incentive Rate-setting method sets a distributor's rates through a formula based mechanism using a price cap index.

RATE APPLICATIONS

In March 2016, the OEB approved a Price Cap Incentive Rate-setting application filed by VCI for changes to distribution rates effective May 1, 2016.

On November 7, 2016, VCI filed a 2017 Price Cap Incentive Rate-setting application with the OEB for May 1, 2017 rates. The OEB decision is pending. The proposed distribution rates result in a 5.24% reduction in distribution charges for the average residential customer and a 7.42% reduction for the average small commercial customer.

CONSERVATION AND DEMAND MANAGEMENT ("CDM") TARGETS AND PROGRAM DELIVERY

CONSERVATION FIRST FRAMEWORK (2015-2020)

On March 31, 2014 the Minister of Energy directed the OEB to take steps to further promote CDM including amendments to the licences of electricity distributors to make conservation programs available to all customer segments where appropriate and reasonable.

The new CDM Conservation First Framework spans 6 years, from 2015 to 2020, with a provincial target of 7TWh as determined by the Independent Electricity System Operator ("IESO").

On April 28, 2015 Veridian and Whitby Hydro filed a Joint CDM Plan with the IESO, and on June 8, 2015 the Plan was conditionally approved. On December 8, 2016 the Joint CDM Plan was updated, and conditionally approved by the IESO on February 3, 2017. In accordance with the CDM Plan, the IESO has authorized Veridian to spend up to $40,482,340 of CDM funding to achieve its energy conservation target of 152.970 GWh by 2020. At the end of November 2016 Veridian had achieved unverified energy savings of 30.1 GWh or 19.7% of its 2020 target. The results of all 2015 & 2016 CDM Programs will be verified by the IESO in September 2017.

LOST REVENUE ADJUSTMENT MECHANISM VARIANCE ACCOUNT ("LRAMVA")

The OEB has established a mechanism to compensate distributors for revenue losses related to the distributors' CDM activities. 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.

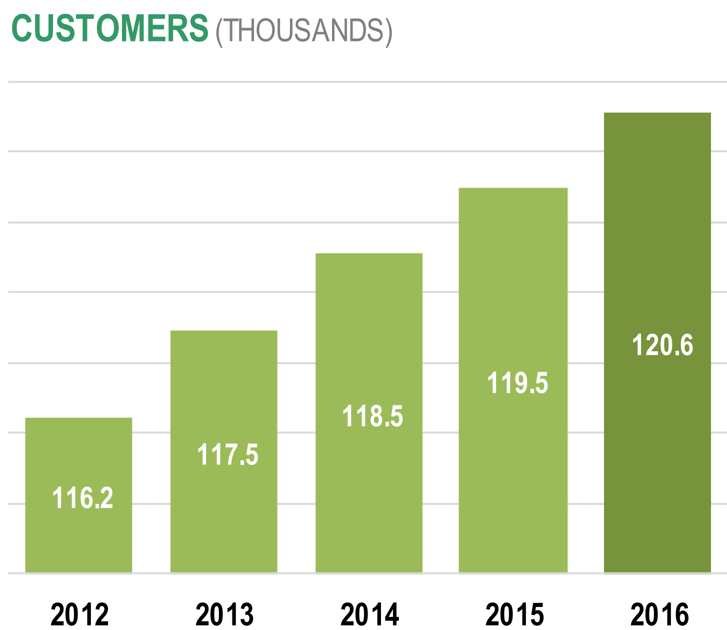
At the end of 2016, Veridian had recorded $732 thousand in variances. This amount represents eligible lost revenues based on verified CDM savings between 2013 and 2016 and associated carrying costs. Veridian currently has an application before the OEB seeking recovery for $561,168 of these costs.

KEY PERFORMANCE DRIVERS

GROWTH

Veridian provides services to approximately 121,000 customers. Customer growth continues to be a key contributor to Veridian's success. Natural customer growth within Veridian's service area over the last three years has averaged 1.0%. Management has projected that customer growth during 2017 will continue just above 1.0%.

The planned Seaton community in north Pickering is expected to increase natural growth beyond the historical 1.0%, with an estimated 10,500 new customers connected between 2017 and 2020 as new neighbourhoods and employment lands are developed.



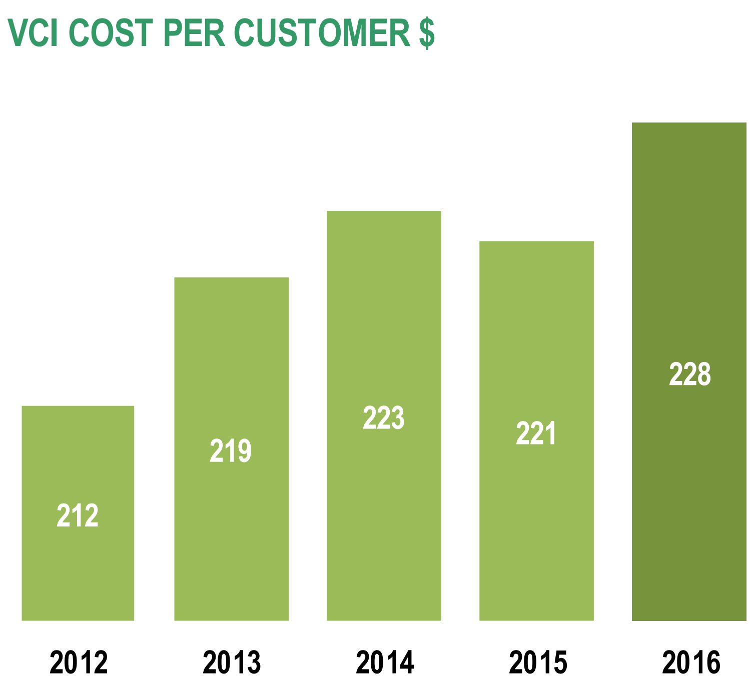
Historically, Veridian has successfully grown its electricity distribution business through mergers and acquisitions. It continues this strategy and actively seeks opportunities to participate in further utility consolidation. In July 2016, Veridian entered into a Memorandum of Understanding (MOU) with Whitby Hydro Energy Corporation and Oshawa Power and Utilities Corporation to evaluate the benefits of a possible amalgamation of their regulated electricity distribution businesses and unregulated businesses. In February 2017, Oshawa Power and Utilities Corporation withdrew from the MOU. Discussion and evaluation of an amalgamation with Whitby Hydro continues. Work on evaluating a business case related to a 2-party amalgamation is ongoing. If a business case supports such an amalgamation, it is expected that benefits to customers through lower costs and equal or better service levels and increased shareholder value would result.

In 2016 Veridian continued to pursue opportunities to grow its unregulated business investments, focusing on renewable solar PV generation, hydro generation, and combined heat and power and district energy opportunities.

OPERATIONAL EFFICIENCY

Within its regulated electricity distribution company, VCI, the standard industry measure of controllable cost per customer is tracked annually. In 2016, the VCI controllable cost per customer was $228, an increase of $6.54 or 2.96%. The 2016 increase was higher than the annual average of 1.7% achieved between 2013 and 2015. A step increase in costs was experienced in 2016. VCI completed the transition to monthly billing of all of its residential and small general service electricity distribution customers as mandated by the OEB. Additionally, VCI undertook an expansion of its vegetation management program in 2016 to support improved system reliability.

Veridian remains focussed on continual improvement in its core business processes and adoption of new technologies to obtain operational efficiencies and reduce costs. Long term reductions in operation costs benefit distribution customers through lower distribution rates in the regulated cost of service process. In previous years OEB benchmarking on OM&A cost per customer, Veridian was the most efficient large utility in Ontario with non-contiguous territories.



Note: 2014 – 2016 IFRS, prior years CGAAP

RELIABILITY AND CUSTOMER SERVICE QUALITY STANDARDS

Reliability and customer service quality standards related to Veridian's electricity distribution system are key performance measurements, and these metrics remain high on the priority list to ensure Veridian is meeting its customers' expectations. Results are reported annually to the OEB and form a basis for corporate performance measurement.

Specific reliability measures are tracked and reported such as SAIDI (System Average Interruption Duration Index); which measures the average length of power outage customers experience and SAIFI (System Average Interruption Frequency Index); which measures how often customers experience outages.

The SAIDI and SAIFI results for Veridian in 2016 are 1.20 and 1.28 respectively. Both SAIDI and SAIFI outperformed their targeted values of 1.45 and 1.80 by a significant margin.

In 2016, the number of outage events was 25% lower than 2015. The total outage duration was also reduced by 25% while additionally, the total number of customers experiencing the outages was reduced by 40%. Veridian also monitors the availability of its distribution services. In 2016 it achieved a System Reliability Index of 99.9863%; an improvement over 2015 performance of 99.97%

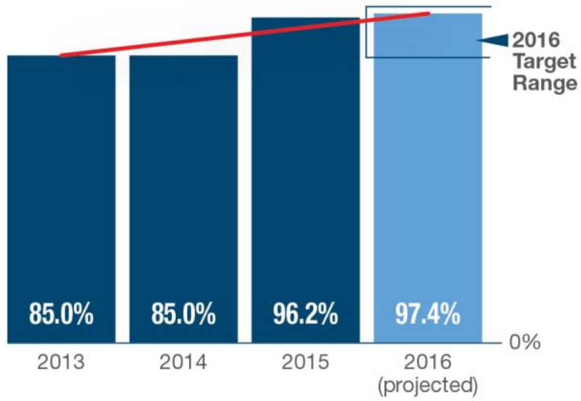
The improvements in reliability are a result of reductions in equipment failure and tree contact related outages. In 2016, Veridian targeted capital investments to address equipment related interruptions. Strategic tree trimming was performed to reduce tree contact outages. Various maintenance programmes also assisted in reducing the frequency and duration of interruptions.

Additionally, investments in distribution system automation are made each year and these new smart grid technologies assist in improving the reliability and quality of electricity supply for customers. These new technologies allow for faster restoration of power to customers during an outage through automatic device operation and system operator intervention from Veridian's centralized 24/7 system control centre.

Veridian continues to inform customers about power outages through its enhanced customer portal, its Interactive Voice Response (IVR) automated phone messaging, website outage map, and social media.

To provide benchmark measures of customer satisfaction, Veridian regularly participates in a province wide utility satisfaction survey. Veridian's performance on overall customer satisfaction ranking is routinely above the average Ontario electricity consumer customer satisfaction level. In Veridian's last customer satisfaction survey, completed in 2015, Veridian's performance exceeded the Ontario benchmark by 6%. Veridian's customer satisfaction rankings have been in the low to mid 90's for the last few years.

In 2013 Veridian established its unique "Service Quality Composite Index" (SQCI) to monitor its performance against the 13 categories of service quality performance that are monitored by the OEB. Since then, overall performance has improved from 85 per cent in 2013 to 97.4 per cent in 2016, exceeding internal targets.



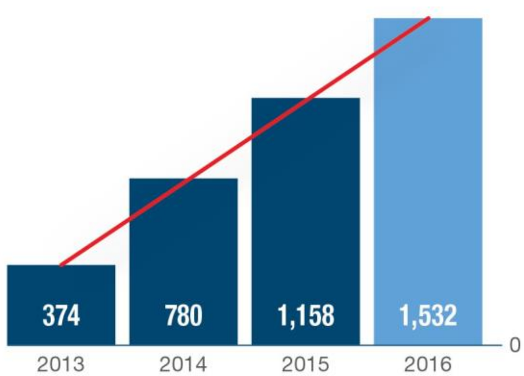
Service Quality Composite Index performance by year.

SAFETY

Health, Safety & Environment are core foundational values at Veridian. A healthy and safe workplace and an environmental commitment begins with the identification of workplace hazards, respect for the environment and a commitment to work together to ensure the health and safety of employees and the public.

Veridian's Health & Safety Committees are at the core of the organization's Health and Safety Management System. They review all incidents, near misses and workplace hazards reports to determine opportunities for improvement.

In 2016, Veridian achieved its fourth consecutive year without a lost time injury surpassing a significant milestone of 1,500,000 hours worked without a lost-time injury. Veridian is extremely proud of the commitment displayed by its employees in reaching this safety achievement.



Cumulative hours (000's) worked without a lost time injury

Veridian continues to improve its efforts towards the objective of eliminating all injuries from the workplace. Encouraging employees to report minor hazards, and near miss incidents, enables necessary improvements to avoid more serious incidents from occurring. This effort has resulted in a reduction in both the frequency and severity of workplace injuries at Veridian.

The Corporation continued its commitment to the achievement of the Certificate of Recognition (“COR”), a nationally trademarked certification endorsed by participating members of the Canadian Federation of Construction Safety Associations and delivered in Ontario by the Infrastructure Health & Safety Association. Veridian’s Health & Safety Management systems have been redesigned to align with the requirements of the standard and compliance testing is planned for 2017.

HUMAN CAPITAL

Veridian understands that an engaged and productive workforce is a major contributor to its success.

During 2016, emphasis continued to be placed on strengthening communication within the organization. This was done through establishment of coordinated meetings and information sessions throughout all levels of the organization. The delivery of key messages and the opportunity to obtain feedback were aligned across manager meetings and general staff meetings and town halls.

In 2016, Veridian continued its very successful Trades Training and Management Training Syllabus programs. These programs serve to ensure technical expertise for trades staff and effective leadership skills for management. The company also supports ongoing employee career and personal development through tuition subsidy and employee wellness programs.

The Corporation continues to mitigate risks associated with an aging workforce by having a workforce labour strategy that ensures that critical positions are backfilled quickly with qualified new hires. Veridian’s trade apprenticeship program serves to develop technical expertise in its junior trades staff as they learn from the company’s seasoned veterans. The workforce labour strategy is reviewed annually by the senior leadership team to ensure that the organization is proactive in investing in future resources within skilled trades and technical roles.

In addition, Veridian has identified that strong, effective on-boarding processes for new employees contributes to success for both the corporation and new employees. In 2016 Veridian strengthened its on-boarding, orientation and early training programs. The program is effective in helping new employees learn the organizations work method and culture and succeed in their roles. Veridian continued to enjoy a low employee turn-over rate of 0.47% (excluding retirees) in 2016.

Veridian strives to provide all its staff with an engaging and stimulating work environment that is both conducive to personal growth within the company and to the efficiency of the organization as a whole.

INTERNAL PROCESSES AND SYSTEMS

Annually, short and long term operating and capital financial plans are developed to support Veridian's key business objectives. Continual improvements in internal processes and systems and opportunities for productivity improvements are an integral part of these plans, as well as regular review of efficiencies in procurement of external services.

Veridian continues to undertake process redesign and invest in technology in order to improve efficiencies, enhance the customer experience and position the corporation for future growth.

Strategic investments are made in distribution automation, mobile workforce management, cyber security, outage communication and customer interfacing systems and services.

During 2017 Veridian continued to invest in substation automation line monitoring devices which improve system visibility and remotely operated line switches which improve restoration times.

The workforce automation application continues to be rolled out to field staff. This application improves productivity by providing staff with access to data, applications and reporting forms in the field.

In response to the continued threat of cyber security attacks Veridian has been reviewing and implementing new measures to ensure its perimeter remains secure. In late 2015, five Vulnerability Assessments were completed on Veridian's network infrastructure. All high and medium risk vulnerabilities that were identified along with a significant number of the low risk vulnerabilities were rectified in 2016. In addition Veridian upgraded from an Intrusion Detection System to an Intrusion Prevention System, installed advanced malware protection and upgraded fire wall structures.

Over the past several years Veridian has been developing and implementing a state of the art outage communication platform for customers. Outages and updates recorded by the operations control centre automatically update the online outage maps, the IVR and Twitter. In 2016 a new service was added that allows customers to register and receive outage notifications and updates via email, text or an automated phone message.

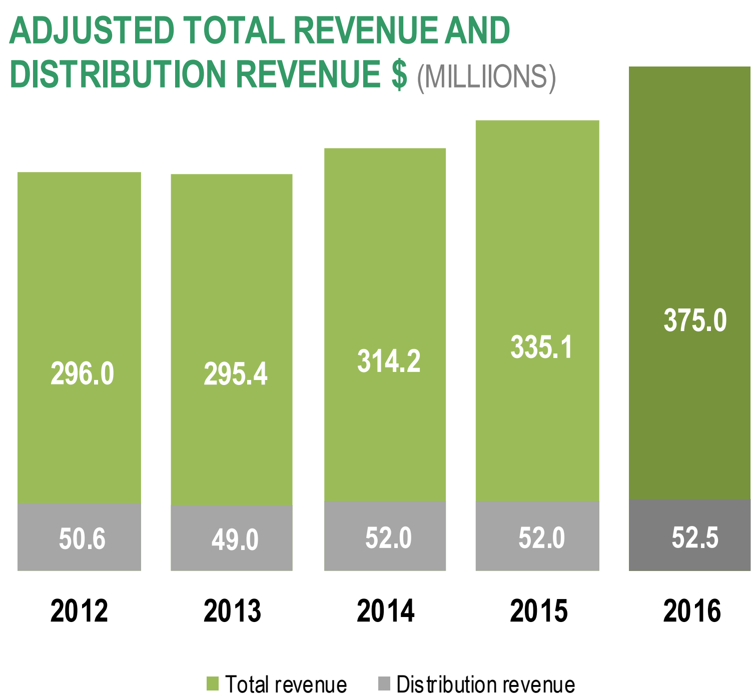
During 2016 work also continued on the implementation of Automation Platform. This initiative focuses on automating many of the routine functions within the Customer Information System. This improves efficiencies and productivity and allows Customer Service Representatives to be engaged in activities of higher value to customers.

One of Veridian's key customer facing interfaces is the bill that is issued. Controls that have been put in place continue to produce excellent billing accuracy. Billing accuracy in 2016 was 99.85% improving upon its strong performance of 99.73% in 2015.

FINANCIAL HIGHLIGHTS

REVENUES AND NET EARNINGS

Adjusted distribution revenues in 2016 were $52.5 million. In 2015, adjusted distribution revenues included the OEB-approved recovery of stranded meter asset costs of approximately $1.5M. When normalizing revenues by removing this one-time recovery in 2015, distribution revenues grew in 2016 by $2.0M or 4.0%. The increase was attributable to customer growth, higher electricity deliveries and recognition of revenues lost due to conservation activities that will be sought for recovery in future regulatory proceedings.



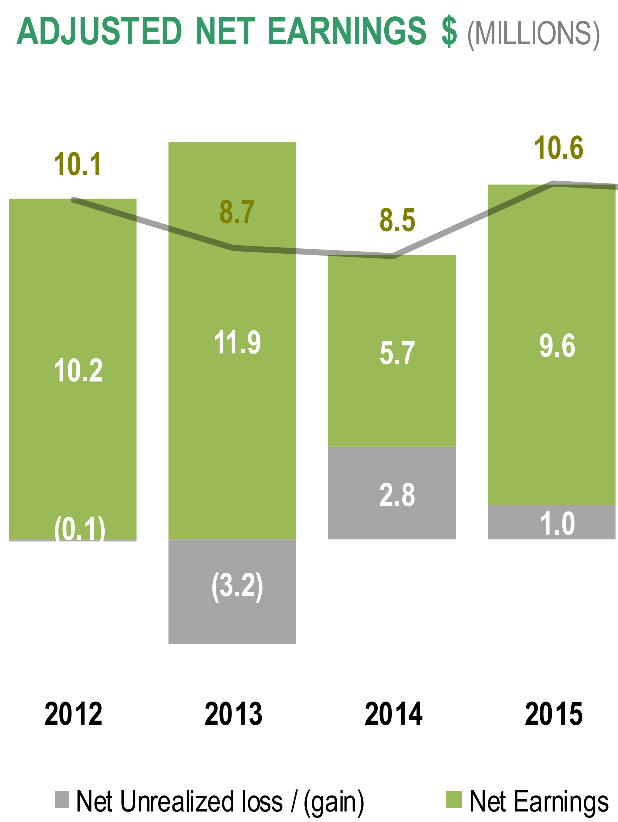
Note: 2014-2016 IFRS, prior years CGAAP
Adjusted Total Revenues exclude Commodity Revenues subsequently transferred to Regulatory balances

Veridian's net earnings can fluctuate significantly due to non-cash unrealized gains and losses on interest rate swap derivatives. Veridian holds interest rate swap loans and interest rates on these derivatives decreased resulting in unrealized losses. The unrealized losses arise as interest rates decrease below the established fixed rates of the loans; conversely, unrealized gains arise as interest rates increase above the established fixed rates of the loans.

Veridian does not intend to unwind these financial instruments. As such, unrealized gains or losses are not expected to affect cash and unrealized gains or losses will become zero at the maturity date of these instruments. In 2016, Veridian recorded a non-cash unrealized loss of $0.02 million net of future income tax (2015 - $1.0 million).

Net earnings increased $0.821 million, from $9.550 million to $10.371 million prior to any adjustments for unrealized gains or losses. The increase in net earnings can be attributed to increased distribution revenues and lower financing costs.

Net earnings adjusted for the interest rate swap derivative would be $10.4 million in 2016 compared with $10.6 million in 2015.



Note: 2014-2016 IFRS, prior years CGAAP

CAPITAL EXPENDITURES

Total net capital expenditures for 2016 were $26.399 million.

CAPITAL EXPENDITURES (millions)	2016	2015	2014	2013
Distribution System Assets	20,829	17,510	14,443	13,122
Intangible Assets	1,884	1,894	1,815	1,976
Other Assets	3,686	3,153	2,780	4,898
	26,399	22,557	19,038	19,996

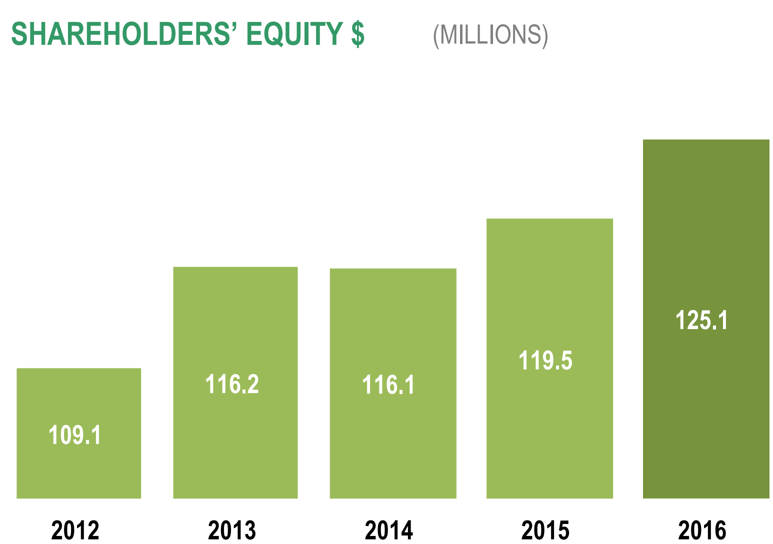
Of these investments, 80% or $ 21.1 million were for distribution system assets. These assets include poles, wires and cables, transformers, substations and meters.

These reflect investments for expanding, replacing and refurbishing distribution infrastructure to ensure safe and reliable distribution of electricity to customers and ensure compliance with statutes and regulations.

Intangible assets include computer software and intellectual property. Other asset investments are in facilities, furniture and office equipment, computer hardware, fleet vehicles and system control equipment and tools.

RETURNS FOR SHAREHOLDERS

Veridian has had a long term trend of strong growth in shareholder's equity, while maintaining robust interest and dividend payments. Shareholder's equity has increased, $21.5 million, or an average of 4% annually since 2011. Upon adoption of IFRS at the transition date of January 1st, 2014, Veridian recorded a $1.3 million reduction in equity largely due to the recognition of employee benefit liability not previously recorded under CGAAP, restating 2014 ending equity from $117.7 million to $116.4 million.

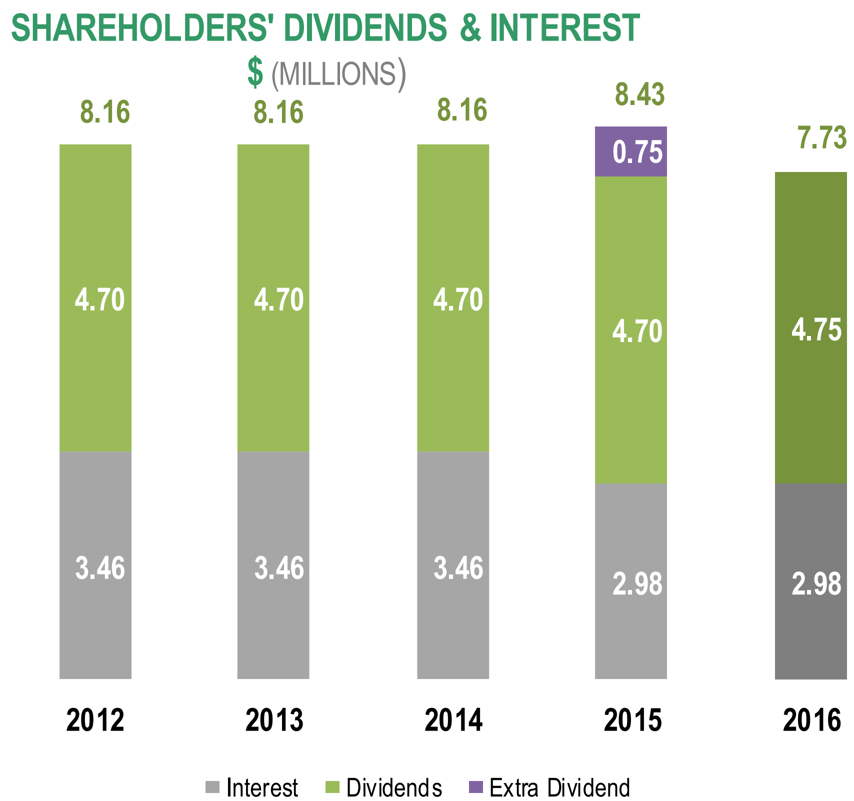


Note: 2014 - 2016 IFRS, prior years CGAAP

Municipal shareholders benefit from distributions of Veridian's earnings. The Board of Directors of Veridian Corporation approved a dividend policy for the years 2012 to 2017 with base dividends of $4.7 million each year subject to certain provisions.

In 2015, the interest rate on the Corporation shareholders' promissory notes held by VCI were adjusted to reflect the deemed long term interest rate as prescribed by the OEB. This reduced shareholder interest payments by $480 thousand. In 2015, however, dividends were increased by $750 thousand based on higher than expected earnings.

In 2016, Veridian paid shareholder dividends of $4.75 million. In total, Veridian paid $7.73 million in 2016 to shareholders in dividends and interest on shareholder promissory notes.



Through its continued investment in the electricity distribution system, Veridian has continued to grow its regulatory rate base at annual average of 6.5% since 2006.

Regulatory rate base is the value of the assets on which Veridian is permitted to earn the OEB approved rate of return. Continued rate base growth provides for stable, regulated returns on a growing shareholder investment.

	2006	2010	2014
Approved Rate Base (millions)	$144.16*	$186.60	$238.11
Average Annual Increase		4.9%	6.9%

**Based on historic test year of 2004*

ACCOUNTING ESTIMATES

Management uses judgement in assessing certain accounting estimates required to determine reported amounts for assets, liabilities, revenues and costs and related disclosure of contingencies at the date of the financial statements. Management bases its estimates and judgements on historical experience, current conditions, and various other assumptions believed to be reasonable under the circumstances. Actual results may differ from these estimates. The following critical accounting estimates were used in the preparation of Veridian's financial statements.

ESTIMATED SERVICE LIVES

Veridian has estimated service lives of property, plant, and equipment, as well as, intangible assets as found in the corporation's accompanying notes to the consolidated financial statements, Note 1(g) and 1(h) respectively.

REGULATORY DEBIT AND CREDIT BALANCES

Regulatory debit balances amount to $2.53 million and relate primarily to: balances arising from the derecognition of assets under IFRS, retail settlement variances approved for recovery, deferral amounts to be recovered in the future including administrative costs related to Veridian's adoption of IFRS. Management believes that the costs allocated to these variance and deferral accounts meet the tests of prudence as established by the OEB through past hearings and that these costs will be fully recoverable.

Regulatory credit balances of $10.39 million include: $2.5 million for future income taxes and $7.8 million in retail settlement variances that have accrued since January 1, 2014. These regulatory liabilities are expected to be returned to customers through future rates.

ALLOWANCE FOR DOUBTFUL ACCOUNTS

Accounts receivable and unbilled revenue totalled $66.5 million as at December 31, 2016. Past experience with the collection of accounts has been used to estimate amounts that may not be collected. An allowance of $1.1 million is estimated as a reasonable amount of receivables that may not be collected.

UNBILLED REVENUE

Unbilled revenue balances are based upon estimates of customer electricity consumption to the end of the financial reporting period. Electricity consumption estimates are required at the end of the financial reporting period when meter readings are unavailable. These estimates are based on the historical usage of customer electricity consumption. Unbilled revenue totalled $33.8 million as at December 31, 2016 and consists of commodity and distribution revenue components.

EMPLOYEE FUTURE LIABILITY

Veridian has commitments to pay post-retirement benefits for employees. Actuarial assumptions are employed for the valuation of this future liability. The assumptions were determined by management recognizing the recommendations of actuaries.

GOODWILL

Accounting principles require that goodwill be assessed for impairment. Management has reviewed the goodwill related to acquisitions and believes that the value ascribed to goodwill is not impaired. Management relies upon discounted cash flow projections and other fair market value evidence to support this review.

LIQUIDITY AND FINANCING

Veridian's debt to capitalization ratio at December 31, 2016 was 51%. The Corporation's debt includes $60.8 million in shareholder promissory note debt, as well as committed reducing term facilities of $70.7 million held with a Canadian chartered bank. Veridian also has access to a revolving demand facility of $30 million available for short term working capital requirements. These credit facilities have customary covenants normally associated with long-term debt, including debt to capitalization and debt service coverage ratios. Veridian is in compliance with all bank covenants as at December 31, 2016.

In 2016, the Dominion Bond Rating Service ("DBRS") confirmed the Issuer Rating of Veridian Corporation at "A" with a stable trend. The DBRS report noted that the rating confirmation reflects Veridian's low business risk assessment and strong financial risk assessment, largely driven by low leverage and a robust operating performance in 2015.

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

- 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 has assessed that there is sufficient financial capacity to meet all stated corporate strategic objectives.

RISK

The mandate of the Audit and Risk Management Committee of Veridian's Board of Directors includes identification of the principal risks of the company and verification that effective control systems are in place to manage and mitigate these risks.

Significant risk factors affecting Veridian include:

REGULATORY RISK

As an electricity distributor in the Province of Ontario, VCI is licensed and regulated by the OEB which is a quasi-judicial tribunal, and is responsible for oversight and ensuring that electric monopoly utilities comply with Board decisions and orders.
Regulatory risk is the risk that the regulations as set out by the OEB could change such that the regulatory regime restricts VCI's ability to achieve an acceptable rate of return. Regulatory changes regarding recovery of regulatory assets accumulated through the billing of transmission and commodity services provided by third parties could impact VCI's operations. All recoveries for such assets and changes in rates and charges require the approval of the OEB through rates proceedings.

The interests of external stakeholders are considered by the Board during these proceedings and these interests, if supported, may have the impact of reducing the returns that VCI earns from distribution rates charged to customers.

CREDIT RISK

Credit risk is the risk of financial loss stemming from the extension of credit to customers or other parties when those parties fail to discharge their obligation to pay the debt associated with the extension of that credit.

VCI is subject to credit risk with respect to non-payment by customers. This is the company's principal source of credit risk. VCI and other Ontario LDC's are billing agents for a number of different organizations. In addition to billing customers for distribution of electricity charges, Veridian, by regulation, bills and collects on behalf of others: charges for the electricity commodity and other charges (IESO); and transmission of electricity (Hydro One and IESO). VCI bears the entire credit risk for collection of all these charges.

VCI mitigates this risk by employing the maximum credit protection measures in accordance with OEB regulation including; security deposits, late payment penalties, pre-payment, disconnection and load limiters.

VCI's customer base is diversified and at year-end no single customer accounted for more than 1% of accounts receivable. Furthermore, with this diversification credit losses related to an industry segment downturn are not expected to have a material impact upon earnings.

The credit status of all accounts, with particular emphasis on the largest accounts, is reviewed frequently and management records credit losses in the period in which, in management's opinion, the collection of these accounts receivable is doubtful.

DISTRIBUTION ASSET CONDITION

VCI's electric distribution system consists of substations, overhead lines; including poles, conductors, pole mounted transformers and switches, and underground lines; including high and low voltage cables, surface or pad mounted transformers and switchgear.

Major risks are those related to asset condition (highly correlated to vintage) and impact of weather events on these assets.

Initially prepared in 2013, an Asset Condition Assessment ("ACA"), updated with data as of January 2015 continues to be used as an asset management road map. The ACA is an assessment of the health of Veridian's current major distribution assets categories and will serve as the seed in the ongoing process of asset management and informs Veridian's overall Asset Management Plan ("AMP"). The ACA output results continue to be improved as more asset condition data, derived from age statistics and condition testing results, is collected each year. Veridian's ACA will be further updated in 2017.

The AMP introduces a formal, documented process, and decision-making structure related to capital investments. It ensures that the proactive replacement of equipment is carried out in a manner that balances the capital cost to replace the equipment against managing the risk of failure of the equipment.

Normal weather conditions involving wind, ice and snow continue to have some negative impact on system reliability. However, Veridian's improved 2016 reliability statistics indicate that inspection and maintenance programs, along with robust design and construction standards are continuing to mitigate this impact through prudent system hardening practices. System hardening has been ingrained as a philosophy in the design, construction, maintenance, or operation of the distribution system and allows for an improved response or resilient behaviour to a planned or unplanned event. Annual capital sustainment programs continue to prudently pace and prioritize replacement of aging assets informed by the ACA, reliability reporting and equipment failure analysis trending.

VCI continues to prudently manage risks by following targeted cyclic programs for vegetation management for overhead lines areas, as well as a full program of equipment testing and inspection activities on all major assets. When combined with condition-based replacement activities as an integrated activity, these programs improve system performance, minimize premature failures, and improve resistance to adverse weather.

ENERGY SUPPLY RISK

VCI relies upon the provincially administered power grid for the supply of electricity. The Electricity Restructuring Act, 2004 outlines the mandate of the Ontario Power Authority ("OPA") to ensure an adequate, reliable and secure supply of electricity in Ontario for the medium and long term. The IESO is responsible for the operation and reliability of the power system and has taken on the responsibilities of the OPA upon the merger of the two organizations. Veridian is also served via combinations of Hydro One-owned transmission and distribution assets. Consequently, there is significant electricity supply reliance upon these two organizations. To the extent that these two organizations are unable to fulfill their mandate, VCI would be exposed to the risk associated with an inadequate supply or a decline in reliability.

FUTURE ACCOUNTING CHANGES

NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

The International Accounting Standards Board ("IASB") issues amendments to standards and interpretations which require adoption in future years. Veridian regularly reviews and evaluates implementation requirements and impacts of these new standards.

In May 2015, the IASB issued IFRS 15, Revenue from Contracts with Customers. This standard outlines a single comprehensive model for entities to use in accounting for revenues arising from contracts with customers and supersedes current revenue recognition guidance within Internal Accounting Standard ("IAS") 18, Revenues and IAS 11, Construction Contracts. The new standard is effective for annual periods beginning on or after January 1, 2018.

In January 2016, the IASB issued IFRS 16, Leases. This standard replaces the previous lease standard IAS17, Leases. It sets out the principles for the recognition, measurement, presentation and disclosure of leases. It eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. The new standard is effective from January 1, 2019, however a company can choose to apply IFRS 16 before that date but only if it also applies IFRS 15.

In July 2014, the IASB issued IFRS 9, Financial Instruments. This standard brings together the classification and measurement, impairment and hedge accounting and replaces IAS39, Financial Instruments: Recognition and Measurement. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

Veridian intends to adopt all of these new standards; IFRS 15, IFRS 16 and IFRS 9 for the annual period beginning on January 1, 2018 and does not expect adoption of these standards to have a material impact on financial statements and financial reporting.

OUTLOOK

Veridian looks to the future, maintains focus on the present and learns from the past.

Veridian will continue on its mission to provide reliable, efficient, sustainable energy services to its customers while delivering optimal return on investment to shareholders and promoting economic growth in the communities that it serves.

Veridian remains committed to its strategic objectives of growth and improvement in its core distribution business, financial strength and solid returns, delivering excellent customer service and reliability and providing an engaging and safe workplace for its employees.

The corporation's future sees continued natural growth and development opportunities such as in north Pickering (Seaton). Veridian has embarked on the design and construction of its first large Transformer Station (TS) for the benefit of its customers and shareholders. This builds on expertise attained through the design, construction and operation of 53 municipal substations.

Veridian is fully engaged in opportunities for growth and economies of scale through acquisitions and mergers. The corporation believes that existing systems and processes can be optimized through growth for the benefit of customers. Veridian also looks to partner with other utilities in the area of shared services to reduce costs to both parties, such as provision of operational technology platforms. Veridian is committed to creating an exceptional platform for growth, lower costs and increasing levels of service and value to customers and shareholders, as evidenced by the exploration of merger possibilities with neighboring utilities.

Prudent distribution system renewal capital investments through proactive planned sustainment programs will replace or refurbish the corporation's distribution assets in a managed orderly manner in order that they continue to meet all present and future corporate and customer performance expectations.

Investments in renewable generation, combined heat and power (CHP), district energy and broadband continue to be investigated. Veridian anticipates further participation in the Province's Feed-in tariff (FIT) program.

In 2016 Veridian constructed a microgrid pilot project at its head office facilities. This project will assist Veridian in better understanding the opportunities and challenges of the increasing technical interfaces between the utility distribution grid and customer owned equipment and systems. The focus is on opportunities to optimize the use of the distribution grid as it interfaces with disruptive technologies such as solar generation, energy storage and electric vehicles. Veridian will play an important ongoing role in bringing more value to shareholders and customers as these technologies mature and become more cost effective.

The evolution of the distribution utility grid and increased operational connection and communication with the IESO bulk system grid will allow greater participation by customers in future upstream benefits. Veridian intends to be at the leading edge by expanding its existing 7/24 system control centre into a platform to allow this evolution to happen. Increasing, prudent use of system automation and self healing systems will allow more locations within the grid to see response to outages in minutes versus hours.

The evolution of the smart distribution utility grid and increased joint planning and communications will also help support cities' and region's move towards smart cities' infrastructure. This will allow municipalities to deliver better services at a lower cost with an improved environmental and public safety profile. Distributed energy and local broadband are two foundations that will support the smart communities of tomorrow and Veridian intends to be at the forefront of supporting this evolution that will result in a better quality of life in the communities that it serves.

The communities served by Veridian also receive other benefits beyond excellent financial returns, excellent service and groundbreaking cooperation with municipal partners. Veridian has become an integral part of these communities and supports areas such as youth, education, the disadvantaged, the environment and economic development to help build stronger communities from an economic, social and sustainability perspective.

Veridian is able to respond effectively to the changing environment of the industry, regulatory and legislative landscapes, pursuing the goals and opportunities to create an energy conservation culture in Ontario. Health and safety for employees and the public will always be a top priority.

Through the leadership of the Veridian Board, shareholders, and executive management team, Veridian is well positioned to continue its track record of innovation, strong financial performance and operational excellence.