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, 2017. 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%).

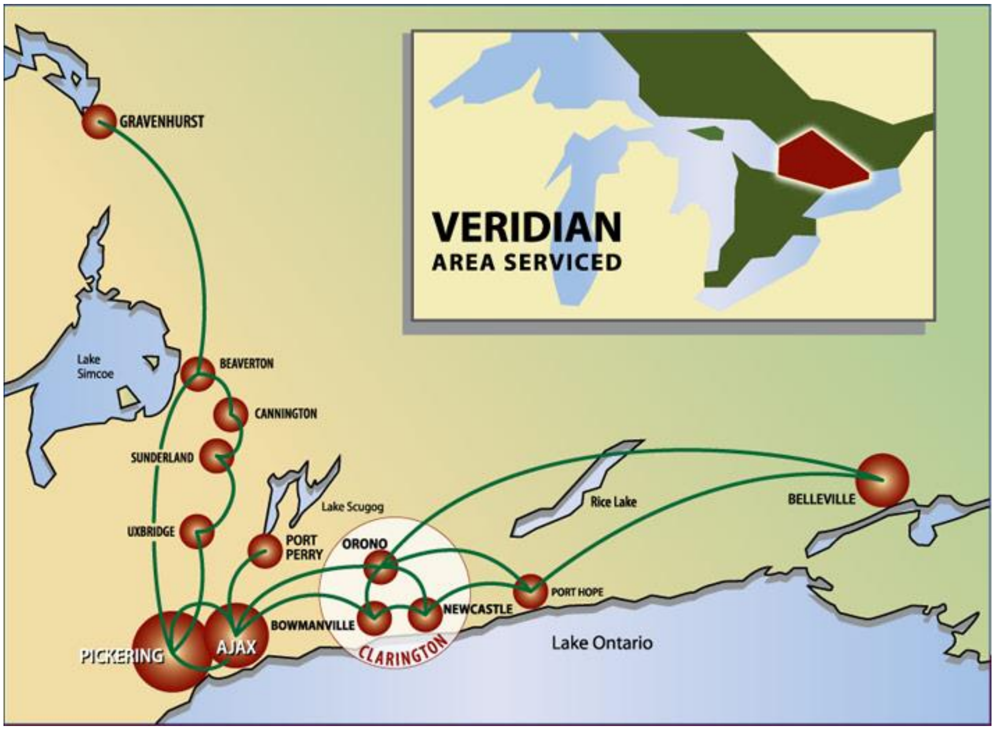
Veridian Corporation provides, through affiliated companies, energy-related services to approximately 122,000 customers located in nine municipalities in east-central Ontario. The core business is distribution of electricity and is provided through the wholly-owned regulated subsidiary, Veridian Connections 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. New business opportunities in areas such as renewable generation, district energy and broadband are currently being pursued through Veridian Corporation.

VCI's geographic service area is over 630 square kilometres with an asset base of $339M. 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 2017 OEB-approved rates reflect the second year of 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 2017.

New business opportunities are currently being pursued through Veridian Corporation.

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 2017, the OEB approved a Price Cap Incentive Rate-setting application filed by VCI for changes to distribution rates effective May 1, 2017.

On October 16, 2017, VCI filed a 2018 Price Cap Incentive Rate-setting application with the OEB for May 1, 2018 rates. The application was approved and the OEB decision released on March 22, 2018. The May 1, 2018 rates result in a 0.13% increase in distribution charges for the average residential customer and a 0.05% increase 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 current 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. The Plan was most recently updated on April 18, 2017 and conditionally approved by the IESO on May 12, 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 152.97 GWh by 2020.

At the end of November 2017 Veridian had achieved unverified energy savings of 54.43 GWh or 35.6% of its 2020 target. The results of all 2017 CDM Programs will be verified by the IESO in September 2018.

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.

In 2016 Veridian filed an application with the Ontario Energy Board seeking to recover $561,168 of lost revenues during 2013-2015 and which relate to CDM programs delivered between 2011 and 2015. The application was approved by the Ontario Energy Board for recovery in Veridian's May 1, 2017 rates.

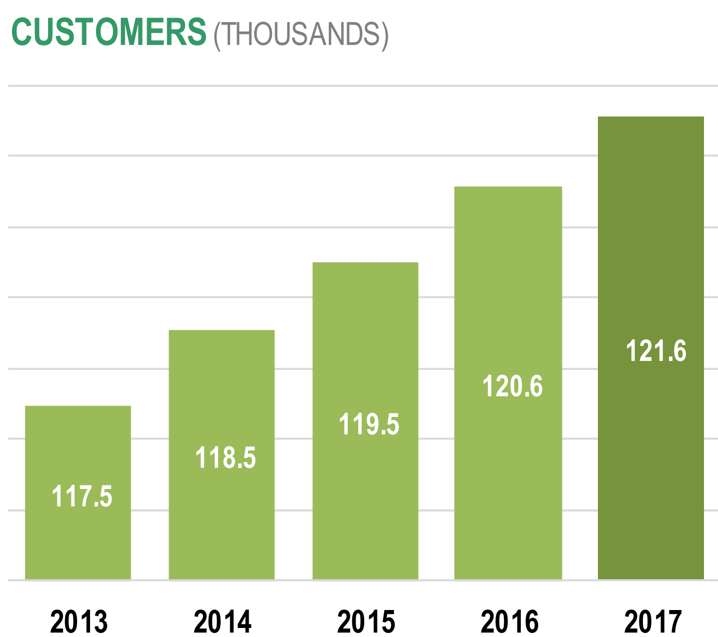
As of the end of 2017, Veridian had recorded an additional LRAMVA variance of approximately $726,000. This amount represents eligible lost revenues based on verified CDM savings in 2016 and 2017, and associated carrying costs.

KEY PERFORMANCE DRIVERS

GROWTH

Veridian provides services to approximately 122,000 customers. Customer growth continues to be a key contributor to Veridian's success. Natural customer growth within Veridian's service area over the last five years has averaged 1.0%. Management has projected that customer growth during 2018 will be slightly higher at 1.6%.

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 2018 and 2022 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 and a 2-party MOU with Whitby Hydro was signed in July 2017 to continue evaluation of a 2-party amalgamation. The Veridian and Whitby Hydro Boards of Directors have recommended the merger case and communication with the municipal shareholders is underway to obtain municipal approval of the merger. It is expected that benefits to customers through lower costs and equal or better service levels and increased shareholder value would result from execution of the business case.

In 2017 Veridian continued to pursue opportunities to grow its unregulated business investments, focusing on renewable solar PV generation, natural gas fueled combined-heat-and-power (CHP), district energy and broadband infrastructure opportunities. Veridian was successful in receiving contract offers during 2017 from the Independent Electricity System Operator for five renewable energy rooftop solar projects under the Feed-in-Tariff (FIT) 5 program. The projects will be constructed during 2018 and located in Uxbridge, Cobourg and Prince Edward County. Veridian also successfully executed an Energy Services Agreement during 2017 with a local manufacturer for a CHP project which is expect to be constructed during 2018.

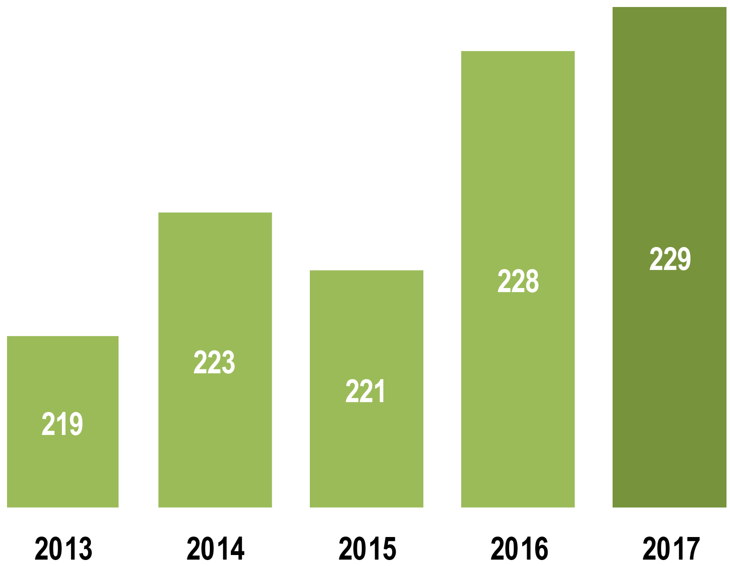
OPERATIONAL EFFICIENCY

Within its regulated electricity distribution company, VCI, the standard industry measure of controllable cost per customer is tracked annually. In 2017, the VCI controllable cost per customer increased by only $1.32 or less than 0.6%; just one-half the rate of the OEB established industry inflation factor of 1.2%.

In 2016, VCI had a step increase in controllable cost per customer over 2015 levels due to the transition to monthly billing of all of its residential customers as mandated by the OEB. A similar step change in costs occurred in 2014 in the transition to IFRS where costs previously capitalized under CGAAP were recorded as period expenses under IFRS. Despite these increases in cost structure, Veridian's average annual increase in controllable cost per customer from 2013 to 2017 of 1.02% remains below the industry inflation rate.

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.

VCI COST PER CUSTOMER $



Note: 2014 – 2016 IFRS, 2013-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.

In 2017, 1.07 was the resulting measure for both SAIDI and SAIFI. Both SAIDI and SAIFI outperformed their targeted values of 1.45 and 1.80 by a significant margin.

The 2017 improvements in reliability is observed from the total outage duration which is reduced by 10% while additionally; the total number of customers experiencing the outages was reduced by 15%. In 2017 it achieved a System Reliability Index of 99.9877%; an improvement over 2016 performance of 99.9863%

An innovative reliability improvement cross-functional team has led to earlier identification of outage trends and more rapid assessment of customer concerns. The improvements in reliability are the result of reductions in outages caused by equipment failure and tree contacts. Veridian continued with its capital investments to address equipment related interruptions, however in 2017, underground cable rehabilitation was also given higher priority to address areas of frequent failure. The reduction in outages can also be attributed to effective maintenance programs such as insulator washing, tree trimming and station inspections.

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 immediate system operator intervention from Veridian's centralized 24/7 system control centre.

Veridian informs customers about power outages by leveraging technology that allows them to determine how they want to be informed. The website outage map informs customers of the boundaries of the outage, the number of customers impacted, the cause of the outage and the estimated restoration time and crew status. This information can also be provided to customers via email, text, automated phone message 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. Results for Veridian's customer satisfaction survey completed in 2017 were no exception. Veridian's performance exceeded the Ontario benchmark by 15%; the highest margin recorded in 14 years of customer survey results. Veridian's customer satisfaction rankings have been in the low to mid 90 percent levels for several years. Veridian's customer service excellence and community outreach have allowed Veridian's brand to remain strong during a period of decreasing customer satisfaction elsewhere due primarily to rising electricity commodity rates. Veridian's dedicated customer service cross-functional team has had an impact in focusing on improving the Veridian customer experience throughout the organization.

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 98.7 per cent in 2017, exceeding internal targets.

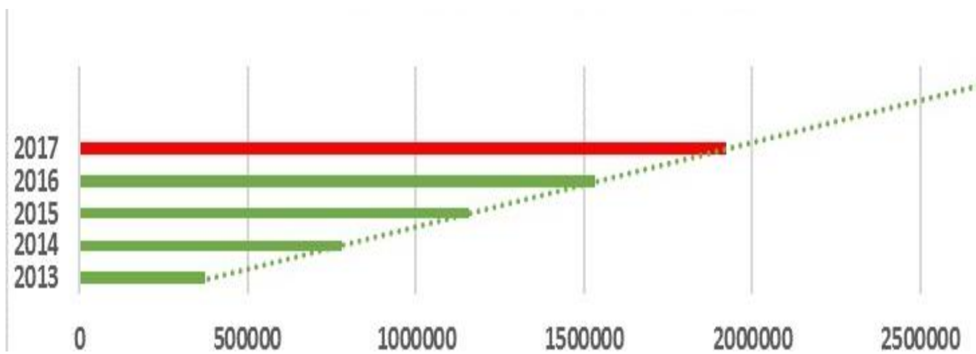
HEALTH, SAFETY AND ENVIRONMENT

Health, Safety & Environment are core foundational values at Veridian and recognizes the right of all workers to a safe, healthy and harassment free work environment. The

Corporation remains firmly committed to protecting the health and safety of its employees, customers, contractors, assets and the public.

Veridian works in a spirit of consultation and cooperation with all workers and stakeholders in the development and implementation of its health and safety program. Management continues to ensure required resources are available to provide for the successful execution of the company's health and safety initiatives.

In 2017, Veridian achieved its fifth consecutive year without a lost time injury, building on the 2016 achievement of 1,500,000 hours worked without a lost-time injury.



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

The Corporation continued in its preparation to achieve the Certificate of Recognition (COR), which is the most recognized and highest safety accreditation presently available in Ontario.

New programs were developed to further enhance reporting and analysis of hazards and incidents. Root cause analysis is being used to initiate corrective actions that eliminate the potential for recurrence and inform advanced training. Proactive work site inspections help to ensure compliance with policies, processes, safe work practices and regulations.

A holistic wellness program supports employees in their achievement of optimum physical and mental health that improves their quality of life and leads to better performance in all areas of the company.

Veridian continues to uphold its commitment to environmental responsibility. The company strives to comply with all applicable environmental regulations, while working cooperatively and constructively with regulatory agencies, customers and its communities to reach beyond minimum compliance levels.

In 2017, Veridian was named as one of Canada's greenest employers for an eighth consecutive year. This recognition reaffirms Veridian's status as a leader in creating an environment-friendly and sustainable workplace. Veridian and its employees have made a substantial impact to the environment in the communities it serves and beyond in areas such as: electric vehicle promotion, support of community sustainable initiatives, renewable energy generation and greening of the Veridian fleet of vehicles. Veridian will continue to play an important role in improving the quality of life for its customers.

HUMAN CAPITAL

During 2017 both trades and management training initiatives remained paramount. The Corporation focuses on providing technical and managerial skills training to ensure efficient and safe work practices through its comprehensive trades training program and Management Syllabus program. Veridian also provides ongoing tuition subsidy programs to staff members for after-hours education to further their career development in the organization.

Company-wide employee engagement surveys are conducted periodically to ensure effectiveness of employee programs and training. Information derived from the surveys helps provide feedback to senior and middle management to assist in organization design and improve existing employee engagement programs.

The Corporation has well developed labour-risk mitigation strategies such as its robust apprenticeship program for trades staffing. This program helps to counter the potential experience loss gap often encountered as seasoned employees retire and assists in passing down institutional knowledge and skill sets within the workplace to the newly developed trades staff. Strong on-boarding processes help new employees learn the organization's working environment and culture and support the successful integration of new staff members.

By providing stimulating work opportunities for development and advancement, Veridian continues to create a dynamic and effective workplace for all its employees that also benefits its customers through high customer service and efficient and safe work practices.

INTERNAL PROCESSES AND SYSTEMS

Annually, short and long term operating and capital financial plans are developed to support Veridian's key business objectives. Targets to changes in operating expenses are set in line with regulator and ratepayer expectations of productivity improvements; while accounting for inflationary pressures and increases in costs related to customer growth.

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. Veridian engages customers through a variety of methods to gain a better understanding of customers' needs and preferences

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

In 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 mobile workforce automation applications continue to be rolled out to field staff using agile development principles. These applications incrementally improve productivity by providing staff with access to data in the field as well as helping to streamline traditionally inefficient paper-reliant workflows.

Veridian has further leveraged these technologies by transitioning to fully digital map resources for use within its system control centre. Using custom-developed software a new system enables faster, more frequent, more accurate and less labour-intensive updates to digital maps of the distribution system. The system tightly integrates mapping functions across the organization to reduce duplication of efforts and the risk of human error. In the future the system is envisioned to enable field and office users to have a real-time view of system changes and annotations from the system control centre enhancing productivity and efficiency in work processes.

Veridian remains vigilant to the potential for cyber-attacks and has utilized both technology and education to help minimize the risk. Vulnerabilities previously identified through a third party assessment have been addressed and during 2017 all staff received in-depth cyber security awareness training. Veridian ensures it stays at the forefront of this key risk area by participating as members of the OEB's Cyber Security Working Group and has begun work on implementation of the resulting Cyber Security Framework which will be mandated by the regulator.

Over the past several years Veridian has been developing, implementing and incrementally improving an outage communication platform for customers. Outages and updates recorded by the system control centre automatically update the online outage maps, the IVR and Twitter. Registered customers can now receive outage notifications and updates via email, SMS or automated phone messages.

During 2017 work also continued on the implementation of Automation Platform. This initiative focuses on automating many of the routine functions conducted by customer service representatives. This improves efficiencies and productivity and allows representatives to be engaged in higher valued activities to better serve customers.

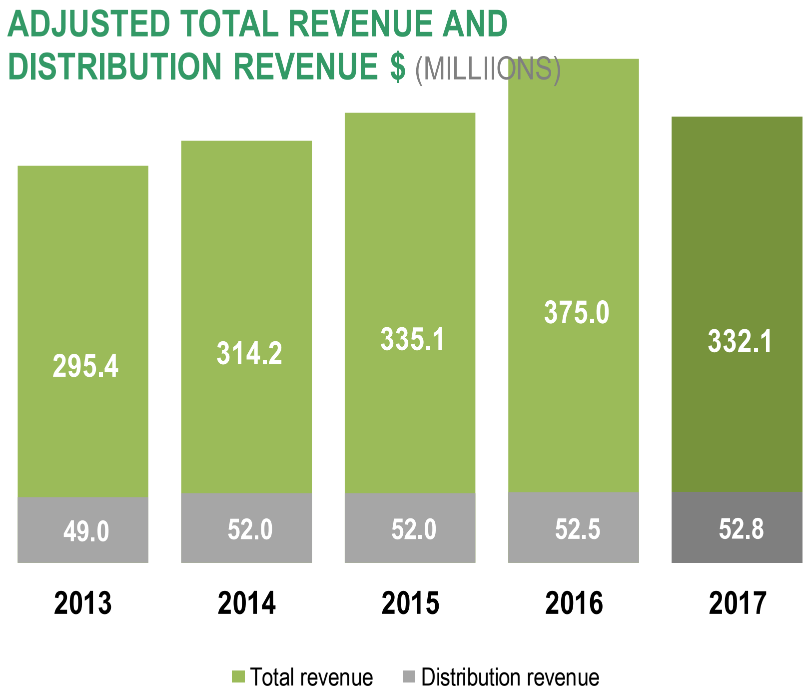
One of Veridian's key customer facing interfaces is the bill that is issued. Controls that have been put in place continue to produce excellent billing accuracy. Billing accuracy in 2017 was 99.92%, continued improvement from the high level of 99.85% in 2016.

FINANCIAL HIGHLIGHTS

REVENUES AND NET EARNINGS

Adjusted distribution revenues in 2017 were $52.8 million, a minor increase over 2016 levels of $52.5 million. Lower electricity deliveries to residential rate classes dampened the impact of customer growth on overall distribution revenues.

In 2017 total revenues decreased from $375 million to $332.1 million. This significant decrease is due to a reduction in retail electricity commodity prices as set by the Province of Ontario. Changes in retail electricity commodity revenues do not impact Veridian's net earnings as these are offset by corresponding changes in electricity commodity costs.

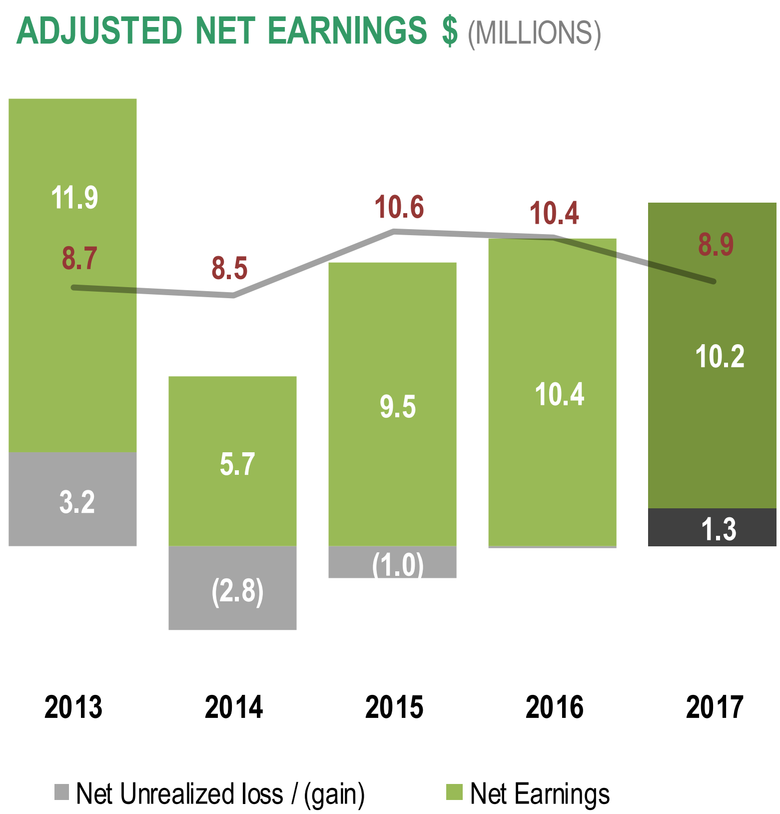


Note: 2014-2016 IFRS, 2013 C-GAAP
Adjusted Total Revenues exclude Commodity Revenues subsequently transferred to Regulatory balances

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 2017, Veridian recorded a non-cash unrealized gain of $1.2 million net of future income tax (2016 - $0.2 million loss).

Net earnings decreased $0.15 million, from $10.371 million to $10.216 million prior to any adjustments for unrealized gains or losses. Net earnings adjusted for the interest rate swap derivative would be $8.9 million in 2017 compared with $10.4 million in 2016. The decrease in net earnings is attributed to increases in operating and depreciation expenses and reductions in other revenues. In 2017, changes in OEB prescribed customer service regulations resulted in a decline in specific service charge revenues of approximately $0.7 million.



Note: 2014-2016 IFRS, 2013 C-GAAP

CAPITAL EXPENDITURES

Total net capital expenditures for 2017 were $24.615 million.

CAPITAL EXPENDITURES (millions)	2017	2016	2015	2014	2013
Distribution System Assets	19.135	20.829	17.510	14.443	13.122
Intangible Assets	1.438	1.884	1.894	1.815	1.976
Other Assets	4.042	3.686	3.153	2.780	4.898
	24.615	26.399	22.557	19.038	19.996

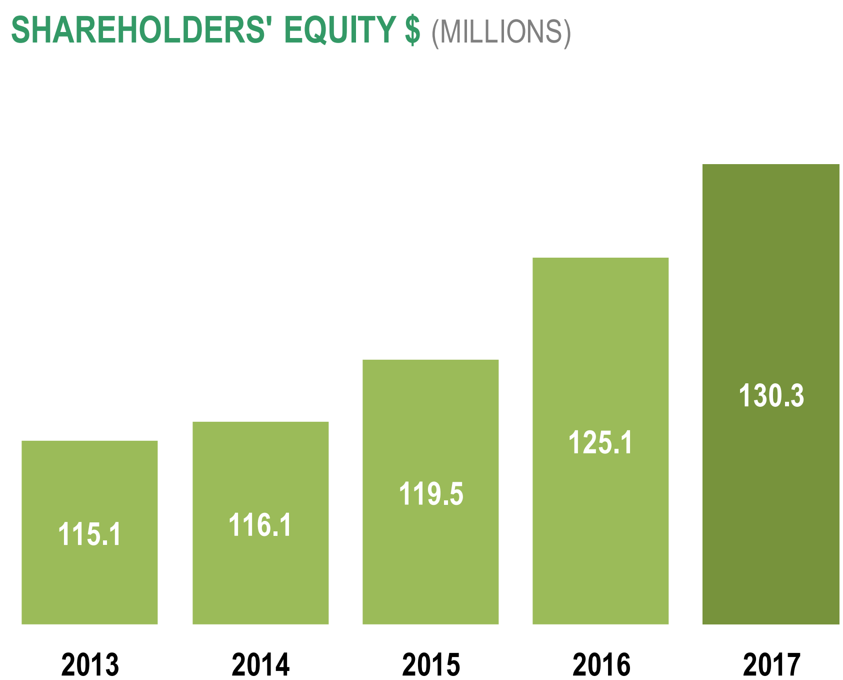
Of these investments, 78% or $ 19.1 million were for distribution system assets. These assets include poles, wires and cables, transformers, substations and meters.

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. In 2017, shareholder's equity increased by $5.2 million or 4.2%. 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.



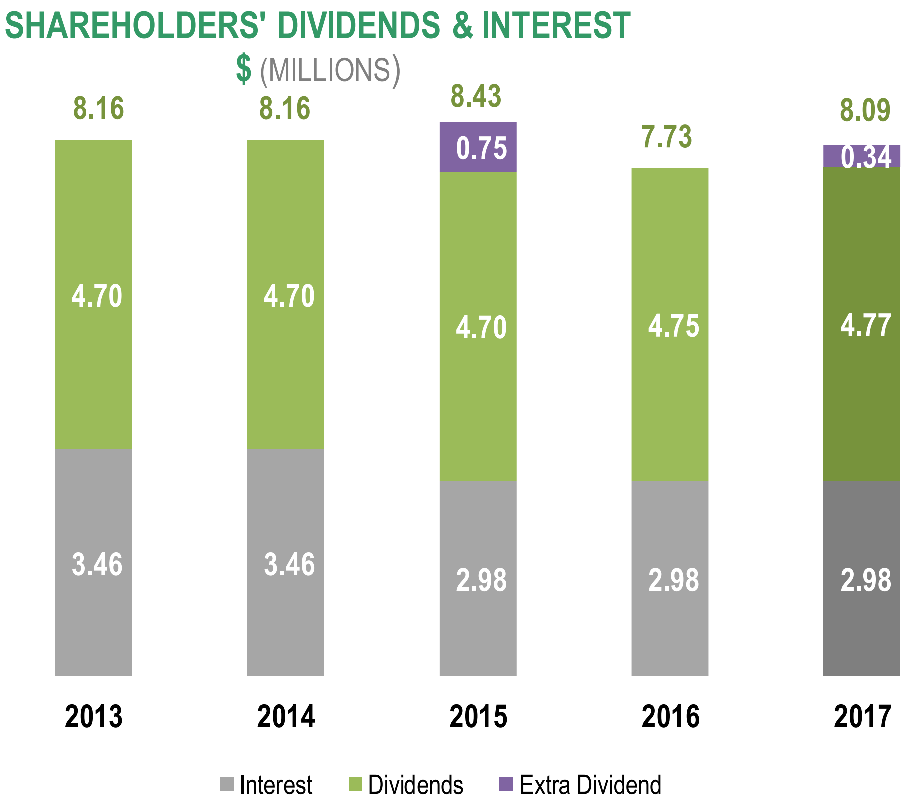
Note: 2014 - 2016 IFRS, 2013 C-GAAP

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 2017, Veridian paid total shareholder dividends of $5.11 million; comprised of $4.77 million in base dividends and supplemented by an additional $340 thousand based on higher than expected earnings.

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, reducing shareholder interest payments by $480 thousand. In 2015, however, base dividends were increased by $750 thousand based on favourable earnings results.

In total, Veridian paid $8.09 million in 2017 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. The next regulatory measurement of Veridian's regulatory rate base is scheduled to occur in 2019.

	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 $2.85 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 and lost revenue adjustment mechanism amounts arising from conservation activities. 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 $9.74 million include: $0.3 million for future income taxes and $9.05 million in retail settlement variances that have accrued since January 1, 2016. These regulatory liabilities are expected to be returned to customers through future rates.

ALLOWANCE FOR DOUBTFUL ACCOUNTS

Accounts receivable and unbilled revenue totalled $52.1 million as at December 31, 2017. 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 $29.9 million as at December 31, 2017, compared to $33.7

million at December 31, 2016. This decrease is attributable to a reduction in retail electricity commodity prices as set by the Province of Ontario. Unbilled revenue 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, 2017 was 50%. The Corporation's debt includes $60.8 million in shareholder promissory note debt, as well as committed reducing term facilities of $67.9 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, 2017.

In 2017, 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 is based on the stability of Veridian's regulated electricity distribution business in Ontario as well as its strong key credit metrics.

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 electrical distribution system consists of a combination of major and minor asset categories. Major assets include substations, overhead lines; including poles, insulators, conductors, pole mounted transformers and switches, and underground lines; including high and low voltage cables, surface or pad mounted transformers and switchgear.

Major risks to the company's assets continue to be related to the asset condition (highly correlated to its age), and the impact of weather events on these assets. Other influences which affect an asset's health and performance include its loading experience, its exposure to system fault events, and the asset's original manufacturing standards and performance levels vs. the expectations of the present day distribution system.

Veridian's initial Asset Condition Assessment (ACA) was prepared in 2013, and then updated with new data in 2015 and 2017. The ACA is an assessment of the health of Veridian's major assets within the categories noted above. The ACA serves as the core of the asset management process which informs the Corporation's overall asset sustainment capital programs. 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 2018.

Annual capital sustainment programs continue to be informed, paced and prioritized by the ACA, reliability reporting and asset failure analysis trending. This allows the proactive replacement of assets to be carried out in a manner that balances the capital costs to replace the assets against managing the risk of asset failure. As to be expected, normal weather conditions involving wind, ice and snow continue to have some negative impact on system reliability.

Veridian continues to prudently manage risks by following targeted cyclic programs for vegetation management for overhead lines areas, as well as a full program of 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.

Sensible system hardening practices continue to be ingrained as a philosophy in the design, construction, maintenance, or operation of the distribution system which allows for an improved resilient response to planned or unplanned events.

Veridian's improved 2016 and 2017 reliability trending statistics indicate that recent investments in asset sustainment capital programs, combined with robust design and construction standards are assisting in the mitigation of risks related to distribution asset condition.

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. A number of new standards, amendments and interpretations are not yet effective for the year ended December 31, 2017 and have not yet been applied in preparing Veridian's financial statements. Veridian regularly reviews and evaluates implementation requirements and impacts of these new standards.

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers which is effective for annual periods beginning on or after January 1, 2018. 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. Veridian has completed its assessment of revenue streams and adopted IFRS 15 on January 1, 2018 using the modified retrospective approach, recognizing the cumulative effect of applying the new standard, with no restatement of comparative periods presented. Commodity pass-through revenue and distribution revenue account for the majority of Veridian's revenues and IFRS 15 does not have a material impact on the Corporation's consolidated financial statements.

In January 2016, the IASB issued IFRS 16, Leases. This 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. The standard replaces the previous lease standard IAS17, Leases. It eliminates the current dual accounting model for lessees which distinguishes between finance and operating leases. IFRS 16 introduces a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is twelve months or less or the underlying asset has low value. Veridian has early adopted IFRS 16 on January 1, 2018. Veridian completed its assessment of operating leases and concluded that IFRS 16 does not have a material impact on the consolidated financial statements.

In July 2014, the IASB issued IFRS 9, Financial Instruments. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. This standard replaces IAS39, Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for measuring impairment on financial assets, and new general hedge accounting requirements. Veridian adopted IFRS 9 on January 1, 2018. Veridian completed its assessment of IFRS 9 and concluded that IFRS 9 does not have a material impact on the consolidated financial statements.

INDUSTRY AND VERIDIAN OUTLOOK

Veridian has a proud history of delivering value to its customers and the communities that it serves. Veridian was formed through the merger of Pickering Hydro, Ajax Hydro and Clarington Hydro in 1999. Five acquisitions and another merger partner, Belleville, and other growth have produced the fifth largest municipally owned electric utility company in Ontario, with both urban and rural customers. In 2019, growth in the regulated distribution company and unregulated business is likely to occur, with the anticipated merger with Whitby Hydro. The new company would become the fourth largest municipally owned electric utility company in Ontario, and scale and scope increases will better protect the new corporation from business risk associated with industry changes.

As the energy industry, technology, customer expectations and environmental regulations continue to undergo a significant transformation; Veridian is well positioned to be an important partner to customers and communities as they navigate their way through the changes.

Veridian will continue on its mission to provide safe, 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. Growth in a portfolio of new business investments with managed risk is also an emerging priority.

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 so that they continue to meet all present and future corporate and customer performance expectations.

Excellence in customer service, measured at well beyond provincial averages, and innovation in utility operations and new technology give Veridian a distinct advantage in the evolving utility landscape in Ontario. As the utility grows to optimize IT and other systems and processes it will also have the scale to expand into more new business areas. A utility of around the size (400,000 customers) envisioned in the Ontario Distribution Sector Review Panel Report issued in 2012, may be more responsive to market changes and more efficient than a mega utility with in excess of millions of customers.

Veridian is fully engaged in opportunities for growth and economies of scale through acquisitions and mergers. 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, shareholders and communities. The economic zone east of Toronto will be one of the fastest growing in the province with the completion of Highway 407 to Highway 35/115 and the expansion of the GO train east to Clarington. The infrastructure needs of this zone, to accommodate this growth, would be well supported by an innovative, agile local regional utility.

The Corporation's future sees continued natural growth and development opportunities such as: north Pickering (Seaton), the 407 corridor, downtown Pickering and Ajax and development along the extended GO transit corridor. Veridian has embarked on the design and construction of its first large Transformer Station, Seaton TS for the benefit of its customers and shareholders. This station is currently projected to be available when required in 2020 at a cost lower than anticipated. This project builds on expertise attained from the design, construction and operation of 53 municipal substations.

The disruption being seen in the industry in terms of new technologies and increasing customer requirements is seen as an opportunity by Veridian. More investments in technology on the "grid edge" to further develop the smart grid and distributed energy resources (DER) will be required. The sensors, renewable generation, energy storage and control systems will allow better interaction with customer equipment and systems, and also allow customers to participate in markets with Veridian as the distributor, other neighbourhoods and the Independent Electricity System Operator (IESO) bulk high voltage system. The new distribution utility of the future becomes the platform to allow all of these transactions to occur. It will add assets to the utility system to optimize the grid and it will allow the sale of new customer technologies by a Veridian affiliate, a trusted source, to optimize customer value on their side of the meter. The regulated utility and its affiliates can participate in this growth, alone and with partners. The prudent deployment of these technologies will add value to customers that they do not have today while mitigating distribution rate increases through a strategic approach to matching the investments with the requirements as they occur.

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. More specific large customer reliability measures will allow further alignment of reliability enhancements to specific customer needs thereby achieving a balance between cost and service.

In 2016 Veridian constructed a microgrid pilot project at its head office facilities. This project has assisted Veridian in better understanding the opportunities and challenges of the increasing technical and market interfaces between the utility distribution grid and customer owned equipment and systems. An innovative community microgrid is also being developed. Veridian also participates with IESO committees to help define the role of the future distribution network operator as it interfaces with the market and the customer.

An increased deployment of electric vehicles has the potential to be very disruptive to Veridian. Additional investment in the distribution system will be needed to accommodate multiple vehicles on a street, larger numbers of fast chargers and potentially energy storage in neighborhoods, homes and/or emergency centres to provide charging capability during a grid outage. These changes will be required to assist in the rapid deployment of electric vehicles. There will also be a requirement for the utility to invest in further resilience enhancements to withstand more extreme weather and flooding due to climate change.

More energy conservation, net zero homes, net zero communities and district energy will provide an opportunity for Veridian's regulated and non-regulated business. The technology associated with these homes uses heat pump, electrically operated devices to heat and cool the home and water. Veridian is working with developers, builders and gas distributors to identify opportunities for making better use of existing electricity and natural gas infrastructure and provide more products and services to customers. Veridian has signed an MOU with Enbridge to work jointly on district energy.

There will be investments in IT systems to allow improvements in reliability, customer experience, asset management and safety. There are opportunities for collaboration with municipal and regional entities as they develop robust asset management and municipal service platforms for the smart city/region of the future. The effective development of the energy and municipal infrastructure, side by side, will be critical to Veridian's territories' competitiveness in the future.

Investments in net metered renewable generation, combined heat and power (CHP), broadband and radio systems are underway or are under investigation.

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, poverty reduction, mental health, the environment and economic development to help build stronger communities from a sustainable economic, social and environmental perspective.

Through the leadership of the Veridian Board, shareholders, and executive management team and an amazing team of employees, Veridian is well positioned to continue its track record of innovation, strong financial performance and operational excellence. Veridian is helping to create the sustainable communities of tomorrow.