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October 31, 2013

Delivered by RESS and Courier

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto, ON M4P 1E4

Dear Ms. Walli:

Re: Veridian Connections Inc.,
2014 Cost of Service Distribution Rate Application
Board File No. EB-2013-0174

Veridian Connections Inc. ("Veridian") is pleased to submit its cost of service application for May 1st 2014 electricity distribution rates.

The load forecast included within Veridian's application references consumption information that pertains to a single identifiable customer. Veridian believes that this information falls within the definition of "confidential information" as defined by the Affiliate Relationships Code:

"confidential information means information the utility has obtained relating to a specific...consumer in the process of providing current or prospective utility service"

In order to avoid inappropriately disclosing information that could be considered "confidential information" by the Board, Veridian has filed a redacted load forecast on the public record, as well as an unredacted load forecast confidentially in accordance with the Board's *Practice Direction on Confidential Filings*. Only the portions of the load forecast that pertain to the single identifiable customer have been redacted.

Should the Board find that the redacted information is not deserving of confidential treatment, Veridian does not object to disclosing such information on the public record.

Veridian asks that copies of all correspondence and orders pertaining to this proceeding be delivered to its representatives as follows:

George Armstrong
Vice President, Corporate Services
Veridian Connections Inc.
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and to:

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and to:

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Do not hesitate to contact me should you have any questions or require further information in respect of this matter.

Yours truly,

Original signed by

George Armstrong
Vice President, Corporate Services

Veridian Connections Inc.

2014 Cost of Service Application

EB-2013-0174

Rates Effective: May 1, 2014

Date Filed: October 31, 2013

Veridian Connections Inc.

55 Taunton Road East

Ajax, Ontario

L1T 3V3

File Number: EB-2013-0174

Date Filed: October 31, 2013

Exhibit 1

ADMINISTRATIVE DOCUMENTS

File Number: EB-2013-0174

Date Filed: October 31, 2013

Exhibit 1

Tab 1 of 5

Executive Summary

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Executive Summary

Introduction

Veridian is submitting a cost of service rate application based on a forward test year for 2014 electricity distribution rates and other specific items. Approvals are being sought for the rate year commencing May 1st, 2014 and ending April 30th, 2015. The rates for which approvals are sought are based on a revenue requirement that is underpinned by forecasts of 2014 calendar-year revenues and expenses.

In preparing this application, Veridian has referenced the Board's Filing Requirements for Electricity Transmission and Distribution Applications as updated on July 17, 2013 ("the Filing Requirements"), relevant portions of the Board's 2006 Electricity Distribution Rate ("EDR") Handbook, and guidelines issued by the Board for treatment of specific items such as deferral and variance accounts. Veridian believes it has met the filing requirements in all relevant aspects.

Veridian Connections Inc. is an electricity distributor licensed by the Ontario Energy Board. In accordance with its Distribution License ED-2002-0503, Veridian provides electricity distribution services in the City of Pickering, the Town of Ajax, the Municipality of Clarington, the Township of Uxbridge, the Town of Port Hope, the Township of Brock, the Township of Scugog, the City of Belleville and the Town of Gravenhurst.

Veridian is a wholly-owned subsidiary of Veridian Corporation and is headquartered in Ajax, Ontario. The company was formed in the fall of 1999 through the merger of Ajax Hydro, Clarington Hydro and Pickering Hydro. Since that time, Veridian has merged with or acquired several utilities as follows:

- acquired Uxbridge Hydro on June 1, 2000
- acquired Port Hope Hydro on May 1, 2001
- acquired Brock Hydro on July 1, 2001
- merged with the electrical distribution business of Belleville Utilities on October 1, 2001
- acquired Scugog Hydro Energy Corporation on July 1, 2005
- acquired Gravenhurst Hydro Electric Inc. on November 1, 2005

Veridian serves approximately 119,000 customers across its service areas, and currently administers two Board-approved Tariffs of Rates and Charges with effective dates of May 1st, 2013. One tariff sheet applies to Veridian's service area in the Town of Gravenhurst and the other applies to all other service areas as listed above. In this Application, Veridian seeks to harmonize rates into a single rate zone effective May 1st, 2014 and also proposes harmonization of its wholesale settlement processes and deferral and variance accounting.

Description of Veridian's Service Areas

The nine communities in which Veridian provides distribution services are located within southern Ontario. The most heavily populated communities are situated within the Greater Toronto Area and lie along the shore of Lake Ontario to the east of the City of Toronto. Veridian's licensed service areas are fully aligned with municipal boundaries in just two communities – the Town of Ajax and the City of Pickering. These two communities are contiguous, and together contain more than one-half of Veridian's customers. Veridian's service areas in the balance of the communities in which it operates are all non-contiguous.

Customer growth has varied across the service areas with the highest growth rates in the Ajax and Pickering areas, averaging 1.5% annually in recent years. Lower growth has been experienced in the smaller communities.

Previous Rate Applications

<u>2010 Cost of Service Application</u>

Veridian filed a 2010 Cost of Service Application (EB-2009-0140) with the Board on October 2nd, 2009 for rates effective May 1st, 2010. Through the Board's process, Veridian reached a Settlement Agreement with the various intervenors of record, and this agreement was subsequently approved by the Board. The 2010 Approved Service Revenue Requirement was $50,747,110, with Revenue Offsets of $4,463,100 and Base Revenue requirement was $46,284,010.

<u>Smart Meter Applications (2010 and 2012)</u>

In its 2010 COS Application (EB-2009-0140) Veridian applied for recovery of costs associated with the installation of 70,869 smart meters. The Board approved capital costs of $7,819,148 and recovery of OM&A costs of $604,961.

In 2012 Veridian had substantially completed its Smart Meter Implementation Program and filed an application (EB-2012-0247) for final recovery of its cost associated with the installation of 41,485 smart meters. The Board approved capital costs of $7,730,561, recovery of previously incurred OM&A costs of $2,577,008, and an incremental revenue requirement of $1,901,495 associated with Veridian's smart metering activities.

In this current Application, capital and operating costs associated with Veridian's smart metering activities are included within the calculations of 2014 Base Distribution revenue requirement.

Veridian is seeking recovery of stranded asset costs related to smart metering activities as per directions within Chapter 2 of the Filing Requirements.

2011, 2012 and 2013 3rd Generation Incentive Regulation applications

Veridian filed applications for, and was granted, distribution rate adjustments under the Board's 3rd Generation Incentive Regulation Mechanism ("3rd GIRM") for 2011, 2012 and 2013. The increases associated with each rate year were 0.18%, 0.88% and 0.48% respectively. Based on the results of the Board's cost benchmarking processes, Veridian is in the second efficiency cohort and has a stretch factor of 0.4%.

As part of its 3rd GIRM application for 2012, Veridian sought and received approval for recovery of lost revenues related to delivery of Conservation and Demand Management programs for the period of 2007 to 2010. In this current application, Veridian seeks recovery of lost revenues for the period of 2011 to 2012, through disposition of its Lost Revenue Adjustment Mechanism Variance Account ("LRAMVA").

Scope of 2014 Rate Application

This Application seeks approval of electricity distribution rates effective May 1st, 2014 and seeks to harmonize electricity distribution rates and wholesale settlement processes into a single rate zone.

Veridian is proposing 2014 base distribution rates that are derived from 2014 Base Distribution Revenue Requirement calculated using 2014 Year End Rate Base values. Further, Veridian is requesting approval for negative rate riders that would be in effect May 1st, 2014 to April 30th, 2015, and which would adjust revenue recovery in the 2014 Test Year to be equal to the 2014 Base Distribution Revenue Requirement as calculated using 2014 Average Rate Base values. In combination, the proposed 2014 base distribution rates and the 2014 negative rate riders provide for recovery of the appropriate level of Base Distribution Revenue Requirement in accordance with the Board's Filing Requirements and accepted practice of revenue requirement based on average rate base values. Full details are provided in Exhibit 6A-Year End Revenue Requirement and Rate Base Adjustment Rate Riders.

Veridian is seeking recovery of stranded meter assets related to smart meter deployment in the amount of $4,324,621. Recovery is proposed through a one-year rate rider effective May 1st, 2014. Full details are provided at Exhibit 2, Tab 1, Schedule 3.

Veridian is proposing disposition of various deferral and variance accounts including disposition of the balance of Account 1576 – Accounting Changes under CGAAP. The amount related to Account 1576 is a credit of $6,325,890 to be returned to rate payers through a one-year rate rider effective May 1st, 2014. Full details are provided at Exhibit 9, Tab 3.

Performance Outcomes

In the Board's report on the *Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach* (the "RRFE Report"), the Board established performance outcomes that it expects distributors to achieve in the following four distinct areas:

"Customer Focus: services are provided in a manner that responds to identified customer preferences;

Operational Effectiveness: continuous improvement in productivity and cost performance is achieved; and utilities deliver on system reliability and quality objectives;

Public Policy Responsiveness: utilities deliver on obligations mandated by government (e.g., in legislation and in regulatory requirements imposed further to Ministerial directives to the Board); and

Financial Performance: financial viability is maintained; and savings from operational effectiveness are sustainable."

Since the release of the RRFE report, Board staff has consulted with stakeholders to develop an electricity distributor scorecard for use in monitoring alignment between distributor performance and the performance outcomes established by the report. On July 4th 2013, Board staff issued its "Staff Report to the Board on Performance Measurement and Continuous Improvement for Electricity Distributors" (EB-2010-0379). Central to this report is the following summary of Board staff's proposed performance measures, as presented in scorecard format:

Board Staff Proposed Distributor Scorecard:

Performance Outcomes	Performance Categories	Measures (new in red)	
Customer Focus Services are provided in a manner that responds to identified customer preferences.	Service Quality	Connection of New Services (DSC s7.2)	Low Voltage
			High Voltage
		Appointments: Scheduled (DSC s7.3)	
		Appointments: Met (DSC s7.4)	
		Telephone Accessibility (DSC s7.6)	
		Emergency Response (DSC s7.9)	
	Customer Engagement	May include customer surveys, focus groups, town hall meetings, etc.. Distributor is required to self-rate. Reported results may not be comparable across distributors. This measure is described in **Mangement Discussion & Analysis**	
Operational Effectiveness Continuous improvement in productivity and cost performance is achieved; and utilities deliver on system reliability and quality objectives.	Safety	This measure is described in **Mangement Discussion & Analysis**	
	System Reliability	System Average Interruption Duration Index - Code 2 Outages (RRR s2.1.4.2.2)	
		System Average Interruption Frequency Index - Code 2 Outages (RRR s2.1.4.2.4)	
	Overall cost performance	Efficiency ranking resulting from comparative cost analysis	
		OM&A Cost	per Customer
			per Circuit Km of Line
		Net Plant Cost	per Customer
			per Circuit Km of Line
	Asset Management	Capital Budget vs. Actual (acutal network capex % variance from plan)	
Public Policy Responsiveness Utilities deliver on obligations mandated by government (e.g., in legislation and in regulatory requirements imposed further to Ministerial directives to the Board).	Government Policy Directive on Conservation & Demand Management	2014 Net Annual Peak Demand Savings Target (MW)	
		2011-2014 Net Cumulative Energy Savings Target (GWh)	
	Connection of Renewable Generation	Number of Offers to Connect Micro-Generation Facilities [<=10kW] (DSC s6.2)	
		Number of CIA Completed for Other Renewable Generation Facilities [>10 kW] (DSC s6.2)	
Financial Performance Financial viability is maintained; and savings from operational effectiveness are sustainable.	Financial Ratios	Liquidity: Current Ratio	
		Leverage: Total Debt to Equity Ratio	
		Profitability: Regulatory Return on Equity	Annual Cost of Capital ROE Parameter
			Achieved

These Board staff proposals are closely aligned with many of the performance measures that Veridian currently uses to focus its business planning and operations. As described in Exhibit 4 of this application, Veridian maintains a corporate scorecard through which annual performance targets are established for a group of performance metrics that, taken together, reflect a balanced assessment of the financial, operational and safety performance of the corporation. This is exhibited in the following summary of the performance measures contained in Veridian's 2013 corporate scorecard:

Veridian Corporate Scorecard Performance Measures, 2013:

Performance Measures		Measure Description
Financial	Controllable Cost per Customer	Veridian Connections Inc. Operations, Maintenance and Administration Expense per Customer ($)
	Veridian Connections Return on Equity (ROE)	Veridian Connections Inc. Return on equity ratio, after adjusting for the after tax impact of unrealized interest rate swap gains and losses
	Planned Capital Expenditure Completion Rate	Percent of planned capital expenditures completed, excluding non-discretionary projects relating to new development and roadway relocations and excluding amounts over-budget
Customer	Customer Satisfaction	Percent deviation between Veridian Connections Inc customer satisfaction and Ontairo electricity consumer customer satisfaction, as measured by an annual telephone survey
	Reliability	Average outage duration hours per customer served, excluding outages related to loss of upstream supply (System Average Interruption Duration Index (SAIDI))
		Average number of interruptions per customer served, excluding outages related to loss of upstream supply (System Average Interruption Frequency Index (SAIFI))
People and Processes	Lost Time Accident Frequency Rate	Number of lost time accidnets per 200,000 hours worked
	Lost Time Accident Severity Rate	Number of days lost due to lost time accidents per 200,000 hours worked

Performance against these scorecard measures and related targets is reviewed with all employees on a quarterly basis, and is also used in the assessment of incentive compensation payments for non-union employees. This ensures continued alignment between ongoing business operations and overall corporate business strategy and objectives. Monitoring of the results of Veridian's scorecard allows early interventions should these be required if any the performance measures are under performing.

Elements of Veridian's Rate Application that support the Board's outcomes established by the RRFE report

Customer Focus

As exhibited by inclusion as a measure in its corporate performance scorecard, Veridian is committed to achieving high levels customer satisfaction. Cost-effective capital investments have been made to provide customers with enhanced web-based self-serve options that include bill payments, move-in/move-out service arrangements, pre-authorized payment program enrollment, and electronic bill presentment. Through customer surveys and direct feedback customers have identified their preferences for these self-serve options and Veridian has responded.

Veridian will continue to improve customer service levels through a 2013 capital investment which replaces an end-of-life telephone system with a more sophisticated system using Voice over Internet Protocol. The system will automatically provide the presentation of customer account information to Customer Care Representatives, thus accommodating a faster response to customer inquiries.

During June, 2013, Veridian completed its 12th annual customer satisfaction survey with a sample group of 450 residential and business customers. The survey was completed by UtilityPULSE of Newmarket, Ontario and included questions concerning Veridian's performance in delivering a reliable and quality supply of electricity, as well as billing accuracy, first call resolution and overall customer satisfaction.

The 2013 customer satisfaction survey found that Veridian outperformed Ontario and National benchmarks on billing error performance. Just 5% of Veridian's customers reporting a billing error experience within the past year, compared to a National average of 8% and an Ontario average of 10%. As well, Veridian's overall Customer Experience Performance rating of 86% was 3% higher than the National and Ontario averages of 83%. These ratings confirm Veridian's success at instituting technologies and business processes that meet the expectations of customers.

In late 2011, Veridian contracted with Ontario One Call for centralised call centre and scheduling services related to its underground cable locate program. Utilization of these services was mandated by the province's *Ontario One Call Act*, which sought to ease customer access to underground locate services, and to therefore promote safe excavation practices. As a result of the use of the Ontario One Call service, combined with the impacts of continued customer growth and major roadway expansion activity, Veridian has experienced significantly higher activity related to this important customer service program. In this application, Veridian presents information on ongoing operations and maintenance costs required to accommodate this increased level of locate activity, while also meeting the Board's mandated minimum service levels for appointment scheduling.

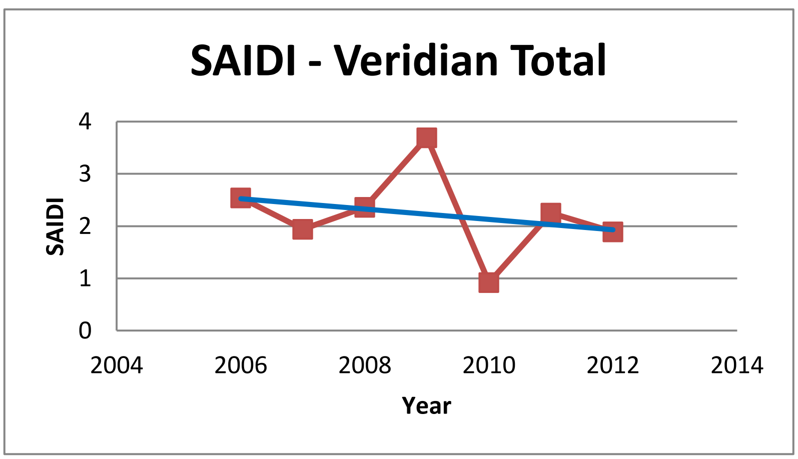
Operational Effectiveness

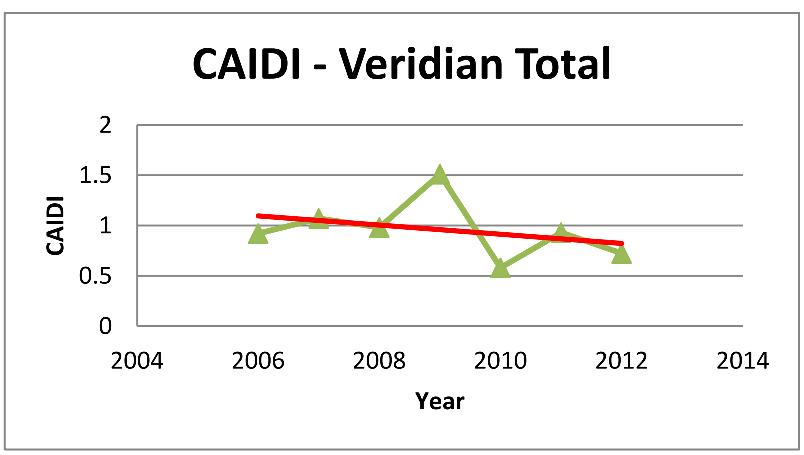
Safety is a key measure included on Veridian's corporate performance scorecard. Veridian considers public and worker safety in all aspects of its operations and capital investment planning process.

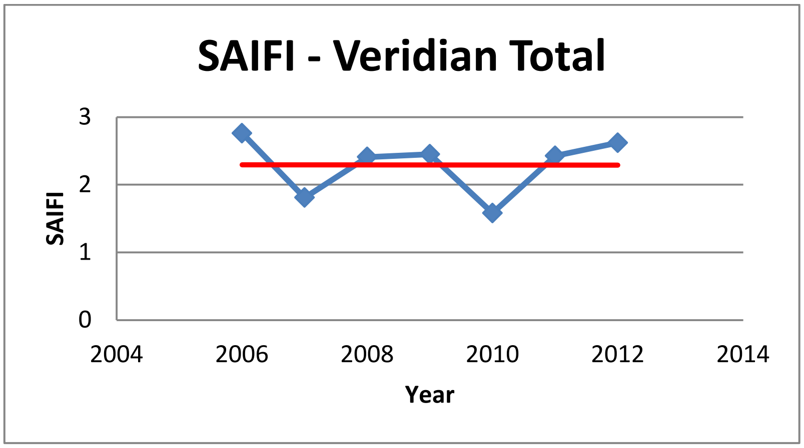
Distribution system reliability measures are key metrics that have both Operational Effectiveness and Customer Focus dimensions. Amongst other system reliability measures, Veridian closely monitors the performance of its distribution network using the industry standard System Average

Interruption Frequency Index (SAIFI), the System Average Interruption Duration Index (SAIDI) and the Customer Average Interruption Duration Index (CAIDI). Historically, Veridian's SAIDI and CAIDI performance has been improving while SAIFI is trending relatively flat. Veridian's goal is to continue the positive SAIDI and CAIDI trends and, through emphasis on outage causation analysis, achieve improvements in SAIFI as well.

Veridian's seven year SAIDI, SAIFI and CAIDI performance during the years 2006 to 2012 is presented in the following graphs:







Current and future system reliability is a key consideration within Veridian’s proposed capital investments for 2014. Prompted by the findings of a recently completed and comprehensive Asset Condition Assessment study, the 2014 capital plan includes targeted replacements of distribution system assets nearing or at end of life.

Veridian's Planned Capital Expenditure Completion Rate is a key performance measure that is included on its corporate performance scorecard. This measure is an indicator of the success of completing the planned components of the capital expenditure plan. The set stretch target on Veridian's corporate performance scorecard for the bridge year is achievement of a 100% completion rate.

Veridian is committed to providing high value distribution services to its customers. The costs of meeting this commitment have increased in recent years due to changes in the scope of operating programs such as enhanced critical asset management processes and mandated changes to customer service standards. Further cost pressures include rising wages and benefits and workforce renewal initiatives to address succession planning related to an ageing workforce in skilled trades. Wherever possible, Veridian continues to identify continual process improvement and looks to leverage technology solutions to mitigate cost increases.

Public Policy Responsiveness

Veridian continues to aggressively pursue the 2014 energy and demand savings targets, as stipulated in its electricity distribution licence. It is actively delivering the entire suite of Ontario Power Authority province-wide conservation and demand management programs, and is working closely with all stakeholders to support this important public policy objective.

Veridian has also established business processes to support the prompt and efficient processing of requests for connections by embedded electricity generators. Since 2009, Veridian has provided 212 offers to connect MicroFIT generation customers, with 130 of those generators being connected. A total of 18 Connection Impact Assessments have been issued for FIT generation customers with 8 being connected.

Financial Performance

Veridian supports the Board's recognition of financial viability as a key performance outcome for distributors. Veridian has exhibited strong financial management through a prudently managed capital structure, well planned and executed distribution system capital investments, sustained operational effectiveness and fair return to its shareholders. In this rate application, Veridian proposes a 2014 test year financial operating plan and capital investment plan as required to meet customers' expectations of high value services. The plan and application also supports the continued financial viability of the company and fair levels of returns to shareholders, both in the test year and during the upcoming Incentive Regulation Mechanism (IRM) period.

Summary of Major Application Components

A - Revenue Requirement

In the 2014 Test Year, Veridian's total service revenue requirement has been calculated as $55,967,034. Total revenue offsets have been calculated as $3,767,464, resulting in a base 2014 revenue requirement of $52,199,570.

The 2014 service revenue requirement is $5,219,924 higher than the 2010 Board Approved service revenue requirement, proving for an increase of 10.3%.

Veridian has calculated a 2014 revenue deficiency of $3,119,018 when comparing the 2014 base revenue requirement with projected 2014 distribution revenues at existing 2013 rates.

Calculations of the 2014 revenue deficiency and an analysis of the drivers of the increase in Veridian's 2014 Revenue Requirement relative to 2010 is provided in Exhibit 6, Tab 1, Schedule 3. The following table 1 provides a comparison of the various components of revenue requirement from 2010 to 2014.

Table 1: Comparison of 2010 and 2014 Revenue Requirement

	2014 Test Year	**2010 Board Approved**	**Change**
OM&A Expenses	28,283,692	21,486,324	6,797,368
Amortization/Depreciation	10,672,290	12,743,021	(2,070,731)
Income and Capital Taxes (Grossed up)	1,104,396	3,193,899	(2,089,503)
Return			
Deemed Interest Expense	7,158,599	5,974,771	1,183,828
Return on Deemed Equity	8,748,056	7,351,841	1,396,215
Total Revenue Requirement	55,967,034	50,749,856	5,217,178

Changes in Revenue Requirement are due primarily to:

- An increase in OM&A Expenses, due to:
  - Inclusion of smart meter operating costs that were recorded in deferral accounts in 2010 –approximately $730,000
  - Changes in accounting policy for capitalization of overheads implemented January 1st, 2012 – approximately $1.6 million
  - Other OM&A cost increases related to:
    - labour supporting additional O & M programs for management of critical assets such as pole and cable testing and distribution automation
    - increased business activity required to fulfill distributor obligations such as cable locates
    - increases in operating costs of technology platforms
- A decrease in amortization as a result of the change in accounting policy related to the change in useful lives of distribution assets
- A decrease in taxes, primarily due to lower tax rates
- An increase in Return and Interest expense due to continued investment in distribution infrastructure and the resulting increase in Net Fixed Assets from 2010 to 2014 – including smart meter investments. The impact is partly offset by the forecast decrease in rate of return from 7.14% in 2010 to 6.53% in 2014

<u>B – Budgeting Assumptions</u>

Veridian has used both general and specific cost and economic assumptions in its 2014 forecast of operating costs. Labour costs have been adjusted in 2013 and 2014 to reflect the annual committed rate adjustment as included in Veridian's collective labour agreement. The labour cost forecast was also adjusted to reflect any pay range progressions for qualified staff.

Where year-specific increases were known for contracted purchases and services, those amounts were used. Otherwise an inflation factor of 2% was applied.

Overall Veridian's forecast reflects an economic forecast of low to moderate inflation and, as experienced over the past few years, slow economic growth. Full details of Planning and Inflation Rate Assumptions are provided at Exhibit 4, Tab 1, Schedule 1.

C – Load Forecast Summary

Table 2 below provides a summary of Veridian's 2010 Board Approved and 2014 Test Year wholesale kWh load forecast and customer counts.

Table 2: Load and customer growth 2010 to 2014

	2014 Test Year	**2010 Board Approved**	**Change**	**%age change**
Retail kWh*	2,562,048,571	2,465,704,110	96,344,461	3.9%
Customers**	118,727	112,331	6,396	5.7%

**Note: 2010 Board Approved is the sum of Main and Gravenhurst separate load forecasts*
***Note: Denotes customers, not connections*

Customer counts have increased almost 6% since 2010 while retail kWh have increased only 4%. As per the Filing Requirements, Veridian has integrated into its 2014 forecast an adjustment that takes into account the measured Conservation and Demand Management ("CDM") results from 2011 and 2012 CDM programs as reported by the Ontario Power Authority ("OPA"), and the projected 2013 and 2014 savings required to meet Veridian's mandatory 2014 savings targets. Veridian continues to see downward pressure on retail kWh arising from CDM measures as well as from increased commodity pricing.

Veridian's load forecasting methodology uses a multiple regression analysis to describe the relationship between monthly actual wholesale deliveries and several explanatory variables. Monthly wholesale deliveries are used for developing test year weather normalized forecasts as monthly class consumption is not readily available due to historical and current billing frequencies.

The explanatory variables include monthly observations on heating degree days (HDD) and cooling degree days (CDD) as published by Environment Canada, an economic variable of monthly full-time employment levels for Ontario as reported in Statistics Canada's Labour Monthly Survey, the number of non-holiday week days, and a binary variable representing shoulder months' consumption.

A weather normalized wholesale load forecast is developed using 10-yr weather normal heating and cooling degree days and forecasts for the other explanatory variables. Weather normalized wholesale purchases are then allocated to the weather sensitive classes based on those classes' historical share of wholesale kWh.

Non-weather sensitive classes are forecast based on historical interval metered data.

Customer counts are forecast based on historic trend and comparisons with housing market forecasts.

Load forecasts were developed for each of Veridian's tariff zones and then combined for a harmonized 2014 load and customer forecast.

As per the Filing Requirements, Veridian has incorporated a CDM-adjustment to its load forecast.

Full details of the methodology and forecasts by rate class are provided in Exhibit 3, Tab 2.

D – Rate Base and Capital Plan

Distribution System Plan (DSP)

There are a number of major drivers influencing Veridian's Distribution System Plan. Each of these drivers is discussed as follows:

Customer Growth – Veridian expects continued strong customer growth in its Ajax, Pickering, Belleville and Clarington service areas. Additional capacity will be required for the new planned community of Seaton in north Pickering. Development is underway with projected customer connections of 1,700 lots per year starting in 2015 and continuing past the 2018 planning window. Additional capacity and distribution feeder infrastructure will be required. While this new load can be served initially from Veridian's existing Whitby TS facilities, an investment in a Seaton TS will be required and is targeted for an in-service date of 2018. The Seaton TS project is forecast as a multi-year capital investment of approximately $21M.

Road Authority Requirements – As growth and development occurs within Veridian's service area, continued and increased levels of road relocation work requested by various road authorities continues to be a major driver of capital investment. The Ministry of Transportation's Highway #407 extension from its current end point in Pickering through to the Ajax district's eastern service boundary is currently underway with forecasted completion times between 2013 and 2015. A multi-year, project encompassing 13 sub-projects over 2013 and 2014, totaling over $14 million in gross costs and approximately $4 million net of capital contributions is a key component in Veridian's DSP.

Another major road relocation project is the Region of Durham's Highway #2 Bus Rapid Transit (BRT) projects. This is another multi-year (2013 and 2014) project totaling $2.65 million net of capital contributions.

Aging Distribution Assets – Prompted by the findings of a recently completed Asset Condition Assessment, Veridian has focused efforts on a proactive program of planned sustainment to address the serious issue of its aging distribution asset infrastructure. Veridian has developed a multi-year planned approach to proactive replacement of most critical and assets deemed highest likelihood and impact of failure that will smooth financial impacts year over year as well as mitigating future reliability problems associated with ageing infrastructure. Veridian's approach includes additional testing programs to prioritize replacements and or rehabilitation of assets such as wooden poles and underground cable.

System Reliability Objectives – Within its DSP, Veridian has identified specific projects designed to reinforce existing distribution infrastructure to meet customer reliability expectations including securing spare distribution transformers for critical substations, transformer upgrades to meet load requirements and system expansions to achieve redundancy.

Investment in Distribution Automation (DA) system architecture through an updated SCADA system and smart grid devices and components will enhance reliability through the expanded use of real-time system monitoring, remote system operation and self healing networks.

Technology Investments for Operational Efficiencies – Veridian continues to invest in technology platforms that enhance its operational efficiencies. Improved integration between Veridian's engineering design platform and its Geographic Information System (GIS) will result in faster and less time intensive business processes related to project designs and distribution system records management.

Continued investment in a newly introduced Mobile Computing platform will build labour capacity and eliminate the requirement for low-value paperwork and administration. It will also improve data accuracy through electronic data capture on the job site.

Further details of the major drivers and projects within Veridian's DSP are provided at Exhibit 2, Tab 3.

Rate Base

Veridian has calculated its 2014 rate base at $243,542,771, comprised on Average Net Fixed Assets of $200,427,791 and an Allowance for Working Capital of $43,114,800. Table 3 below provides a comparison of 2010 Board Approved rate base and the 2014 Test Year rate base.

Table 3: Rate Base

	2014 Test Year	2010 Board Approved	Change	%age change
Gross Fixed Assets (average)	425,051,718	331,383,230		
Accumulated Depreciation (average)	(224,623,747)	(177,390,847)		
Net Fixed Assets (average)	200,427,971	153,992,383	46,435,588	30.2%
Allowance for Working Capital	43,114,800	32,602,576	10,512,224	32.2%
Total Rate Base	**243,542,771**	**186,594,959**	56,947,812	30.5%

Veridian's 2014 rate base has increased by approximately $57 million over the 2010 Board Approved values. The 2014 rate base reflects investments in distribution assets from 2011 to

2012 and planned investments for 2013 and 2014. As well, Veridian's approved smart metering investments from 2009 through 2011 of approximately $7 million are included. Veridian implemented accounting policy changes related to the useful lives of its distribution assets in 2012. As a result, depreciation rates were reduced and rate base levels are higher in 2014 than they would have been without the accounting change. Details of the accounting change and the impacts on rate base are provided at Exhibit 9, Tab 3 – Account 1576-Accounting Changes under CGAAP.

Working capital allowance levels have increased primarily due to increases in the cost of electricity. These increases have been offset by the reduction of Veridian's working capital allowance from the default value of 15% approved in 2010 to the 2014 proposed value of 13.8% as determined through a utility-specific lead lag study.

Veridian's capital expenditures in the 2014 Test Year are forecast at a total of $30.69 million net of capital contributions, compared with 2010 Board approved capital expenditures of $25.74 million net of capital contributions. This represents an increase of $4.95 million or 19.22%.

Renewable Expansion Investment

Veridian has included within its 2014 planned capital expenditures $700,000 for the cost for a distribution system expansion required to connect a 25.012 MW renewable generator in the Test Year. The capital project has two components of which $500,000 is eligible for Provincial Rate Protection.

Renewable Enabling Investment

Veridian has included within its DSP two renewable enabling investments. First is a proposal to invest in a high bandwidth, low latency, highly reliable communication platform for communication between Veridian's System Control Centre and components of the distribution system and renewable generator end-points. The new platform will be purchased and installed over a four year period from 2015 to 2018 with a total capital investment forecast at $911,000. Annual operating and maintenance costs are forecast at $135,000. The communication platform will enable communications for both smart grid and renewable generators, so costs have been allocated on a 50/50 basis for the purpose of determining Provincial Rate Protection.

The second proposed renewable enabling investment is a micro-grid project at Veridian's head office in Ajax involving the interconnection of a renewable generator with the traditional electric distribution grid, an energy storage device and a load consisting of electric vehicle charging infrastructure. The intent of the project is to provide Veridian with information associated with the design and operation of micro-grids, facilitating the future widespread connection of renewable generators on distribution systems. The project is planned for the 2015-2016 timeframe at a total capital cost of $465,000 and ongoing operations and maintenance costs of $50,000 annually.

Veridian has completed Appendices 2-FA through 2-FC to determine the amount of the eligible Provincial Rate Protection and the amounts to be recovered from all ratepayers for renewable energy connection costs and renewable enabling investments under Regulation 330/09.

The total annual amounts sought for Provincial Rate Protection recovery by year are:

2014 - $17,108
2015 - $77,839
2016 - $144,362
2017 - $178,663
2018 - $195,194

E – Operations, Maintenance and Administration Expense

Veridian has forecast 2014 Test Year OM&A expenses at $28,283,692. Table 4 below provides a summary comparison of the Test Year OM&A forecast and the 2010 Board Approved OM&A expenses.

Table 4: OM&A Expenses

	2014 Test Year	2010 Board Approved	Change	%age change
Operations	6,388,664	4,090,515	2,298,149	56.2%
Maintenance	3,952,265	2,838,441	1,113,824	39.2%
Billing and Collecting	7,131,105	5,555,867	1,575,238	28.4%
Community Relations	173,011	389,743	(216,732)	-55.6%
Administrative and General	10,638,647	8,611,756	2,026,891	23.5%
Total	**28,283,692**	**21,486,322**	**6,797,370**	31.6%

Veridian has identified the following as overall cost drivers:

- Annual increases in labour costs
- Accounting Changes of Capitalized Overheads
- Increased and additional Distribution Asset Management Program Activities, including:
  - Critical Asset Management – Focus on Substations
  - System Planning
  - Pole and Cable Testing/Reactive Repair work
  - Distribution Automation
  - Vegetation Management
- Metering Programs cost increases and workforce renewal
- Increased costs for distribution obligations, such as:
  - Volume increases for cable locating activities

- Smart Meter AMI Costs (not included in 2010 Test Year)

- Technology investment Operating Costs
- Additional programs related to Business Integrity such as telecommunications, business continuity/disaster recovery and insurance

As described previously, labour costs have been adjusted in 2013 and 2014 reflecting the annual committed rate adjustment as outlined in Veridian's collective labour agreement. The labour cost forecast was also adjusted to reflect any pay range progressions for qualified staff.

Where year-specific increases were known for contracted purchases and services, those amounts were used. Otherwise an inflation factor of 2% was applied.

Total compensation for the test year is forecast at $25,365,804, compared with the 2010 forecast from Veridian's last COS application of $21,330,886. This is an increase of $4,034,918 or 18.9%.

<u>F – Cost of Capital</u>

Veridian has followed the Report of the Board on Cost of Capital for Ontario's Regulated Utilities, dated December 11, 2009 in determining its 2014 forecast cost of capital. Veridian confirms that it has used the Board's cost of capital parameters as issued in the Board letter of February 14, 2013 for allowed return on equity and for deemed debt rates, as follows:

- ROE – 8.98%
- Long Term Debt Rate – 4.12%
- Deemed ST Debt Rate – 2.07%

Veridian confirms that it has applied the deemed capital structure of 56% long-term debt, 4% short term debt and 40% equity and that it has not deviated from the Board's cost of capital methodology.

G – Cost Allocation and Rate Design

Veridian has prepared a Cost Allocation Study ("CAS") for its 2014 forward test year using the Board issued model and following the Board's established methodology. As Veridian is proposing harmonization of distribution rates in this Application, a single, harmonized 2014 CAS has been completed which reflects 2014 forecasted loads and costs.

Results of the CAS Model show significant under recovery of allocated costs by the GS > 50 kW, GS 3,000 to 4,999 kW, and Large Use rate classes. Changes in OM&A and asset cost structures have shifted cost recovery to the large volume rate classes. Adjustments have been made for the proposed revenue to cost ratios for these classes which result in ratios within the Board Approved ranges and total bill impacts not requiring mitigation.

The proposed revenue to cost ratios for all classes are within the Board Approved ranges. Full details of the CAS results and the proposed ratios are provided in Exhibit 7 – Cost Allocation.

In establishing the fixed and variable rates for each rate class, Veridian has not deviated from the Board's methodologies, including maintenance of fixed and variable splits and adhering to guidelines for ceiling limits for monthly service charges. Full details of proposed rates are provided in Exhibit 8 – Rate Design.

H – Deferral and Variance Accounts

In this Application, Veridian proposes disposition of Group 1 and Group 2 Deferral and Variance Accounts. Some disposition balances are applicable to all customers and others are applicable only to Non-RPP customers.

Although Veridian is proposing harmonization of distribution rates and wholesale settlement processes, including all deferral and variance accounting, Veridian is proposing separate disposition by tariff zone for the existing deferral and variance account balances to December 31, 2012. Amounts recorded in 2013 and subsequent years will be proposed for disposition on a harmonized basis.

Table 5 below provides a total of the amounts proposed for disposition. All amounts are proposed for disposition over a one year period effective May 1st, 2014.

Table 5: Deferral and Variance Account by Tariff Zone

	Main	**Gravenhurst**
Applicable to All Customers	5,708,354	560,312
Applicable to Non-RPP Customers Only	(4,286,618)	(903,781)

Veridian is also proposing disposition of the balance of Account 1576 – Accounting Changes under CGAAP. A credit balance of $6,325,889 will be refunded to ratepayers over a one year period.

Full details of the accounts, the allocation of amounts to rate classes and the calculations of the proposed rate riders is provided in Exhibit 9 – Deferral and Variance Accounts.

I – Bill Impacts

Tables 6, 7 and 8, below set out the monthly bill impacts of Veridian's application for a "typical" customer in each rate class. No rate mitigation is proposed. Full details on bill impacts are provided in Exhibit 8, Tab 6.

The total bill impacts calculated in table 6 below include consumption adjusted by the proposed loss factors. Details on the proposed loss factors are provided at Exhibit 8, Tab 5, Schedule 1. The calculations also include all regulatory charges, HST at 13% and OCEB adjustment and Global Adjustment rate rider disposition for classes eligible for those adjustments.

Table 6: Impacts on Total Bill for Typical Customer by Rate Class

Rate Class	kWh/kW	Consumption	Demand	Main		Gravenhurst	
		kWh	kW	$	%	$	%
Residential	kWh	800		$ 4.44	3.9%	$ (6.69)	(5.2%)
Residential-Suburban	kWh	800		n/a	n/a	$ (20.04)	(13.7%)
Residential-Seasonal	kWh	800		n/a	n/a	$ (2.20)	(1.4%)
GS < 50 kW	kWh	2,000		$ 1.55	0.6%	$ (16.24)	(5.3%)
GS 50 to 2,999 kW	kW	100,000	500	$ 505.18	3.1%	$ (1,785.95)	(10.5%)
GS 3,000 to 4,999 kW	kW	1,300,000	4,000	$ 1,379.25	0.7%	n/a	n/a
Large Use	kW	4,900,000	8,700	$ (121.60)	0.0%	n/a	n/a
Unmetered Scattered Load	kWh	800		$ (1.60)	(1.3%)	n/a	n/a
Sentinel Lighting	kW	180	1	$ (0.99)	(2.5%)	$ 3.19	8.8%
Street Lighting	kW	180	1	$ 0.45	1.7%	$ 1.79	6.5%

Impacts calculated within Table 7 below for the distribution portion of the bill include fixed and variable distribution charges, low voltage charges and regulatory asset rate riders.

Table 7: Impacts on the Distribution Portion of Bill for Typical Customer by Rate Class

Rate Class	kWh/kW	Consumption	Demand	Main		Gravenhurst	
		kWh	kW	$	%	$	%
Residential	kWh	800		$ 3.81	12.9%	$ (4.98)	(12.0%)
Residential-Suburban	kWh	800		n/a	n/a	$ (18.10)	(33.1%)
Residential-Seasonal	kWh	800		n/a	n/a	$ (1.90)	(2.7%)
GS < 50 kW	kWh	2,000		$ 0.36	0.6%	$ (12.74)	(15.2%)
GS 50 to 2,999 kW	kW	100,000	500	$ 333.67	17.7%	$ (5,684.94)	(144.4%)
GS 3,000 to 4,999 kW	kW	1,300,000	4,000	$ 175.45	0.9%	n/a	n/a
Large Use	kW	4,900,000	8,700	$(2,317.41)	(6.7%)	n/a	n/a
Unmetered Scattered Load	kWh	800		$ (1.89)	(7.3%)	n/a	n/a
Sentinel Lighting	kW	180	1	$ (1.05)	(6.9%)	$ 3.22	25.9%
Street Lighting	kW	180	1	$ 0.23	4.7%	$ 1.79	36.9%

The bill impacts shown in table 8 for the delivery portion include all distribution charges as defined in table 7 above and transmission charges.

Table 8: Impacts on the Delivery Portion of Bill for Typical Customer by Rate Class

Rate Class	kWh/kW	Consumption	Demand	Main		Gravenhurst	
		kWh	kW	$	%	$	%
Residential	kWh	800		$ 4.35	11.3%	$ (6.35)	(12.1%)
Residential-Suburban	kWh	800		n/a	n/a	$ (4.31)	(11.5%)
Residential-Seasonal	kWh	800		n/a	n/a	$ (1.92)	(2.4%)
GS < 50 kW	kWh	2,000		$ 1.49	1.8%	$ (15.38)	(14.2%)
GS 50 to 2,999 kW	kW	100,000	500	$ 444.82	10.5%	$ (5,198.44)	(61.8%)
GS 3,000 to 4,999 kW	kW	1,300,000	4,000	$ 1,191.45	3.0%	n/a	n/a
Large Use	kW	4,900,000	8,700	$ (107.61)	(0.1%)	n/a	n/a
Unmetered Scattered Load	kWh	800		$ (1.45)	(4.2%)	n/a	n/a
Sentinel Lighting	kW	180	1	$ (0.88)	(4.9%)	$ 2.88	18.1%
Street Lighting	kW	180	1	$ 0.40	4.9%	$ 1.64	19.8%

File Number: EB-2013-0174

Date Filed: October 31, 2013

Exhibit 1

Tab 2 of 5

Customer Engagement

Customer Engagement

Veridian has a long standing commitment to the engagement of its customers and stakeholders as a routine part of its business operations. Multiple communications channels are used to secure feedback on the company's performance, and to identify opportunities for new initiatives tailored to the needs and expectations of customers.

Following are summary descriptions of the primary communications channels that have been and are currently used to engage customers and stakeholders:

1. Customer Opinion Survey:

Engagement Frequency: Annual

Description: A comprehensive telephone survey with a sample size of 450 participants is conducted to secure customer feedback on a range of issues including customer service and service quality. The survey is carried out by an external market research firm, and includes both residential and business customers. The survey has been conducted annually since 2002.

The core survey is relatively consistent from year to year to facilitate longitudinal analysis. However, each year the core survey is supplemented with additional questions to address specific areas of interest to support the development of business plans. For example, the 2012 survey included questions on e-billing and e-care use and preferences.

Knowledge Leveraged for Business Planning: Survey results are shared with all managers and supervisors, and this knowledge informs the development of business initiatives and plans. Some examples of initiatives prompted by survey results are a focus on first call resolution, staff development and training, and the introduction of more self serve account management options.

2. Gravenhurst Advisory Committee:

Engagement Frequency: Twice per year

Description: This two person committee, appointed by the municipality of Gravenhurst, serves as a communication conduit between Veridian and the community. Some recurring agenda topics include reliability, rates, economic conditions, planning, conservation, and community activity. Other topics deemed relevant which are specific to the community are brought forward and discussed on an as required basis. Committee meetings are attended by Veridian's Vice President of Engineering and the company's Gravenhurst District Supervisor.

Knowledge Leveraged for Business Planning: Discussions and action items are recorded in meeting minutes and circulated to the Executive team and other managers on an as required basis. Information and feedback from the committee is considered and may be folded into design plans and budgets for projects in the capital program, as well as operations and maintenance activities.

3. Key Account Representatives:

Engagement Frequency: Ongoing

Description: Veridian has two Key Account Representatives, and both are primarily deployed to support the OPA's commercial and industrial conservation and demand management programs. The representatives hold information sessions and conduct customer site visits to promote the OPA programs and solicit feedback on distribution service from customers. Any issues or concerns received from customers are brought to the attention of the Manager, Distribution Services, who ensures appropriate action is taken to address the customer issue or concern.

Knowledge Leveraged for Business Planning: Issues and concerns are distributed to the appropriate department to resolve. Capital and OM&A spending is informed through this process and could result, for example, in improvements to reliability or enhancements to the distribution system for load growth.

4. Municipal Utility Coordinating Committees:

Engagement Frequency: At least once per year

Description: Veridian has worked to establish an ongoing exchange of information with each of the seven municipalities that it serves. Through these efforts and where possible, planned work activities are coordinated amongst the various municipal, regional, and utility parties to achieve efficient project execution. A common example of such a coordinated effort is planning for road widening and relocation projects. Further meetings involving smaller groups are held for specific topics or projects. Veridian attendees include the Manager, Planning and Maintenance, and other staff as required.

Knowledge Leveraged for Business Planning: Discussions and action items are recorded in meeting minutes and circulated to the other staff on an as required basis. Information and feedback from the committees are considered and may be folded into design plans and budgets for projects in the capital program, as well as operations and maintenance activities.

5. Special Purpose Community Meetings:

Engagement Frequency: Ad hoc

Description: Project specific community meetings are organized by Veridian where it has identified that the customers in the project area will be significantly affected by the planned Veridian activity. An underground high voltage cable replacement project would be an example where a community meeting would be held with the customers. The meetings are intended to provide information on what is planned as well as to receive feedback on issues important to the customers based on the planned activity. Veridian attendees are project subject matter experts and will vary based on the specifics of the projects.

Knowledge Leveraged for Business Planning: All feedback received at the meetings is considered and may be included in the development of or adjustment to the proposed project plan based on the direct or indirect impact to the customers. Feedback from these meetings is also forwarded to other Veridian staff on an as required basis. Similar future year capital projects, and operations and maintenance activities and budgets, may also be adjusted based on feedback received.

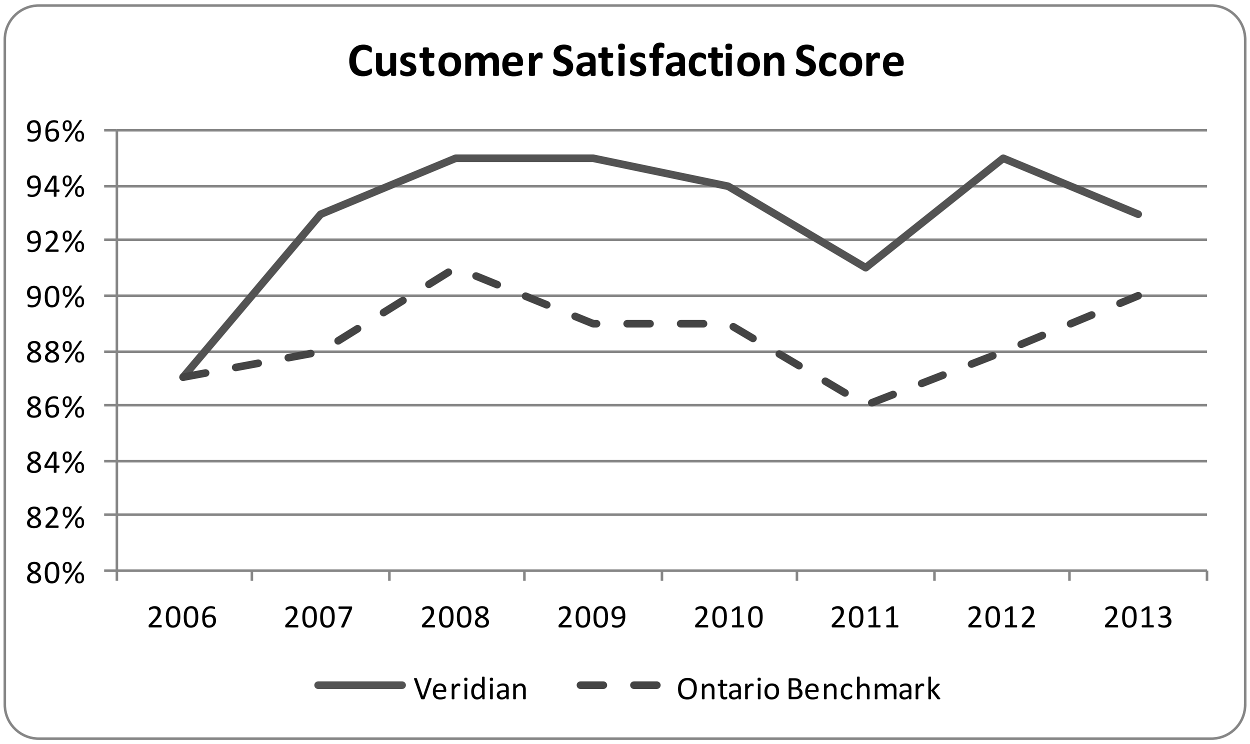
6. Business Associations/Community Events:

Engagement Frequency: Ongoing

Description: Veridian is an active member of all Boards of Trade / Chambers of Commerce within its distribution service area. Members of these associations include influential local businesses, who are also Veridian customers. Veridian senior staff regularly participates in association and related community events, which provides for the development and maintenance of important business contacts with leading customers.

Knowledge Leveraged for Business Planning: Business associations and related contacts provide an important source of feedback on customer service and service quality issues. Such feedback is shared internally as appropriate and is used to inform business plans.

Veridian's success in identifying and addressing the needs of its customers is reflected in the results of its annual customer opinion survey, as described under item one above. At the time of conducting Veridian's annual survey, Veridian's survey service provider (UtilityPULSE) also polls a separate group of 1,000 randomly selected utility customers from across Ontario to establish a provincial benchmark against which Veridian's results are compared. As shown in the following graph, Veridian has outperformed the benchmark in each of the last seven years:


Customer Satisfaction Score
96%
94%
92%
90%
88%
86%
84%
82%
80%
2006
2007
2008
2009
2010
2011
2012
2013
Veridian
Ontario Benchmark

VERIDIAN
CONNECTIONS

File Number: EB-2013-0174

Date Filed: October 31, 2013

Exhibit 1

Tab 3 of 5

Materiality Threshold

Materiality Threshold

In completing this application, Veridian has followed the Board's guidelines on materiality thresholds as providing in the Filing Requirements.

The following default materiality thresholds were used in explaining and providing justification for year to year changes in rate base, capital expenditures, OM&A and other items requiring variance analysis:

- 0.5% of distribution revenue requirement
- Distribution Revenue Requirement – $52,199,570
- Materiality Threshold - $260,998

In some cases, variances less than the materiality threshold but representing a significant percentage of prior year values have been explained in detail.

File Number: EB-2013-0174

Date Filed: October 31, 2013

Exhibit 1

Tab 4 of 5

Administration

Statement of Publication

Veridian has approximately 119,000 distribution customers across its service areas that will be affected by this application. Upon receipt of the Board's Letter of Direction and Notice of Application, Veridian will immediately arrange to have the Notice of Application and Hearing for this proceeding published in the following newspapers:

Newspaper	**Paid Publication (Yes/No)**	**Publication Frequency**	**Average Circulation**
Belleville Intelligencer	Yes	Mon-Sat	10,884 (daily)
Gravenhurst Banner	Yes	Weekly	3,500 (weekly)
Northumberland Today	Yes	Mon-Thurs	10,350 (daily)
Toronto Star	Yes	Daily	346,340 (Mon – Friday) 473,743 (Saturday) 297,679 (Sunday)

Together, these newspapers have a circulation covering Veridian's licensed service areas in Durham Region, the City of Belleville, the Town of Gravenhurst and the Municipality of Port Hope.

Veridian will also post the Board's Notice of Application on its website at www.veridian.on.ca.

Statement on Confidential Documents

Veridian's load forecast contains consumption information that pertains to a single identifiable customer. Veridian believes that this information falls within the definition of "confidential information" as defined by the Affiliate Relationships Code:

"confidential information means information the utility has obtained relating to a specific...consumer in the process of providing current or prospective utility service"

In order to avoid inappropriately disclosing information that could be considered "confidential information" by the Board, Veridian has filed a redacted load forecast on the public record, as well as an unredacted load forecast confidentially in accordance with the Board's *Practice Direction on Confidential Filings*. Only the portions of the load forecast that pertain to the single identifiable customer have been redacted.

Should the Board find that the redacted information is not deserving of confidential treatment, Veridian does not object to disclosing such information on the public record.

Application Contact Information

The Applicant:

Veridian Connections Inc.
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Ajax, ON L1T 3V3

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Vice President, Corporate Services
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Email: garmstrong@veridian.on.ca

Mrs. Laurie McLorg
Vice President, Financial Services & Chief Financial Officer
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The Applicant's Counsel:

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Toronto, ON M5H 1T1

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Legal Application

EB-2013-0174

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O.1998, c.15 (Sched. B), as amended

AND IN THE MATTER OF an application by Veridian Connections Inc. for an Order or Orders pursuant to section 78 of the *Ontario Energy Board Act, 1998* for 2014 distribution rates and other charges as of May 1, 2014.

1) The Applicant is Veridian Connections Inc. ("Veridian"). Veridian is a licensed electricity distributor operating pursuant to license ED-2002-0503. Veridian distributes electricity to approximately 119,000 customers in Ajax, Pickering, Belleville, Brock, Uxbridge, Scugog, Clarington, Port Hope and Gravenhurst.

2) On December 11th 2012, the Board issued a letter identifying distributors scheduled to file cost of service applications for 2014 rates under the 4th Generation Incentive Rate-setting method. Veridian was included on the scheduled rebasing list provided as Appendix A to the Board's letter.

3) Veridian has prepared this Application in accordance with the Board's *Filing Requirements for Electricity Transmission and Distribution Applications* as updated on July 17, 2013.

4) Veridian hereby applies to the Ontario Energy Board (the "Board") for an order or orders made pursuant to Section 78 of the *Ontario Energy Board Act, 1998,* as amended,(the "OEB Act") approving just and reasonable rates for the distribution of electricity based on a 2014 test year. A list of requested approvals is set out in Exhibit 1, Tab 4, Schedule 5.

5) This Application is made in accordance with the Board's Chapter 2 of the Board's Filing Requirements for Transmission and Distribution Applications dated July 17, 2013.

6) This Application is supported by written evidence. The written evidence will be filed and may be amended from time to time, prior to the Board's final decision on this Application.

7) The Applicant requests that this hearing be conducted by way of a written hearing in order to expedite the proceeding to ensure that rates will be implemented on May 1, 2014

8) The Applicant requests that a copy of all documents filed with the Board in this proceeding be served on the Applicant and the Applicant's advisor, as follows:

Applicants Name:	Veridian Connections Inc.
Applicants Address:	55 Taunton Road East Ajax, ON L1G 8E9
Applicants Contacts:	George Armstrong Vice President, Corporate Services Email: garmstrong@veridian.on.ca Phone: 905-427-9870 x2202 Fax: 905-619-0210
	Laurie McLorg Vice President, Financial Services & CFO Email: lmclorg@veridian.on.ca Phone: 905-427-9870 x2230 Fax: 905-619-0210
Applicants Counsel:	Mr. Andrew Taylor The Energy Boutique 120 Adelaide Street West Suite 2500 Toronto, Ontario M5H 1T1 Email: ataylor@energyboutique.ca Phone: 416-644-1568 Fax: 416-367-1954

Certification of Evidence

As Chief Executive Officer of Veridian Connections Inc., I hereby certify that the evidence included within this application is accurate, consistent and complete to the best of my knowledge.

Michael Angemeer
President and Chief Executive Officer

List of Specific Approvals Requested

In this proceeding Veridian is requesting an order or orders granting the following approvals:

1. Approval to charge rates effective May 1, 2014 to recover a base revenue requirement of $53,903,935 in conjunction with approval to apply $1,704,365 of negative Revenue Requirement Adjustment Rate Riders as proposed in Exhibit 6A and as set out in Exhibit 8 (“RRARRs”) for a period of twelve months, thereby effectively allowing Veridian to recover a base revenue requirement of $52,199,570;

2. Approval for harmonization of Veridian’s two existing separate Tariffs of Rates and Charges for Veridian_Gravenhurst and Veridian_Main, and for the harmonized Loss Factors and Electricity Distribution, Retail Transmission and Low Voltage Rates as proposed and set out in Exhibit 8;

3. Approval to eliminate separate variance and deferral accounts for the Veridian_Gravenhurst and Veridian_Main rate zones, effective May 1st 2014 and as set out in Exhibit 9;

4. Approval of the harmonized Retail Transmission Network and Connection Rates as proposed and set out in Exhibit 8;

5. Approval to continue to apply Retail Service Charges, Wholesale Market Service Charges, MicroFIT Generator Charges and Smart Metering Charges, as proposed and set out in Exhibit 8;

6. Approval to continue to apply the Specific Service Charges and Transformer Allowance included in the Board Decision and Order approving Veridian's 2013 electricity distribution rates (EB-2012-0170)

7. Approval to dispose of the following group 1 and group 2 Deferral and Variance Account balances as at December 31, 2012, and as proposed and described in Exhibit 9:

Account	Description	Disposition Period (Yrs)
Group 1 Accounts		
1580	RSVAWMS	1
1584	RSVANW	1
1586	RSVACN	1
1588	RSVAPOWER	1
1589	RSVA Global Adjustment	1
1595	Disposition Rec/Refund of Reg Bal 2008	1
Group 2 Accounts		
1518	RCVARetail	1
1531	Renewable Generation Connection Capital	1
1532	Renewable Generation Connection OM&A	1
1535	Smart Grid OM&A Deferral	1
1548	RCVASTR	1
1550	LV Variance Account	1
1568	LRAM Variance Account	1
2425	Other Deferred Credits	1

8. Approval to recover the LRAM amount of $297,587 through the application of class specific rate riders in effect for a period of twelve months, as proposed and described in Exhibit 9;

9. Approval to recover the value of stranded meter assets related to smart meter deployment in the amount of $4,324,621 through the application of class specific rate riders in effect for a period of twelve months, as proposed and described in Exhibit 9;

10. Approval for Provincial Rate Protection Recovery of amounts related to renewable enabling investments as proposed and described in Veridian's Distribution System Plan provided at Exhibit 2, Tab 3, with such approval granted through a Board order directing the IESO to remit the amounts to Veridian in a timely manner;

11. Approval for the establishment of a variance account to track Provincial Rate Protection Recovery revenues and Veridian's revenue requirement for related eligible investments made under the provisions of O. Reg. 330/09;

12. Approval for disposition of Account 1576 (Accounting Changes under CGAAP) in the credit amount of ($6,325,889) through a rate rider in effect for a period of twelve months, as proposed and described in Exhibit 9.

13. In the event the Board is unable to implement Veridian's 2014 rates by May 1, 2014, Veridian requests that the Board issue an Interim Order approving its current distribution rates and other charges effective May 1, 2014.

Bill Impacts

Veridian has calculated bill impacts for 'typical' residential customers using 800 kWh per month and for a General Service < 50 kW customer using 2,000 kWh per month for the purpose of use within the Notice of Application. These bill impacts have been calculated for each of its existing tariff zones and are for distribution only as per sub-total A of Appendix 2-W.

Veridian_Main

Residential – 800 kWh customer - $1.30 or 5.1%

General Service < 50 kW – 2,000 kWh customer – ($5.71) or (10.5%)

Veridian_Gravenhurst

Residential – Urban – 800 kWh customer -- ($0.70) or (2.6%)

Residential – Suburban – 800 kWh customer – ($13.82) or (34.1%)

Residential – Seasonal – 800 kWh customer – $2.22 or 4.0%

General Service < 50 kW – 2,000 kWh customer – ($1.63) or (3.3%)

Changes in Tax Status

There have been no changes in Veridian's tax status.

Board Directions

The Board's Decision and Order issued as part of Veridian's last cost of service rate proceeding (EB-2009-01040) approved a settlement agreement that included two undertakings, as follows:

1. File a lead-lag study with its next cost of service rate application

This undertaking is described in the following excerpt from the settlement agreement that formed part of the Board's Decision and Order:

> *(2 c) Has the Working Capital Allowance been determined appropriately? (Also Exhibit 6)*
>
> ***Complete Settlement:*** *Veridian agrees to recalculate the 2010 Cost of Power for working capital purposes using an estimated average commodity cost for all sales based on the weighted average of the RPP and non-RPP costs (as requested to be calculated in VECC IR #5). As a result, the forecast Cost of Power has been reduced by $1,417,196 and Working Capital Allowance has been reduced by $212,579. Working Capital Allowance has been calculated as 15% of forecast cost of power and controllable distribution expenses, excluding amortization and PILs.*
>
> *Veridian also agrees that it will carry out a lead-lag study to determine its working capital requirements on a go-forward basis, to be completed in time for its next rebasing.*
>
> ***Evidence:*** *Exhibit 2, Tab 10, Schedule 2, Response to VECC Interrogatory #5.*
>
> ***Supporting parties:*** *VCI, SEC, EP, CCC, and VECC*
>
> ***Parties taking no position:*** *None.*

> ***Opposing parties:*** *None*

Veridian's response to this undertaking is provided at Exhibit 2, Tab 1, Schedule 4, Attachment 2.

2. File a study of differences in costs for its two rate zones, Veridian_Main and Veridian_Gravenhurst

This undertaking is described in the following excerpt from the settlement agreement that formed part of the Board's Decision and Order:

> *(6 b) Is the apportionment of the Revenue requirement between rate zones appropriate?*
> ***Complete Settlement:*** *For the purpose of obtaining complete settlement of all issues, the Parties accept the proposed 2010 apportionment of the revenue requirement between rate zones. Veridian agrees that it will complete a study, to be tabled at or before its next Cost of Service rebasing rate application, to determine the differences in cost of service for its Main and Gravenhurst rate zones.*
> ***Evidence:*** *Exhibit 6, Tab 2, Schedules 2*
> ***Supporting parties:*** *VCI, SEC, EP, CCC, and VECC*
> ***Parties taking no position:*** *None.*
> ***Opposing parties:*** *None*

Veridian's response to this undertaking is provided at Exhibit 8, Tab 2, Schedule 1.

Service Area

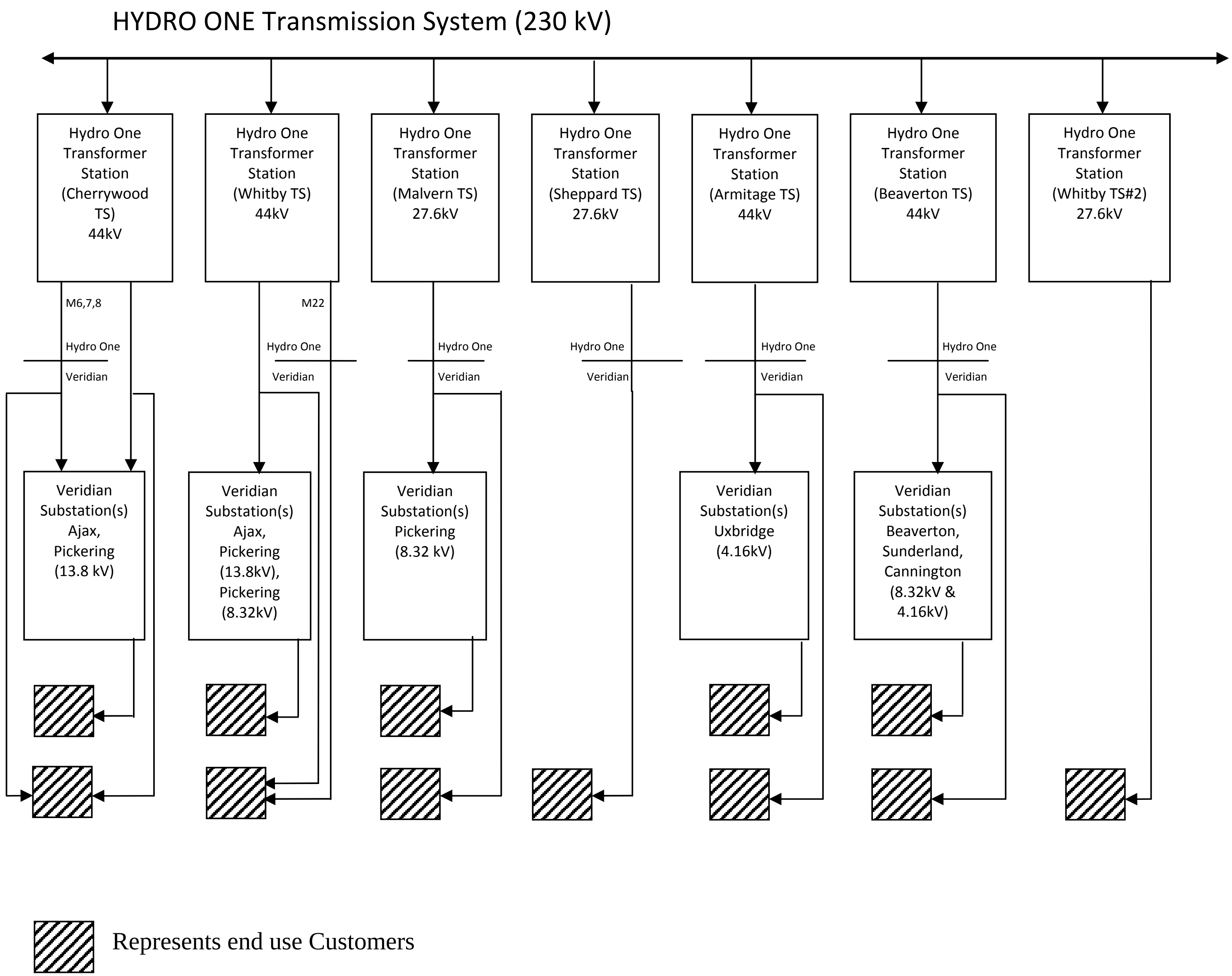
Maps of Veridian's service territory can be found within its distribution licence (ED-2002-0503). A copy of this licence has been included in this application as Exhibit 1, Tab 4, Schedule 20.

Schematics for Veridian's distribution system are provided in the following attachment.

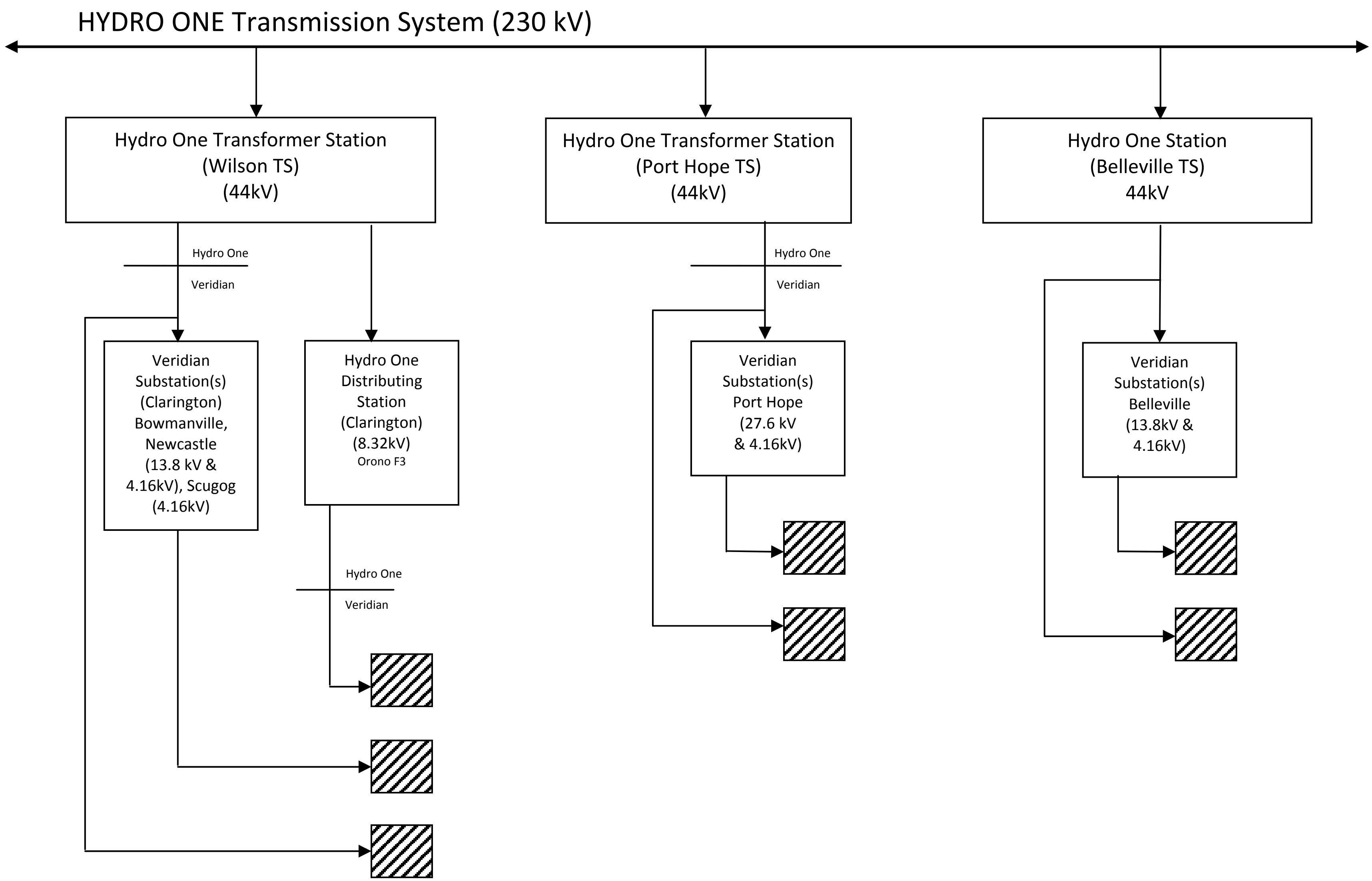
Attachment 1 of 1

System Schematic

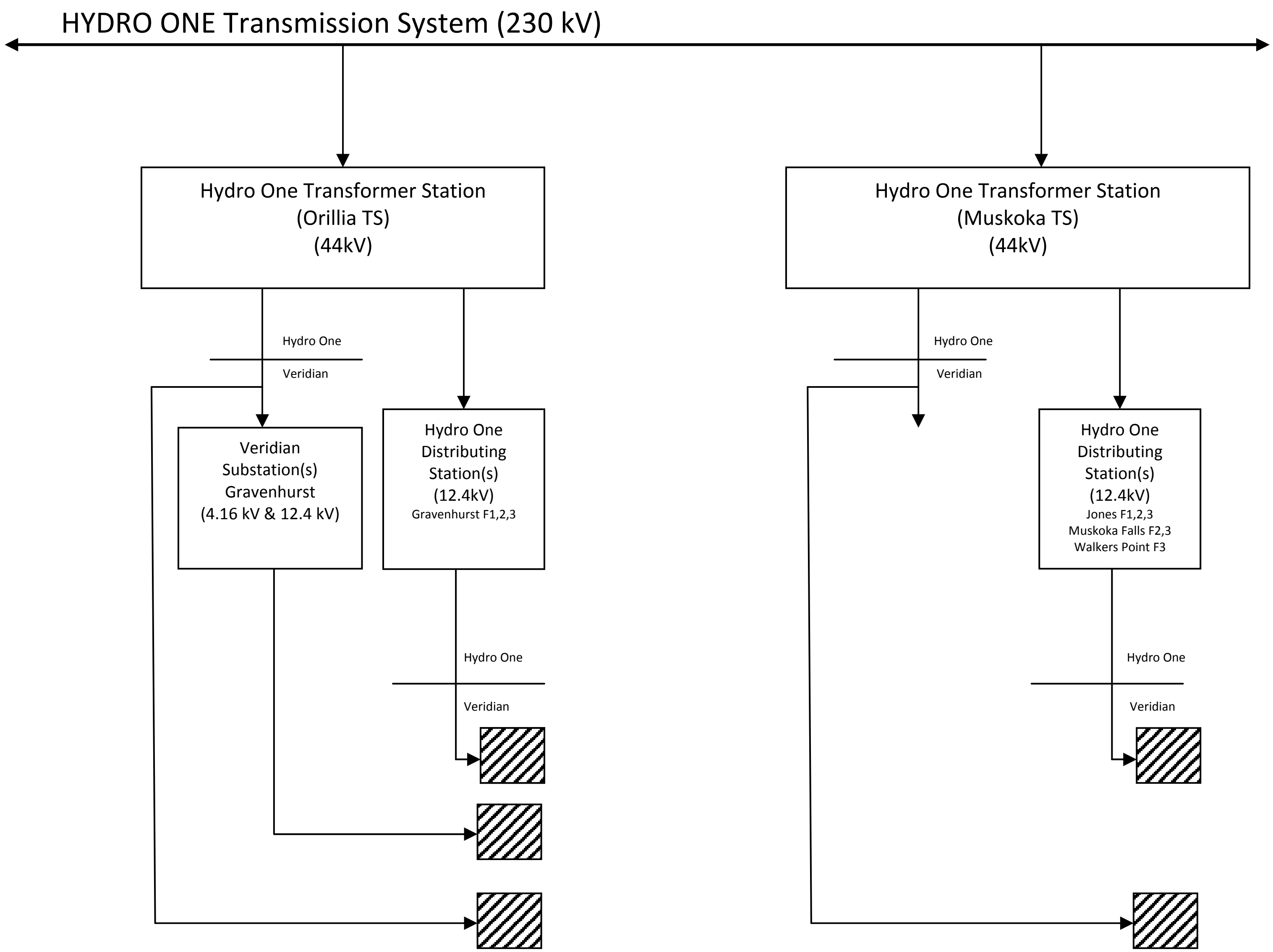
Veridian Connections Inc. System Schematic Pg 1/3



Veridian Connections Inc. System Schematic Pg 2/3



Veridian Connections Inc. System Schematic Pg 2/3



Transmission Assets Deemed as Distribution Assets

Veridian has no transmission assets deemed previously by the Board as distribution assets, and Veridian is not seeking Board approval for any transmission assets to be deemed as distribution assets in this proceeding.

1 # List of Neighbouring Utilities

2 The following table identifies the utilities that neighbour each of Veridian's non-contiguous
3 service areas:

Service Area	Neighbour
Area of Ajax & Pickering	
To the East	Whitby Hydro Electric Corporation
To the West	Toronto Hydro-Electric System Limited
	PowerStream
To the North	Hydro One Networks Inc.
Area of Bowmanville, Newcastle & Orono	
Surrounded by	Hydro One Networks Inc.
Area of Port Hope	
To the West, North & East	Hydro One Networks Inc.
Area of Belleville	
To the West, North & East	Hydro One Networks Inc.
Areas of Uxbridge, Scugog, Cannington & Sunderland	
Surrounded by	Hydro One Networks Inc.
Area of Beaverton	
To the North, East & South	Hydro One Networks Inc.

Area of Gravenhurst	
To the North	Lakeland Power Distribution Ltd.
To the East, South & West	Hydro One Networks Inc.

Explanation of Any Host or Embedded Utilities

Veridian's service area includes twelve (12) discrete, non-contiguous, geographic areas. The bulk of the customer load (in aggregate) is directly connected to various Hydro One Transformer Stations (part of the IESO controlled grid). However, ten (10) of these discrete areas are fully embedded within Hydro One Network Inc.'s Distribution System, as follows:

Port Hope (the former municipal limits of the Town of Port Hope), embedded at 44 kV.

Orono (the former hamlet of Orono) in the Municipality of Clarington, embedded at 8.32 kV.

Bowmanville and **Newcastle** (the former Towns of) in the Municipality of Clarington, embedded at 44 kV.

Scugog (the former Town of Port Perry) in the Township of Scugog, embedded at 44 kV.

Uxbridge (the former Town of Uxbridge) in the Township of Uxbridge, embedded at 44 kV.

Beaverton, **Cannington**, and **Sunderland** (the former Town of Beaverton, and the hamlets of Cannington and Sunderland) in the Township of Brock, embedded at 44 kV.

Gravenhurst (approximately the northern half of the Town of Gravenhurst), embedded at 44 kV and at 12.47 kV.

Veridian provides host distribution services to PowerStream at a single 27.6 kV distribution system connection point located on the York Durham Town Line, which is the boundary road between the City of Pickering and the Town of Markham.

Corporate Organization

A Corporate Entities Relationship Chart has been provided as Attachment 1 to this schedule.

A chart of Veridian's organizational structure, showing the main units and executive and senior management positions, has been provided as Attachment 2 to this schedule.

There are currently no planned changes to Veridian's corporate or organizational structure.

Attachment 1 of 2

Corporate Entities Chart

Corporate Entities Relationships Chart

VERIDIAN CORPORATION

Board of Directors

- Number of Directors: 14

Corporate Officers

- Chair: Doug Dickerson
- Vice-Chair: Neil Ellis
- President/CEO: Michael Angemeer
- V.P., CFO & Treasurer: Laurie McLorg
- V.P.: George Armstrong

Governance services, financial services related to the assessment of investment opportunities, preparation of financial statements, accounts payable administration, and general bookkeeping

VERIDIAN CONNECTIONS INC.

Board of Directors

- Number of Directors: 12
- Number of Directors shared with Veridian Corporation: 6
- Number of Directors shared with Veridian Energy Inc.: 3

Corporate Officers

- Chair: Doug Dickerson
- Vice-Chair: Neil Ellis
- President/CEO: Michael Angemeer
- Executive V.P.: Rob Scarffe
- V.P., CFO & Treasurer: Laurie McLorg
- V.P.: George Armstrong
- V.P.: Peter Petriw
- V.P.: Mark Turney

VERIDIAN ENERGY INC.

Board of Directors

- Number of Directors: 3

Corporate Officers

- Chair: Doug Dickerson
- Vice-Chair: Neil Ellis
- President/CEO: Michael Angemeer
- V.P., CFO & Treasurer: Laurie McLorg

Notes:

1) Veridian Corporation wholly owns Veridian Connections Inc. and Veridian Energy Inc.
2) No services are exchanged between Veridian Connections Inc. and Veridian Energy Inc. Veridian Energy Inc. is currently inactive.

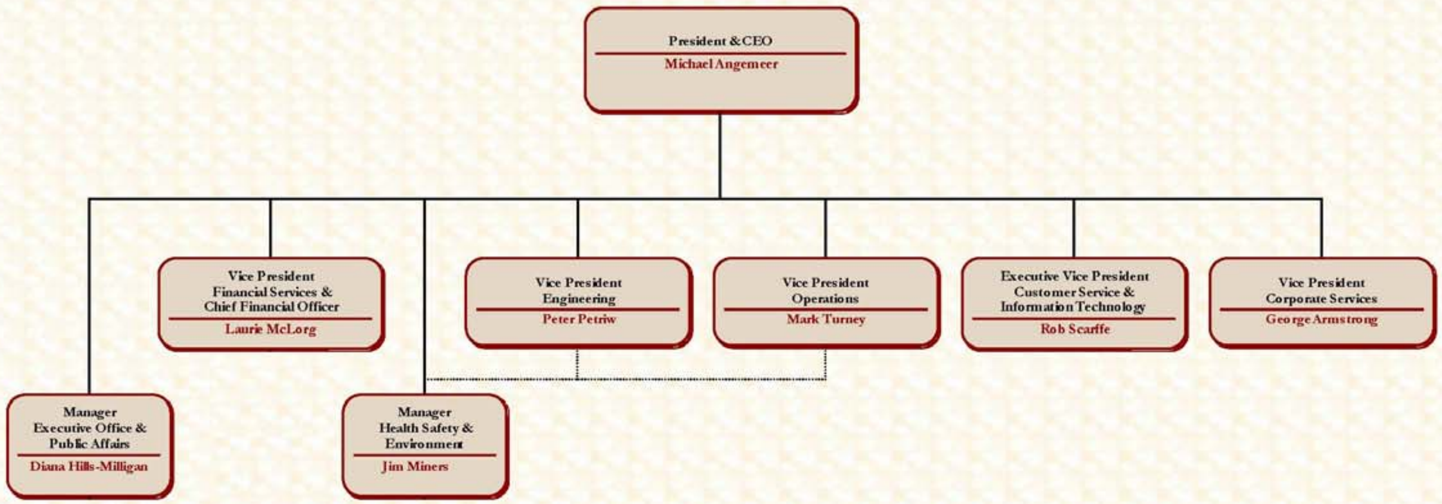
Attachment 2 of 2

Utility Organizational Chart

VERIDIAN

EXECUTIVE

October 2013



Corporate Governance Practices

Board of Directors

There are twelve directors on the board of Veridian Connections Inc. (“VCI”). Six of these directors also hold positions on the board of Veridian Corporation (“VCorp), which is VCI’s parent company. The remaining six directors are independent in that they are not officers or employees of VCI or of any of its affiliates. There is no policy in place governing the proportion of independent directors on the VCI board. When appointing directors to the VCI board, the board of VCorp and its shareholders are guided by section 2.1.2 of the Ontario Energy Board’s Affiliate Relationships Code, which requires that at least one-third of the directors on VCI’s board be independent from any affiliate.

The boards of directors of VCorp and VCI have adopted a comprehensive ‘Framework for Effective Governance’ that clearly establishes the expectations of directors and the importance of acting in the best interests of the corporations when carrying out board responsibilities. A copy of this framework is appended as Attachment 1. Some of its pertinent provisions related to the independence of judgment include:

- A directors’ Conflict of Interest Policy that is reviewed and signed by each director once per year (Section 4.2)

- A requirement that the board of directors “Meet regularly without management present and ensure the board functions independently of management” (section 1.1 k)

Board Mandate

The board's mandate, its role and its responsibilities is detailed in the provisions of the governance framework document provided as Attachment 1.

Board Meetings

The 2013 meeting schedule for the VCI board is as follows:

VCI Board Meeting Schedule, 2013	
Date	**Status**
April 4th	Held
June 25th	Held
Sept. 17th	Held
Dec. 12th	Pending

Orientation and Continuing Education

Section 2 of the board's Framework for Effective Governance describes new director orientation provisions, and the expectations of directors related to training and development.

All directors are provided a training and development allowance to support the pursuit of continuing education opportunities. In addition to this allowance and to further encourage participation, the corporation directly compensates directors for the registration costs and expenses related to completion of the first of five program modules of The Directors College Chartered Directors (C.Dir.) program.

Ethical Business Conduct

As part of its Framework for Effective Governance the board has adopted a 'Code of Conduct and Governance Practices' (see Section 4.1 of Attachment 1). This code includes a provision that each director must annually sign and affirm in writing that they understand and will comply with its provisions. Section 12 of the code provides direction on the process for dealing with code non-compliance.

In addition, the board has adopted a comprehensive Code of Ethics and Business Conduct that applies to directors, officers and employees. It is appended as Attachment 2.

Nomination of Directors

VCI is a party to a shareholders' agreement with VCorp and its four municipal shareholders. Under provisions of this agreement, the shareholders hold rights to appoint directors to the parent company board and to recommend candidates for the VCI board. A formal nomination and appointment process is conducted on a schedule that accommodates appointments that commence at the start of each term of VCorp's shareholder municipal councils.

The last formal director identification and selection process was conducted in 2010, with subsequent board appointments made effective January 1, 2011. The process that was followed to identify candidates for the boards of VCI and its parent company is detailed in the 'Director Identification and Selection Process' provided as Attachment 3.

Board Committees

The following five committees are identified in the board's Framework for Effective Governance:

1. Governance committee
2. Human Resources and Compensation committee
3. Business Development committee
4. Nominating committee
5. Audit and Risk Management ("ARM") committee

With the exception of the Nominating Committee, details regarding committee functions and charters are included in the Framework for Effective Governance.

The ARM committee is a joint committee of the VCorp and the VCI boards and currently includes six directors, three of whom sit on the board of VCI. Three of the six directors that serve on the ARM committee are independent as defined as not being officers or employees of VCI or of any of its affiliates

Members of the ARM committee have a high degree of financial literacy. Of the six members:

- Three hold professional accounting designations, and;
- One holds a bachelor degree in Business Administration, and;
- One practices law, and;
- One is a retired entrepreneur.

In addition to the financial skills acquired from training and experience acquired external to Veridian, all members of the ARM committee are provided with financial literacy training specific to Veridian's business environment. This is done through an expanded orientation session delivered by senior Veridian financial staff, which includes key rate regulation concepts and an overview of the rate setting process.

Attachment 1 of 3

Framework for Effective Governance

VERIDIAN

Framework For Effective Governance

The Board of Directors of Veridian Corporation, Veridian Connections Inc., Veridian Energy Inc. are guided by this framework in the conduct of their governance duties

September 17, 2013 – V.4

Veridian Corporation

Veridian Connections Inc.

Veridian Energy Inc.

REVISION HISTORY

Approved By	Issue Date	Identify Changes or Reason	Version
Veridian Corporation and Veridian Connections Inc. Boards	September 17, 2013	Addition of Whistleblower policy procedures for directors, integration of currently approved Committee Mandate/Charters and Board Policies, and minor housekeeping changes.	V.4
Veridian Corporation and Veridian Connections Inc. Boards	September 28, 2012	Housekeeping Changes Changes to Corporate Secretary Function	V.3
Veridian Connections Inc. & Veridian Corporation Boards	May 28, 2009	Sections Added: • Corporate Secretary Role and Responsibilities • Director Remuneration • Orientation Program for New Directors	V.2
Veridian Connections Inc. & Veridian Corporation Boards	March 27, 2008	Original Issue	V.1

Our Vision

We will be unsurpassed in providing innovative energy solutions that are the cornerstone for creating the sustainable communities of tomorrow.

Our Mission

To provide reliable, efficient and sustainable energy services to our customers while delivering optimal returns on investment to our shareholders and promoting economic growth in the communities that we serve.

Our Values

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

OUR GOVERNANCE GOAL

OUR GOAL AT VERIDIAN IS A HIGH-PERFORMING PRACTICE OF CORPORATE GOVERNANCE THROUGH WHICH BOARD MEMBERS INDIVIDUALLY AND COLLECTIVELY CONTRIBUTE STRATEGICALLY AND EFFECTIVELY TO THE SUCCESS OF THE CORPORATION. WE SET HIGH STANDARDS FOR GOVERNANCE, WILL APPLY LEADING PRACTICES AS WE PERFORM OUR GOVERNANCE ROLE WITH THE SOLE AIM OF SIGNIFICANTLY ENHANCING THE VALUE OF THE CORPORATION'S OUTCOMES FOR ITS SHAREHOLDERS, CUSTOMERS, EMPLOYEES AND THE COMMUNITIES IN WHICH THE CORPORATION OPERATES.

Development of our Framework for Effective Governance has been guided by Corporate Governance Guidelines (National Policy 58-201) and Disclosure of Governance Practices (National Instrument 58-101) adopted by the Canadian Securities Administrators in 2005 and by governance practices of leading Canadian publicly traded corporations.

TABLE OF CONTENTS

1 ROLE AND RESPONSIBILITIES OF THE BOARD

The central responsibility of the board is to provide good governance and stewardship to the corporation. It oversees management of the business and affairs of the corporation in the best interests of the shareholders. It appoints the CEO and supervises the executive management team to run the day-to-day operations of the corporation.

In fulfilling their role board members are legally obliged to:

- Act honestly and in good faith with a view to the best interests of the corporation, and
- Exercise care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

The Board Chair will have relationships with the following Officer counterparts when managing the work of the Board:

Board	Officer Counterpart	
	Primary	Secondary
Veridian Corporation	President and CEO	EVP Customer Services and I.T.
Veridian Connection Inc.	President and CEO	EVP Customer Services and I.T.
Veridian Energy Inc.	Not applicable	Not applicable

The board carries out its responsibilities directly and through committees in performing the following duties.

1.1 Board of Directors

a) Comply with the provisions of the Shareholders Agreement and corporate By-Laws.

b) Establish and review annually, a code of conduct and a conflict of interest policy with respect to its members

c) Establish and review annually corporate governance policies and practices

d) Establish the criteria for selection of directors

e) Establish committees, set their mandates, and select members

f) Maintain an orientation program for new directors and continuing education program for all directors

g) Maintaining a program to assess the effectiveness of the board

h) Set compensation for directors, chair and committee chairs

i) Delegate authorities and responsibilities to executive management

j) Meet regularly to ensure board responsibilities are executed in a timely manner

k) Meet regularly without management present and ensure the board functions independently of management

1.1.1 Executive Management & Human Resources

a) Select, evaluate and set compensation of the CEO

b) Replace the CEO as necessary

c) Approve the selection, evaluation and compensation of all members of the executive management team

d) Oversee succession plans for executive management positions

e) Advise and counsel the CEO, as required

f) Confirm the appropriateness of employment, benefits, health and safety policies and the security of employee pension programs

1.1.2 Strategic Planning

a) Approve the corporation's vision and mission

b) Approve the strategic planning process, strategic plans, business goals and objectives ensuring that they reflect the priorities of the corporation

1.1.3 Risk Management and Critical Events

a) Confirm that procedures are in place for the identification, management and control of risks including but not limited to capital assets, business plan fulfillment, corporate reputation and relationships, legislative and regulatory compliance, human and environmental safety, internal control and management information systems

b) Confirm that procedures are in place to manage critical events should they occur including related communications practices

1.1.4 Financial Stewardship and Systems Integrity

a) Approve annual and review quarterly financial statements

b) Approve management discussion and analysis reports

c) Approve annual operating plans including capital and operating budgets and performance targets

d) Approve dividend policy and distribution of dividends to shareholders

e) Approve corporate capital structure including guidance on critical financial ratios

f) Confirm the presence of appropriate systems of internal control and management information to ensure integrity and accurate reporting

g) Recommend appointment of the external auditor to shareholders

h) Approve external and internal audit plans

1.1.5 Performance Monitoring

a) Establish key metrics and reporting requirements to enable effective monitoring

b) Monitor performance against vision, mission, strategic plans, goals, objectives and annual operating plans, budgets and targets

1.1.6 Stakeholder Relations and Communications

a) Confirm that appropriate practices exist for the development of relationships with and disclosure of corporate information to shareholders

b) Confirm that appropriate practices and roles exist for communications with media, governments, customers, employees and other key stakeholders

1.1.7 Ethics and Integrity

a) Set the ethical tone for the corporation

b) See that the CEO and other executives demonstrate the highest level of integrity and ethical standards and that they create a culture of integrity throughout the corporation

c) Approve a Code of Ethics and Business Conduct for the corporation and regularly monitor compliance

1.2 Directors

The board acts collectively as it oversees management of the business and affairs of the corporation in the best interests of the corporation. No individual director has the power to act on one's own. Each director is obliged to act honestly and in good faith with a view to the best interests of the corporation, and exercise care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Board effectiveness is strongly enhanced when individual directors understand and actively fulfill their role and responsibilities. A copy of the Board approved Code of Conduct and Governance Practices is provided under section 4.1.

Directors shall:

a) Acquire and maintain understanding of the role, responsibilities and legal obligations of a director;

b) Demonstrate recognition of the difference between governing and managing and not encroach upon management's responsibilities;

c) Devote sufficient time to board matters to effectively execute one's role including orientation to the board and corporation and continuing education and development as a director;

d) Become familiar with the business of the corporation including its vision, mission, values, strategic plan, objectives, strengths, risks, industry, legislative and regulatory environment;

e) Prepare thoroughly for board and committee meetings;

f) Participate actively at meetings, seek clarity and understanding regarding issues being decided, respect the views of others, exercise independent judgment;

g) Maintain a high level of attendance at meetings and act quickly to be informed following missed meetings or agenda items;

h) Demonstrate integrity, honesty, a high standard of personal values and leadership in ethical matters;

i) Comply with the corporation's Code of Ethics and Business Conduct Policy;

j) Declare conflicts (real and perceived) and absent oneself from discussion and voting when conflicts occur. Vote when no conflict exists;

k) Respect decisions taken by majority vote of the board;

l) Maintain confidentiality of deliberations and decisions of the board and information regarding the corporation's affairs unless non-confidentiality is clearly identified;

m) Observe and assess the effectiveness of the CEO and other executive managers. Be prepared to contribute to the evaluation and succession discussions of each member of the executive team;

n) Participate in the board's evaluation process including assessment of the effectiveness of the board, its committees, the chair, committee chairs, where appropriate and one's own contributions as a director.

1.3 Chair of the Board

The Chair is to provide governance leadership in all aspects of the board's work. He or she is responsible for effective performance of the board of directors in fulfilling its responsibilities to all stakeholders including shareholders, customers, employees, communities, governments and society.

In addition to the duties of a member of the board of directors the Chair is responsible for considerable oversight duties including those described below:

1.3.1 General

a) Promote best practices and high standards of governance

b) Work to build unity, consensus, solidarity and a climate of trust, candor and openness

c) Demonstrate integrity and ethical leadership

d) Act as the principal spokesperson for the corporation on governance matters, together with the chair of the Governance Committee

1.3.2 Board of Directors

a) Confirm that the responsibilities of the board are understood by both board members and the corporate executive management team and that the boundaries between board and management responsibilities are respected and adhered to

b) Ensure that the board is able to function independently of management and execute its responsibilities effectively

c) Oversee the conduct of annual assessment of the board, its committees, committee chairs and individual directors. (Oversight of assessment of the Chair may be assigned to the Vice-Chair or Chair of the Governance or Nominating Committee)

d) Confer with committee chairs and individual directors regarding board effectiveness matters including orientation, continuing education and development, and results of board assessments

e) Rule on conflict of interest matters to ensure actual and perceived conflicts are not present in board decisions

f) Ensure that all board members are in compliance with corporate policies regarding the Code of Conduct and Governance Practices and Directors' Conflict of Interest Policy

g) Establish an annual work plan to enhance board effectiveness

h) Authorize resources required for the conduct of the board's work including the retention of consultants and advisors when appropriate

1.3.3 Meetings

a) Preside at meetings of the board and the annual meeting of shareholders

b) Set agendas and schedules for meetings of the board and the annual meeting of shareholders in consultation with the CEO and Executive Vice President, Customer Services and Information Technology

c) Enable board members to identify matters to be considered for inclusion in board agendas

d) Ensure that agendas reflect the responsibilities of the board and the priorities of the corporation

e) Ensure that opportunity exists for all directors to be heard on any matter before the board

f) Ensure that timely and sufficient information is provided to allow directors to be well informed regarding matters to be decided

g) Facilitate consensus, ensure clarity and recording of decisions taken

h) Decide on the participation of non-board members

1.3.4 Shareholder - Board – Management Liaison

a) Represent the shareholders and the board to management

b) Ensure that matters of interest to shareholders are dealt with expeditiously

c) Ensure effective communication takes place between shareholders and the board and the board and management

d) Support a professional and constructive relationship between the board and management

e) Work closely with the CEO to ensure that matters requiring board decision are brought before the board in a timely manner

f) Act in an advisory capacity to the CEO and members of the executive management team

g) Convey to the CEO confidential advice and direction from the board on matters including results of performance, salary reviews, security concerns and market intelligence

h) Ensure that succession plans are in place for the CEO and other executives

1.3.5 Committees

a) Establish the board's committee structure and mandates, and appoint chairs and members in consultation with the Governance Committee and the board

b) Ensure that functions delegated to committees are appropriate and that committees report to the board in a timely manner

c) Advise committee chairs regarding timing and structure of reports to the board

1.4 Vice Chair of the Boards

a) The Vice Chair acts in the absence of the Chair assuming full duties of the Chair;

b) To enable smooth transition in assuming these duties the Vice Chair should be fully familiar with duties of the Chair and be prepared to assume those duties at all times;

c) From time to time the Vice Chair carries out duties assigned by the Chair in support of effective governance.

1.5 Board Committees & Respective Committee Chairs

Veridian's Board has established five (5) committees, being:

1. Governance
2. Audit and Risk Management
3. Human Resources and Compensation
4. Business Development
5. Nominating

Each standing committee has a clear mandate/charter, as detailed in Section 3. The Chair of each committee of the board is responsible for management, development and effective performance of the committee in accordance with its specific mandate.

The Chair provides leadership with the aim of fulfilling the committee's responsibilities and other matters as delegated by the board. The role and responsibilities of the committee chair are generally similar to those of the board chair.

Committee Chairs will have relationships with the following Officer counterparts when managing the work of their respective Committees:

Committee	Officer Counterpart	
	Primary	Secondary
Governance	President and CEO	VP Corporate Services
Audit and Risk Management	VP Financial Services and CFO	President and CEO
Human Resources and Compensation	VP Corporate Services	President and CEO
Business Development	VP Operations	President and CEO
Nominating	President and CEO	VP Corporate Services

1.5.1 Duties of Committee Chairs

a) Ensure that the committee has a clear set of responsibilities and that these are well documented and understood by members and the board generally

b) Preside at meetings of the committee

c) Set agendas for meetings in accordance with the work plan priorities of the committee and the requirements for reports to the board

d) Report on the work of the committee to the board

e) Ensure that resources are available to enable the committee to complete its work

1.6 Director Remuneration

It is generally accepted that director remuneration should be structured taking into consideration the following key factors:

a) The responsibility and liabilities of directorship have been increasing;

b) Directors should be adequately compensated for their time, effort and the changing risk profile;

c) The responsibility and liability of directorship have been increasing;

d) Setting and disclosing of director compensation should be a formal and transparent process;

Director remuneration levels at Veridian will be established such that directors are competitively compensated as compared to directors at peer organizations. The importance of competitive director compensation is linked to a desire for high quality governance, fairness in compensation and serving the interest of the shareholders.

Veridian's Board can be comprised of directors who are elected Council members. While some other boards who appoint elected officials as directors pay reduced levels of remuneration to those directors, it has been established by the Veridian Board that is not appropriate to have a different level of compensation for directors who are elected officials.

Veridian has conducted a survey of compensation levels at peer organizations and will continue to monitor to ensure that director remuneration remains at a level sufficient to attract and retain competent directors and adequately address the risk profile faced by individuals serving on Veridian Boards.

Veridian has established director remuneration with the following principles:

a) The Chair, Vice Chairs, and directors should receive a fixed annual retainer to reflect the degree of involvement, effort and risk exposure associated with each of the positions;

b) An additional per diem meeting fee for Committee Chairs;

c) An additional per diem meeting fee for directors who sit on both Veridian Connections Inc. and Veridian Corporation boards; and

d) An additional per diem meeting fee for Board or Committee meetings that are in excess of the four quarterly Board meetings

1.7 Chief Executive Officer (CEO)

The Chief Executive Officer provides vision and operational leadership to the corporation. He or she manages the business and affairs of the corporation. The CEO is accountable to the board for the achievement of corporate goals and objectives within specified executive limits.

The CEO is responsible for the following:

1.7.1 General

a) Set the ethical tone at the operating level of the corporation and demonstrate integrity and ethical leadership;

b) Act within the confines of corporate policies and authorities delegated by the board of directors; and

c) Act as the principal spokesperson for the corporation on general business and operational matters

1.7.2 Corporate Strategy, Plans and Performance

a) Lead in developing and gain board approval for the strategic directions of the corporation including vision, mission, values, goals and objectives

b) Gain board approval for annual operating plans and budgets including corporate performance targets and measures

c) Develop and implement operational policies and practices in support of attaining the strategic ambitions of the corporation

1.7.3 Control Systems

a) Safeguard and optimize the value and the use of the corporation's core business and assets

b) Ensure that internal controls are appropriate and effective and certify that there is compliance with applicable legislative requirements and corporate policies

c) Ensure that the corporation and its employees abide by appropriate laws and regulations, report deviations and remedies to the board in a timely manner

d) Ensure the completeness, accuracy and integrity of the corporation's financial information and statements

e) Ensure that communications policies, practices and authorities are well defined

f) Assess and advise the board of potential and significant risks to the corporation and inform the board of what actions or mechanisms are in place to mitigate such risks

1.7.4 Organizational Development and Executive Management

a) Develop and recommend organizational structure and staffing to the board and implement related board decisions

b) Ensure that the corporation has in place an effective executive team and that the board has regular exposure to its members

c) Develop, seek board approval and implement approved management development and succession plans for key executive positions

d) Develop and gain board approval annually on a set of variable-pay-linked CEO performance objectives for the year and endeavour throughout the year to achieve those objectives

e) Develop and implement variable-pay-linked annual performance objectives for each member of the executive team, monitor performance, report achievement levels to the board and recommend pay treatment

1.7.5 Board Liaison and Support

a) Ensure that the board receives timely and sufficient information to allow effective decision making and to enable the board to meet its statutory and other obligations

b) Ensure that the board has complete and full access to information it deems is required to assist in decision making

c) Take direction only from the board as a whole. Such direction derives from board decisions or is conveyed on behalf of the board through the Chair

d) Report regularly to the board on progress toward and achievement of corporate objectives, deviations from plans, changes in plan assumptions, corrective actions taken or required and impacts on the corporation

e) Provide input to the Chair in the development of board agendas

f) Meet and communicate regularly with the Chair to ensure the Chair is fully apprised of significant deviations from plans, pending actions by the corporation, issues, threats and risks to the corporation and matters to come before the board

g) Provide input annually to the board assessment process with the view to enhancing the effectiveness of the board and its support by management

h) Orienting new members to the board and providing continuing education opportunities for board members to learn about the business, industry, and legislative and regulatory framework in which the corporation operates

i) Seeking advice and guidance from members of the board with skills and experience in special fields and act on such input within executive limits

j) Serving as Veridian Corporation's principal governance liaison for stock exchanges, regulatory bodies, corporate governance rating agencies and independent advisors to Veridian

k) Attending all Board of Director meetings, Committee meetings where possible, Annual General Meetings and special meetings, if and where applicable, appointing a delegate to carry out the function of the corporate secretary

l) Preparing and distributing the following: notices of meetings, agendas of meetings, minutes of meetings, certification of resolutions and details of decisions made for all Board of Director meetings, committee meetings, Annual General Meetings and special Meeting's in accordance with procedures agreed upon by the board

m) Assisting the Board of Directors and its committees as a source of expertise and advice on new developments in corporate governance and compliance that are being employed in other corporations, information circulars, proxy material, share issuances and transfers, maintenance of shareholder records and lists and any supporting documentation as instructed by Directors or required by law

n) Ensuring proper and timely documentary filings and fulfillment of disclosure requirements to statutory authorities under applicable legislation, including working with Veridian Corporation's external counsel and other independent advisors when necessary

o) Maintaining Veridian Corporation books and records. Ensure the security and application of the corporate seal and sign documents on behalf of Veridian Corporation as authorized by the Board of Directors or By-laws

2 BOARD ORIENTATION & CONTINUOUS EDUCATION

2.1 Introduction

The Chair, with the assistance of Veridian Management, ensures that there is an orientation program for new Directors and an ongoing development program for existing Directors.

The orientation program is aimed at increasing a Director's familiarity with the Corporation, its industry and the unique responsibilities of Corporation Directors, as well as equipping Directors with sufficient information and resources that facilitate fully-informed decisions.

The orientation program will utilize materials and resources that inform and educate Directors on the Corporation's Corporate Governance Framework, its businesses, operations and current issues and strategies.

The Chair and Management will receive suggestions from Directors and will annually recommend a list of orientation topics.

In addition, the Company shall reimburse directors for reasonable expenses relating to ongoing director education.

2.1.1 Policy on New Director(s) Orientation

It is the policy of the Board that all new members of the Board receive orientation with respect to the Company. The objective of the orientation session is to provide the new Director(s) with sufficient information and education so that he or she can be expeditiously and effectively integrated into the work of the Board. The orientation will vary depending on the background, expertise and experience of the new Director, but may include a review of the following:

- The Company's business plans and projections
- The Company historical and most recent financial statements, budgets and forecasts
- Interviews with the Company's executive staff
- Review of the Company's Governance Principles and Company Policies
- Tour of the Company's facilities

Each new Director will receive a Director's Manual which will contain the Company's Articles, By-Laws, Directors' contact information, Committee memberships, Committee Charters, Company Code of Conduct and Governance Practices, and other relevant Company governance materials and Company policies.

2.1.2 Policy on Continuing Education for the Board

The Board shall conduct regular training on relevant and timely educational topics, including the role and responsibilities of a board of directors of a company owned by municipality/ies. Such training may take place at regularly scheduled or special meetings of the Board, or from outside resources like the Director's College.

2.2 Program Content/Package

2.2.1 New Director Orientation

Director orientation is generally accomplished by providing the new director(s) with a board manual and/or hosting an orientation session. Topics for a new director orientation session include:

- Introduction of participants
- Review of board organization and membership
- Review of board operations, board and committee calendars and committee terms of reference
- Review of By-laws and board policies
- Overview of Corporate Governance Policies
- Review of duties of Directors
- Review of statutory and other legal liabilities of directors
- Overview of the business, including corporate structure and responsibilities of key management and functions
- Review of key financial data
- Review of Strategic Plan: mission, values, goals, strategies and planning
- Review of key laws and regulators applicable to the company
- Review of control procedures such as risk management and internal audit

In addition, the Chair and Management ensures that Veridian provides:

- Presentations by officers and key executives on Veridian's business, its environment, methods of operation and organizational structure. Such presentations may include visits to business locations in order to acquaint the directors with Veridian's business activities;
- Directors access to other appropriate information such as other orientation resources, both at the Board and Committee levels;
- Directors have the opportunity to attend seminars offered by outside organizations such as the Directors College, or the Institute of Corporate Directors, or other specialized firms selected by the Corporation.

SAMPLE

New Director Orientation Program Outline

Half day

- Receive Board Governance Manual
- Receive Veridian Issues Briefing Binder
- Meet with the Chair
- Meet with the Chief Executive Officer
- Meet with the Corporate Secretary

Full day

- ½ day briefing session with other new board member(s) on selected issues to be selected by the Chief Executive Officer (for example, Regulatory framework, Energy Plan, Financial Overview, Major Pending Issues)
- ½ day tour of facilities selected by the Chair and Management

Orientation Topics Generally for New Appointees

Recognizing that some tailoring will continue to be necessary, the following represents the kind of areas that will be important for new Directors:

1. Veridian - the Company
   - History
   - Physical assets
   - How the Company is organized
   - Purpose and long term goals that support strategic direction
   - People, culture and safety
2. Financial overview
3. How the Company is regulated; recent Ontario Energy Board (OEB) decisions and the regulatory timetable
4. Provincial Energy Plans
5. Governance Structure
   - Corporate governance culture
   - Disclosure in response to Government guidelines
   - How the Company manages risk
   - How the Board and its committees are organized
   - Duties and obligations of Veridian Directors
   - Board conduct expectations and conflict of interest guidelines
   - Freedom of information, privacy and confidential information, including what the Company makes publicly available.
   - Accountability chart
6. The North America electricity marketplace - realities and emerging issues
7. Major initiatives underway, key policy issues and future major Board decisions
8. Corporate Ethos and Communications

2.2.2 Continuing Education

Ongoing director education is also very important. It will allow for periodic review of their duties, educates and informs them on issues that are deemed to be of strategic importance to the Corporation as well as focus on any updates to the board manual. Topics which can be covered are:

- corporate governance best practices in Canada and around the world;
- factors and emerging trends affecting the business of Veridian; and
- other material or information deemed appropriate by the Board Chair, including suggestions to the Board Chair by other Board members.

Such education should occur on an annual basis, and more frequently when appropriate. Annual board education should also take into account the results of the board evaluation process.

In addition, the Chair and Management ensures that Veridian provides:

- Presentations by Officers and Executives on Veridian's key business changes, not necessarily covered during regular board meetings;
- Directors access to other appropriate information such as articles of interest or other resources, both at the Board and committee levels;
- Directors the opportunity to attend training / seminars offered by outside organization such as the Ontario Energy Network (OEN), Enercom, access to outside educational programs pertaining to the director's responsibilities such as Directors College or the Institute of Corporate Directors, to name just a few, or other specialized firms selected by the Corporation

2.3 Expectations

All Directors are expected to complete a minimum of 20 hours of Continuing Education per year, averaged over a consecutive four-year period. Each Director is responsible for determining the total amount and appropriateness of Continuing Education undertaken, and for complying with the provisions and spending limits contained within Veridian Policy no. AD02A (Reimbursement of Business Expenses Incurred by Directors and Executive Staff).

2.3.1 Reporting

All directors will be asked to complete and file an annual Continuing Education Compliance Report. The reporting will be administered as part of the Board Annual Evaluation Process.

2.4 Fulfillment, Opportunities/Options

2.4.1 Activities Qualifying as Continuing Education

Continuing Education must be relevant to the Director's professional needs. These activities may include the following:

Structured:

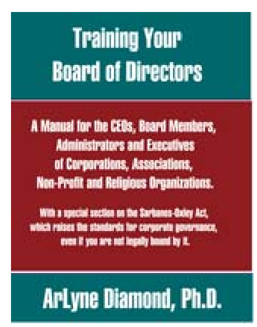
- Courses
- Seminars
- Conferences
- Structured self-study programs (e.g., Finance for non-financial managers)

Unstructured:

- Reading (not including Board agenda and related material)

2.4.2 Opportunities/Options

- The Directors College - www.thedirectorscollege.com/
- Institute of Corporate Directors; Directors Education Program - www.icd.ca
- Queen's Fundamentals of Governance - http://business.queensu.ca/execdev/programs/fog.php
- MEARIE – LDC Board Governance Education - http://www.mearie.ca/page.php?ln=news&content=governance&rn=gov
- Education Day at Veridian Corporate Office
- Training Your Board of Directors by ArLyne Diamond, Ph.D www.productivepublications.com/training_your_board_of_directors.htm



3 COMMITTEE MANDATE AND CHARTERS

3.1 Governance Committee Charter

WHEREAS By-Law No. 1 of the Veridian Corporation permits the Board of Directors ("Board") to appoint one or more committees of the board, however designated, and delegate to any such committee any of the powers of the board except those which, under the Act, a committee of directors has no authority to exercise,

AND WHEREAS By-Law No. 1 of Veridian Connections Inc. permits the Board of Directors ("Board") to appoint one or more committees of the board, however designated, and delegate to any such committee any of the powers of the board except those which, under the Act, a committee of directors has no authority to exercise,

AND WHEREAS such By-laws require that a majority of members of such committee shall be resident Canadians.

1. Composition

a) The committee shall consist of not fewer than three and not more than six directors and a majority of committee members shall constitute a quorum;

b) The committee members shall choose a committee member to act as Chair and shall appoint as its secretary the President and CEO;

c) The Chair of the board shall be an ex-officio member of all Standing Committees other than the Nominating Committee if not otherwise appointed as a member of such Committee;

d) The Chair of the board shall have voting rights on all Committees other than the Nominating Committee;

e) Members of the committee shall be appointed by the board and shall serve at the pleasure of the board; and

f) Members of the committee shall be entitled to receive such remuneration for acting as members of the committee as the Board may determine from time to time

2. Functions

The committee shall review and make recommendations to the boards on the following:

a) The composition, role and mandate of the boards and its committees;

b) The Director "Code of Conduct and Governance Practices" and the "Directors' Conflict of Interest Policy";

c) Director identification and selection;

d) Board and committee evaluation;

e) The orientation program for new directors;

f) Director compensation; and

g) Overall board governance, including board process

3. Resources, Meetings and Reports

a) The committee shall have adequate resources to discharge its responsibilities;

b) The committee shall meet quarterly or at the call of the Chair;

c) The board shall be kept informed of the committee's activities by a report of the Chair presented at the Board meeting following each committee meeting;

d) The committee shall keep detailed minutes of its meetings, in which shall be recorded all actions taken by the committee, which minutes shall be made available to the board; and

e) The members of the committee shall have the right, for the purposes of discharging the powers and responsibilities of the committee, to inspect any relevant records of the Corporation and its subsidiaries

3.2 Audit and Risk Management Committee Charter

WHEREAS By-Law No. 1 of Veridian Corporation (the "Corporation") permits the Board of Directors (the "Corporation Board") to appoint one or more committees of the Corporation Board, however designated, and delegate to any such committee any of the powers of the Corporation Board except those which, under the Act, a committee of directors has no authority to exercise.

AND WHEREAS By-Law No. 1 of Veridian Connections Inc. permits the Board of Directors (the "Subsidiary Board") to appoint one or more committees of the Subsidiary Board, however designated, and delegate to any such committee any of the powers of the Subsidiary Board except those which, under the Act, a committee of directors has no authority to exercise.

AND WHEREAS such By-laws require that a majority of members of such committees shall be resident Canadians.

AND WHEREAS the Corporation Board and the Subsidiary Board are hereinafter referred to collectively as the "Boards", and individually as a "Board", and Veridian Corporation and Veridian Connections are hereinafter referred to as the "Corporations";

1. Composition

a) The committee shall be appointed by the Boards for a concurrent term with their term as a director and consist of at least four (4) members from among the directors of the Boards, each of whom shall be free from any relationship that, in the opinion of the Board, could interfere with the exercise of his or her independent judgment as a member of the committee. Officers of the Corporation may not serve as members of the Audit and Risk Management;

b) The Chair of the Corporation Board shall be an ex-officio member of all Standing Committees other than the Nominating Committee if not otherwise appointed as a member of such Committee;

c) The Chair of the Corporation Board shall have voting rights on all Committees other than the Nominating Committee;

d) The members of the Committee shall be entitled to receive such remuneration for acting as members of the committee as the board may determine from time to time;

e) All members of the committee shall be financially literate as per the following description:

- **i.** All committee members shall have the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Corporation's financial statements; and

f) The committee shall elect the Chair of the committee

2. Functions

The Audit and Risk Management Committee shall:

Financial Reporting

a) Review the Corporation's annual and quarterly financial statements with management and the external auditors (annual only) to gain reasonable assurance that the statements are accurate, complete, represent fairly the Corporation's financial position and performance in accordance with CGAAP and IFRS as applicable, and together with management's discussion and analysis, constitute a fair presentation of the Corporation's financial condition, and report thereon to the board before such financial statements are approved by the Board;

b) Review the audited financial statements of the Corporations with the External Auditors;

c) Receive from the external auditors reports on their review of the annual financial statements;

d) Receive from management a copy of the representation letter provided to the external auditors and receive from management any additional representations required by the committee;

e) Review and, if appropriate, recommend approval to the Board of news releases and reports to shareholders issued by the Corporation with respect to the Corporation's annual and quarterly financial statements;

f) Review and, if appropriate, recommend approval to the Board of all public disclosure documents containing material audited or unaudited financial information, including material change disclosures of a financial nature, and management's discussion and analysis;

g) Satisfy itself that adequate procedures are in place for the review of the Corporation's disclosure of financial information extracted or derived from the Corporation's financial statements in order to satisfy itself that such information is fairly presented and periodically assess the adequacy of these procedures;

h) Review the Corporation's Dividend Policy that provides for minimum dividend payments to Shareholders and if appropriate recommend to the Board extra dividend payments or a reduction to dividend payments;

i) Review the Corporation's Performance Pay Policy as recommended by the Human Resources Committee; and

j) Review the rate submission to the Ontario Energy Board

Accounting Policies

a) Review with management and the external auditors the appropriateness of the Corporation's accounting policies, disclosures, reserves, key estimates and judgments, including changes or variations thereto and obtain reasonable assurance they are presented fairly in accordance with CGAPP and IFRS as applicable, and report thereon to the Boards;

b) Review major issues regarding accounting principles and financial statement presentation, including any significant changes in the selection or application of accounting principles to be observed in the preparation of the accounts of the Corporation and its subsidiaries, and;

c) Review with management and the external auditors the degree of conservatism of the Corporation's underlying accounting policies, key estimates and judgments and reserves

Risk Management

a) Acknowledging it is the responsibility of the board, in consultation with management, to identify the principal business risks facing the Corporations, determine the Corporation's tolerance for risk and approve enterprise risk management policies.

b) Additionally, the committee shall focus on financial risk and gain reasonable assurance that financial risk is being effectively managed or controlled by:

- **i.** reviewing with management the Corporation's tolerance for financial risk;
- **ii.** reviewing with management its assessment of the significant financial risks facing the Corporations;
- **iii.** reviewing with management the Corporation's policies and any proposed changes thereto for managing those significant financial risks, and;
- **iv.** Reviewing with management its plans, processes and programs to manage and control such risks.

c) Discuss with management, at least annually, the guidelines and policies utilized by management with respect to financial risk assessment and management and the major financial risk exposures and the procedures to monitor and control such exposures;

d) Review the completeness, adequacy and appropriateness of financial risk disclosure in management's discussion and analysis and in the financial statements;

e) Ascertain that policies and procedures are in place to minimize environmental, occupational health and safety and other risks to asset value and mitigate damage to or deterioration of asset value and review such policies and procedures periodically;

f) Review policies and compliance therewith that require significant actual or potential liabilities, contingent or otherwise, to be reported to the board in a timely fashion;

g) Review foreign currency, interest rate and commodity price risk mitigation strategies, including the use of derivative financial instruments;

h) Review the adequacy of insurance coverage maintained by the Corporations, and;

i) Review regularly with management, the external auditors and the Corporation's legal counsel any legal claim or other contingency, including tax assessments, that could have a material effect upon the financial position or operating results of the Corporations and the manner in which these matters have been disclosed in the financial statements.

Financial Controls and Control Deviations

a) Review the plans of the internal audit personnel and external auditors to gain reasonable assurance that the combined evaluation and testing of internal financial controls is comprehensive, coordinated and cost-effective; and

b) Receive regular reports from management, the external auditors and the legal department on all significant deviations or indications/detection of fraud and the corrective activity undertaken in respect thereto

Compliance with Laws and Regulations

a) Review regular reports from management and others (e.g. internal audit personnel and external auditors) with respect to the Corporation's compliance with laws and regulations having a material impact on the financial statements including:

- **i.** tax and financial reporting laws and regulations;
- **ii.** legal withholding requirements;
- **iii.** environmental protection laws and regulations, and;
- **iv.** other laws and regulations that expose directors to liability.

b) Review reports from the Health and Safety Manager with respect to:

Occupational Health and Safety matters having a potential significant financial impact and to gain reasonable assurance annually that the Corporation's reserves with respect to such matters are sufficient and appropriate;

c) Review the status of the Corporation's tax returns and those of its subsidiaries, and;

d) Discuss with the General Counsel any significant legal, compliance or regulatory matters that may have a material effect on the financial statements or the business of the Corporations or on the compliance policies of the Corporations

Relationship with External Auditors

a) Recommend to the Boards the nomination of the external auditors;

b) Recommend to the Boards the remuneration and the terms of engagement of the external auditors;

c) If necessary, and as required, recommend the removal by the shareholders of the current external auditors and replacement with new external auditors;

d) Review the performance of the external auditors annually or more frequently as required;

e) Receive annually from the external auditors an acknowledgement in writing that the shareholders, as represented by the Boards and the committee, are their primary clients;

f) Receive a report annually from the external auditors with respect to their independence, such report to include a disclosure of all engagements (and fees related thereto) for non-audit services by the Corporations;

g) Establish a policy under which management shall bring to the attention of the Chair of the committee all requests for non-audit services to be performed by the external auditors for the Corporations and its subsidiaries before such work is commenced. The Chair is authorized to approve all such requests but, if any such service exceeds $7,000 in fees or the service is of a sensitive or unusual nature, the Chair shall consult with the committee before approving the service. The Chair has the responsibility to inform the committee of all pre-approved services at its next meeting;

h) Discuss with management and the external auditors the timing and the process for implementing the rotation of the lead audit partner, the concurring partner and any other active audit engagement team partner;

i) Review with the external auditors the scope of the audit, the areas of special emphasis to be addressed in the audit, the extent to which the external audit can be coordinated with internal audit activities and the materiality levels the external auditors propose to employ;

j) Meet regularly with the external auditors in the absence of management to determine, inter alia, that no management restrictions have been placed on the nature, timing and extent of the audit examinations by the external auditors or the reporting of their findings to the committee;

k) Establish effective communication processes with management and the Corporation's internal and external auditors to assist the committee to monitor objectively the quality and effectiveness of the relationship among the external auditors, management and the committee;

l) Oversee the work of the external auditors and the resolution of disagreements, if any, between management and the external auditors with respect to financial reporting;

m) Request that the external auditors provide to the committee, at least annually, an oral and/or written report describing the external auditors' internal quality assurance policies and procedures, as well as any material issues raised in the most recent internal quality assurance reviews, quality reviews conducted by the Canadian Public Accountability Board, or any inquiry or investigation conducted by government or regulatory authorities;

n) Review and report to the board on the need to establish a separate Internal Audit function and establish, if necessary, appropriate terms of reference;

o) Review the annual plan of the Internal Audit personnel;

p) Review the reports of the Corporation's Internal Auditor with respect to control and financial risk and any other matters appropriate to the committee's duties. The committee shall review the adequacy and appropriateness of management's response, including the implementation thereof; and

q) Review and approve the reporting relationship of the Internal Audit personnel to ensure an appropriate segregation of duties is maintained and that the Internal Audit personnel has an obligation to report directly to the committee on matters affecting the committee's duties, irrespective of his or her other reporting relationships

Financial Plans and Forecasts

a) Review and recommend to the Boards the Corporation’s annual operating and capital budgets and forecasts;

b) Review the Corporation’s quarterly financial projections;

c) Monitor compliance with the annual capital plan, including cash flow; and

d) Monitor progress of major capital projects, including project budgets and timelines

Other Responsibilities

a) Periodically review the form, content and level of detail of financial reports to the board;

b) Approve annually the reasonableness of the expenses of the Chairman of the Board and the Chief Executive Officer;

c) Review policies and procedures with respect to transactions between the Corporations and its officers and directors or affiliates of its officers and directors, or transactions that are not a normal part of the Corporation's business, and review and approve those related party transactions; if any

d) After consultation with the Chief Financial Officer and the external auditors, gain reasonable assurance, at least annually, of the quality and sufficiency of the Corporation's accounting and financial personnel and other resources;

e) Review in advance the appointment of the Corporation's senior financial executives;

f) Investigate any matters that, in the committee's discretion, fall within the committee's duties;

g) Review reports from the Internal Audit personnel, the external auditors, and/or other Committee Chairmen on their review of compliance with the Corporation's Code of Conduct and Governance Practices;

h) Review and approve the Corporation's policies with respect to the hiring of partners, employees and former partners and employees of the current and former external auditors; and

i) Establish procedures for:

- **i.** the confidential receipt, retention and treatment of complaints received by the Corporations regarding the Corporation's accounting, internal accounting controls or auditing matters;
- **ii.** the confidential anonymous submission, retention and treatment of concerns by employees regarding questionable accounting or auditing matters; and
- **iii.** require that all such matters be reported to the committee together with description of the resolution of the complaints or concerns

3. Reliance on Experts

In contributing to the committee's discharging of its duties under this mandate, each member of the committee shall be entitled to rely in good faith upon:

a) Financial statements of the Corporations represented to him or her by an officer of the Corporation or in a written report of the external auditors to present fairly the financial position of the Corporation in accordance with CGAAP; and

b) Any report of a lawyer, accountant, engineer, appraiser or other person whose profession lends credibility to a statement made by any such person

4. Resources, Meetings and Reports

a) The committee shall have adequate resources to discharge its responsibilities;

b) The committee shall meet quarterly or at the call of the Chair;

c) The Boards shall be kept informed of the committee's activities by a report of the Chair presented at the Board meeting following each committee meeting;

d) The committee shall keep detailed minutes of its meetings, in which shall be recorded all actions taken by the committee which minutes shall be made available to the Boards;

e) The members of the committee shall have the right, for the purposes of discharging the powers and responsibilities of the committee, to inspect any relevant records of the Corporation and its subsidiaries;

f) To assist the committee in discharging its responsibilities, the committee may, at the expense of the Corporation, retain one or more persons having special expertise in any field pertaining to the committee's areas of responsibility to provide independent counsel and advice;

g) The committee shall establish an annual work plan for the committee's objectives and activities for the year;

h) At least annually or at the discretion of the committee, the members of the committee shall meet in private session with the external auditors, management, and with the committee members only. The committee shall meet in private session with the Internal Audit personnel as often as it deems necessary but, in any event, no less than twice per year;

i) The committee shall annually review, discuss and assess its own performance, as well as being subject to the annual assessment procedures established in the Code of Conduct and Governance Practices established by the Governance committee. In addition, the committee shall periodically review its role and responsibilities; and

j) To assist in the execution of its duties and those of the other standing committees, it is recommended that on common issues the Chair of this committee and his counterparts liaise and consider those topics jointly to ensure a full and robust analysis and consideration from all perspectives is undertaken

Nothing contained in the above mandate is intended, or may be construed, to impose on any member of the committee a standard of care or diligence that is in any way more onerous or extensive than the standard to which all board members are subject. The essence of the committee's duties is monitoring and reviewing to gain reasonable assurance (but not to ensure) that the Fundamental Activities are being conducted properly and effectively and that the financial reporting objective is being met and to enable the committee to report thereon to the board.

3.3 Human Resources and Compensation Committee Charter

WHEREAS By-Law No. 1 of the Veridian Corporation permits the board of Directors ("Board") to appoint one or more committees of the board, however designated, and delegate to any such committee any of the powers of the board except those which, under the Act, a committee of directors has no authority to exercise.

AND WHEREAS By-Law No. 1 of Veridian Connections Inc. permits the board of Directors ("Subsidiary Board") to appoint one or more committees of the board, however designated, and delegate to any such committee any of the powers of the board except those which, under the Act, a committee of directors has no authority to exercise.

AND WHEREAS such By-laws require that a majority of members of such committee shall be resident Canadians.

1. Composition

a) The committee shall consist of not fewer than three and not more than six directors and a majority of Committee members shall constitute a quorum;

b) The Committee should have at least two of which members that have a background and experience in Human Resources and Compensation issues;

c) The committee shall choose a Chair from among its members and shall appoint as its secretary the Vice President, Corporate Services;

d) Members of the committee shall be appointed by the board and shall serve at the pleasure of the Board;

e) The Chair of the Board shall be an ex-officio member of all Standing Committees other than the Nominating Committee if not otherwise appointed as a member of such Committee;

f) The Chair of the board shall have voting rights on all Committees other than the Nominating Committee;

g) The members of the Committee shall be entitled to receive such remuneration for acting as a member of the committee as the Board may determine from time to time

2. Functions

The Human Resources and Compensation Committee shall:

a) Ensure the appropriate human resources systems, such as hiring policies, training and development policies and compensation structures, are in place so that Veridian can attract, motivate and retain the quality of personnel required to meet its business objectives and report thereon to the board;

b) Ensure the President and CEO has put into place, monitors and reports to the board on:

i) succession planning systems for senior personnel;

ii) management development plans; and

iii) policies to identify, develop and retain the talent of outstanding personnel

c) Review corporate goals and objectives relevant to the President and CEO, evaluating the President and CEO's performance in light of those goals and objectives and such other factors as the committee deems appropriate and in the best interest of Veridian and report thereon, including a recommendation to the board, the President and CEO's compensation based on this evaluation;

d) Review with the President and CEO the performance of other Executive staff members of Veridian and consider, in conjunction with the President and CEO, the total compensation program for the other Executive staff members of Veridian and report and recommend thereon;

e) As required, retain an independent firm to advise on management recommendations concerning executive compensation, including fixing such firm's fees and other retention terms, and report thereon to the Board Chair;

f) Report and recommend to the board on the committee's proposed executive compensation report to be contained in the Corporation's Annual Report;

g) Review appointment of executive management, the terms and conditions of their appointment and termination or retirement, as required;

h) Review and recommend to the board for approval any special employment contracts or arrangements with Executive staff of Veridian, including any contracts relating to change of control;

i) Review the adequacy, security and funding of the OMERS pension program; and

j) Perform such other duties as may, from time to time, be assigned to it by the board relating to compensation of Executive staff and senior employees and the manpower resources of the Corporation

3. Resources, Meetings and Reports

a) The committee shall have adequate resources to discharge its responsibilities;

b) The committee shall meet at least twice annually or at the call of the Chair;

c) The meetings of the committee shall ordinarily include the President and CEO (provided that the committee may meet In Camera at any time it chooses). The Committee may request the attendance of other Executive staff at its meetings from time to time;

d) The board shall be kept informed of the committee's activities by a report of the Chair presented at the board meeting following each committee meeting;

e) The committee shall keep detailed minutes of its meetings, in which shall be recorded all actions taken by the committee which minutes shall be made available to the board;

f) The members of the committee shall have the right, for the purposes of discharging the powers and responsibilities of the committee, to inspect any relevant records of the Corporation and its subsidiaries;

g) The committee shall review its mandate and report annually to the board on the adequacy of same and will be subject to an annual evaluation of its own performance; and

h) The Human Resources and Compensation Committee Chair or another member of the committee will attend annual shareholder meetings and may be asked to respond directly to any questions shareholders may have on executive compensation

Nothing contained in the above mandate is intended to transfer to the HR and Compensation Committee the board responsibility to ensure Veridian's compliance with applicable laws or regulations or to expand applicable standards of liability under statutory or regulatory requirements for the directors or the members of the HR and Compensation Committee.

3.4 Business Development Committee Charter

WHEREAS By-Law No. 1 of the Veridian Corporation permits the board of Directors ("Board") to appoint one or more committees of the board, however designated, and delegate to any such committee any of the powers of the board except those which, under the Act, a committee of directors has no authority to exercise.

AND WHEREAS By-Law No. 1 of Veridian Connections Inc. permits the board of Directors ("Subsidiary Board") to appoint one or more committees of the board, however designated, and delegate to any such committee any of the powers of the board except those which, under the Act, a committee of directors has no authority to exercise.

AND WHEREAS such By-laws require that a majority of members of such committee shall be resident Canadians.

1. Composition

a) The committee shall consist of not fewer than six members plus the ex-officio and not more than seven directors and a majority of committee members shall constitute a quorum;

b) The committee shall choose a Chair from among its members and shall appoint as its secretary the Vice President, Operations;

c) Members of the committee shall be appointed by the board and shall serve at the pleasure of the board; and

d) The Chair of the board shall be an ex-officio member of all Standing Committees other than the Nominating Committee if not otherwise appointed as a member of such Committee;

e) The Chair of the board shall have voting rights on all Committees other than the Nominating Committee;

f) The members of the Committee shall be entitled to receive such remuneration for acting as members of the committee as the Board determines from time to time; and

g) The meetings of the committee shall ordinarily include the President and CEO, Vice President, Operations and provided that the committee may meet in-camera at any time it chooses, the committee may request the attendance of other Executive staff at its meetings from time to time

2. Functions

The committee shall review and make recommendations to the boards on the following:

a) The Committee shall complete the annual Chair, Board and Committee Assessments;

b) The Committee shall review annually its mandate and Committee Charter and Work Plan;

c) Review and where appropriate make recommendation to the Board of Directors on business growth and new business opportunities; The Shareholders' and Board Chair be included as a "resource" for all business opportunities;

d) Review and recommend for approval to the Board all Merger and Acquisition opportunities;

e) Review the development and implementation of strategic business development initiatives, and ensure initiatives are consistent with the Corporation's Strategic Plan;

f) Respond to emerging issues related to business development. In this regard review general market conditions and how these may present or limit new business development opportunities;

g) Review, assess and recommend appropriate business cases and plans prepared by management to the Board of Directors; and

h) Monitor the outcomes of business development initiatives. Receive regular reports and updates from management regarding progress in the achievement of the business development components of the Strategic Plan.

3. Resources, Meetings and Reports

a) The committee shall have adequate resources to discharge its responsibilities;

b) The committee shall meet at least twice annually or at the call of the Chair;

c) The board shall be kept informed of the committee's activities by a report of the Chair presented at the board meeting following each committee meeting;

d) The committee shall keep detailed minutes of its meetings, in which shall be recorded all actions taken by the committee which minutes shall be made available to the board;

e) The members of the committee shall have the right, for the purposes of discharging the powers and responsibilities of the committee, to inspect any relevant records of the Corporation and its subsidiaries; and

f) The committee shall review its mandate and report annually to the board on the adequacy of same and will be subject to an annual evaluation of its own performance.

4 BOARD POLICIES

4.1 Code of Conduct and Governance Practices

This Code of Conduct and Governance Practices ("Code") summarizes a number of important conduct and corporate governance policies that apply to all Directors of Veridian Corporation and its subsidiaries ("Veridian" or "the Corporation" or "the Board"). The Corporation, through its operating subsidiaries, provides energy solutions to its customers, including electricity distribution. The Corporation's electricity distribution business operates within the strict regulatory framework of the Ontario Energy Board.

The primary duty of each Director is to act in the best interests of the Corporation at all times, and in so doing, to foster its long-term success. The Board has the responsibility to understand and balance appropriately the legitimate interests of a number of stakeholders including its customers in the markets it serves, the various municipal shareholders and the employees of the Corporation. The Board has approved this Code as a supplement to any legal requirements for Directors including those contained in the by-laws of the Corporation, in order to assist Directors in understanding and performing their duties and responsibilities to the Corporation with appropriate discipline and dedication.

1. Conduct of Directors

To enable the Board to discharge its collective responsibilities for stewardship, including oversight and strategic leadership, each Director shall:

a) Conduct him/herself honestly, fairly, ethically and with integrity;

b) Maintain a favourable reputation in the community;

c) Demonstrate a good understanding of, and a willingness to learn and apply leading corporate governance practices, including participating in specific Director education programs available from time to time;

d) Ensure that he/she and the Board as a whole acts in the best interests of the Corporation and not in the interests of any other individual or group;

e) Bring to the Board a perspective based on their knowledge, background and/or experience;

f) Assist the Corporation in the achievement of its approved business plan and corporate strategic objectives;

g) Declare any potential conflicts promptly to the Board, and abstain from discussion and voting on any such matters;

h) Monitor his/her continued ability to meet the foregoing expectations; and

i) Participate in an annual assessment of the Board's effectiveness

For greater clarity, Directors of Veridian are not appointed to the Board to represent or protect the perceived interests of any particular sector of the community and each Director is required by law to act in the best interests of the Corporation at all times. Directors are expected to support the principles that the Board governs as a single body and not as a collection of individuals, and all Directors are expected to work to find solutions to differences that may arise.

2. Functions of the Board

The Board has regularly scheduled meetings announced prior to the beginning of each calendar year. The Board is expected to perform a number of regular duties and functions each year in keeping with good governance practices, as well as several broad specific functions including the following:

a) Selecting the President & Chief Executive Officer and overseeing succession planning of senior management;

b) Reviewing the financial condition of the Corporation to ensure that good financial practices are being followed, including monitoring the integrity of the internal controls of the Corporation;

c) Ensuring the Corporation, where applicable, maintains regulatory compliance at all times;

d) Assessing and making recommendations regarding major risks facing the Corporation, and reviewing options for their mitigation;

e) Reviewing and approving the corporate strategy of the Corporation; and

f) Satisfying itself that the Chief Executive Officer and other Officers demonstrate the highest level of integrity and ethical standards and they create a culture of integrity throughout the organization.

3. Chair of the Board

The Directors will select a Chair of the Board from among their members who will assume responsibility to chair meetings of the Board, as well as any other responsibilities which the Directors may delegate from time to time to the Chair. In addition, the Chair shall consult with the President & Chief Executive Officer prior to each regularly scheduled Board meeting. The Chair will be responsible for administering the Board's relationship with management, as directed by the Board. The Chair will also oversee compliance by each Director with the requirements of this Code, and will speak to individual Directors, or if necessary, the full Board regarding any ongoing non-compliance.

4. Attendance at Board & Committee Meetings

Each Director is expected to devote sufficient time to Board affairs, including the review of Board materials and attendance at all meetings of the board, as well as all meetings of the Board Committees of which the Director is a member. Additional meetings may need to be scheduled from time to time on short notice when participation by all Directors may not be possible, and in such circumstances, Directors may elect to attend the meeting by telephone. Certain Directors may not be able to attend meetings from time to time for medical reasons or due to other unusual circumstances.

The Chair will review the attendance of Directors each year, and the attendance of each Director is published every year in the Annual Report of the Corporation. Any Director who does not, in two consecutive years, attend at least 75% of the regularly scheduled meetings of the Board and the Committees to which he/she is assigned, must tender a written offer to resign to the Chair of the Board for acceptance or rejection by the Board.

5. Conflict of Interest

Each Director will be required each year to sign the Conflict of Interest Policy and Disclosure Statement for Directors of the Corporation.

In addition, a Director's personal business interests may from time to time conflict, or appear to conflict, with the interests of the Corporation. In such circumstances, the issues should be raised promptly with the Chair of the Board or in the absence of the Chair, the Vice-Chair. Appropriate steps will then be taken to determine whether an actual or apparent conflict exists, and in accordance with statutory requirements, determine whether it is necessary for the Director to resign, or merely be excused from discussions by the Board on a particular subject matter.

6. Confidential Information

Every Director of the Corporation, in the discharge of his/her duties, will be provided with written and oral information that is confidential, in the sense that it is not information generally available in the public domain. Transmittal of confidential information could damage the interests of the Corporation if communicated to others outside the Corporation. Directors are expected to take all necessary steps to ensure that confidential written materials provided to Board members are not copied or otherwise made available to others, and that discussions at the Board level are not communicated to others.

All information relating to matters before the Board and its Committees shall be considered confidential and subject to treatment as such, unless express authorization for disclosure to others is given by the Board through its Chair or in the absence of the Chair, the Vice Chair or the President and CEO.

7. Orientation and Education of New Directors

The Board will provide a comprehensive orientation session for new Directors. The content of the session will be reviewed and updated as required. The purpose of the orientation session is to provide the new Directors with sufficient information and education so that he or she can expeditiously and successfully integrate into the work of the Board and its Committees.

The orientation sessions shall include discussion with:

- The President and CEO
- Chief Financial Officer
- Executive Vice Presidents and Vice Presidents of the Veridian Corporation and/or its subsidiaries
- Selected Company Managers

The new Director(s) will be provided with material which outlines the company's Mission and Values, Strategic Plan, Business Planning Process, Corporate Policies and Procedures, and Duties and Responsibilities of the Director.

It is the responsibility of the new Director to attend the orientation sessions and to gain an appropriate level of knowledge of the business.

8. Personal Liability of Directors

In discharging their duties, Directors of the Corporation are required by law to act honestly and in good faith with a view to the best interests of the Corporation, and they may incur personal liability if they breach such duties. Directors may incur personal liability if they fail to meet certain standards of performance – the general requirement being that Directors must exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. In addition, Directors have potential statutory liability under certain provincial statutes, such as the *Ontario Employment Standards Act.*

The Corporation maintains Director & Officer Liability Insurance to provide coverage for Directors related to claims brought with respect to the discharge of their duties, however, the *Business Corporations Act* (Ontario) specifically provides that such insurance coverage is not to be available "…where the liability relates to the person's failure to act honestly and in good faith with a view to the best interests of the Corporation."

9. Interaction with the Media

The Board believes that management, rather than members of the Board, has the responsibility to speak publicly on behalf of the Corporation. From time to time, Directors may be requested by politicians, the media, or stakeholders, to discuss issues related to the business of Veridian, including matters discussed at meetings of the Board of the Corporation. Any Director to whom such a request is made should review the request with the President & Chief Executive Officer before responding.

As an exception to this practice, the Chair of the Board has the responsibility to act as the principal spokesperson for the corporation on governance matters, together with the Chair of the board's Governance Committee.

10. Delegation of Authority

In accordance with the delegation of authority pursuant to the by-laws of the Corporation, Board members are expected to understand and respect those responsibilities for the day-to-day general management and direction of the business and affairs of the Corporation.

Board members are expected to understand and respect those responsibilities that have been delegated to management. Any Director may make a request for information from a member of management of the Corporation, but such requests should be addressed to the President & Chief Executive Officer, provided, however, that the Chair of each Board Committee shall have the authority to work with a designated member of senior management in order to discharge their Committee responsibilities.

11. Board Evaluation

All Directors shall participate in an annual assessment of Board effectiveness as recommended to and approved by the Board.

12. Compliance with this Code

Any Director who requires clarification as to the application of this Code, or has concerns as to compliance with this Code by another Director, should raise those concerns with the Chair. In resolving such concerns, the Chair may seek advice of other Directors and from legal counsel of the Corporation, and will communicate his/her decision directly to the Director whose conduct is at issue.

Non-compliance with this Code can result in remedial actions by the Board, up to and including the initiation of a process to remove a non-compliant Director from the Board.

13. Annual Affirmation and Review

Each Director of the Corporation shall sign an annual affirmation that they understand and will comply with this Code of Conduct Practices. The Board may make changes to this Code from time to time to enhance its effectiveness, and to ensure the achievement of good governance practices by the Board, and from each Board member.

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The undersigned Director acknowledges having read this Code of Conduct and Governance Practices for the Directors of the Corporation, and hereby agrees to observe each of the foregoing commitments and practices.

____________________________ ____________________

Date Print Name

____

Signature

4.2 Directors' Conflict of Interest Policy

1. Requirements of *the Business Corporations Act* (Ontario)

Every Director (as defined below) is subject to the provisions of the *Business Corporations Act* (Ontario), including Section 132 – "Disclosure: conflict of interest," as amended from time to time. Section 132 shall be incorporated into this policy statement and is attached hereto as Appendix "A".

Section 132 provides that a Director who has an interest in a proposed material contract or transaction involving Veridian Corporation and its subsidiaries (the "Corporation") must disclose the nature and extent of his/her interest to the Board (as defined below) or, if appropriate, to a committee thereof at the first available opportunity and the interested Director shall not vote on the matter to come before the Board or committee. Further, in the event that all directors are required to disclose conflicts of interest, the related contract or transaction may only be approved by the corporation's shareholders.

Section 132 shall take precedence in any case where there is a conflict between the provisions thereof and this policy. The Corporation shall make available to every Director a copy of the provisions of Section 132.

2. Statement of Policy, Purpose and Application

This policy statement establishes practices for the Directors concerning conflicts of interest, gifts and gratuities. This policy shall apply to all members of the Board of Directors (the "Board") of the Corporation and to all members of committees of the Board, all of whom shall be referred to herein as the "Directors". This policy is designed to assist the Directors to foresee and avoid potential conflicts of interest by outlining their obligations and duties and by providing for disclosure requirements where there is likely to be a conflict between those duties and any Director's personal interests.

This policy defines where a potential conflict may arise and establishes a procedure for dealing with (i) the disclosure of a conflict by Directors, and (ii) voting requirements for conflict matters.

3. Avoidance of Conflict of Interest

Directors shall at all times act in a manner consistent with their fiduciary responsibilities to the Corporation in good faith and in a manner each Director honestly believes to be in the best interest of the Corporation and with such care as an ordinarily prudent person would exercise in comparable circumstances.

As a general and guiding principle, every Director has the obligation not to appropriate to himself/herself an opportunity or benefit that he/she becomes aware of or receives if that opportunity or benefit may profit the Corporation and every Director has the obligation to bring such opportunity or benefit to the Board for consideration.

No Director should be subject or appear to be subject to influences, interests or relationships that conflict with the best interest of the Corporation. A Director's duty to give business loyalty to the Corporation can be prejudiced by actual or potential personal benefit from another source. It is the responsibility of each Director to recognize and avoid any situation involving a conflict of interest. While the Corporation does not intend to interfere with the rights of Directors to engage in outside business or other activities which do not conflict with their obligations to the Corporation, the following are areas where potential conflicts of interest may arise:

a) Where a Director has a significant, direct or indirect, financial interest in or obligation to an actual or potential competitor, supplier, customer or business partner of the Corporation;

b) Where a Director conducts business on behalf of the Corporation with a supplier, customer or business partner of which a close relative is a principal, officer or has a financial investment;

c) Acceptance of gifts, entertainment or other favours by a Director or by close relatives of the Director from present or prospective competitors, customers or suppliers which go beyond the common courtesies usually associated with ethical business practice;

d) Borrowings by a Director or by close relatives of a Director from present or prospective competitors, customers or suppliers; or

e) Misuse of confidential information obtained by a Director in the course of fulfilling his/her duties as a Director.

4. Conflict Defined Generally

A "conflict of interest", "conflict", "potential conflict of interest" or "potential conflict" shall be defined generally for the purpose of this policy to mean the existence or the perceived existence of a state of facts in which (i) the financial or personal interests of a Director or of his or her close relatives, or (ii) the interests of any business or organization with which the Director is affiliated may be furthered or benefitted, directly or indirectly as a result of a course of conduct (including actions taken or the failure to take certain action) pursued by the Corporation.

5. Gratuities and Other Courtesies

The Corporation prohibits the acceptance of gifts for gratuities (favours) from Suppliers or potential Suppliers. Solicitation of any gift or gratuity is strictly prohibited. Prejudicial discounts and favours also are prohibited. It is expected that no Director or member of the Director's immediate family will accept gifts or gratuities from, or in any way incur, a personal obligation to a Supplier or potential Supplier.

Accepting gifts or entertainment that are designed to influence judgment is unfair to Veridian and its Suppliers. Suppliers have a right to expect fair and impartial treatment in obtaining Veridian's business. It is of overriding importance to avoid any action that might reasonably be misinterpreted by others as to its propriety.

This policy is not intended to eliminate the acceptance of items of nominal value, such as calendars, note pads or pencils bearing the identification of the sender.

All other items should be returned or redirected for charitable donation by Veridian. An appropriate follow-up letter should be sent explaining Veridian's Purchasing Ethics Policy.

Entertainment for the betterment of business relationships is ethical and considered a natural activity in the course of conducting business. The best guideline for accepting entertainment is based on a determination that such entertainment will be returned in kind. If it cannot be, it should not be accepted.

5.1 Business Meals

Occasionally, it may be appropriate and convenient to conduct business during meals. Such meals should be for a specific business purpose. Frequent meals with the same Supplier should be avoided. Veridian Directors should be in a position to pay for meals as frequently as the Supplier. "Expensive" restaurants or meals that are for entertainment and not for the conduct of business do not come under the definition of "Business meals"

6. Dealing with Government Officials

Bribery or the giving of money or anything else of value in an attempt to influence the action of a government office is unlawful. In dealing with government agencies, Directors must observe the highest standards of ethical conduct and should ascertain the existence of any policies or guidelines to which such officials may be subject.

7. General Procedures for Dealing with a Conflict or Potential Conflict and Reporting

a) All conflicts or potential conflicts that a Director becomes aware of shall be reported promptly to the Board or, if appropriate, to a committee thereof appointed for the purpose of addressing conflict of interest issues.

b) Any Director having a conflict with respect to any matter which is the subject of actions or deliberation by the Board or, if appropriate, a committee thereof should not be counted in determining the quorum for the meeting at which the matter is considered, shall not vote on the matter and, after appropriate discussion, shall leave the room prior to any vote on the matter.

c) The minutes of the meeting to discuss any conflict or potential conflict shall reflect that disclosure was made, its substance, the existence of quorum and the abstention from voting by the interested Director.

d) The Board or, if appropriate, a committee thereof shall render a decision relating to the conflict or potential conflict orally or in writing as the circumstances dictate in the discretion of the Board or committee.

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The undersigned Director acknowledges having read the Conflict of Interest Policy for the Directors of the Corporation, and hereby agrees to observe each of the following commitments and practices.

____________________________ ____________________________

Date Print Name

____

Signature

APPENDIX "A"

Business Corporations Act (Ontario)

Disclosure: conflict of interest

132. (1) A director or officer of a corporation who,

(a) is a party to a material contract or transaction or proposed material contract or transaction with the corporation; or

(b) is a director or an officer of, or has a material interest in, any person who is a party to a material contract or transaction or proposed material contract or transaction with the corporation,

shall disclose in writing to the corporation or request to have entered in the minutes of meetings of directors the nature and extent of his or her interest. R.S.O. 1990, c. B.16, s. 132 (1).

by director

(2) The disclosure required by subsection (1) shall be made, in the case of a director,

(a) at the meeting at which a proposed contract or transaction is first considered;

(b) if the director was not then interested in a proposed contract or transaction, at the first meeting after he or she becomes so interested;

(c) if the director becomes interested after a contract is made or a transaction is entered into, at the first meeting after he or she becomes so interested; or

(d) if a person who is interested in a contract or transaction later becomes a director, at the first meeting after he or she becomes a director. R.S.O. 1990, c. B.16, s. 132 (2).

by officer

(3) The disclosure required by subsection (1) shall be made, in the case of an officer who is not a director,

(a) forthwith after the officer becomes aware that the contract or transaction or proposed contract or transaction is to be considered or has been considered at a meeting of directors;

(b) if the officer becomes interested after a contract is made or a transaction is entered into, forthwith after he or she becomes so interested; or

(c) if a person who is interested in a contract or transaction later becomes an officer, forthwith after he or she becomes an officer. R.S.O. 1990, c. B.16, s. 132 (3).

Where contract or transaction does not require approval

(4) Despite subsections (2) and (3), where subsection (1) applies to a director or officer in respect of a material contract or transaction or proposed material contract or transaction

that, in the ordinary course of the corporation's business, would not require approval by the directors or shareholders, the director or officer shall

disclose in writing to the corporation or request to have entered in the minutes of meetings of directors the nature and extent of his or her interest forthwith after the director or officer becomes aware of the contract or transaction or proposed contract or transaction. R.S.O. 1990, c. B.16, s. 132 (4).

Director not to vote

(5) A director referred to in subsection (1) shall not attend any part of a meeting of directors during which the contract or transaction is discussed and shall not vote on any resolution to approve the contract or transaction unless the contract or transaction is,

(a) one relating primarily to his or her remuneration as a director of the corporation or an affiliate;

(b) one for indemnity or insurance under section 136; or

(c) one with an affiliate. 2006, c. 34, Sched. B, s. 23 (1).

Remaining directors deemed quorum

(5.1) If no quorum exists for the purpose of voting on a resolution to approve a contract or transaction only because a director is not permitted to be present at the meeting by reason of subsection (5), the remaining directors shall be deemed to constitute a quorum for the purposes of voting on the resolution. 2006, c. 34, Sched. B, s. 23 (2).

Shareholder approval

(5.2) Where all of the directors are required to make disclosure under subsection (1), the contract or transaction may be approved only by the shareholders. 2006, c. 34, Sched. B, s. 23 (2).

Continuing disclosure

(6) For the purposes of this section, a general notice to the directors by a director or officer disclosing that he or she is a director or officer of or has a material interest in a person, or that there has been a material change in the director's or officer's interest in the person, and is to be regarded as interested in any contract made or any transaction entered into with that person, is sufficient disclosure of interest in relation to any such contract or transaction. 2006, c. 34, Sched. B, s. 23 (3).

Effect of disclosure

(7) Where a material contract is made or a material transaction is entered into between a corporation and a director or officer of the corporation, or between a corporation and another person of which a director or officer of the corporation is a director or officer or in which he or she has a material interest,

(a) the director or officer is not accountable to the corporation or its shareholders for any profit or gain realized from the contract or transaction; and

(b) the contract or transaction is neither void nor voidable, by reason only of that relationship or by reason only that the director is present at or is counted to determine the presence of a quorum at the meeting of directors that authorized the contract or transaction, if the director or officer disclosed his or her interest in accordance with subsection (2), (3), (4) or (6), as the case may be, and the contract or transaction was reasonable and fair to the corporation at the time it was so approved. R.S.O. 1990, c. B.16, s. 132 (7).

Confirmation by shareholders

(8) Despite anything in this section, a director or officer, acting honestly and in good faith, is not accountable to the corporation or to its shareholders for any profit or gain realized from any such contract or transaction by reason only of his or her holding the office of director or officer, and the contract or transaction,

if it was reasonable and fair to the corporation at the time it was approved, is not by reason only of the director's or officer's interest therein void or voidable, where,

(a) the contract or transaction is confirmed or approved by special resolution at a meeting of the shareholders duly called for that purpose; and

(b) the nature and extent of the director's or officer's interest in the contract or transaction are disclosed in reasonable detail in the notice calling the meeting or in the information circular required by section 112. R.S.O. 1990, c. B.16, s. 132 (8).

Court setting aside contract

(9) Subject to subsections (7) and (8), where a director or officer of a corporation fails to disclose his or her interest in a material contract or transaction in accordance with this section or otherwise fails to comply with this section, the corporation or a shareholder of the corporation, or, in the case of an offering corporation, the Commission may apply to the court for an order setting aside the contract or transaction and directing that the director or officer account to the corporation for any profit or gain realized and upon such application the court may so order or make such other order as it thinks fit. R.S.O. 1990, c. B.16, s. 132 (9).

4.3 Whistleblower Procedures

The Veridian board has approved a corporate Whistleblower Policy (No. HR33) that provides staff with a means of reporting incidents of dishonest or illegal activity, and to do so without fear of reprisal. The policy identifies all corporate directors as potential reporting authorities. The purpose of this procedure is to provide guidance to directors who receive a report of workplace wrongdoing from a Veridian staff member.

Policy HR33 includes detailed protocols for dealing with reports from whistleblowers. It contemplates that complaints registered at the board of director level will be dealt with by the board's Audit and Risk Management Committee. Therefore, a director who receives a complaint should immediately report the incident to the Chair of the Board and/or the Chair of the Audit and Risk Management Committee for investigation in accordance with the policy provisions.

Veridian's Whistleblower policy assures employees that valid whistleblower reports will be dealt with confidentially and without retaliation. Therefore, a director receiving a complaint must not disclose its details further than provided for within these procedures.

Attachment 2 of 3

Policy AD08.1, Code of Ethics and Business Conduct

Code of Ethics and Business Conduct

for

All Divisions

28-Sep-2012 – V.2

Issued by: G. Armstrong

**Approved by the Veridian Corporation Board
Resolution #2012-VC35**

and

**Approved by the Veridian Connections Inc. Board
Resolution #2012-VCI40**

Revision History

Name	Issue Date	Identify Changes or Reason	Version
G. Armstrong	28-Sep-2012	Complete rewrite.	V.2
D. Clark	Jan-2000	Original issue.	V.1

Review Schedule

- Three Years

Table of Contents

1.0 Introduction

Veridian is committed to conducting all aspects of its business with integrity, honesty, fairness and respect. It is also committed to compliance with the legal and regulatory environments in which it does business. By honouring these commitments, Veridian will maintain and enhance its reputation as a leading and trusted energy company.

This policy summarizes the expectations of all directors, officers and Employees of Veridian when carrying out the corporation's business activities. Many of these expectations are more fully documented in separate corporate policies, procedures and work practices. Identification of some of these related documents are provided in Section 1.1 of this policy. However, all directors, officers and Employees should ensure that they are acquainted with all documented policies, procedures and work practices that pertain to their particular role at Veridian.

1.1 Related Policies

The following Veridian policies and procedures include provisions related to the elements of ethical business conduct referenced in this code:

- HS01 Health and Safety Policy Statement
- AD09 Computer, Internet Use and Electronic Communication Policy
- AD18 Environmental Commitment Statement
- AD31 Politically Based Contributions
- HR09 Harassment and Violence Prevention Policy
- HR24 Nepotism Policy
- HR33 Whistleblower Policy
- HR03 Terms of Employment
- LO01 Purchasing Policy
- FI02 Disposal of Surplus Assets
- AD38 Privacy Policy
- Directors' Conflict of Interest Policy
- Directors' Code of Conduct and Governance Practices

2.0 Elements of Ethical Business Conduct

2.1 Avoiding Conflicts of Interest

Directors, officers and Employees must avoid any activities that create a real or perceived conflict between a personal interest and the business interests of Veridian. If a conflict cannot be avoided, it must be disclosed to the corporation.

A conflict can arise when an individual takes actions or has personal interests that may interfere with the objective and effective performance of their work for Veridian. For example, directors, officers and Employees are expected to:

- avoid actual or apparent conflict in dealings with suppliers, customers, competitors and other third parties;
- refrain from pursuing benefit through opportunities discovered through their use of Veridian assets or through their positions at the corporation;

- not place themselves in a position where they derive personal benefit (either directly or indirectly benefit through family members or friends) as a result of reaching a business decision on behalf of Veridian.

It is the responsibility of all directors, officers and Employees to immediately report any actual or perceived conflicts of interest. Directors shall report such conflicts to the board of directors, and officers and Employees shall report to the Human Resources department through the use of form AD08.3, "Disclosure of Conflict of Interest" found on S:\Human Resources Forms. When a declaration is received by Human Resources, it will be reviewed with the President and CEO to determine if remedial action is required.

2.2 Respect and Safety in the Workplace

Veridian is committed to providing a safe and respectful work environment. All Employees will be treated without discrimination by reason of race, sex, sexual orientation, religion, creed, colour, national origin, ancestry, disability or medical condition, or age. Workplace related harassment or violent behaviour will not be tolerated, and all workplace health and safety standards will be adhered to.

Directors, officers and Employees are expected to respect the personal dignity, privacy and rights of others at Veridian, and shall take all necessary steps to minimize the risk of disease, injury, harassment or workplace violence.

2.3 Gifts and Business Entertainment

Veridian limits the acceptance and giving of gifts to those of a token nature (i.e. promotional items of nominal value bearing the identification of the sender), and only when the exchange of such gifts serves a legitimate business purpose. Gifts may never be solicited and gifts in the form of cash are never acceptable.

The exchange of unsolicited hospitality or business entertainment is permitted within the following context:

- It should be appropriate for the position that the recipient occupies within the company and clearly intended to facilitate business objectives; and,
- The value should be modest and the exchange infrequent; and,
- The nature of the entertainment is such that Veridian would and could reciprocate; and,
- The exchange would not embarass the corporation if exposed to the public; and,
- The exchange could not reasonably be interpreted as a bribe.

2.4 Drug and Alcohol Use

Veridian is committed to maintaining a drug-free and alcohol-free workplace. Drinking alcoholic beverages is prohibited on the premises of the company except at specified company-sanctioned events. Possessing, using, selling or offering illegal drugs is strictly prohibited while on duty or on the premises of the company.

Directors, officers and Employees and others representing Veridian are prohibited from arriving for work and/or carrying out their business duties while impaired by alcohol, illegal drugs or prescription drugs.

2.5 Financial and Records Integrity

Directors, officers and Employees all share responsibility for the guardianship of Veridian's physical and financial assets. Discharging this responsibility requires the maintenance of accurate and reliable financial and business records. All individuals at Veridian are expected to uphold the highest standards of ethical behaviour related to the use and care of the company's assets, such as:

- All business records must be prepared with care and honesty. Falsification of any records will not be tolerated.
- Business transactions shall be conducted at the appropriate level of authority as dictated by Veridian's policies, procedures and work practices.
- No transaction, asset, liability or other financial information may be concealed from Veridian's management.
- When discovered, any inaccuracies, misrepresentations or omissions must be disclosed and promptly corrected.

All reasonable measures must be taken to prevent and deter fraud and theft related to Veridian's assets. Allegations of such activity shall be taken seriously, and thoroughly investigated.

2.6 Environmental Responsibility

Veridian seeks to minimize the environmental impacts of its business operations, including those related to the use and disposal of hazardous material, the use of carbon based fuels, the efficiency of its electricity distribution network and the management of trees and other vegetation near its distribution equipment. It is also committed to compliance with all applicable environmental laws.

Veridian's construction, maintenance, inspection and other business practices shall take environmental stewardship into consideration, and all officers and Employees shall strive to conserve resources and reduce waste and emissions when carrying out their respective duties.

2.7 Fair and Competitive Procurement Practices

Veridian has established purchasing procedures that provide for the acquisition of goods and services based on competitive processes and sound business criteria. Purchasing decisions must never be based on favouritism, prejudice, preferential treatment or personal gain. Suppliers and potential suppliers should always be fairly treated through clear and consistent procurement processes.

Officers and Employees are responsible for understanding and adhering to Veridian's approved purchasing policy.

2.8 Treatment of Confidential Information

Confidential and customer information must be secured and protected from unauthorized release to any persons outside of Veridian, except as required by law. Such information should also only be disclosed to colleagues within Veridian as is necessary to effectively perform assigned work.

Confidential information includes proprietary, technical, business, financial, intellectual property, and personal information about customers and Employees that is not made available publicly.

The collection and use of personal customer information is governed by Veridian's Privacy Policy, which must be adhered to by all individuals with access to customer records.

2.9 Political Contributions

No contributions in cash or otherwise shall be made by Veridian to any political party, candidate for public office or political fundraising event, except where expressly permitted by corporate policy approved by Veridian's board of directors.

2.10 Outside Business Activities

The primary business loyalty of Veridian's officers and Employees should be to the corporation. It is expected that officers and Employees will not engage in outside activity or employment that might affect their independence of judgement when performing their duties at Veridian. For example, an officer or Employee may not work for a supplier to or competitor of Veridian without first disclosing a potential conflict of interest in accordance with Section 2.1 of this policy.

The pursuit of outside business activitities must never encroach on an officer or Eployee's time or attention that should be devoted to Veridian. Further, Veridian's assets, supplies, equipment, personnel or any other property must never be used in conjunction with an outside business activity without written prior approval of the corporation.

2.11 Protection and Use of Company Assets

The care and protection of Veridian's physical and financial assets is crucial to the company's success. All directors, officers and Employees are responsible for the proper stewardship of these assets, and for ensuring that none are used for any unlawful, improper or unauthorized purpose.

Unless permitted by company policy or written authorization, company assets must never be used or disposed of for personal purposes or personal gain.

Technology assets are made available to officers and staff for the efficient conduct of Veridian's business. Limited personal use of electronic commuications equipment is permissible, provided that this is done during personal time and if it does not interfere with work productivity. Technology assets may never be used for activities prohibited by law, such as the illegal downloading of material protected by copyright law or the illegal copying of software. Further, they may not be used to access, download, receive or distribute material that is sexually explicit, discriminatory, defamatory or threatening to any individual or group.

3.0 Policy Compliance

3.1 Dealing wtih Non-Compliance

Adherence to this and all other Veridian policies is mandatory. Failure to comply may result in disciplinary action up to and including termination.

3.2 Reporting Violations

Any violations of this policy shall be promptly reported to Veridian's senior management in accordance with the corporate Whistleblower policy.

Appendix A: Reference Materials

- Form AD08.3 – Disclosure of Conflict of Interest

Attachment 3 of 3

Director Identification and Selection Process

Veridian Corporation

(The “Corporation”)

Director Identification and Selection Process

Background

Section 3.2 (d) of the Veridian Shareholders’ Agreement sets out the “Qualifications of the Board”. Within that section it is identified that, where possible, the qualifications of candidates for the Board shall include the following:

- business experience
- time availability
- financial skills
- marketing skills
- industry knowledge
- independence of judgment
- integrity
- knowledge of public policy issues relating to Veridian; and
- knowledge and experience concerning environmental matters, labour relations and occupational health and safety issues

In addition to the requirements of the Shareholders’ Agreement, previous board experience would be valuable.

Veridian directors have been appointed by the shareholders at the start of each term of municipal council. To attempt to assist the shareholder Councils in their appointment of directors to Veridian and with the betterment of the Corporation in mind, a sub-committee of the Governance Committee was formed and the following processes to enhance the shareholders’ identification and selection of possible board candidates have been recommended, all of which is subject to the existing shareholder agreement, as amended.

Objectives

- To meet the requirements of section 3.2 (d) of the Veridian Corporation Shareholders Agreement – Qualifications of the Board,
- To provide recommendations to the owner municipalities in the identification and selection of Directors, within the confines of the existing shareholder agreement, as amended,
- To promote the appointment of directors to the Boards who have sufficient skills / knowledge to effectively populate the various board committees, and
- To assist in the identification of director development needs where skill gaps exist on the Board

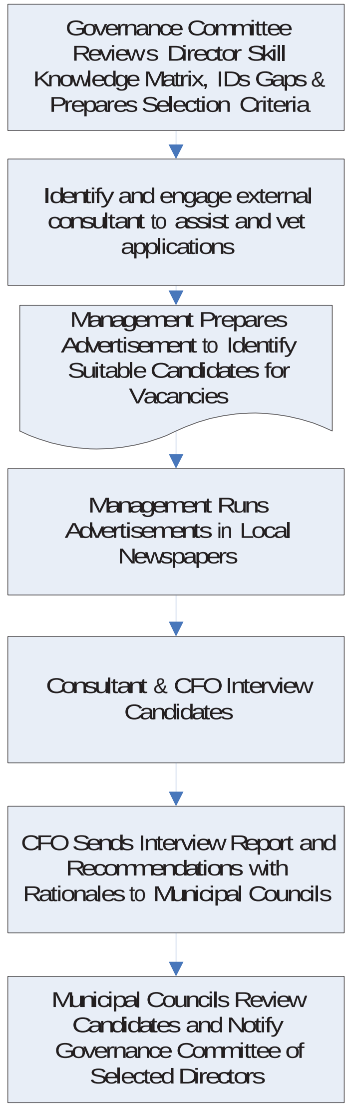
Scope

This recommended process applies to the recommendation to the Shareholders of candidates of Directors for Veridian Corporation and the recommendation to the Board of Veridian Corporation of candidates for directors of Veridian's subsidiaries, which at this time are comprised of Veridian Connections Inc. and Veridian Energy Inc.

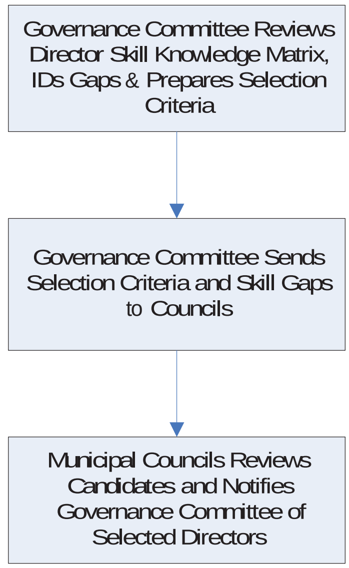
Recommended Processes

1) It is preferred that Directors be appointed for a continuous four year term,
2) In the interest of maintaining Board director continuity, municipalities should consider staggering appointments appoint half the directors every two years,
3) Municipalities should consider using the attached Board Director Profile when assessing future Director appointments,
4) The formal process of interviewing /assessing non elected identified candidates will be undertaken by an external consultant with the assistance of the CFO for logistics. This will ensure an independent third party assessment. Municipalities may request that existing Board members be exempt from the interview process, notwithstanding existing Board members are required to submit resumes outlining their skills and qualifications.
5) The Governance Committee will update the skill / knowledge database and the identified skill gaps/deficiencies that exist on the Board. Through the Nominating Committee, the Governance Committee will make recommendations on director appointments that will best address the skill gaps/deficiencies.

Appendix A: Unelected Director Identification & Selection Process



Appendix B: Elected Director Identification & Selection Process



Veridian Corporation & Veridian Connections Inc

Board Director Position Profile

Board Director Objectives

Individually and collectively, directors:

- **contribute to and approve the corporation's strategic direction**
- **provide oversight over the corporation's performance as it relates to approved strategies and objectives**
- **select, review and compensate the CEO**
- **maintain best governance practices as required to maximize the corporation's outcomes for its shareholders, customers, employees and the communities in which the corporation operates**

Key Responsibilities

- **Comply with the provisions of the Shareholders Agreement and corporate By-Laws.**
- **Establish and review annually, a code of conduct and ethics with respect to its members**
- **Establish and review annually corporate governance policies and practices**
- **Establish the criteria for selection of directors**
- **Establish committees, set their mandates, and select members**
- **Maintain an orientation program for new directors and continuing education program for all directors**
- **Maintaining a program to assess the effectiveness of the board**
- **Set compensation for directors, chair and committee chairs**
- **Delegate authorities and responsibilities to executive management**
- **Meet regularly to ensure board responsibilities are executed in a timely manner**

Collective Board Knowledge Requirements

- **Ontario's LDC regulatory framework and operation**
- **Understand and interpret corporate financial performance and reports**
- **Human resources knowledge in areas of hiring, compensation / benefits, labour relations, performance management, and policies**
- **Legal expertise**
- **Industry knowledge**
- **Business knowledge as it relates to strategic planning, mergers and acquisitions, program management, etc**
- **Board governance**

Key Accountabilities

- **Ensuring the adequacy of the corporation's strategic plan**
- **Providing feedback & direction to the CEO regarding the corporation's performance with respect to alignment with strategic direction and performance objectives**
- **Hiring, directing and compensating the CEO**
- **Establishing and approving employee compensations programs**
- **Ensuring adequate programs are in place to identify and mitigate the corporation's key risks and liabilities**

Collective Board Skill Requirements

- **Building effective working relationships**
- **Business acumen, finance**
- **Excellent Communication and interpersonal skills**
- **Strong Problem solving**
- **Team development**
- **Influencing / negotiation skills**

Behavioral & Leadership Requirements

1. **Regular attendance at all board and committee meetings**
2. **Comprehensively reviewing / understanding board & committee materials in preparation for meetings**
3. **Complying with effective Board meeting rules and practices**
4. **Contributing to board and committee work by completing individual project assignment**
5. **Listening to others point of views**
6. **Contributing to overall board performance versus individual performance**
7. **Openly declaring potential conflicts of interest**

Accounting Standard and Accounting Orders

Accounting Standard for Financial Reporting

Veridian has filed this application under Canadian Generally Accepted Accounting Principles (CGAAP). In September 2012, the Canadian Accounting Standards Board ("AcSB") announced its decision to extend, by an additional year, the mandatory changeover date to IFRS for rate-regulated entities to January 1, 2014. In February 2013, the AcSB decided to extend the existing deferral of the mandatory IFRS changeover date for entities with qualifying rate-regulated activities by an additional year to January 1, 2015. Veridian has not yet adopted IFRS and plans to exercise the extended deferral option and currently plans to adopt IFRS as of January 1st, 2015 provided no further extension of the mandatory changeover date is announced before that time.

In 2012, in anticipation of changeover to IFRS and in compliance with the Board's expectation as set out in its letter of July 17, 2012, Veridian implemented regulatory accounting changes for depreciation expense and capitalization policies effective on January 1, 2012 under GAAP. In its letter the Board states *"The Board will not require regulatory accounting and reporting for 2012 to be in modified IFRS ("MIFRS") if a distributor is not required to adopt IFRS for financial reporting and opts to remain on CGAAP."* The Board goes on further to state "*The Board encourages and will permit distributors that have deferred the changeover to IFRS in 2012 to also implement regulatory accounting changes for depreciation expense and capitalization policies effective on January 1, 2012"*. Although the Board has not issued a further letter in response to the AcSB's February 2013 deferral extension, on the strength of these statements in its July 17th, 2012 Veridian deduces that the Board will not require regulatory accounting and reporting for 2014 to be in modified IFRS if a distributor is not required to adopt IFRS for financial reporting and opts to remain on CGAAP.

Also, in compliance with the Board's direction in its July 17, 2012 letter, Veridian has recorded the financial differences arising as a result of its election to make the accounting changes for depreciation expense and capitalization policies under CGAAP in variance Account 1576, CGAAP Accounting Changes. Further details of the accounting changes are provided at Exhibit 2, Tab 2, Schedule 4 – Capitalization of Overheads, Exhibit 4, Tab 6 – Depreciation and Amortization at Exhibit 9, Tab 3 – Account 1576 – Accounting Changes under CGAAP.

Veridian's accounting treatment and records are in compliance with the Uniform System of Accounts ("USoA")

As part of a Settlement Agreement to Veridian's 2010 COS rate proceeding (EB-2009-0140) one Accounting Order was issued by the Board related to the establishment of a variance account to record certain potential cost and timing differences resulting from the intended construction of one of Veridian's 2010 Test Year major capital expenditure items; the Ajax Building Expansion Project. A copy of the Accounting Order is appended as attachment 1 to this schedule.

Veridian has complied with all requirements of the Accounting Order. Further details are provided at Exhibit 9, Tab 2, Schedule 1.

Attachment 1 of 1

Accounting Order

EB-2009-0140

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, (Schedule B);

AND IN THE MATTER OF an application by Veridian Connections Inc. for an order approving just and reasonable rates and other charges for electricity distribution to be effective May 1, 2010;

AND IN THE MATTER OF Veridian Connections Inc.'s request for an Accounting Order to establish a variance account to record the revenue requirement impacts associated with its Ajax Building Expansion Project.

BEFORE: Cynthia Chaplin
Vice-Chair and Presiding Member

Ken Quesnelle
Member

ACCOUNTING ORDER

Veridian Connections Inc. ("Veridian" or the "Applicant") filed an application with the Ontario Energy Board (the "Board"), received on October 2, 2009, under section 78 of the *Ontario Energy Board Act, 1998*, S.O 1998, c. 15 (Schedule B) (the "Act"), seeking approval for changes to the rates that Veridian charges for electricity distribution to be effective May 1, 2010.

On February 16 and 17, 2010, Veridian and the intervenors participated in a Settlement Conference. As a result of the Settlement Conference, the parties prepared a Settlement Proposal which was filed with the Board on March 24, 2010. The Settlement Proposal included the establishment of a variance account to record certain potential cost and timing differences resulting from the intended construction schedule of the Ajax

Building Expansion Project (the “Project”) which is one of Veridian’s 2010 Test Year major capital expenditure items.

On March 31, 2010, the Board issued its Decision on the rates application which included its acceptance of the Settlement Proposal. In the Decision, the Board ordered the Applicant to file a Draft Rate Order reflecting the Board’s findings in the Decision.

On April 19, 2010, Veridian filed a Draft Rate Order. Two intervenors subsequently recommended that an Accounting Order be issued in support of the variance account that was part of the Settlement Agreement.

On May 10, 2010, the Board issued its Rate Order where it stated it would issue an Accounting Order as recommended by the intervenors.

On May 28, 2010, in response to the Board’s Rate Order, Veridian filed a draft Accounting Order requesting the Board’s approval of an Accounting Order to capture in a variance account certain costs associated with the revenue requirement impacts of the Project. Consistent with the Settlement Agreement, the variance account would track the revenue requirement impacts in the Test Year and the subsequent IRM period until Veridian’s next cost of service rebasing, resulting from Veridian’s capital investment and associated OM&A costs for the proposed Project. The total forecast capital expenditures related to the Project in the 2010 Test Year are $6,000,000. The Project also includes a reduction in normalized OM&A costs of $163,151. The “as filed” accounting impact of the Project, both capital (including amortization and return on capital) and OM&A, forms the baseline for the variances for the years 2010 through 2013 or until the end of the IRM period.

Pursuant to section 2d and as illustrated in Appendix L of the Settlement Agreement, the variance account will capture the variances outlined below. These variances from the baseline (Scenario 1) are labeled in the Settlement Proposal as Scenarios 2, 3 and 4 which, together with Appendix L of the Settlement Proposal, are attached as Appendix B to this Accounting Order:

a) Asymmetric revenue requirement variances resulting if the actual capital costs are less than the forecast capital costs. The reduction in revenue requirement would be credited to the variance account for future disposition to ratepayers.

b) The decrease in revenue requirement for the 2010 Test Year and the change (increase or decrease) in the revenue requirement for each of the subsequent IRM years, due to a change of in-service date of the Ajax Building Expansion Project from 2010 or beyond. The annual increase or decrease in revenue requirement would be recorded in the variance account. The cumulative balance would be distributed to ratepayers in the future.

THE BOARD THEREFORE ORDERS THAT:

1. Veridian is hereby authorized to capture in a variance account the differences described in section 2d and as illustrated in Appendix L of the Settlement Agreement.

2. The accounting entries shall be in accordance with those listed in the attached Appendix “A”.

DATED at Toronto, June 7, 2010

ONTARIO ENERGY BOARD

Original Signed By

Kirsten Walli
Board Secretary

APPENDIX “A”

TO ACCOUNTING ORDER

VERIDIAN CONNECTIONS INC.
(EB-2009-0140)

DATED: JUNE 7, 2010

VERIDIAN CONNECTIONS INC.
(EB-2009-0140)

Accounting Entries

To record the revenue requirement impacts for the specified Scenario:

Debit Account 4080, Distribution Services Revenue

Credit Account 2425, Other Deferred Credits, "Sub-Account Test Year 2010 Project Expansion Revenue Requirement Impact"

To record simple interest on the monthly opening balance in Sub-account 2425 calculated using the Board's prescribed interest rates for the specified Scenario:

Debit Account 6035, Other Interest Expense

Credit Account 2425, Other Deferred Credits, "Sub-Account Test Year 2010 Project Expansion Revenue Requirement Impact"

APPENDIX "B"

TO ACCOUNTING ORDER

VERIDIAN CONNECTIONS INC.
(EB-2009-0140)

DATED: JUNE 7, 2010

VERIDIAN CONNECTIONS INC.
(EB-2009-0140)

Description of Scenarios and Appendix L of the Settlement Proposal

(Extract from the Settlement Proposal, page 12)

Scenario 1 is the agreed baseline, i.e. the amounts that are assumed to be the accounting costs and savings each year from the Project on an "as-filed" basis. The Parties agree that it is accounting variations from this baseline that are to be captured through entries to the variance account.

Scenario 2 illustrates the same calculation for each year, but with a lower cost of the Project in 2010, and identifies the variance account entries that would reflect that lower cost in that scenario.

Scenario 3 then illustrates the variance account entries if the Project does not come into service until March 31, 2011. In that scenario, the capital costs are delayed, so amortization and return on capital are lower in years 2010 and 2011, but the OM&A savings are also delayed, increasing OM&A in 2011 to partially offset the delay in the capital cost.

Scenario 4 is similar to Scenario 3, but with a lower total cost of the Project as well.

Appendix "L" - Ajax Building Expansion Project Variance Account Example

Scenario Summaries - Annual Entries to Variance Account and YE Variance Account Balances

	2010			2011			2012			2013		
	Revenue Requirement	Entries to Variance Account	**YE Balance Variance Account**	Revenue Requirement	Entries to Variance Account	**YE Balance Variance Account**	Revenue Requirement	Entries to Variance Account	**YE Balance Variance Account**	Revenue Requireme nt	Entries to Variance Account	**YE Balance Variance Account**
Scenario 1 - As Filed Completed in 2010, $6M or more	$ 136,692	$ -	**$ -**	$ 431,294	$ -	**$ -**	$ 410,144	$ -	**$ -**	$ 390,343	$ -	**$ -**
Scenario 2 Completed in 2010, $5.5M	$ 111,559	$ (25,133)	**$ (25,133)**	$ 381,757	$ (49,537)	**$ (74,670)**	$ 362,369	$ (47,775)	**$ (122,445)**	$ 344,218	$ (46,125)	**$ (168,570)**
Scenario 3 Completed in 2011, $6M or more	$ (155,016)	$ (291,708)	**$ (291,708)**	$ 145,749	$ (236,008)	**$ (527,716)**	$ 431,550	$ 21,406	**$ (506,310)**	$ 410,655	$ 20,312	**$ (485,998)**
Scenario 4 Completed in 2011, $5.5M	$ (155,016)	$ (291,708)	**$ (291,708)**	$ 120,616	$ (310,678)	**$ (602,386)**	$ 382,601	$ (27,543)	**$ (629,929)**	$ 365,098	$ (25,245)	**$ (655,174)**

Note: For simplicity in calculations, PILs impacts have not been included in these examples. It is understood that PILs impacts would be calculated and included in the entries to the variance account.

Appendix "L" - Ajax Building Expansion Project Variance Account Example

Working Capital Allowance 15.0% Before Tax Weighted Average Cost of Capital 7.14%

Components of Revenue Requirement	Capex	Related OM&A	WCA	Rate Base	Return	Amortization	PILs impact	Rev Req't
Scenario 1 - As Filed				**2010**				
Completed in 2010, $6M or more	$ 6,000,000	$ (163,151)	$ (24,473)	$ 2,975,527	$ 212,453	$ 87,390		$ 136,692
				2011				
	$ 6,000,000	$ (163,151)	$ (24,473)	$ 5,912,610	$ 422,160	$ 172,285		$ 431,294
				2012				
	$ 6,000,000	$ (163,151)	$ (24,473)	$ 5,740,325	$ 409,859	$ 163,436		$ 410,144
				2013				
	$ 6,000,000	$ (163,151)	$ (24,473)	$ 5,576,889	$ 398,190	$ 155,304		$ 390,343
					Cumulative to 2013			**$ 1,368,473**
Scenario 2				**2010**				
Completed in 2010, $5.5M	$ 5,500,000	$ (163,151)	$ (24,473)	$ 2,725,527	$ 194,603	$ 80,108		$ 111,559
				2011				
	$ 5,500,000	$ (163,151)	$ (24,473)	$ 5,419,892	$ 386,980	$ 157,928	$ -	$ 381,757
				2012				
	$ 5,500,000	$ (163,151)	$ (24,473)	$ 5,261,965	$ 375,704	$ 149,816	$ -	$ 362,369
				2013				
	$ 5,500,000	$ (163,151)	$ (24,473)	$ 5,112,149	$ 365,007	$ 142,362	$ -	$ 344,218
					Cumulative to 2013			**$ 1,199,903**
Scenario 3				**2010**				
Completed in 2011, $6M or more	$ -	$ (154,190)	$ (23,129)	$ (23,129)	$ (826)	$ -		$ (155,016)
				2011				
	$ 6,000,000	$ (154,190)	$ (23,129)	$ 2,976,871	$ 212,549	$ 87,390		$ 145,749
				2012				
	$ -	$ (154,190)	$ (23,129)	$ 5,819,560	$ 415,517	$ 170,224		$ 431,550
				2013				
	$ -	$ (154,190)	$ (23,129)	$ 5,649,336	$ 403,363	$ 161,482		$ 410,655
					Cumulative to 2013			**$ 832,937**
Scenario 4				**2010**				
Completed in 2011, $5.5M	$ -	$ (154,190)	$ (23,129)	$ (23,129)	$ (826)	$ -		$ (155,016)
				2011				
	$ 5,500,000	$ (154,190)	$ (23,129)	$ 2,726,871	$ 194,699	$ 80,108		$ 120,616
				2012				
	$ -	$ (154,190)	$ (23,129)	$ 5,332,669	$ 380,753	$ 156,039		$ 382,601
				2013				
	$ -	$ (154,190)	$ (23,129)	$ 5,199,759	$ 371,263	$ 148,026		$ 365,098
					Cumulative to 2013			**$ 713,299**

Note: For simplicity in calculations, PILs impacts have not been included in these examples. It is understood that PILs impacts would be calculated and included in the entries to the variance account.

Appendix "L" - Ajax Building Expansion Project Variance Account Example
Amortization Calculations

Account	Description	Opening Balance	Less Fully Depreciated	Net for Depreciation	Additions		Net Additions	Total for Depreciation	Years	Depreciation Expense
Scenario 1 - As Filed										
Completed in 2010, $6M or more					2010					
1908	Servc Centre Bldgs-Renos/Add'ns				$ 5,289,482	$ (61,641)	$ 5,227,841	$ 2,613,920	50	*$ 52,278*
1915	Offc Furn & Equip			$ -	$ 710,518	$ (8,280)	$ 702,238	$ 351,119	10	*$ 35,112*
										$ -
		$ -	$ -	$ -	$ 6,000,000	$ (69,921)	$ 5,930,079	$ 2,965,039		*$ 87,390*
					2011					
1908	Servc Centre Bldgs-Renos/Add'ns	$ 5,237,204		$ 5,237,204	*$ -*		$ 5,237,204	$ 5,237,204	50	*$ 104,744*
1915	Offc Furn & Equip	$ 675,406		$ 675,406	*$ -*		$ 675,406	$ 675,406	10	*$ 67,541*
					$ -	*$ -*	$ 5,912,610	$ 5,912,610		*$ 172,285*
					2012					
1908	Servc Centre Bldgs-Renos/Add'ns	$ 5,132,460		$ 5,132,460			$ 5,132,460	$ 5,132,460	50	*$ 102,649*
1915	Offc Furn & Equip	$ 607,865		$ 607,865			$ 607,865	$ 607,865	10	*$ 60,787*
					$ -	*$ -*	$ 5,740,325	$ 5,740,325		*$ 163,436*
					2013					
1908	Servc Centre Bldgs-Renos/Add'ns	$ 5,029,810		$ 5,029,810			$ 5,029,810	$ 5,029,810	50	*$ 100,596*
1915	Offc Furn & Equip	$ 547,079		$ 547,079			$ 547,079	$ 547,079	10	*$ 54,708*
					$ -	*$ -*	$ 5,576,889	$ 5,576,889		*$ 155,304*
Scenario 2					2010					
Completed in 2010, $5.5M										
1908	Servc Centre Bldgs-Renos/Add'ns	$ -	$ -		$ 4,848,692	$ (56,504)	$ 4,792,187	$ 2,396,094	50	*$ 47,922*
1915	Offc Furn & Equip	$ -	$ -	$ -	$ 651,308	$ (7,590)	$ 643,718	$ 321,859	10	*$ 32,186*
										$ -
		$ -	$ -	$ -	$ 5,500,000	$ (64,095)	$ 5,435,905	$ 2,717,953		*$ 80,108*
					2011					
1908	Servc Centre Bldgs-Renos/Add'ns	$ 4,800,770	$ -	$ 4,800,770	*$ -*			$ 4,800,770	50	*$ 96,015*
1915	Offc Furn & Equip	$ 619,122	$ -	$ 619,122	*$ -*			$ 619,122	10	*$ 61,912*
					$ 5,500,000		$ -	$ 5,419,892		*$ 157,928*
					2012					
1908	Servc Centre Bldgs-Renos/Add'ns	$ 4,704,755		$ 4,704,755	*$ -*			$ 4,704,755	50	*$ 94,095*
1915	Offc Furn & Equip	$ 557,210		$ 557,210	*$ -*			$ 557,210	10	*$ 55,721*
					$ 5,500,000		$ -	$ 5,261,965		*$ 149,816*
					2013					
1908	Servc Centre Bldgs-Renos/Add'ns	$ 4,610,659		$ 4,610,659	*$ -*			$ 4,610,659	50	*$ 92,213*
1915	Offc Furn & Equip	$ 501,489		$ 501,489	*$ -*			$ 501,489	10	*$ 50,149*
					$ 5,500,000		$ -	$ 5,112,149		*$ 142,362*

Scenario 3
Completed in 2011, $6M or more

						2011				
	Servc Centre Bldgs-									
1908	Renos/Add'ns	$ -	$ -	$ -	$ 5,289,482	$ (61,641)	$ 5,227,841	$ 2,613,920	50	*$ 52,278*
1915	Offc Furn & Equip	$ -	$ -	$ -	$ 710,518	$ (8,280)	$ 702,238	$ 351,119	10	*$ 35,112*
										$ -
					$ 6,000,000	$ (69,921)	$ 5,930,079	$ 2,965,039		*$ 87,390*
						2012				
	Servc Centre Bldgs-									
1908	Renos/Add'ns	$ 5,175,562		$ 5,175,562	*$* -		$ -	$ 5,175,562	50	*$ 103,511*
1915	Offc Furn & Equip	$ 667,126		$ 667,126	*$* -		$ -	$ 667,126	10	*$ 66,713*
										$ -
					$ -	*$* -	$ -	$ 5,842,688		*$ 170,224*
						2013				
	Servc Centre Bldgs-									
1908	Renos/Add'ns	$ 5,072,051		$ 5,072,051	*$* -		$ -	$ 5,072,051	50	*$ 101,441*
1915	Offc Furn & Equip	$ 600,413		$ 600,413	*$* -		$ -	$ 600,413	10	*$ 60,041*
					$ -	$ -	$ -	$ 5,672,465		*$ 161,482*

Scenario 4
Completed in 2011, $5.5M or more

						2011				
	Servc Centre Bldgs-									
1908	Renos/Add'ns	$ -	$ -	$ -	$ 4,848,692	$ (56,504)	$ 4,792,187	$ 2,396,094	50	*$ 47,922*
1915	Offc Furn & Equip	$ -	$ -	$ -	$ 651,308	$ (7,590)	$ 643,718	$ 321,859	10	*$ 32,186*
										$ -
					$ 5,500,000	$ (64,095)	$ 5,435,905	$ 2,717,953		*$ 80,108*
						2012				
	Servc Centre Bldgs-									
1908	Renos/Add'ns	$ 4,744,265		$ 4,744,265	$ -		$ -	$ 4,744,265	50	*$ 94,885*
1915	Offc Furn & Equip	$ 611,532		$ 611,532	$ -		$ -	$ 611,532	10	*$ 61,153*
										$ -
					$ -	$ -	$ -	$ 5,355,798		*$ 156,039*
						2013				
	Servc Centre Bldgs-									
1908	Renos/Add'ns	$ 4,649,380		$ 4,649,380	$ -		$ -	$ 4,649,380	50	*$ 92,988*
1915	Offc Furn & Equip	$ 550,379		$ 550,379	$ -		$ -	$ 550,379	10	*$ 55,038*
					$ -	$ -	$ -	$ 5,199,759		*$ 148,026*

Appendix "L" - Ajax Building Expansion Project Variance Account Example
OM&A Calculations

Scenario 1 - As Filed

Calculation of 2010 OM&A cost reduction	**2010**	**2011**	**2012**	**2013**	
Base Lease Costs-Pickering Parkway	$213,875				
Taxes, Maintenance Insurance - Pickering Parkway	$130,500				
Incremental Maintenance expenses-building expansion		$234,000	$234,000	$234,000	
Operational Efficiencies		($33,000)	($33,000)	($33,000)	
	$344,375	$201,000	$201,000	$201,000	
Four year Total					**$947,375**
Total costs amortized over 4 year period					**$236,844**
New OM&A requirements for space	$236,844				
Less:Original OM&A levels in revenue requirement (as above)	($344,375)				
	($107,531)				
Less: Avoided lease costs-Metering Facilities	($55,620)				
Test Year OM&A Reduction	**($163,151)**				

Scenario 3 - Building Completion in 2011 - assume March 31st

Calculation of 2010 OM&A cost reduction	**2010**	**2011**	**2012**	**2013**	
Base Lease Costs-Pickering Parkway	$213,875	$53,469			
Taxes, Maintenance Insurance - Pickering Parkway	$130,500	$32,625			
Incremental Maintenance expenses-building expansion		$175,500	$234,000	$234,000	
Operational Efficiencies		($24,750)	($33,000)	($33,000)	
	$344,375	**$236,844**	**$201,000**	**$201,000**	
Four year Total					**$983,219**
Total costs amortized over 4 year period					**$245,805**
New OM&A requirements for space	$245,805				
Less:Original OM&A levels in revenue requirement (as above)	($344,375)				
	($98,570)				
Less: Avoided lease costs-Metering Facilities	($55,620)				
Test Year OM&A Reduction	**($154,190)**				

Compliance with Uniform System of Accounts

Veridian has followed the Board's Uniform System of Accounts (referred to in this Application as the USoA) in the preparation of this Application.

Deviations from the Filing Requirements

Veridian has not deviated from the Ontario Energy Board's Minimum Filing Requirements and has not identified any changes in methodologies used in previous applications.

Accounting Treatment of Non-Utility Related Business

Veridian has and continues to pursue investment opportunities in renewable generation projects, as permitted by government regulation. Veridian confirms that the accounting treatment used for such non-utility business segregates all of the transactions and activities from its rate-regulated activities.

Veridian confirms that it has followed the directions within the Board's *Guidelines: Regulation and Accounting Treatments for Distributor-Owned Generation Facilities G-2009-0300, dated September 15, 2009.*

Conditions of Service

The current version of Veridian's Conditions of Service can be accessed on Veridian's website at the following URL:

http://www.veridian.on.ca/pdf/veridian-conditions-of-service-v7_20131001.pdf

Electricity Distribution Licence

ED-2002-0503

Veridian Connections Inc.

Valid Until

November 17, 2023

Original signed by

___

Theodore Antonopoulos
Manager, Electricity Rates
Ontario Energy Board
Date of Issuance: November 18, 2003
Date of Last Amendment: August 24, 2011

Ontario Energy Board
P.O. Box 2319
2300 Yonge Street
27th. Floor
Toronto, ON M4P 1E4

Commission de l’énergie
de l’Ontario
C.P. 2319
2300, rue Yonge
27e étage
Toronto ON M4P 1E4

LIST OF AMENDMENTS

Board File No.	Date of Amendment
EB-2003-0031:	December 15, 2004
EB-2005-0480:	October 18, 2005
EB-2006-0023:	June 9, 2006
EB-2007-0006:	November 15, 2007
EB-2007-0967:	April 10, 2008
EB-2008-0383:	February 2, 2009
EB-2009-0351:	October 29, 2009
EB-2010-0216:	November 12, 2010
EB-2011-0007:	March 29, 2011
EB-2011-0132:	August 24, 2011

Table of Contents **Page No.**

1 Definitions

In this Licence:

"**Accounting Procedures Handbook**" means the handbook, approved by the Board which specifies the accounting records, accounting principles and accounting separation standards to be followed by the Licensee;

"**Act**" means the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, Schedule B;

"**Affiliate Relationships Code for Electricity Distributors and Transmitters**" means the code, approved by the Board which, among other things, establishes the standards and conditions for the interaction between electricity distributors or transmitters and their respective affiliated companies;

"**Conservation and Demand Management**" and "**CDM**" means distribution activities and programs to reduce electricity consumption and peak provincial electricity demand;

"**Conservation and Demand Management Code for Electricity Distributors**" means the code approved by the Board which, among other things, establishes the rules and obligations surrounding Board approved programs to help distributors meet their CDM Targets;

"**distribution services**" means services related to the distribution of electricity and the services the Board has required distributors to carry out, including the sales of electricity to consumers under section 29 of the Act, for which a charge or rate has been established in the Rate Order;

"**Distribution System Code**" means the code approved by the Board which, among other things, establishes the obligations of the distributor with respect to the services and terms of service to be offered to customers and retailers and provides minimum, technical operating standards of distribution systems;

"**Electricity Act**" means the *Electricity Act, 1998*, S.O. 1998, c. 15, Schedule A;

"**Licensee**" means Veridian Connections Inc.;

"**Market Rules**" means the rules made under section 32 of the Electricity Act;

"**Net Annual Peak Demand Energy Savings Target**" means the reduction in a distributor's peak electricity demand persisting at the end of the four-year period (i.e. December 31, 2014) that coincides with the provincial peak electricity demand that is associated with the implementation of CDM Programs;

"**Net Cumulative Energy Savings Target**" means the total amount of reduction in electricity consumption associated with the implementation of CDM Programs between 2011-2014;

"**OPA**" means the Ontario Power Authority;

"**Performance Standards**" means the performance targets for the distribution and connection activities of the Licensee as established by the Board in accordance with section 83 of the Act;

"**Provincial Brand**" means any mark or logo that the Province has used or is using, created or to be created by or on behalf of the Province, and which will be identified to the Board by the Ministry as a provincial mark or logo for its conservation programs;

"**Rate Order**" means an Order or Orders of the Board establishing rates the Licensee is permitted to charge;

"**regulation**" means a regulation made under the Act or the Electricity Act;

"**Retail Settlement Code**" means the code approved by the Board which, among other things, establishes a distributor's obligations and responsibilities associated with financial settlement among retailers and consumers and provides for tracking and facilitating consumer transfers among competitive retailers;

"**service area**" with respect to a distributor, means the area in which the distributor is authorized by its licence to distribute electricity;

"**Standard Supply Service Code**" means the code approved by the Board which, among other things, establishes the minimum conditions that a distributor must meet in carrying out its obligations to sell electricity under section 29 of the Electricity Act;

"**wholesaler**" means a person that purchases electricity or ancillary services in the IESO administered markets or directly from a generator or, a person who sells electricity or ancillary services through the IESO-administered markets or directly to another person other than a consumer.

2 Interpretation

2.1 In this Licence, words and phrases shall have the meaning ascribed to them in the Act or the Electricity Act. Words or phrases importing the singular shall include the plural and vice versa. Headings are for convenience only and shall not affect the interpretation of the Licence. Any reference to a document or a provision of a document includes an amendment or supplement to, or a replacement of, that document or that provision of that document. In the computation of time under this Licence, where there is a reference to a number of days between two events, they shall be counted by excluding the day on which the first event happens and including the day on which the second event happens and where the time for doing an act expires on a holiday, the act may be done on the next day that is not a holiday.

3 Authorization

3.1 The Licensee is authorized, under Part V of the Act and subject to the terms and conditions set out in this Licence:

a) to own and operate a distribution system in the service area described in Schedule 1 of this Licence;

b) to retail electricity for the purposes of fulfilling its obligation under section 29 of the Electricity Act in the manner specified in Schedule 2 of this Licence; and

c) to act as a wholesaler for the purposes of fulfilling its obligations under the Retail Settlement Code or under section 29 of the Electricity Act.

4 Obligation to Comply with Legislation, Regulations and Market Rules

4.1 The Licensee shall comply with all applicable provisions of the Act and the Electricity Act and regulations under these Acts, except where the Licensee has been exempted from such compliance by regulation.

4.2 The Licensee shall comply with all applicable Market Rules.

5 Obligation to Comply with Codes

5.1 The Licensee shall at all times comply with the following Codes (collectively the "Codes") approved by the Board, except where the Licensee has been specifically exempted from such compliance by the Board. Any exemptions granted to the licensee are set out in Schedule 3 of this Licence. The following Codes apply to this Licence:

a) the Affiliate Relationships Code for Electricity Distributors and Transmitters;

b) the Distribution System Code;

c) the Retail Settlement Code; and

d) the Standard Supply Service Code.

5.2 The Licensee shall:

a) make a copy of the Codes available for inspection by members of the public at its head office and regional offices during normal business hours; and

b) provide a copy of the Codes to any person who requests it. The Licensee may impose a fair and reasonable charge for the cost of providing copies.

6 Obligation to Provide Non-discriminatory Access

6.1 The Licensee shall, upon the request of a consumer, generator or retailer, provide such consumer, generator or retailer with access to the Licensee's distribution system and shall convey electricity on behalf of such consumer, generator or retailer in accordance with the terms of this Licence.

7 Obligation to Connect

7.1 The Licensee shall connect a building to its distribution system if:

a) the building lies along any of the lines of the distributor's distribution system; and

b) the owner, occupant or other person in charge of the building requests the connection in writing.

7.2 The Licensee shall make an offer to connect a building to its distribution system if:

a) the building is within the Licensee's service area as described in Schedule 1; and

b) the owner, occupant or other person in charge of the building requests the connection in writing.

7.3 The terms of such connection or offer to connect shall be fair and reasonable and made in accordance with the Distribution System Code, and the Licensee's Rate Order as approved by the Board.

7.4 The Licensee shall not refuse to connect or refuse to make an offer to connect unless it is permitted to do so by the Act or a regulation or any Codes to which the Licensee is obligated to comply with as a condition of this Licence.

8 Obligation to Sell Electricity

8.1 The Licensee shall fulfill its obligation under section 29 of the Electricity Act to sell electricity in accordance with the requirements established in the Standard Supply Service Code, the Retail Settlement Code and the Licensee's Rate Order as approved by the Board.

9 Obligation to Maintain System Integrity

9.1 The Licensee shall maintain its distribution system in accordance with the standards established in the Distribution System Code and Market Rules, and have regard to any other recognized industry operating or planning standards adopted by the Board.

10 Market Power Mitigation Rebates

10.1 The Licensee shall comply with the pass through of Ontario Power Generation rebate conditions set out in Appendix A of this Licence.

11 Distribution Rates

11.1 The Licensee shall not charge for connection to the distribution system, the distribution of electricity or the retailing of electricity to meet its obligation under section 29 of the Electricity Act except in accordance with a Rate Order of the Board.

12 Separation of Business Activities

12.1 The Licensee shall keep financial records associated with distributing electricity separate from its financial records associated with transmitting electricity or other activities in accordance with the Accounting Procedures Handbook and as otherwise required by the Board.

13 Expansion of Distribution System

13.1 The Licensee shall not construct, expand or reinforce an electricity distribution system or make an interconnection except in accordance with the Act and Regulations, the Distribution System Code and applicable provisions of the Market Rules.

13.2 In order to ensure and maintain system integrity or reliable and adequate capacity and supply of electricity, the Board may order the Licensee to expand or reinforce its distribution system in accordance with Market Rules and the Distribution System Code, or in such a manner as the Board may determine.

14 Provision of Information to the Board

14.1 The Licensee shall maintain records of and provide, in the manner and form determined by the Board, such information as the Board may require from time to time.

14.2 Without limiting the generality of paragraph 14.1, the Licensee shall notify the Board of any material change in circumstances that adversely affects or is likely to adversely affect the business, operations or assets of the Licensee as soon as practicable, but in any event no more than twenty (20) days past the date upon which such change occurs.

14.3 The Licensee shall:

a) immediately notify the Board in writing of the notice; and

b) provide a plan to the Board as soon as possible, but no later than ten (10) days after the receipt of the notice, as to how the affected distribution services will be maintained in compliance with the terms of this licence.

15 Restrictions on Provision of Information

15.1 The Licensee shall not use information regarding a consumer, retailer, wholesaler or generator obtained for one purpose for any other purpose without the written consent of the consumer, retailer, wholesaler or generator.

15.2 The Licensee shall not disclose information regarding a consumer, retailer, wholesaler or generator to any other party without the written consent of the consumer, retailer, wholesaler or generator, except where such information is required to be disclosed:

a) to comply with any legislative or regulatory requirements, including the conditions of this Licence;

b) for billing, settlement or market operations purposes;

c) for law enforcement purposes; or

d) to a debt collection agency for the processing of past due accounts of the consumer, retailer, wholesaler or generator.

15.3 The Licensee may disclose information regarding consumers, retailers, wholesalers or generators where the information has been sufficiently aggregated such that their particular information cannot reasonably be identified.

15.4 The Licensee shall inform consumers, retailers, wholesalers and generators of the conditions under which their information may be released to a third party without their consent.

15.5 If the Licensee discloses information under this section, the Licensee shall ensure that the information provided will not be used for any other purpose except the purpose for which it was disclosed.

16 Customer Complaint and Dispute Resolution

16.1 The Licensee shall:

a) have a process for resolving disputes with customers that deals with disputes in a fair, reasonable and timely manner;

b) publish information which will make its customers aware of and help them to use its dispute resolution process;

c) make a copy of the dispute resolution process available for inspection by members of the public at each of the Licensee's premises during normal business hours;

d) give or send free of charge a copy of the process to any person who reasonably requests it; and

e) subscribe to and refer unresolved complaints to an independent third party complaints resolution service provider selected by the Board. This condition will become effective on a date to be determined by the Board. The Board will provide reasonable notice to the Licensee of the date this condition becomes effective.

17 Term of Licence

17.1 This Licence shall take effect on November 18, 2003 and expire on November 17, 2023. The term of this Licence may be extended by the Board.

18 Fees and Assessments

18.1 The Licensee shall pay all fees charged and amounts assessed by the Board.

19 Communication

19.1 The Licensee shall designate a person that will act as a primary contact with the Board on matters related to this Licence. The Licensee shall notify the Board promptly should the contact details change.

19.2 All official communication relating to this Licence shall be in writing.

19.3 All written communication is to be regarded as having been given by the sender and received by the addressee:

a) when delivered in person to the addressee by hand, by registered mail or by courier;

b) ten (10) business days after the date of posting if the communication is sent by regular mail; and

c) when received by facsimile transmission by the addressee, according to the sender=s transmission report.

20 Copies of the Licence

20.1 The Licensee shall:

a) make a copy of this Licence available for inspection by members of the public at its head office and regional offices during normal business hours; and

b) provide a copy of this Licence to any person who requests it. The Licensee may impose a fair and reasonable charge for the cost of providing copies.

21 Conservation and Demand Management

21.1 The Licensee shall achieve reductions in electricity consumption and reductions in peak provincial electricity demand through the delivery of CDM programs. The Licensee shall meet its 2014 Net Annual Peak Demand Savings Target of 29.050 MW, and its 2011-2014 Net Cumulative Energy Savings Target of 115.740 GWh (collectively the “CDM Targets”), over a four-year period beginning January 1, 2011.

21.2 The Licensee shall meet its CDM Targets through:

a) the delivery of Board approved CDM Programs delivered in the Licensee’s service area (“Board-Approved CDM Programs”);

b) the delivery of CDM Programs that are made available by the OPA to distributors in the Licensee’s service area under contract with the OPA (“OPA-Contracted Province-Wide CDM Programs”); or

c) a combination of a) and b).

21.3 The Licensee shall make its best efforts to deliver a mix of CDM Programs to all consumer types in the Licensee’s service area.

21.4 The Licensee shall comply with the rules mandated by the Board’s Conservation and Demand Management Code for Electricity Distributors.

21.5 The Licensee shall utilize the common Provincial brand, once available, with all Board-Approved CDM Programs, OPA-Contracted Province-Wide Programs, and in conjunction with or co-branded with the Licensee’s own brand or marks.

SCHEDULE 1 DEFINITION OF DISTRIBUTION SERVICE AREA

This Schedule specifies the area in which the Licensee is authorized to distribute and sell electricity in accordance with paragraph 8.1 of this Licence.

See Appendix B for Service Area listing.

SCHEDULE 2 PROVISION OF STANDARD SUPPLY SERVICE

This Schedule specifies the manner in which the Licensee is authorized to retail electricity for the purposes of fulfilling its obligation under section 29 of the Electricity Act.

> The Licensee is authorized to retail electricity directly to consumers within its service area in accordance with paragraph 8.1 of this Licence, any applicable exemptions to this Licence, and at the rates set out in the Rate Orders.

SCHEDULE 3 LIST OF CODE EXEMPTIONS

This Schedule specifies any specific Code requirements from which the Licensee has been exempted.

1. The Licensee is exempt from the requirement to implement time-of-use pricing as of the mandatory date for RPP customers with eligible time-of-use meters as required under the Standard Supply Service Code for Electricity Distributors. The mandatory time-of-use pricing date exemption expires on December 31, 2011.

2. The Licensee is exempt from the requirement to implement time-of-use pricing as of the mandatory date for approximately 7,821 hard to reach RPP customers with eligible time-of-use meters as required under the Standard Supply Service Code for Electricity Distributors. The mandatory time-of-use pricing date exemption expires on December 31, 2011.

APPENDIX A MARKET POWER MITIGATION REBATES

3. **Definitions and Interpretations**

In this Licence

"embedded distributor" means a distributor who is not a market participant and to whom a host distributor distributes electricity;

"embedded generator" means a generator who is not a market participant and whose generation facility is connected to a distribution system of a distributor, but does not include a generator who consumes more electricity than it generates;

"host distributor" means a distributor who is a market participant and who distributes electricity to another distributor who is not a market participant.

In this Licence, a reference to the payment of a rebate amount by the IESO includes interim payments made by the IESO.

4. **Information Given to IESO**

a Prior to the payment of a rebate amount by the IESO to a distributor, the distributor shall provide the IESO, in the form specified by the IESO and before the expiry of the period specified by the IESO, with information in respect of the volumes of electricity withdrawn by the distributor from the IESO-controlled grid during the rebate period and distributed by the distributor in the distributor's service area to:

i consumers served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and

ii consumers other than consumers referred to in clause (i) who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998.*

b Prior to the payment of a rebate amount by the IESO to a distributor which relates to electricity consumed in the service area of an embedded distributor, the embedded distributor shall provide the host distributor, in the form specified by the IESO and before the expiry of the period specified in the Retail Settlement Code, with the volumes of electricity distributed during the rebate period by the embedded distributor's host distributor to the embedded distributor net of any electricity distributed to the embedded distributor which is attributable to embedded generation and distributed by the embedded distributor in the embedded distributor's service area to:

i consumers served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and

ii consumers other than consumers referred to in clause (i) who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998*.

c Prior to the payment of a rebate amount by the IESO to a distributor which relates to electricity consumed in the service area of an embedded distributor, the host distributor shall provide the IESO, in the form specified by the IESO and before the expiry of the period specified by the

IESO, with the information provided to the host distributor by the embedded distributor in accordance with section 2.

The IESO may issue instructions or directions providing for any information to be given under this section. The IESO shall rely on the information provided to it by distributors and there shall be no opportunity to correct any such information or provide any additional information and all amounts paid shall be final and binding and not subject to any adjustment.

For the purposes of attributing electricity distributed to an embedded distributor to embedded generation, the volume of electricity distributed by a host distributor to an embedded distributor shall be deemed to consist of electricity withdrawn from the IESO-controlled grid or supplied to the host distributor by an embedded generator in the same proportion as the total volume of electricity withdrawn from the IESO-controlled grid by the distributor in the rebate period bears to the total volume of electricity supplied to the distributor by embedded generators during the rebate period.

3. Pass Through of Rebate

A distributor shall promptly pass through, with the next regular bill or settlement statement after the rebate amount is received, any rebate received from the IESO, together with interest at the Prime Rate, calculated and accrued daily, on such amount from the date of receipt, to:

a retailers who serve one or more consumers in the distributor’s service area where a service transaction request as defined in the Retail Settlement Code has been implemented;

b consumers who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998* and who are not served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and

c embedded distributors to whom the distributor distributes electricity.

The amounts paid out to the recipients listed above shall be based on energy consumed and calculated in accordance with the rules set out in the Retail Settlement Code. These payments may be made by way of set off at the option of the distributor.

If requested in writing by OPGI, the distributor shall ensure that all rebates are identified as coming from OPGI in the following form on or with each applicable bill or settlement statement:

“ONTARIO POWER GENERATION INC. rebate”

Any rebate amount which cannot be distributed as provided above or which is returned by a retailer to the distributor in accordance with its licence shall be promptly returned to the host distributor or IESO as applicable, together with interest at the Prime Rate, calculated and accrued daily, on such amount from the date of receipt.

Nothing shall preclude an agreement whereby a consumer assigns the benefit of a rebate payment to a retailer or another party.

Pending pass-through or return to the IESO of any rebate received, the distributor shall hold the funds received in trust for the beneficiaries thereof in a segregated account.

ONTARIO POWER GENERATION INC. REBATES

For the payments that relate to the period from May 1, 2006 to April 30, 2009, the rules set out below shall apply.

1. Definitions and Interpretations

In this Licence

"embedded distributor" means a distributor who is not a market participant and to whom a host distributor distributes electricity;

"embedded generator" means a generator who is not a market participant and whose generation facility is connected to a distribution system of a distributor, but does not include a generator who consumes more electricity than it generates;

"host distributor" means a distributor who is a market participant and who distributes electricity to another distributor who is not a market participant.

In this Licence, a reference to the payment of a rebate amount by the IESO includes interim payments made by the IESO.

2. Information Given to IESO

a Prior to the payment of a rebate amount by the IESO to a distributor, the distributor shall provide the IESO, in the form specified by the IESO and before the expiry of the period specified by the IESO, with information in respect of the volumes of electricity withdrawn by the distributor from the IESO-controlled grid during the rebate period and distributed by the distributor in the distributor's service area to:

i consumers served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented and the consumer is not receiving the prices established under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998*; and

ii consumers other than consumers referred to in clause (i) who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998*.

b Prior to the payment of a rebate amount by the IESO to a distributor which relates to electricity consumed in the service area of an embedded distributor, the embedded distributor shall provide the host distributor, in the form specified by the IESO and before the expiry of the period specified in the Retail Settlement Code, with the volumes of electricity distributed during the rebate period by the embedded distributor's host distributor to the embedded distributor net of any electricity distributed to the embedded distributor which is attributable to embedded generation and distributed by the embedded distributor in the embedded distributor's service area to:

i consumers served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and ii consumers other than consumers referred to in clause (i) who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998*.

c Prior to the payment of a rebate amount by the IESO to a distributor which relates to electricity consumed in the service area of an embedded distributor, the host distributor shall provide the IESO, in the form specified by the IESO and before the expiry of the period specified by the IESO, with the information provided to the host distributor by the embedded distributor in accordance with section 2.

The IESO may issue instructions or directions providing for any information to be given under this section. The IESO shall rely on the information provided to it by distributors and there shall be no opportunity to correct any such information or provide any additional information and all amounts paid shall be final and binding and not subject to any adjustment.

For the purposes of attributing electricity distributed to an embedded distributor to embedded generation, the volume of electricity distributed by a host distributor to an embedded distributor shall be deemed to consist of electricity withdrawn from the IESO-controlled grid or supplied to the host distributor by an embedded generator in the same proportion as the total volume of electricity withdrawn from the IESO-controlled grid by the distributor in the rebate period bears to the total volume of electricity supplied to the distributor by embedded generators during the rebate period.

3. Pass Through of Rebate

A distributor shall promptly pass through, with the next regular bill or settlement statement after the rebate amount is received, any rebate received from the IESO, together with interest at the Prime Rate, calculated and accrued daily, on such amount from the date of receipt, to:

a retailers who serve one or more consumers in the distributor’s service area where a service transaction request as defined in the Retail Settlement Code has been implemented and the consumer is not receiving the prices established under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998*;

b consumers who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998* and who are not served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and

c embedded distributors to whom the distributor distributes electricity.

The amounts paid out to the recipients listed above shall be based on energy consumed and calculated in accordance with the rules set out in the Retail Settlement Code. These payments may be made by way of set off at the option of the distributor.

If requested in writing by OPGI, the distributor shall ensure that all rebates are identified as coming from OPGI in the following form on or with each applicable bill or settlement statement:

"ONTARIO POWER GENERATION INC. rebate"

Any rebate amount which cannot be distributed as provided above or which is returned by a retailer to the distributor in accordance with its licence shall be promptly returned to the host distributor or IESO as applicable, together with interest at the Prime Rate, calculated and accrued daily, on such amount from the date of receipt.

Nothing shall preclude an agreement whereby a consumer assigns the benefit of a rebate payment to a retailer or another party.

Pending pass-through or return to the IESO of any rebate received, the distributor shall hold the funds received in trust for the beneficiaries thereof in a segregated account.

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AJAX/PICKERING SERVICE AREA

The alpha-numeric point numbers below refer to the reference map provided on page 23 of this document.

WESTERN BOUNDARY

1. Point #1 is located at the mouth of the Rouge River. The boundary proceeds in a north-westerly direction along the Rouge River to where it intersects with the straight-line projection of the York-Durham Town Line.

1A. Point # 1A located at the intersection of the Rouge River and the straight-line projection of the York-Durham Town Line. The boundary continues north to point # 2.

NORTHERN BOUNDARY

2. Point # 2 is located at the intersection of the York-Durham Town Line and the Uxbridge Pickering Town Line also known as the 10th Concession Road Allowance. The boundary turns easterly and follows in a straight line along this Town Line/Road Allowance to Point #3.

EASTERN BOUNDARY

3. Point # 3 is located at the intersection of Uxbridge Pickering / Town Line and Lakeridge Road. The boundary turns southerly and follows Lakeridge Road to Point #11, with the exception of seven excursions taking in the six registered parcels of land as detailed in the following table:

Veridian Point No.	Municipal Address, Town of Whitby	Legal Description
4	8875 Lakeridge Road	Concession 8, Part Lot 34, 35 and Concession 9, Part Lot 35 and Part of Road Allowance Now RP 40R13254, Part 1 205.57AC
5	8405 Lakeridge Road	Concession 8, Part Lot 34, 35 Now RP 40R7371, Part 1, 56.50AC
6	8195 Lakeridge Road	Concession 8, Part Lot 34, 35.55AC
7	6605 Lakeridge Road	Concession 6, Part Lot 35, 9.47AC
8 and 9	605 Lakeridge Road South	Broken Front Concession, Part Lot 35, Now RP 40R7831, Part 1 Regulator 0.04AC 32.81FR 49.21D
10	715 Halls Road	Broken Front Concession, Part Lot 34, 2.00AC

SOUTHERN BOUNDARY

4. Point # 11 is at Lakeridge Road and Lake Ontario. The boundary turns westerly following the Lake Ontario frontage to Point #1.

BELLEVILLE SERVICE AREA

The alpha-numeric point numbers below refer to the reference map provided on page 24 of this document.

WESTERN BOUNDARY

1. The western boundary of the existing Belleville Service Area starts at point #1 which is located at the Bay of Quinte, 0.1 km west of Avondale Road. The boundary continues parallel to Avondale Road to point #2, with the exception of an additional contiguous parcel extending to the west of Belleville, County of Hastings (476 Dundas Street West - Hastings County Manor).

2. Point #2 is located 0.1 km south of Harder Drive at the north-west corner of 180 Avondale Road. The boundary turns east following the north lot line of 180 and 179 Avondale Road and the south lot line of 67 Harder Drive to point #3.

3. Point #3 is located at the south-east corner of 67 Harder Drive. The boundary then turns north following the west lot line of 44 Glen Road to point #4.

4. Point #4 is located at the north-west corner of 44 Glen Road. The boundary then turns east following the north lot line of 44 and 45 Glen Road and 200 and 201 Wright Avenue to point #5.

5. Point #5 is located at the north-east corner of 201 Wright Avenue. The boundary then turns north following the east lot lines of 36 Harder Drive and the east lot lines of 62, 64, 66, 68, 72, 76 Kensington Crescent and the west lot lines of 2 and 4 Haslett Court to point #6.

6. Point #6 is located at the north-west corner of 4 Haslett Court. The boundary turns east following the north lot lines of 4, 6, 8 Haslett Court and 8, 10, 12 Wilmot Court to point #7.

7. Point #7 is located at the north-east corner of 12 Wilmot Court. The boundary then turns north following the west lot lines of 19, 21, 23 Benson Court, plus west lot lines of 29, 31, 33, 35, 37, 39, 41, 43, 45 Sherwood Court, plus the west lot lines of 29, 31, 33, 35, 37, 39, 41, 43, 45 Bogart Crescent to Point #8.

8. Point #8 is located at the north-west corner of 45 Bogart Crescent. The boundary then turns east following the north lot lines of 47, 49, 51, 53, 55, 57, 59, 61, 63, 65, 67, 69 Bogart Crescent, crosses Palmer Road and continues east for approximately 0.19km to point #9.

9. Point #9 is located approximately 0.19 km east of Palmer Road. The boundary then turns north at this point following the west lot line of 40 Wilson Avenue and the west lot line of 39 Pepper Avenue for approximately 0.23 km to point #10.

10. Point #10 is located at the south-east corner of 4 Lake Court. The boundary then turns west, following the south lot lines of 4, 6, 8 Lake Court for approximately 0.05 km to point #11.

11. Point #11 is located at the south-west corner of 8 Lake Court. The boundary then turns north following the west lot lines of 10, 12, 14 Lake Court and 337 Moira Street West for approximately 0.16 km to point #12.

12. Point #12 is located at the south lot line of 9 Jeanette Place. The boundary then turns west following the south lot line of 9 and 11 Jeanette Place and 8, 10, 12 Dixie Place for approximately 0.14 km to point #13.

13. Point #13 is located at the south-west corner of 12 Dixie Place. The boundary then turns north following the west lot lines of 12, 14 and 16 Dixie Place, 135 and 136 Progress Avenue, 291 and 290 College Street West, 16, 18, 20, 22, 24, 26, 28, 30, 32 Beverley Crescent and 1 Robert Drive; then the west lot lines of 129, 126, 124, 122, 120, 118, 116, 114, 112, 110, 108, 106, 104, 102, 100, 98, 96, 94, 92, 90, 88, 86, 84, 82, 80, 78 Tracey Park Drive and 2, 4, 6, 8, 10 Queensboro Court, and north to point #14, located approximately 0.7 km west of Sidney Street at Highway #401, with the exception of an additional contiguous parcel extending to the west of this line immediately north of Bell Blvd. known as Part of Lot 36, Concession 2 in the City of Quinte West, Hastings County Plan 21-R-19964 (Loyalist Veterinary Hospital)..

<u>NORTHERN BOUNDARY</u>

14. Point #14 is located approximately 0.7 km west of Sidney Street at Highway # 401. The boundary turns east following the southern boundary of Highway #401 road allowance for approximately 6.40 km to point #15.

<u>EASTERN BOUNDARY</u>

15. Point #15 is located on the eastern limit of Lot 15, Concession II, former Thurlow Township, at the southerly limit of the Highway #401. The boundary turns south and runs approximately 4.44 km to point #16.

16. Point # 16 is located on the easterly limit of Lot 15, Broken Front Concession, former Thurlow Township, at the northerly limit of Highway #2 (Dundas Street East). The boundary turns west and runs approximately 0.68 km to point #17.

17. Point #17 is located on the northerly limit of Highway #2 (Dundas Street East) approximately 0.78km west of point #13. The boundary then turns south and follows the east lot line of 665 Dundas Street East (East Half Lot 13, Broken Front Concession, former Thurlow Township) and runs approximately 0.28 km south to point #18.

<u>SOUTHERN BOUNDARY</u>

18. Point #18 is located on the north shore of the Bay of Quinte at the south-east corner of 665 Dundas Street East. This point is approximately 1.55 km west of Elmwood Drive. The boundary follows the north shore of the Bay of Quinte westward to point #1.

BROCK – BEAVERTON SERVICE AREA

The alpha-numeric point numbers below refer to the reference map provided on page 25 of this document.

WESTERN BOUNDARY

1. The western boundary starts at point # 1, which is located at the intersection of the railway and Concession 5. The boundary follows the railway to point # 2.

2. Point # 2 is 1.5 km from point # 1 along the railway. The boundary turns west, parallel to Main Street West to point # 3.

3. Point # 3 is located on Nine Mile Road, 0.35 km from Main Street West. The boundary continues along Nine Mile Road to point # 4.

4. Point # 4 is located on Nine Mile Road, 0.16 km from Main Street West. The boundary turns west parallel to Main Street West to point # 5.

5. Point # 5 is located 0.13 km from point # 4. The boundary turns north parallel to Nine Mile Road to point # 6.

6. Point # 6 is located 0.11 km from point # 5. The boundary turns west parallel to Main Street West to point # 7.

7. Point # 7 is located 0.2 km from point # 6. The boundary turns north parallel to Nine Mile Road to point # 8.

8. Point # 8 is located 0.07 km from point # 7. The boundary turns and follows Lake Simcoe to point # 9.

9. Point # 9 is located 0.05 km from Harbour Park Crescent. The boundary follows the harbour jetty to point # 10.

10. Point # 10 is located 0.28 km from point # 9. The boundary turns north parallel to the Lake Simcoe Shore to point # 11.

11. Point # 11 is located 0.11 km from point # 10. The boundary turns east to point # 12.

12. Point # 12 is located 0.03 km from the end of Wellington Street on the Lake Simcoe Shore. The boundary follows the lake to point # 13.

NORTHERN BOUNDARY

13. Point # 13 is located on the lakeshore at the continuation of Victoria Street. The boundary turns east to the intersection of Victoria and Morrison Ave. The boundary turns north to follow Morrison Ave. to point # 14.

14. Point # 14 is located at the intersection of 9th Street and Morrison Ave. The boundary turns to the east and follows the road allowance for 9th Street to point # 15.

15. Point # 15 is located at the railway on the continuation of the road allowance from 9th Street. The boundary turns north to follow the railway to point # 16.

16. Point # 16 is located 0.19 km along the railway from point # 15, turns east parallel to Lake Land Crescent to point # 17. The offset from Lake Land Crescent is 0.12 km.

17. Point # 17 is located 0.08 km from Mara Road. The boundary turns parallel to Mara Road to point # 18.

18. Point # 18 is located where the boundary intersects the river. The boundary turns east to follow the river to point # 19.

EASTERN BOUNDARY

19. Point # 19 is located 0.76 km from Main Street East. The boundary turns south parallel to James Street to point # 20.

20. Point # 20 is located 0.32 km from James Street and 0.26 km from Main Street. The boundary turns east, parallel to Main Street, to point A.
    A. Point A is located 0.24 km from point # 20. The boundary turns south parallel to James Street to point B.
    B. Point B is located 0.33 km south of point A. The boundary turns southwest to point C.
    C. Point C is located at the river 0.42 km from point B. The boundary turns southwest to point D.
    D. Point D is located 0.43 km from Madill on Simcoe Street. The boundary continues southwest to point E.
    E. Point E is located 0.1 km from point D. The boundary turns south to point F.

SOUTHERN BOUNDARY

F. Point F is located 0.5 km south of point E. The boundary turns west along the road allowance for Concession 5 to point # 1.

BROCK – CANNINGTON SERVICE AREA

The alpha-numeric point numbers below refer to the reference map provided on page 26 of this document.

WESTERN BOUNDARY

1. The western boundary of Cannington starts at point # 1. Point # 1 is located 0.26 km east of Sideline 18A and 0.65 km south of point # 2 (on Cameron Street West).

2. Point # 2 is located 0.35 km west of Albert Street on Cameron Street West. The boundary continues north to point # 3.

3. Point # 3 is located 0.07 km north of point # 2. The boundary turns east parallel to Cameron Street West to point # 4.

4. Point # 4 is located 0.33 km east of point # 3. The boundary turns north parallel to Country Lane to point # 5.

NORTHERN BOUNDARY

5. Point # 5 is located 0.5 km north of point # 4 at the Beaver River. The boundary follows the river east to point # 6.

6. Point # 6 is located 0.1 km north of Riverlea Road and 0.25 km west of Laidlaw Street North. The boundary turns north parallel to Laidlaw Street North to point # 7.

7. Point # 7 is located 0.31 km north of point # 6. The boundary turns east parallel to Cameron Street East to point # 8.

EASTERN BOUNDARY

8. Point # 8 is located 1.34 km east of Laidlaw Street. The boundary turns south parallel to Laidlaw Street North to point # 9.

9. Point # 9 is located 0.56 km south of point # 8. The boundary turns east parallel to Cameron Street East to point # 10.

10. Point # 10 is located 0.16 km east of point # 9. The boundary turns south to point # 11.

11. Point # 11 is located 1.0 km west of Regional Road # 2 on Cameron Street East. The boundary continues south to point # 12.

12. Point # 12 is located 0.05 km south of Cameron Street and 0.03 km west of point # 11. The boundary turns west parallel to Cameron Street East to point # 13.

13. Point # 13 is located 0.42 km west of point # 12. The boundary turns south parallel to Peace Street to point # 14.

14. Point # 14 is located 0.68 km south of point # 13. The boundary turns southwest to point # 15.

15. Point # 15 is located 0.86 km south of Cameron Street East and 0.72 km east of Laidlaw Street South. The boundary turns south parallel to Laidlaw Street South to point # 16.

SOUTHERN BOUNDARY

16. Point # 16 is located 0.12 km south of point # 15. The boundary turns west parallel to Cameron Street East to point # 17.

17. Point # 17 is located 0.89 km west of point # 16. The boundary turns north parallel to Laidlaw Street South to point # 18.

18. Point # 18 is located 0.54 km north of point # 17. The boundary turns west parallel to Cameron Street West to point # 19.

19. Point # 19 is located 0.38 km west of point # 18. The boundary turns southwest to point # 20.

20. Point # 20 is located 0.51 km south of Cameron Street West and 0.46 km east of Sideline 18A. The boundary turns south, parallel to Sideline 18A, to point A. A. Point A is located 0.16 km south of point # 20. The boundary turns west to point # 1.

BROCK – SUNDERLAND SERVICE AREA

The alpha-numeric point numbers below refer to the reference map provided on page 27 of this document.

WESTERN BOUNDARY

1. Point # 1 is located 0.34 km south of River Street and 0.4 km west of Albert Street. The boundary continues north to point # 2.

2. Point # 2 is located 0.14 km west of Rynard Street, on River Street. The boundary continues north to point # 3.

NORTHERN BOUNDARY

3. Point # 3 is located 0.48 km north of River Street. The boundary turns to the east at this point and continues to point # 4, parallel to River Street.

4. Point # 4 is located 0.42 km east of point # 3. The boundary turns south to point # 5.

5. Point # 5 is 0.09 km south of point # 4. The boundary turns east, parallel to River Street to point # 6.

EASTERN BOUNDARY

6. Point # 6 is 0.69 km east of point # 5. The boundary turns south to point # 7.

7. Point # 7 is 0.17 km east of Hwy # 12 on Concession 6. The boundary turns east on Concession 6 to point # 8.

8. Point # 8 is 0.33 km east of point # 7 on Concession 6. The boundary turns south to point # 9.

9. Point # 9 is 0.13 km south of point # 8. The boundary turns west to point # 10, parallel to Concession 6.

10. Point # 10 is 0.48 km west of point # 9. The boundary turns south to point # 11, and parallel to Hwy # 12.

SOUTHERN BOUNDARY

11. Point # 11 is 0.6 km south of point # 10. The boundary turns west to point # 12.

12. Point # 12 is 0.02 km north of Thompson Road on Albert Street South. The boundary turns north to point # 13.

13. Point # 13 is on Albert Street South, 0.30 km north of point # 12. The boundary turns southwest to point # 14, running along the northern property lines of the residential lots that front the north side of Rennie Street.

14. Point # 14 is 0.19 km southwest of point # 13 and is located at the north-west corner of the most westerly of the residential lots that front the north side of Rennie Street. The boundary turns south and runs along the western flank of the property, extending across Rennie Street to point # 15.

15. Point # 15 is 0.04 km south of point # 14 and is located on the south side of Rennie Street. The boundary turns west and runs to point # 16, following Rennie Street and then the southern flank of the most southerly residential lot that fronts the west side of Rennie Street.

16. Point # 16 is 0.08 km west of point #15 and is located at the south-west corner of the most southerly residential lot that fronts the west side of Rennie Street. The boundary turns northwest and runs in an uneven line to point # 17, following the western property lines of the residential lots that front the west side of Rennie Street.

17. Point # 17 is 0.07 km northwest of point #16 and is located on the western property line of a residential lot that fronts the west side of Rennie Street. The boundary turns west and runs to point #1.

CLARINGTON – BOWMANVILLE SERVICE AREA

The alpha-numeric point numbers below refer to the reference map provided on page 28 of this document.

WESTERN BOUNDARY

1. The boundary starts at point # 1, 0.26 km north of Lake Ontario on Waverly Road and follows the road allowance to point # 2.

2. Point # 2 is 0.17 km south of Hwy # 401 on Waverly Road. The boundary turns west for 0.5 km to point # 3.

3. Point # 3 is 0.05 km south of South Service Road on the extension of Martin Road. The boundary turns north following the extension of Martin Road to the intersection of Martin Road and Hwy # 57 to point # 4.

4. The boundary follows Hwy # 57 north to point # 5 at the intersection of Hwy # 57 and Concession Road # 3.

NORTHERN BOUNDARY

5. The boundary turns east to point # 6 following Concession Road # 3.

EASTERN BOUNDARY

6. Point # 6 is 0.4 km west of Lambs Road on Concession Road # 3. The boundary turns south for 1.05 km to point # 7, and runs parallel to Lambs Road.

7. Point # 7 turns east for 0.4km until it meets Lambs Road at point # 8.

8. Point # 8 turns south and runs along Lambs Road for 0.3 km to point # 9.

9. Point # 9 turns east and runs along the northern property line of 2273 Lambs Road for 100m until it reaches the northeast corner of said property at Point # 10.

10. Point # 10 turns south and runs along the eastern property line of 2273 Lambs Road for 70m until it reaches the southeast corner of said property at Point # 11.

11. Point # 11 turns west and runs along the southern property line of 2273 Lambs Road for 100 m to Point # 12.

12. Point # 12 turns south and runs along Lambs Road for 0.7 km to Point # 13, at the intersection of Lambs Road and Concession Street East.

13. Point # 13 turns west for 0.4 km to Point # 14.

14. Point # 14 turns south for 3.5 km to Point # 15, parallel to Lambs Road.

SOUTHERN BOUNDARY

15. Point # 15 is 0.4 km west of South Service Road. The boundary follows Lake Ontario to point # 16.

16. Point # 16 is located at the bridge across the inlet between Cove Road and Cedar Crest Beach Road. The boundary turns north to point # 17.

17. Point # 17 is located 0.2 km north of point # 16. The boundary turns west to point # 1.

CLARINGTON – NEWCASTLE SERVICE AREA

The alpha-numeric point numbers below refer to the reference map provided on page 29 of this document.

WESTERN BOUNDARY

1. The boundary starts at point # 1 where the continuation of Toronto Street would meet Lake Ontario. The boundary heads north along the road allowance of Toronto Street to point # 2, 1 km west of Mill Street at Hwy # 401.

2. The boundary continues north from this point and follows the road allowance of Rudell Road to point # 3, where Rudell Road terminates north of Given Road, with the exception of an additional contiguous parcel extending to the west of this line approximately opposite Hart Blvd. known as Lot 31, Concession 1 in the former Township of Clarke in Clarington, Part 1, Plan 40R-2074 (St. Francis Elementary School),

3. The boundary continues north from point # 3 to point # 4 north of Hwy # 115.

NORTHERN BOUNDARY

4. Point # 4 is immediately south of the railway track and just northwest of Hwy # 115. The boundary follows the south side of the railway track to point 5.

5. Point # 5 is located at the intersection of the east side of Hwy # 115 and the south side of the railway. The boundary proceeds east following the south side of the railway to point # 6.

6. Point # 6 is located 0.09 km west of Manvers Road on the south side of the railway. The boundary turns north to point # 7, parallel to Manvers Road.

7. Point # 7 is located 0.3 km north of point # 6 and 0.09 km west of Manvers Road. The boundary turns east to point # 8.

8. Point # 8 is located 0.09 km east of Manvers Road and 0.3 km north of point # 9. The boundary turns south, parallel to Manvers Road.

9. Point # 9 is located 0.07 km east of Manvers Road on the south side of the railway. The boundary turns east along the south side of the railway to point # 10.

10. Point # 10 is located 0.11 km west of Arthur Street on the south side of the railway. The boundary turns north parallel to Arthur Street to point # 11.

11. Point # 11 is located 0.3 km north of point # 10 and 0.09 km west of Arthur Street. The boundary turns east at this point to point # 12.

12. Point # 12 is located 0.09 km east of Arthur Street and 0.3 km north of point # 13. The boundary turns south parallel to Arthur Street to point # 13.

13. Point # 13 is located 0.07 km east of Arthur Street on the south side of the railway. The boundary turns east at this point along the south side of the railway to point # 14.

EASTERN BOUNDARY

14. Point # 14 is located at the intersection of the railway and Hwy # 2, on the west side of the railway. The boundary follows the road allowance for Farrow Ave. to point # 15 at Hwy # 401.

15. Point # 15 is located at the intersection of Farrow Ave and Hwy # 401. The boundary continues south to point # 16 following the road allowance for Riley Road.

SOUTHERN BOUNDARY

16. Point # 16 is located at the continuation of Riley Road and Lake Ontario. The boundary turns west following the Lake Ontario shore to point # 1.

CLARINGTON – ORONO SERVICE AREA

The alpha-numeric point numbers below refer to the reference map provided on page 30 of this document.

WESTERN BOUNDARY

1. Point #1 is located 0.2 km west of Main Street following the extension of the road allowance of Sommerville Drive. The boundary continues north to point # 2.

2. Point # 2 is located on Princess Street, 0.09 km west of Leigh Street. The boundary continues north to point # 3.

3. Point # 3 is located 0.09 km north of Princess Street and 0.1 km west of Leigh Street. The boundary continues north to point # 4.

4. Point # 4 is located 0.4 km west of Main Street on Station Street. The boundary continues north to point # 5.

5. Point # 5 is located 0.29 km north of the Mill Street and Main Street intersection and 0.18 km west of Main Street. The boundary continues north to point # 6.

6. Point # 6 is located 0.88 km north of the Mill Street and Main Street intersection and 0.18 km west of Main Street.

NORTHERN BOUNDARY

7. The boundary continues east from point # 6 through the north lot line of 5771 Main Street to point # 7. Point # 7 is located on Mill Lane, 0.17 km north of the intersection of Mill Lane and Mill Street. The boundary continues east to point # 8.

8. Point # 8 is located on Mill Street, 0.15 km north of the intersection of Mill Street and Mill Lane. The boundary continues east following the west property line of the Mill Street road allowance to point # 9.

EASTERN BOUNDARY

9. Point # 9 is located at the intersection of Mill Street and Hwy # 115. The boundary turns south along the west property line of Hwy # 115 to point # 10.

SOUTHERN BOUNDARY

10. Point # 10 is located at the end of Sommerville Drive at the west boundary of the road allowance for Hwy # 35/115. The boundary turns west from this point and follows the road allowance for Sommerville Drive to point # 1.

GRAVENHURST SERVICE AREA

The alpha-numeric point numbers below refer to the reference map provided on page 31 of this document.

Beginning at the most northeast corner of the Town of Gravenhurst (the northeast corner of Muskoka County Conc. IX Lot 1), in a clockwise direction, the franchise area limits are an irregular polygon the bounds of which are described as a line:

EASTERN BOUNDARY

The meets and bounds generally begin at the north-east corner of the Town of Gravenhurst but exclude Lot 1, Conc. IX and Lot 1, Conc VIII Muskoka.

1. Beginning at the intersection of the boundary between Lots 1 and 2, Conc. IX Muskoka and the north Muskoka County line, proceeding southerly along the boundary between Lots 1 & 2 (generally parallel to the eastern limit of the Town of Gravenhurst, or the Town of Bracebridge Town Line, being the Muskoka/Draper County Line) to point # 1A at the southeast corner of Lot 1, Conc. VIII, Muskoka;

   At Point #1A turning easterly along the Conc. VIII/Conc. VII boundary and then following an irregular line along the west and south edges of Registered properties known as 1181 and 1188 Campbell's Road, Gravenhurst to Point # 1B at the intersection with the easterly limit of the Town of Gravenhurst;

   At Point #1B turning southerly along the easterly limit of the Town of Gravenhurst to the point where the Town Line turns sharply east (southeast corner of Lot 1, Conc. I, Muskoka County 1 Lot 1);

2. continuing straight through the preceding point (and not following the Town line) in a straight line southerly along the boundary between the Counties of Ryde and Morrison to the north/south midpoint of Lot 1, Conc. X, Morrison;

SOUTHERN BOUNDARY

3. turning sharply west and continuing in a straight line bisecting Conc. X, Morrison, into north/south halves through Lots 1-13 and into Range East, Morrison, to a point on the boundary between Range West and Range East, Morrison;

4. there making a slight bend northerly and continuing westerly along a line again bisecting Conc. X through Lots 18-25, Conc. X, Morrison to a point immediately west of the boundary between Lots 25 and 26, Conc. X, Morrison;

5. turning sharply northerly along a line just west of the boundary between Lots 25 and 26, through Conc. X to a point midway (north/south) in Conc. Xii, Morrison;

WESTERN BOUNDARY

6. there turning westerly and proceeding along a line approximately bisecting Conc. XII, Morrison, to a point on the boundary between Lots 34 and 35, Morrison;

7. turning sharply northerly along the boundary between Lots 34 and 35, Morrison to a point on the Morrison County boundary with Muskoka County;

8. turning sharply westerly and continuing on the south side of the boundary to the intersection of Morrison, Wood, and Muskoka Counties;

9. there turning northerly and following a line along the east side of the boundary between Wood and Muskoka Counties to a point midway in Conc. XVI, Wood;

10. there turning westerly and following a line bisecting Conc. XVI, Wood through Lots H to A to the boundary between Lot A and Lot 1, Conc. XVI, Wood;

11. there turning sharply northerly along a line following the west side of that boundary to the intersection with the allowance between Conc. XV and XVI, Wood;

12. turning sharply westerly along the center of that allowance to a point at the boundary between Lots 3 & 4, Wood;

13. turning sharply northerly along the boundary between Lots 3 & 4, Wood to the boundary between Conc. XII and XIII;

14. there turning sharply westerly and following the boundary between Conc. XII and XIII, Wood to the westerly limit of Lot 8, Wood County, also known as the westerly limit of the Town of Gravenhurst;

15. there turning sharply northerly and following the westerly limit of Lot 8, Wood (westerly limit of The Town of Gravenhurst) and then continuing to follow the limits of the Town of Gravenhurst northerly to the north most point of Wood County, there taking a slight turn westerly for some 300 meters to the northwest limit of the Town of Gravenhurst;

NORTHERN BOUNDARY

16. then turning sharply east to strike out across Lake Muskoka following the Gravenhurst/Bracebridge Town Line being an irregular open water route meeting the eastern shore at the northwest corner of Muskoka County Conc. Ix Lot 14, and then a straight line easterly along the line between Conc. IX and X, Muskoka County, returning to the northeast corner of the Town of Muskoka.

PORT HOPE SERVICE AREA

The alpha-numeric point numbers below refer to the reference map provided on page 32 of this document.

WESTERN BOUNDARY

1. The western boundary of the existing Port Hope Service Area starts from point # 1, 1.37 km west of Victoria Street at Lake Ontario.

2. The boundary continues north to point # 2 located at 0.63 km west of Toronto Road on Marsh Road. The boundary continues north to point # 3.

NORTHERN BOUNDARY

3. Point # 3 is located 0.2 km west of Toronto Road at Hwy # 401. The boundary turns east to point # 4.

EASTERN BOUNDARY

4. Point # 4 is located at the intersection of Hamilton Road and Hwy # 401. The boundary turns south following the road allowance for Hamilton Road to point # 5.

SOUTHERN BOUNDARY

5. Point # 5 is located on the extension of Hamilton Road where it intersects Lake Ontario. The boundary turns west, following the lakeshore to point # 1.

SCUGOG SERVICE AREA

The alpha-numeric point numbers below refer to the reference map provided on page 33 of this document.

Beginning at the most northwest corner of the Veridian's Franchise Service Area, in a clockwise direction, the franchise area limits are an irregular polygon the bounds of which are described as a line:

NORTHERN BOUNDARY

1. Proceeding generally east along Reach Street to the intersection of Simcoe Street where it meets Coulter Street.

2. Continuing along Coulter Street easterly to 44.11531ºN by 78.93664ºW approximately in the middle of Lake Scugog

EASTERN BOUNDARY

3. Turning shapely south and continuing down the Lake to 44.10069ºN by 78.92997ºW SOUTHERN BOUNDARY

4. Turning sharply west running parallel with Scugog Street before meeting with Applewood Crescent and continuing west to 44.09829ºN latitude by 78.94213º W.

5. There turning to a south south-westerly direction before intersecting with Simcoe Street at Vanedward Drive.

6. There making a sharp turn west for approximately one hundred meters before turning gently south south-westerly again.

7. There meeting with the south east corner of Earl S Cuddy Blvd. heading in a westerly direction for about two hundred meters, then turning slightly to a west south-westerly direction.

8. Continuing to Union Avenue, still heading slightly to a south-westerly direction going east on Victoria Street past Union Avenue.

9. There making a slight bend back to westerly direction at the intersection of Ash Street continuing west to Old Scugog Road.

10. There it continues west to Maple Street.

11. Turning sharply north and continuing north on Maple Street to Alma Street.

12. Continuing in a straight-line north to Scugog Street.

13. Turning sharply to the west and continuing to the intersection of Queen Street.

WESTERN BOUNDARY

14. Turning sharply north and continuing to 44.10160ºN by 78.96246ºW

15. Turning slightly east north-easterly to the intersection of Old Scugog Road and McDonald Street.

16. Turning sharply north and continuing to the intersection of Old Scugog Road and Reach Road returning to the northwest boundary.

UXBRIDGE SERVICE AREA

The alpha-numeric point numbers below refer to the reference map provided on page 34 of this document.

WESTERN BOUNDARY

1. The western boundary of the existing Uxbridge Service Area starts at point # 1, which is located 0.65 km south of Brock Street West and is in line with the east property line of Center Road. The boundary continues north to point # 2.

2. Point # 2 is located on the northeast corner of 22 South Beech Street. The boundary turns west along the south property lines of 280 and 282 Brock Street West to point # 3.

3. Point # 3 is located on the southeast corner of 282 Brock Street West. The boundary turns north along the west property line of 282 Brock Street West to point # 4.

4. Point # 4 is located on the north side of Brock Street West on the extension of the west property line of 282 Brock Street West. The boundary turns east to point # 5.

5. Point # 5 is located at the intersection of Brock Street West and Center Road. The boundary turns north to point # 6 .

NORTHERN BOUNDARY

6. Point # 6 is located at the center line of the road allowance of Center Road, and in line with the north property line of 49 Center Road. The boundary turns to the east along the north property lines of 237,235,233,231 Maple Street, 56,55 Balsam Street, 24,26,27,25 Pine Street, 8,10,9,7 Latcham Court and continues to point # 7.

7. Point # 7 is located 0.16 km west of Main Street, on the continuation of the north property lines of 8,10,9,7 Latcham Court. The boundary turns north to point # 8.

8. Point # 8 is located 0.16 km west of Main Street. The boundary turns to the east following the north property lines of 214 Main Street and 1,3,5,7 Harvey Street to point # 9.

9. Point # 9 is located at the northeast corner of 7 Harvey Street. The boundary turns to the north along the west property line of 11 Harvey Street to point # 10.

10. Point # 10 is located at the northwest corner of 11 Harvey Street. The boundary turns east to point # 11.

11. Point # 11 is located at the northeast corner of 11 Harvey Street. The boundary turns south to point # 12.

12. Point # 12 is located at the intersection of the east property line of 11 Harvey Street, and the north property line of 15 Harvey Street. The boundary turns east to point # 13.

13. Point # 13 is located 0.2 km east of Main Street. The boundary turns south to point # 14.

14. Point # 14 is located 0.01 km north of the northwest corner of 102 Second Avenue. The boundary turns east to follow the centerline of Barton Lane to point # 15.

WESTERN BOUNDARY

15. Point # 15 is located 0.01 km north of the northeast corner of 31 Remion Crescent. The boundary turns south following the eastern boundaries of 31,29,27,25,23,21,19,17,15,13,11,9 Remion Crescent to point # 16.

16. Point # 16 is located on the southeast corner of 174 Reach Street. The boundary turns west to point # 17.

SOUTHERN BOUNDARY

17. Point # 17 is located 0.2 km south of Bell Street on Main Street. The boundary turns north on Main Street to point # 18.

18. Point # 18 is located 0.1 km south of Bell Street. The boundary turns west to point # 19.

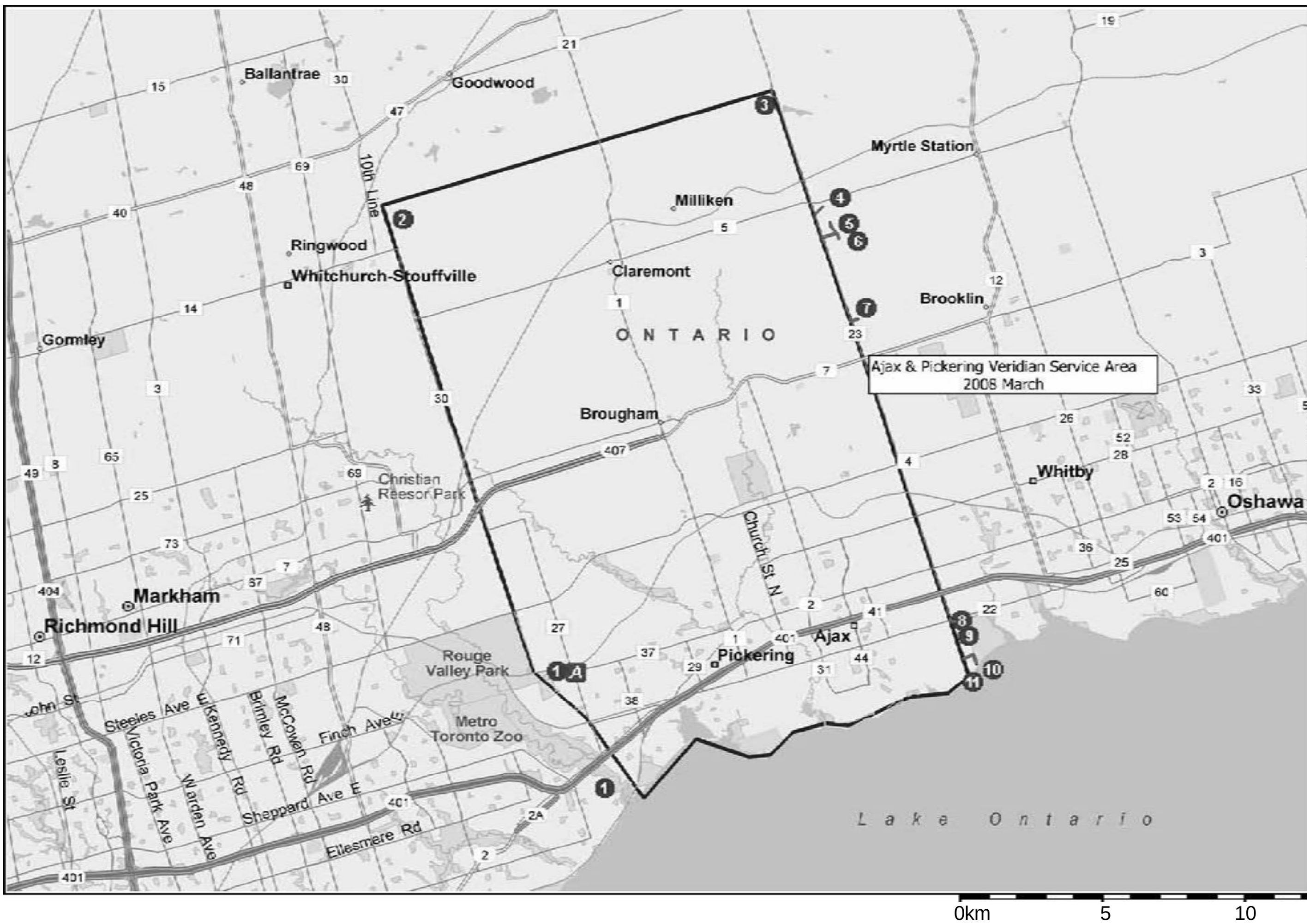
19. Point # 19 is located 0.01 km west of the southeast corner of 166 Water Street. The boundary turns south following the center line of Water Street to point # 20.

20. Point # 20 is located 0.01 km east of the southeast corner of 172 Water Street. The boundary turns west following the south property line of 172 Water Street to point A.

    A. Point A is located at the southwest corner of 188 Water Street. The boundary turns north following the west property lines of 188,170,168 Water Street to point B.

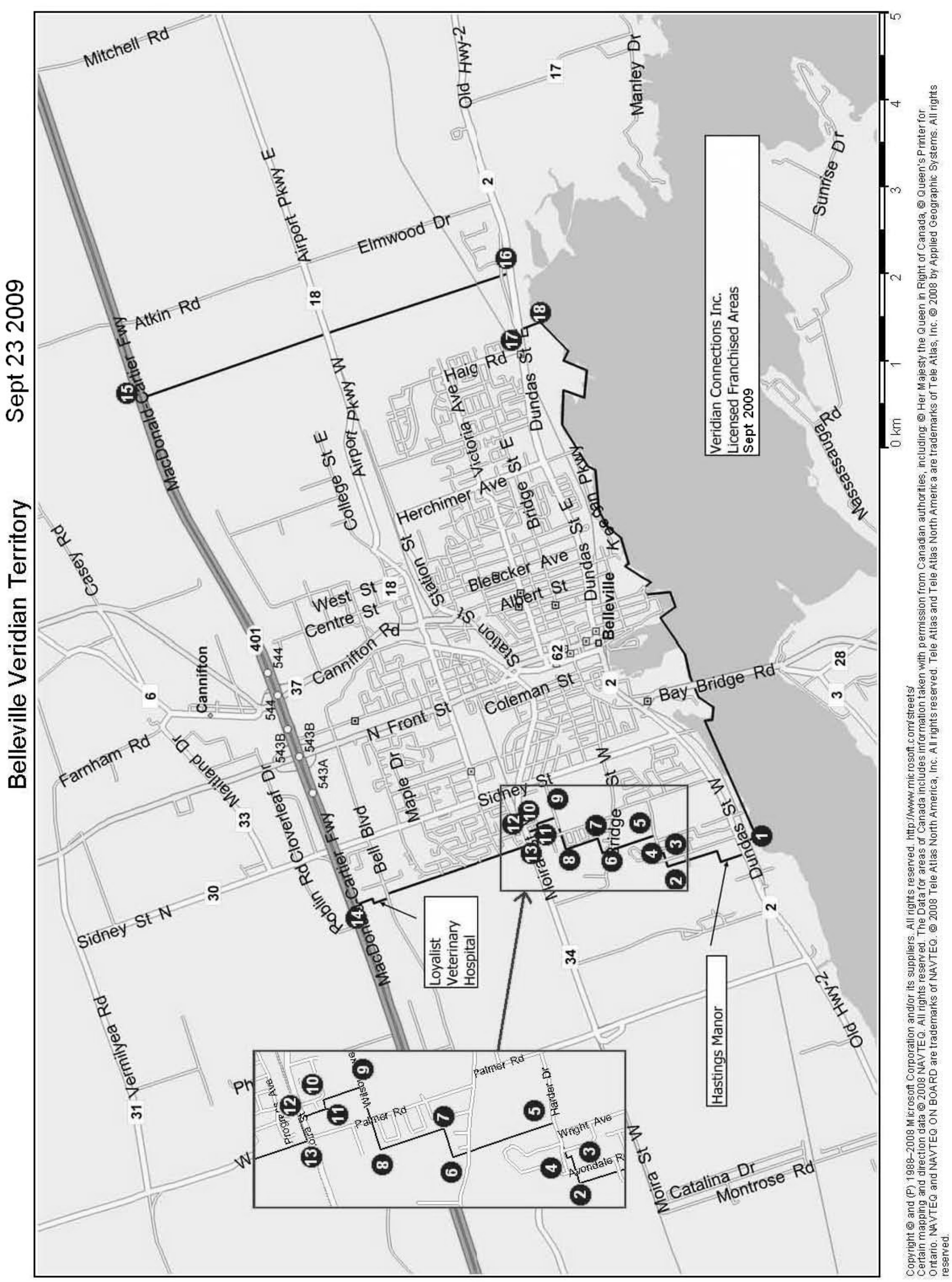
    B. Point B is located at the northwest corner of 168 Water Street. The boundary turns west following the south boundary of 19,20 Joseph Street, 19,20 James Street, 18,20,22 Wilson Street, and 123 Toronto Street South. The boundary continues east to point # 1.

Ajax Pickering Veridian Service Area 2008326



Appendix B **Schedule 1 Definition of Distribution Service Area of Veridian Connections Inc.**

This Schedule specifies the area in which the Licensee is authorized to distribute and sell electricity in accordance with condition 8.1 of this Licence.



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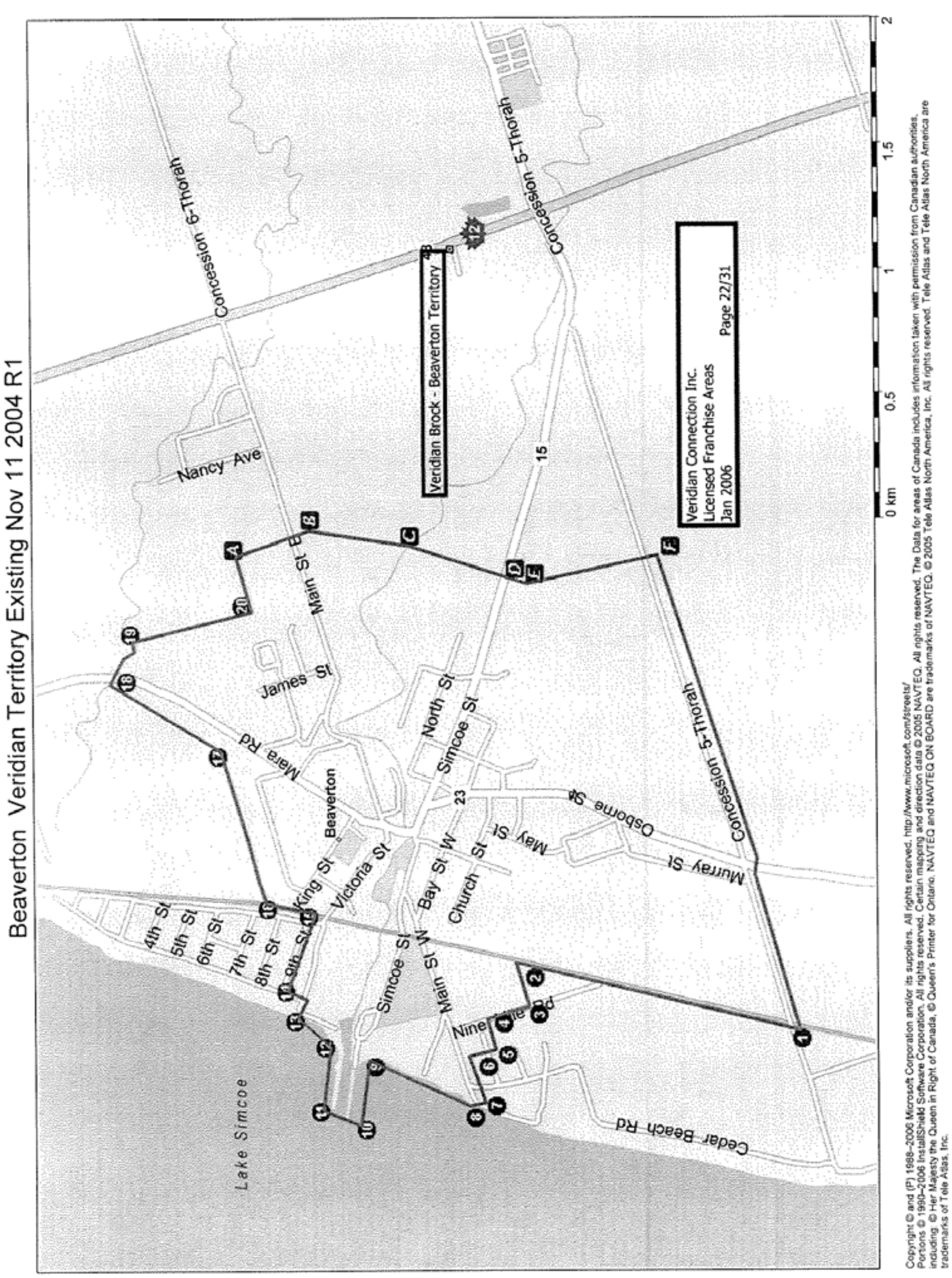

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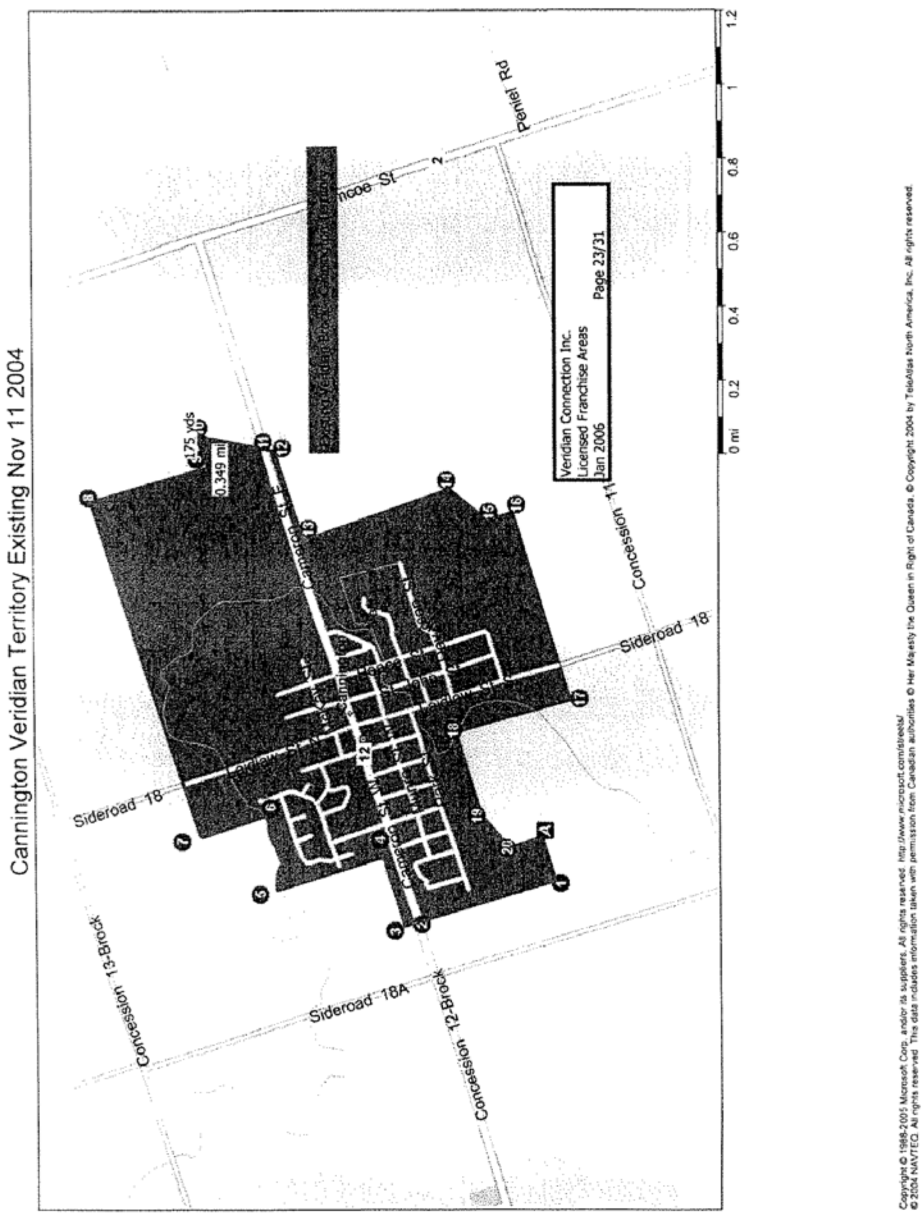

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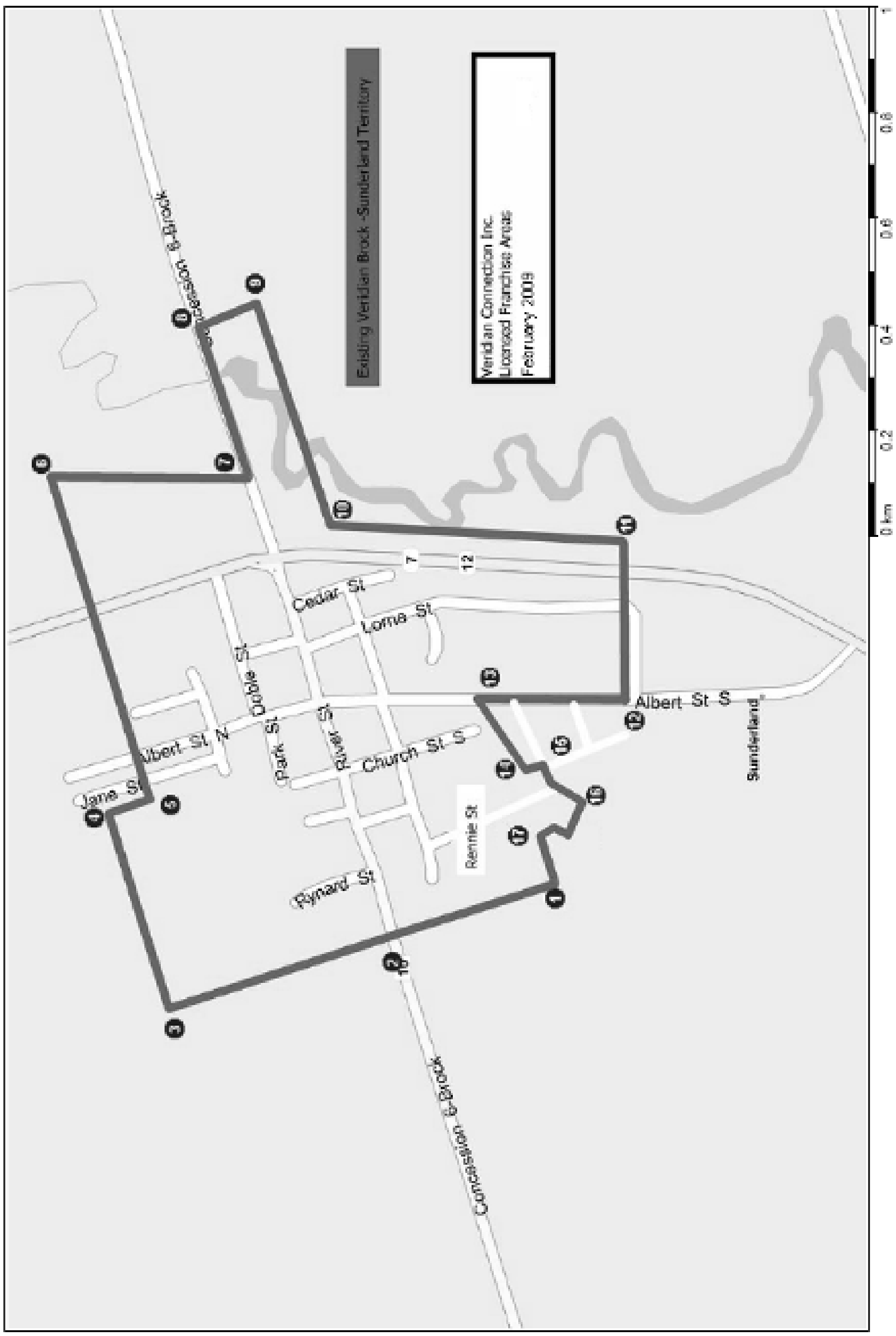
Veridian Sunderland Territory February 2009



Appendix B **Schedule 1** **Definition of Distribution Service Area of Veridian Connections Inc.**

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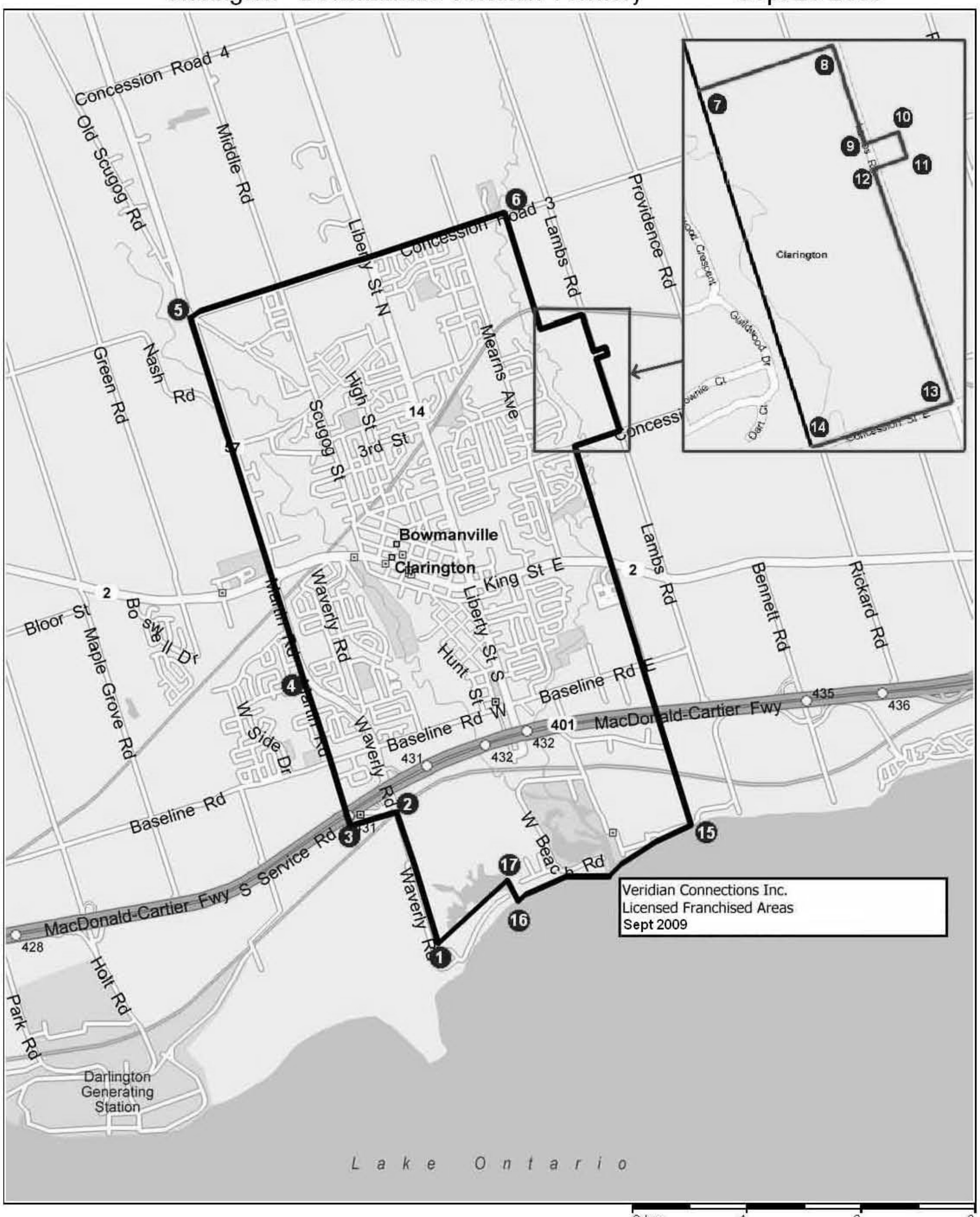
Clarington - Bowmanville Veridian Territory Sept 23 2009



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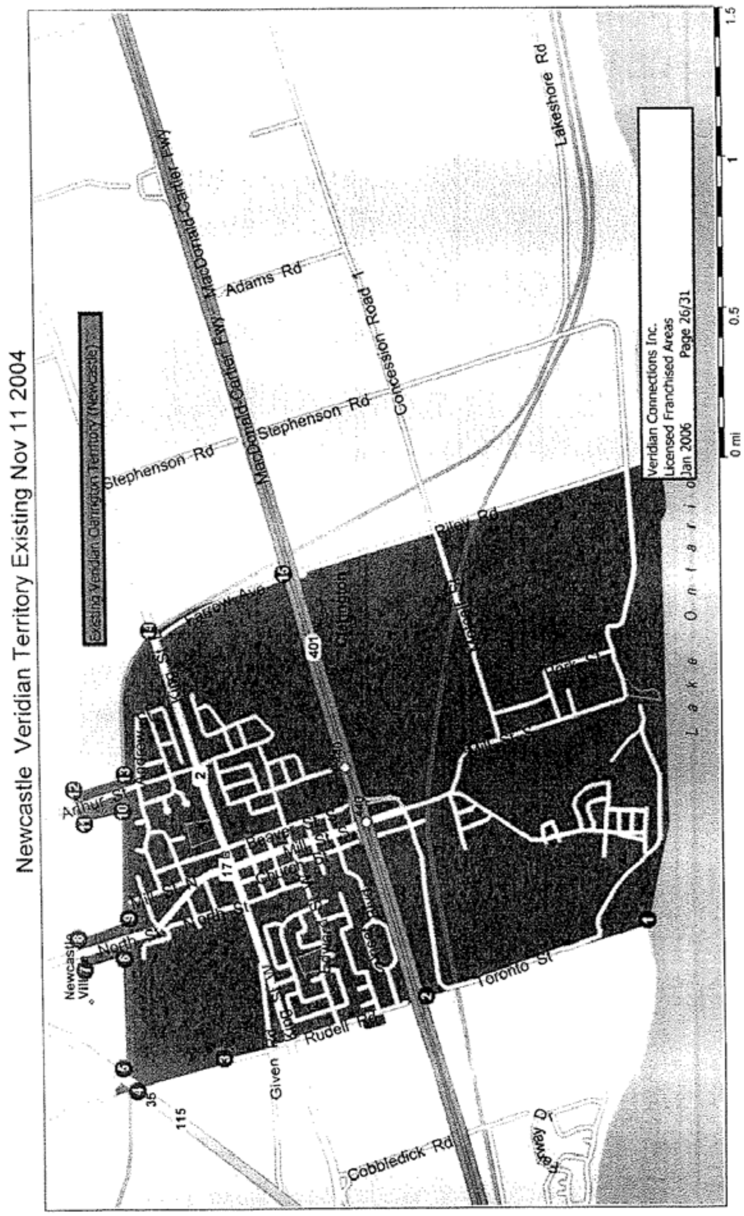

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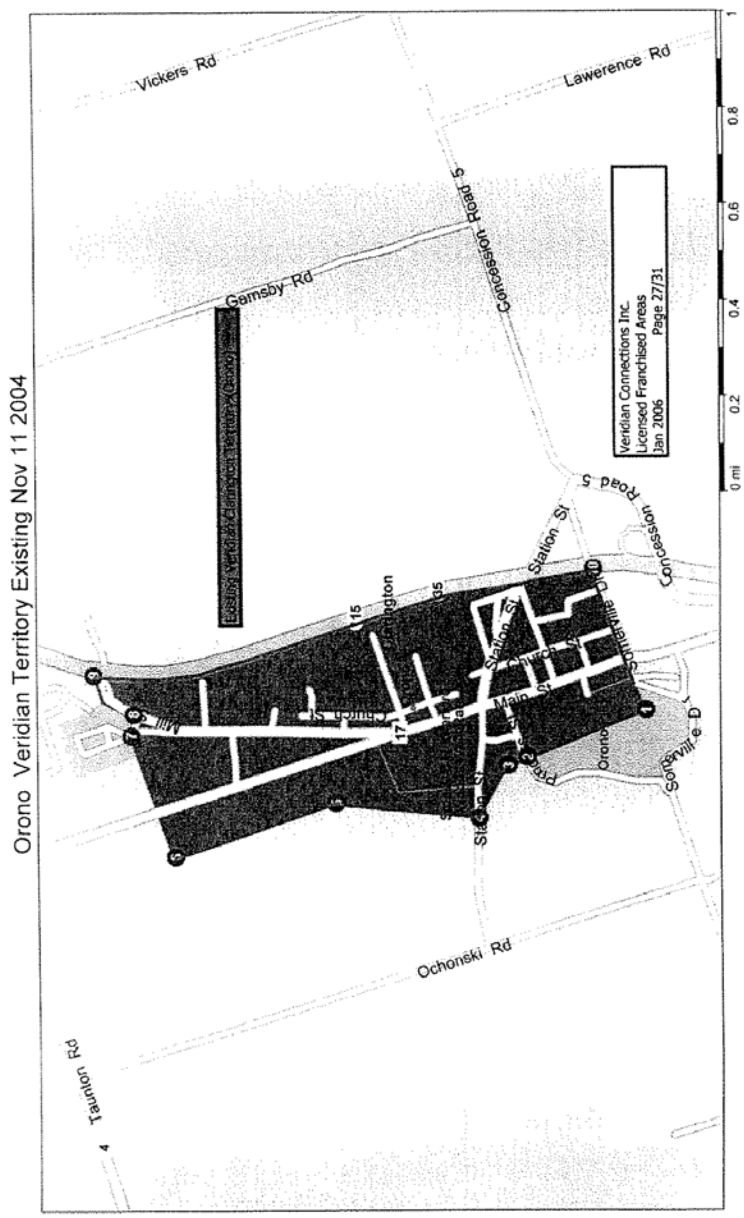

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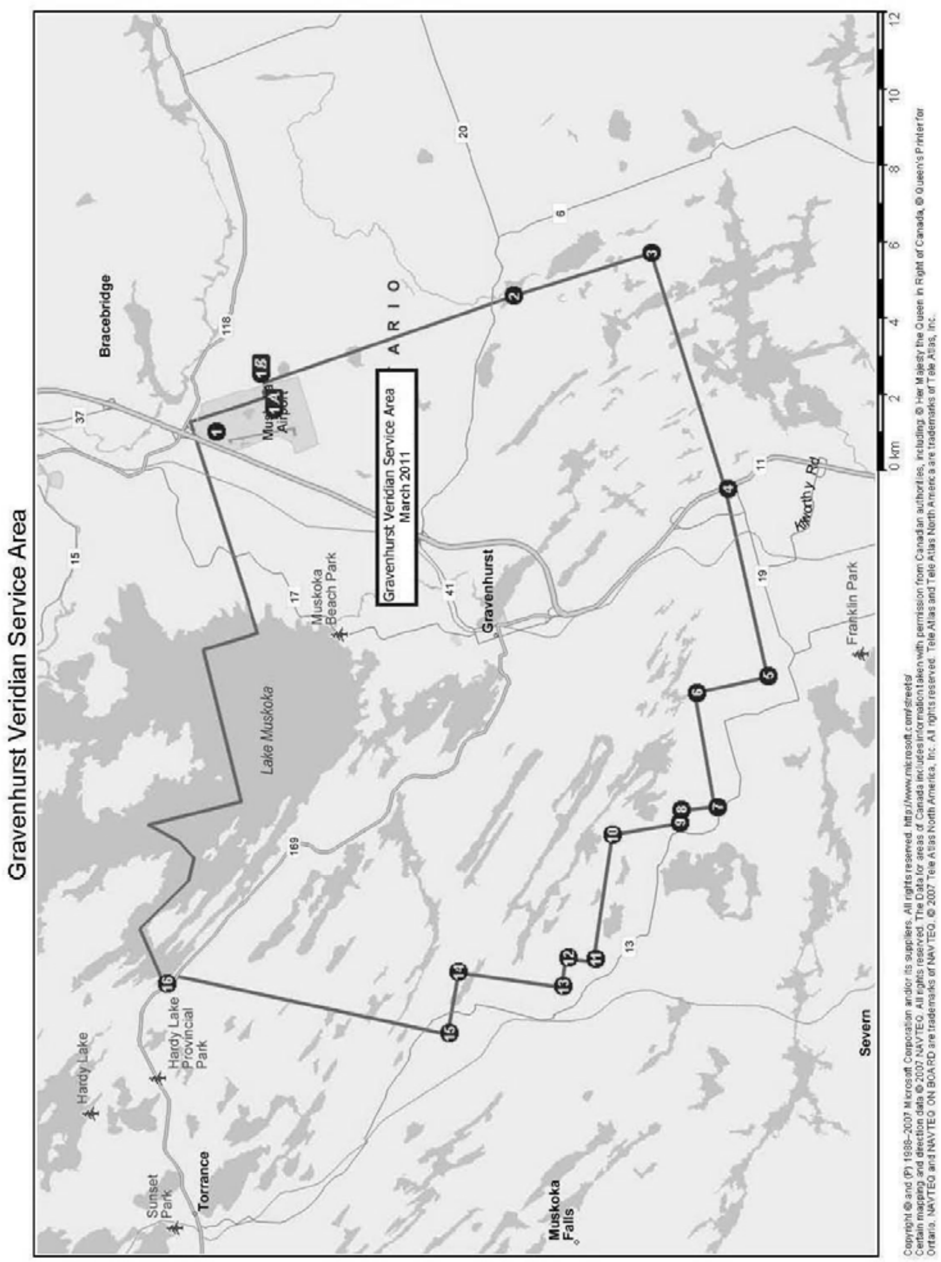

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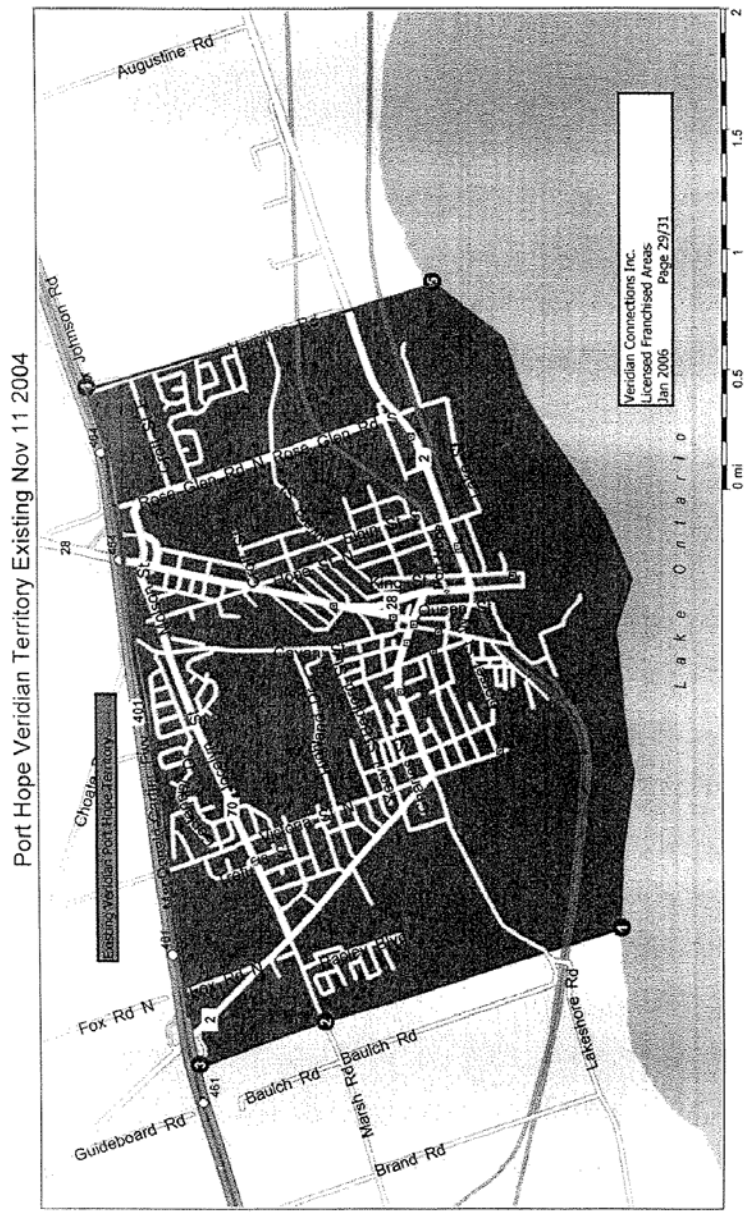

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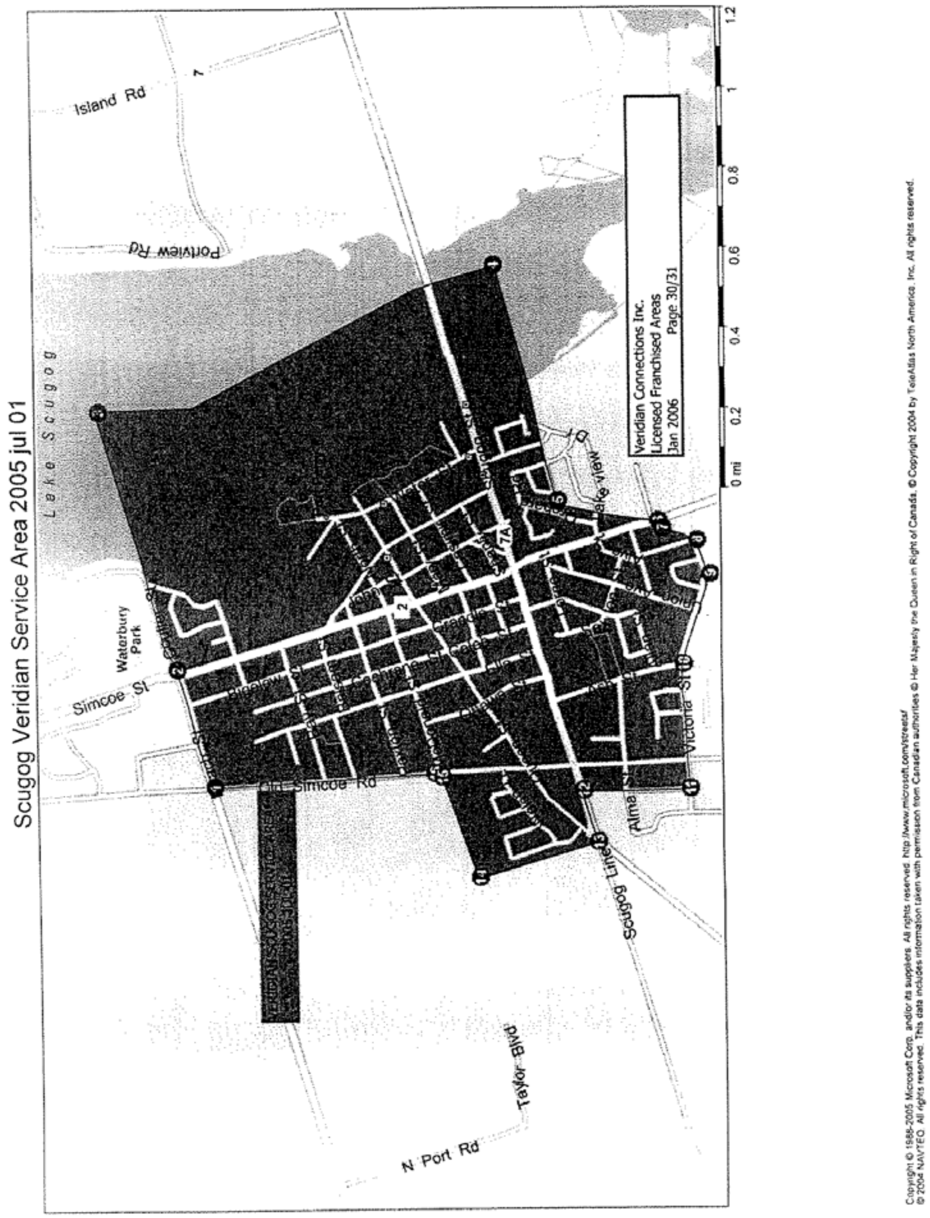

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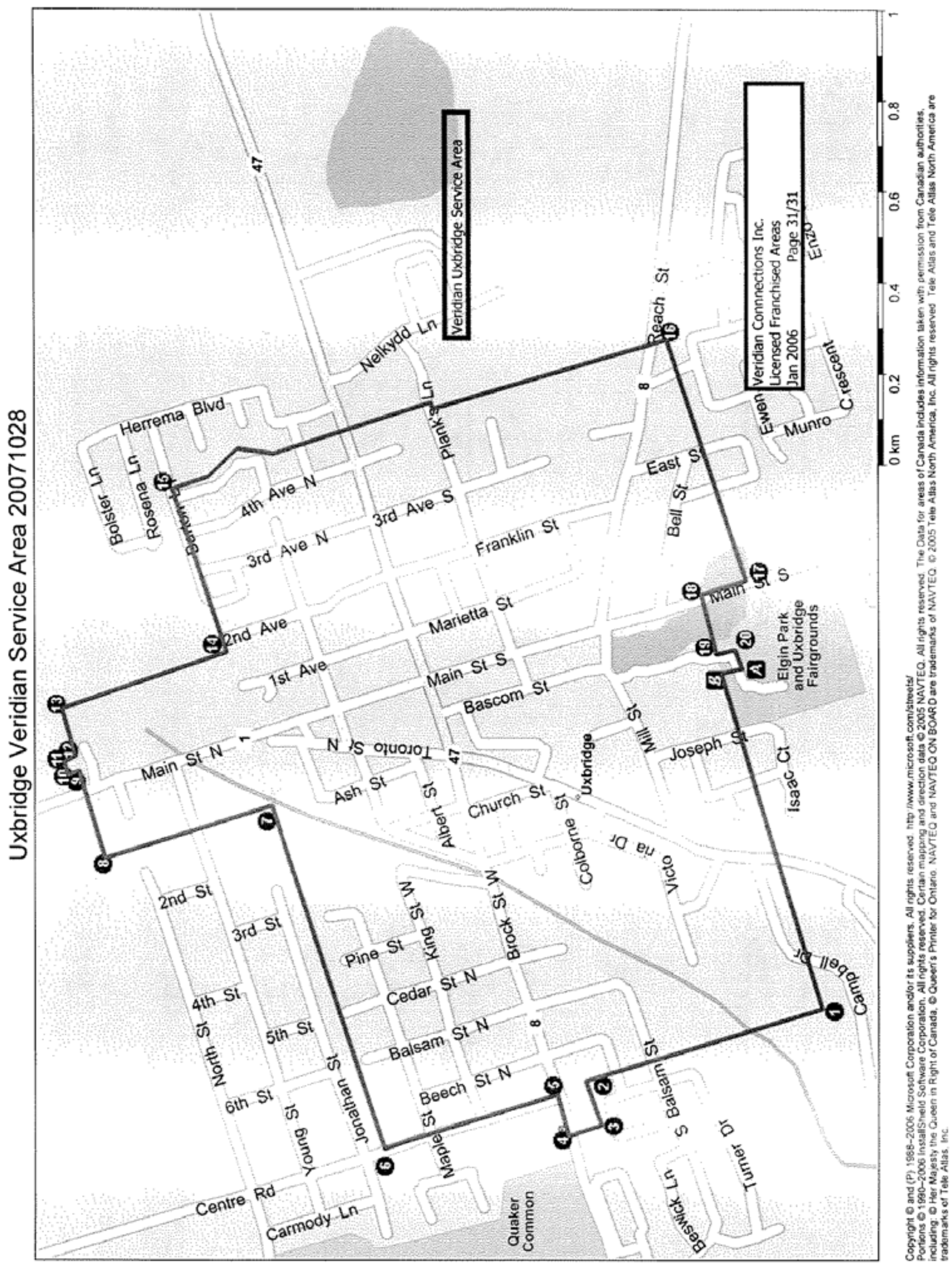

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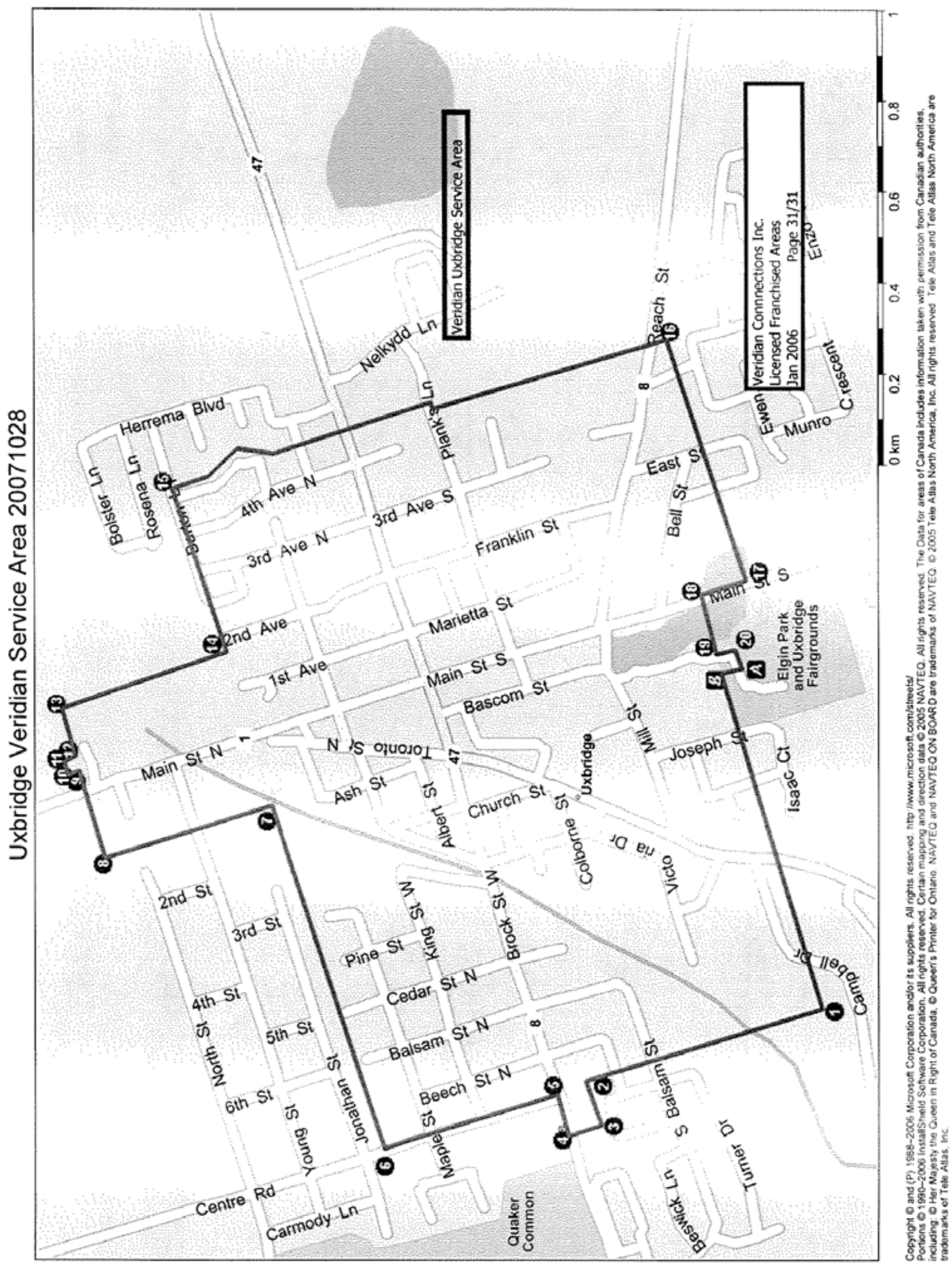

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Responses to Letters of Comment

Veridian will respond to any letters of comment filed with the Board during the course of this proceeding and file those responses as additional evidence.

File Number:	EB-2013-0174
Date Filed:	October 31, 2013

Exhibit 1

Tab 5 of 5

Financial Information

Historical Financial Statements

The following attachments are included in this schedule:

1. 2012 Audited Financial Statements
2. 2011 Audited Financial Statements
3. 2010 Audited Financial Statements
4. Veridian Corporation’s 2012 Annual Report
5. DBRS Rating Agency Report for Veridian Corporation

Attachment 1 of 5

2012 Audited Statements

Financial Statements of

VERIDIAN CONNECTIONS INC.

Year ended December 31, 2012

KPMG LLP
Chartered Accountants
Yonge Corporate Centre
4100 Yonge Street Suite 200
Toronto ON M2P 2H3
Canada

Telephone (416) 228-7000
Fax (416) 228-7123
Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Veridian Connections Inc.

We have audited the accompanying financial statements of Veridian Connections Inc., which comprise the balance sheet as at December 31, 2012, the statements of earnings and retained earnings and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Veridian Connections Inc. as at December 31, 2012, and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

April 4, 2013
Toronto, Canada

VERIDIAN CONNECTIONS INC.

Balance Sheet
(In thousands of dollars)

December 31, 2012, with comparative figures for 2011

	2012	2011
Assets		
Current assets:		
Accounts receivable (note 2)	$ 57,585	$ 52,783
Income taxes recoverable	1,214	466
Due from related parties (note 10)	2	48
Current portion of regulatory assets (note 5)	813	288
Prepaid expenses	893	916
Inventory	1,704	1,665
	62,211	56,166
Other non-current assets	142	278
Property, plant and equipment (note 3)	177,414	170,502
Intangible assets (note 4)	5,368	4,647
Goodwill	8,746	8,746
Future income tax assets (note 6)	11,151	11,509
Regulatory assets (note 5)	10,625	7,451
	213,446	203,133
	$ 275,657	$ 259,299
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness	$ 1,398	$ 1,264
Accounts payable and accrued liabilities (note 7)	36,706	37,187
Short-term loans (note 8)	1,600	5,000
Advance payments - construction deposits	763	522
Developer obligations	1,509	2,031
Deferred revenue (note 9)	1,831	1,201
Current portion of long-term debt (note 11)	5,115	4,640
Current portion of regulatory liabilities (note 5)	3,306	3,472
	52,228	55,317
Long-term liabilities:		
Long-term debt (note 11)	116,871	106,987
Unrealized loss on interest rate swaps (note 19(f))	1,982	1,630
Regulatory liabilities (note 5)	15,995	12,746
Employee future benefits (note 12)	2,049	1,681
Customer deposits and contractor obligations	5,029	4,914
	141,926	127,958
Shareholders' equity:		
Share capital (note 13)	64,302	64,302
Contributed capital	23	23
Retained earnings	17,178	11,699
	81,503	76,024
Contingencies and guarantees (note 15)		
Lease commitments (note 16)		
	$ 275,657	$ 259,299

See accompanying notes to financial statements.

On behalf of the Board:

Doug Dickerson

Chair, Board of Directors

Chair, Audit and Risk Management Committee

VERIDIAN CONNECTIONS INC.

Statement of Earnings and Retained Earnings
(In thousands of dollars)

Year ended December 31, 2012, with comparative figures for 2011

	2012	2011
Commodity revenue	$ 245,349	$ 238,331
Commodity cost	(245,349)	(238,331)
	–	–
Distribution revenue	50,608	47,940
Gross margin	50,608	47,940
Expenses:		
Operating and maintenance	8,486	7,131
Administration	16,235	14,330
Amortization	8,757	14,184
	33,478	35,645
Operating income before the undernoted	17,130	12,295
Other income (loss) (note 17)	(858)	3,362
Finance income	664	345
Unrealized loss on interest rate swaps (note 19(f))	(352)	(1,630)
Interest on long-term debt (note 11)	(6,561)	(5,419)
	(7,107)	(3,342)
Earnings before income taxes	10,023	8,953
Income tax recovery (expense) (note 6)	56	(2,038)
Net earnings	10,079	6,915
Retained earnings, beginning of year	11,699	9,684
Dividends paid (note 14)	(4,600)	(4,900)
Retained earnings, end of year	$ 17,178	$ 11,699

See accompanying notes to financial statements.

VERIDIAN CONNECTIONS INC.

Statement of Cash Flows
(In thousands of dollars)

Year ended December 31, 2012, with comparative figures for 2011

	2012	2011
Cash provided by (used in):		
Operating activities:		
Net earnings	$ 10,079	$ 6,915
Items not affecting cash:		
Gain on disposal of property, plant and equipment	(11)	(39)
Increase (decrease) in regulatory assets/liabilities	1,112	(16,202)
Unrealized loss on interest rate swaps	352	1,630
Increase in employee future benefits obligation	368	240
Future income taxes	(1,370)	(616)
Amortization of property, plant and equipment	7,566	13,293
Amortization of intangible assets	1,295	1,838
	19,391	7,059
Change in non-cash operating working capital (note 18)	(5,652)	4,439
	13,739	11,498
Financing activities:		
Dividends paid (note 14)	(4,600)	(4,900)
Increase (decrease) in customer deposits and contractor obligations	115	(319)
Net proceeds of long-term debt	10,359	25,718
Repayments from short-term loans	(3,400)	(5,300)
	2,474	15,199
Investing activities:		
Proceeds from disposition of property, plant and equipment	9	80
Additions to property, plant and equipment, net of contributed capital	(14,476)	(23,634)
Additions to intangible assets	(2,016)	(1,706)
Other non-current assets/liabilities	136	(1,073)
	(16,347)	(26,333)
Decrease (increase) in bank indebtedness	(134)	364
Bank indebtedness, beginning of year	(1,264)	(1,628)
Bank indebtedness, end of year	$ (1,398)	$ (1,264)
Supplemental cash flow information:		
Interest received	$ 16	$ 31
Interest paid	7,343	6,826
Income taxes paid	2,062	3,000

See accompanying notes to financial statements.

Veridian Connections Inc. (the "Company") commenced operations on November 1, 1999. It is a wholly owned subsidiary of Veridian Corporation (the "Corporation"). The Company is licensed by the Ontario Energy Board (the "OEB") as an electricity distributor which distributes electricity in the cities of Belleville and Pickering, the towns of Ajax, Gravenhurst, Port Hope and Uxbridge, and the communities of Bowmanville, Newcastle, Orono, Beaverton, Cannington, Sunderland and Port Perry.

1. Significant accounting policies:

(a) Basis of presentation:

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("Canadian GAAP").

(b) Revenue recognition:

(i) Electricity distribution and sale:

Revenue from the sale of electricity is recognized on the basis of cyclical billing based on electricity usage and includes an estimate of unbilled revenue accrued in respect of electricity delivered but not yet billed. Unbilled revenue included within accounts receivable as at December 31, 2012 amounted to $28,056 (2011 - $28,547). Actual results could differ from estimates made of actual electricity usage.

(ii) Other revenue:

Other revenue, which includes revenue from electricity distribution-related services, is recognized as the services are rendered.

(c) Rate setting:

The Company is regulated by the OEB under authority of the Ontario Energy Board Act, 1998. The OEB is charged with the responsibility of approving or setting rates for the transmission and distribution of electricity and the responsibility for ensuring that distribution companies fulfill obligations to connect and service customers.

1. Significant accounting policies (continued):

The OEB has the general power to include or exclude costs, revenue, losses or gains in the rates of a specific period, resulting in the change in the timing of accounting recognition from that which would have applied in an unregulated company. Such change in the timing involves the application of rate-regulated accounting, giving rise to the recognition of regulatory assets and liabilities. The Company's regulatory assets represent certain amounts receivable from future customers and costs that have been deferred for accounting purposes because it is probable that they will be recovered in future rates. In addition, the Company has recorded regulatory liabilities which represent differences in amounts billed to customers and the costs to the Company. Specifically, the following accounting treatments have been applied:

(i) An amount to represent the cost of funds used during construction and development has been applied based on the value of construction in progress.

(ii) The Company has deferred certain post-market opening retail settlement variances in accordance with Article 490 of the OEB's Accounting Procedures Handbook.

(d) Inventory:

Inventory, which consists of parts and supplies acquired for internal construction or consumption, is valued at the lower of cost and net realizable value. Cost is determined on a weighted moving average basis.

Any impairment losses taken on inventory are reversed if and when net realizable value subsequently recovers. Major spare parts and standby equipment are recorded as part of property, plant and equipment and amortized once they are put into use.

(e) Property, plant and equipment:

Property, plant and equipment purchased or constructed by the Company are stated at cost and include contracted services, materials, labour, engineering costs, overheads and an allowance for the cost of funds used during construction when applied. Certain assets may be acquired or constructed with financial assistance in the form of contributions from developers or customers. The OEB requires that such contributions be offset against the related asset cost.

(In thousands of dollars)

1. Significant accounting policies (continued):

When identifiable buildings, distribution station equipment and office equipment are retired or otherwise disposed of, their original cost and accumulated amortization are removed from the accounts and the related gain or loss is included in current operations. Repairs and maintenance expenditures are charged to operations. The cost and related accumulated amortization of a pool of like assets, such as transmission and distribution systems, are removed at the end of the estimated service lives.

During 2012, the Company changed its estimates of useful lives and componentized certain items of property, plant and equipment. The changes have been applied prospectively. The change in the basis of depreciation has had the effect of decreasing depreciation expense by approximately $5,210 in 2012.

In addition, during 2012, the Company changed its estimation and allocation of indirect costs subject to capitalization, resulting in a change in estimation of costs directly attributable to capital projects. These changes have been applied prospectively and result in an increase in operating expenses by approximately $1,102 in 2012.

In compliance with OEB directions, the changes mentioned above were accounted for through a variance account resulting in an increase in regulatory liability (note 5) and decrease in other income by $4,108 (note 17).

Amortization is provided on the straight-line basis over the estimated service lives at the following annual rates:

Land rights	2.0%
Buildings	2.0% - 6.7%
Distribution station equipment	1.7% - 4.0%
Transmission and distribution system	1.7% - 10.0%
Meters	4.0% - 6.7%
Office equipment	10.0%
Computer hardware	20.0% - 33.3%
Vehicle fleet	6.7% - 16.7%
Renewable power generation	4.0%

1. Significant accounting policies (continued):

In the event that facts and circumstances indicate that property, plant and equipment may be impaired, an evaluation of recoverability is performed. For purposes of such an evaluation, the estimated future undiscounted cash flows associated with the asset are compared to the carrying amount of the asset to determine if a write-down is required. The impairment loss is measured as the amount by which the carrying amount of the asset exceeds its fair value.

Construction in progress comprises property, plant and equipment under construction, assets not yet placed into service and pre-construction activities related to specific projects expected to be constructed.

An allowance for the cost of funds used during the construction period has been applied. The rate applied is equal to the rate prescribed in each quarter by the OEB. The average rate for the current fiscal period, in respect of long-term borrowing, is 3.57% (2011 - 4.20%).

When portions of the Company's distribution facilities are replaced or relocated, the asset is charged with the costs of construction less the salvage value of any material returned to inventory. Amortization is then provided at the same rate used for the original asset.

(f) Intangible assets:

Amortization of intangible assets is provided on a straight-line basis over the estimated service lives at the following annual rates:

Application software and miscellaneous intangible plant	33.3%
Internally generated software	20.0%

(g) Impairment of long-lived assets:

Long-lived assets are reviewed for impairment whenever events or circumstances indicate that the carrying amount of the long-lived assets is not recoverable. Any resulting impairment loss is recorded in the year in which the impairment occurs.

1. Significant accounting policies (continued):

(h) Goodwill:

Goodwill relates to the cost of acquired local distribution companies in excess of fair value of the net identifiable assets purchased and is evaluated for impairment on an annual basis, or more frequently, if circumstances require. Goodwill impairment is assessed based on a comparison of the fair value of the assets acquired to the underlying carrying value of those net assets, including goodwill, with any write-down of the carrying value of goodwill being charged to operations. The Company has determined that goodwill is not impaired.

(i) Customer deposits and contractor obligations:

Customers and contractors may be required to post security to obtain electricity or other services. Interest is paid on customer balances at rates established from time to time by the Company. The current portion of customer deposits and contractor obligations are included in accounts payable and accrued liabilities.

(j) Pension and other post-employment benefits:

The Company accounts for its participation in the Ontario Municipal Employees Retirement System ("OMERS"), a multi-employer public sector pension fund, as a defined contribution plan.

The Company actuarially determines the cost of other employment and post-employment benefits offered to employees. These unfunded plans are accounted for as defined benefit obligations. The Company applies the projected benefit method, prorated on service and based on management's best estimate and assumptions. Under this method, the projected post-retirement benefit is deemed to be earned on a pro rata basis over the years of service in the attribution period commencing at date of hire, and ending at the earliest age the employee could retire and qualify for benefits.

1. Significant accounting policies (continued):

(k) Income taxes:

Under the Electricity Act, 1998, the Company is required to make payments in lieu of corporate income taxes ("PILs") to Ontario Electricity Financial Corporation. These payments are calculated in accordance with the rules for computing income and taxable capital and other relevant amounts contained in the Income Tax Act (Canada) and the Corporations Tax Act (Ontario) as modified by the Electricity Act, 1998 and related regulations. References in these financial statements to income taxes are with respect to PILs.

The Company uses the asset and liability method of accounting for the tax effect of temporary differences between the carrying amount and tax bases of the Company's assets and liabilities. Temporary differences arise when the realization of an asset or the settlement of a liability would give rise to either an increase or decrease in the Company's income taxes payable in the year or a later period.

Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in earnings in the year that includes the date of enactment or substantive enactment. A valuation allowance is recorded against a future income tax asset to the extent that the Company determines that it is more likely than not that a future income tax asset will not be realized in the future.

Where the Company expects the future income taxes to be recovered from or refunded to customers as part of the rate setting process, the future income tax assets and liabilities result in regulatory liabilities and assets; otherwise, the future income tax assets and liabilities result in a future tax provision that is charged to the statement of earnings and retained earnings.

1. Significant accounting policies (continued):

(l) Measurement uncertainty:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Accounts receivable and regulatory assets are reported based on amounts expected to be recovered and an appropriate allowance for unrecoverable amounts. Inventory is recorded net of provisions for obsolescence. Due to inherent uncertainty involved in making such estimates, actual results reported in future years could differ from those estimates recorded in preparing these financial statements, including changes as a result of future decisions made by the OEB or the Minister of Energy.

(m) Financial instruments:

The Company categorizes its financial instruments as follows:

Accounts receivable and unbilled revenue	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Short-term loans	Other financial liabilities
Bank indebtedness	Other financial liabilities
Advance payments - construction deposits	Other financial liabilities
Developer obligations	Other financial liabilities
Long-term debt	Other financial liabilities
Customer deposits and contractor obligations	Other financial liabilities

(n) Derivative financial instruments:

Derivative financial instruments are measured at their fair value upon initial recognition and on each subsequent reporting date. The Company has not elected to apply hedge accounting for its interest rate swap contracts and does not enter into derivative agreements for speculative purposes. Changes in the fair value of the derivatives are recorded each year in the statement of earnings and retained earnings.

1. Significant accounting policies (continued):

(o) Future accounting changes:

Transition to International Financial Reporting Standards ("IFRS"):

The Canadian Accounting Standards Board ("AcSB") adopted a new strategic plan that will have Canadian GAAP converge with IFRS, effective January 1, 2011.

On September 10, 2010, the AcSB granted an option to permit rate-regulated entities to defer IFRS implementation to January 1, 2012 and then again on March 30, 2012, the AcSB announced its decision to extend, by an additional year, the mandatory changeover date to IFRS for rate-regulated entities to January 1, 2013. This decision was made in light of discussions that the IASB may address rate-regulated activities as part of its future agenda. In September 2012, the AcSB decided to extend the existing deferral of the mandatory IFRS changeover date for entities with qualifying rate-regulated activities by an additional year to January 1, 2014. The AcSB extended the deferral because an interim solution for entities with rate-regulated activities remained a possibility.

On February 13, 2013, the AcSB decided to extend the existing deferral of the mandatory IFRS changeover date for entities with qualifying rate-regulated activities by an additional year to January 1, 2015. The decision was taken in anticipation of the "IASB" issuing an interim IFRS on rate-regulated activities by the end of 2013 and in order to provide first-time adopters of IFRS adequate time to prepare comparative figures based on such a standard.

During 2012, the Company made a decision to adopt IFRS with an adoption date of January 1, 2014. This adoption date will require the restatement, for comparative purposes, of the amounts reported by the Company for its year end December 31, 2013, and the opening balance sheet as at January 1, 2013. Depending on the timing of the final interim standard to be issued by the IASB and incorporation of the same in The Canadian Institute of Chartered Accountants' Handbook, the Company will make a decision whether to avail deferral of the mandatory changeover date to January 1, 2015.

(In thousands of dollars)

1. Significant accounting policies (continued):

(p) Capital disclosures:

The Company's objectives with respect to its capital structure are to maintain effective access to capital on a long-term basis, at reasonable rates, and to deliver the appropriate financial returns. As of December 31, 2012, the Company's definition of capital includes shareholders' equity, long-term debt, including the Municipal and Corporation promissory notes and a short-term loan facility from a Canadian chartered bank. The OEB has determined the Company to have a capital structure of 56% long-term debt, 4% short-term debt and 40% equity. The OEB uses this deemed structure as a basis of how capital is funded for rate-setting purposes only. The actual capital structure for the Company may be different from the OEB-deemed structure.

The Company has been in compliance with all the covenants included in its long-term debt agreements, notes from the shareholders and the short-term loans. During the year, there have been no changes to how the Company assesses its capital structure.

2. Accounts receivable:

	2012	2011
Energy revenue	$ 22,605	$ 21,679
Unbilled revenue	28,056	28,547
Project expenditures recoverable	3,588	2,315
Pole rentals and other	3,989	662
	58,238	53,203
Less allowance for doubtful accounts	653	420
	$ 57,585	$ 52,783

(In thousands of dollars)

3. Property, plant and equipment:

	Cost	Accumulated amortization	2012 Net book value	2011 Net book value
Land	$ 1,777	$ –	$ 1,777	$ 1,778
Land rights	762	369	393	395
Buildings	22,555	6,464	16,091	16,504
Distribution station equipment	36,149	17,437	18,712	16,902
Transmission and distribution system	328,360	167,191	161,169	142,428
Meters	19,018	6,276	12,742	12,749
Office equipment	4,749	3,436	1,313	1,450
Computer hardware	7,170	6,363	807	850
Vehicle fleet	8,601	4,607	3,994	3,951
Renewable power generation	724	15	709	–
Construction in progress	5,237	–	5,237	14,433
Contributions in aid of construction	(60,271)	(14,741)	(45,530)	(40,938)
	$ 374,831	$ 197,417	$ 177,414	$ 170,502

During the year, $197 (2011 - $214), representing an allowance for the cost of funds used during construction, was capitalized.

4. Intangible assets:

	Cost	Accumulated amortization	2012 Net book value	2011 Net book value
Application software and other	$ 15,913	$ 11,960	$ 3,953	$ 2,332
Construction in progress related to application software and other	203	–	203	1,103
Capital contributions	1,212	–	1,212	1,212
	$ 17,328	$ 11,960	$ 5,368	$ 4,647

(In thousands of dollars)

5. Regulatory assets and liabilities:

Regulatory assets and liabilities can arise out of the rate-making process.

	2012	2011
Regulatory assets:		
Other deferred costs (a)	$ 2,070	$ 1,281
Smart meter (b)	5,109	7,234
Retail settlement and low voltage variances (c)	4,788	–
	11,967	8,515
Less:		
Amounts expected to be settled in the next year (a) and (b)	813	288
Valuation allowance	529	776
	1,342	1,064
	$ 10,625	$ 7,451
Regulatory liabilities:		
Regulatory liability for future income tax assets	$ 10,173	$ 11,901
Retail settlement and low voltage variances (c)	–	157
Retail services variances (d)	61	78
Other regulatory liabilities (e)	4,635	847
Balance of amounts approved to be refunded to customers through distribution rates	4,432	3,235
	19,301	16,218
Less amounts expected to be settled in the next year (f)	3,306	3,472
	$ 15,995	$ 12,746

(a) The OEB approved the establishment of regulatory deferral accounts to record the Company's incremental cost for polychlorinated biphenyls ("PCBs") testing that occurred in 2009. The Company has been approved for recovery of this cost in its 2011 incentive rate mechanism application. The costs remaining for PCB testing as of December 31, 2012 are $206. Another deferral account has been established for one-time administrative costs during transition to IFRS of $387, smart grid costs of $300, and lost revenue adjustment mechanism costs of $294. Also included in other regulatory assets is an approved recoverable amount of $451 and PIL's recoverable amount of $432.

5. Regulatory assets and liabilities (continued):

(b) The OEB approved the establishment of smart meter variance accounts to record revenue approved by the OEB for smart meters and related capital costs. In 2012, the Company applied for final disposition of smart meter costs up to December 2012.

Disposition was approved by the OEB and the Company began recovering these costs from November 2012. The net book value of stranded meters as well as amounts for amortization costs remain in the smart meter variance accounts. The Company has filed a motion to review with the OEB for further recovery of the remaining amortization costs of $529 and will file for recovery of stranded meter costs of $4,580 in the 2014 cost of service application. The Company has recorded a valuation allowance against the remaining smart meter amortization costs of $529.

(c) In 2012, the OEB approved the disposition of the Company's retail settlement variance accounts as at December 31, 2010. The retail settlement variances for 2012 are variances that have accrued since January 1, 2011. Specifically, these amounts include variances between the amount charged by the Independent Electricity System Operator ("IESO") for the operation of the markets and grid, as well as various wholesale market settlement charges and transmission charges as compared to the amount billed to consumers based on the OEB-approved rates. This amount also includes variances between the amounts charged by Hydro One for low voltage services and the amount billed to consumers based on the OEB-approved rates. In the absence of rate-regulated accounting, interest expense in 2012 would have been lower by $712 (2011 - $433) and interest revenue in 2012 would have been lower by $641 (2011 - $313).

(d) The retail services variance is the difference between the revenue charged to retailers and the retail services costs associated with providing the retail services.

(e) Other regulatory liabilities include $4,108 as a variance for property, plant and equipment transitional amounts for decrease in depreciation expense resulting from changes in useful lives of assets and increase in operating expenses resulting from changes in estimation and allocation of overheads effective January 1, 2012 due to anticipated changeover to IFRS, $432 in accrued liabilities of PILS and $95 in other deferred credits.

(In thousands of dollars)

5. Regulatory assets and liabilities (continued):

(f) The amounts expected to be settled are approved dispositions for retail settlement variances up to December 31, 2010.

Management continues to assess the likelihood of recovery of its regulatory assets and believes that it is probable that its regulatory assets and liability balances will be factored into setting of future rates. In the event that recovery from future rates is no longer considered probable or portions of amounts deferred are determined not to be recoverable, such amounts will be expensed in the year this determination is made.

6. Income taxes:

The provision for income taxes differs from the amount that would have been recorded using the combined Canadian federal and Ontario statutory income tax rate. The reconciliation between the statutory and effective tax rates is provided as follows:

	2012	2011
Earnings before provision for income taxes	$ 10,023	$ 8,953
Federal and Ontario statutory income tax rate	26.50%	28.25%
Provision for income taxes at statutory rate	$ 2,656	$ 2,529
Increase (decrease) resulting from:		
Temporary differences expected to be recovered from customers	(1,891)	63
Impact of change in tax rate	(43)	(80)
Other miscellaneous	(778)	(474)
Income tax expense (recovery)	$ (56)	$ 2,038
Allocated:		
Current	$ 1,314	$ 2,654
Future	(1,370)	(616)
	$ (56)	$ 2,038

Future income tax assets and liabilities arise from differences between carrying amounts and tax bases of the Company's assets and liabilities.

(In thousands of dollars)

6. Income taxes (continued):

The tax effects of these differences are as follows:

	2012	2011
Future income tax assets:		
Property, plant and equipment and intangible assets	$ 10,741	$ 11,312
Employee future benefits	739	560
Unrealized loss on interest rate swaps	525	407
Deferred revenue and contingent liability	977	–
Total future income tax assets	12,982	12,279
Future income tax liabilities:		
Regulatory assets	1,831	770
Net future income tax assets	$ 11,151	$ 11,509

7. Accounts payable and accrued liabilities:

	2012	2011
Power bill accrual	$ 18,074	$ 17,239
Current portion of customer deposits	1,153	2,006
Customer credit balances	6,767	6,476
Other accounts payable and accrued liabilities	9,500	10,254
Hydro One contractual obligation (a)	1,212	1,212
	$ 36,706	$ 37,187

(a) The Company has recorded a corresponding intangible asset of $1,212 based on management's best estimate of future transformation connection revenue shortfall for a transformer station designed to meet the Company's anticipated load growth. Hydro One will perform a true-up based on actual load at the end of the fifth, tenth and fifteenth anniversaries of the in-service date.

(In thousands of dollars)

8. Credit facilities and short-term loans:

As at December 31, 2012, the Company had the following credit facilities with a Canadian chartered bank:

(a) Uncommitted revolving demand credit facility. The facility at all times is required to be no greater than $20,000 with a letter of credit ("L/C") carve-out availability of up to $807.

(b) Committed reducing term facility with a credit limit of $30,000 and amortization term of 20 years with an optional exit strategy at 10 years and 15 years.

(c) Committed reducing term facility with a credit limit of $15,000 and amortization term of 30 years with an optional exit strategy at 10 years and 15 years.

The financial covenants for the above credit facilities requires a funded debt to capitalization ratio of no greater than 0.60:1, and maintain a debt service coverage ratio of not less than 1.20:1.

As at December 31, 2012, $1,600 was drawn out of facility (a), $28,942 was outstanding out of facility (b); and $15,000 was outstanding of facility (c) above. To cover the risk of fluctuating interest rates, facilities (b) and (c) were structured with a 20-year interest rate swap agreement with the Bank, effectively converting the obligation into a fixed interest rate of approximately 4.24% and 3.99%, respectively.

The Company utilized $807 to issue an irrevocable L/C in favour of the IESO. The IESO requires all purchasers of electricity in Ontario to provide security to mitigate the risk of their default based on their expected purchases from the IESO administered spot market. The IESO could draw on the L/C if the Company defaults on its payment.

	2012	2011
Revolving, uncommitted demand credit facility with a Canadian chartered bank at prime rate	$ 1,600	$ 5,000

(In thousands of dollars)

9. Deferred revenue:

Deferred revenue represents the balance at year end of unearned revenues from funding received from the Ontario Power Authority ("OPA") to deliver OPA Conservation and Demand Management ("CDM") programs. On February 3, 2011, the Company entered into an agreement to deliver these CDM programs. All programs to be delivered under the OPA agreement are expected to be fully funded and paid in advance by the OPA.

10. Related party transactions and balances:

The Company purchases or supplies administrative and management services from and to the Corporation and Veridian Energy Inc., another subsidiary of the Corporation. Charges for these services are recorded at exchange amounts established and agreed to by the related parties. For the year ended December 31, 2012, the recovery of these services is as follows:

	2012	2011
Executive services	$ 162	$ 195
Sentinel lights	–	24

At December 31, 2012, balances due from related parties are as follows:

	2012	2011
The Corporation:		
Receivable relating to services rendered, without interest or terms of repayment	$ 2	$ 48
Less current portion	2	48
	$ –	$ –

During the year, interest in the amount of $2,047 (2011 - $2,312) was recorded to the Corporation.

(In thousands of dollars)

10. Related party transactions and balances (continued):

The Company provides electricity and services to the shareholders of its parent company, the Town of Ajax, the Municipality of Clarington, the City of Pickering and the City of Belleville (collectively, the "shareholders"). Electrical energy is sold to the shareholders at the same prices and terms as other electricity customers consuming equivalent amounts of electricity. The Company also provides power line maintenance services to the shareholders on a contract basis. The charges for these services are at rates similar to those charged to other customers of maintenance services. A summary of amounts charged by the Company to the parent company shareholders is as follows:

	2012	2011
Electrical energy and services	$ 6,464	$ 6,111

At December 31, 2012, accounts receivable include $952 (2011 - $763) due from the shareholders.

11. Long-term debt:

	2012	2011
Notes payable to shareholders of the Corporation, due on November 1, 2039, at a rate equal to the OEB-deemed long-term debt rate, less 30 basis points	$ 43,588	$ 43,588
Notes payable to the Corporation, maturing on June 1, 2017, at a rate of 5.56%	15,556	18,518
Notes payable to the Corporation, maturing on December 17, 2039, at a rate equal to the OEB-deemed long-term debt rate, less 30 basis points	18,900	19,600
Long-term debt from a Canadian chartered bank, maturing on November 3, 2031	28,942	29,921
Long-term debt from a Canadian chartered bank maturing on December 20, 2032	15,000	–
	121,986	111,627
Less current portion	5,115	4,640
	$ 116,871	$ 106,987

(In thousands of dollars)

11. Long-term debt (continued):

The notes payable to the shareholders of the Corporation mature on November 1, 2039. However, the noteholders have the right to demand repayment of this note (in whole or in part) at any time upon six months prior written notice to the Company, provided that a duly enacted resolution or by-law is passed by the noteholders certifying that the funds are required for municipal purposes.

During the year, the Company entered into a fixed rate committed reducing term facility for $15,000 by way of interest rate swap via bankers' acceptance. It is a 20-year term loan with an optional exit strategy at 10 years and 15 years. By entering into this agreement, the Company has effectively converted its obligation to a fixed rate of 3.99% payable monthly.

Scheduled payments for the next five years and thereafter are as follows:

2013	$ 5,115
2014	5,348
2015	5,593
2016	5,851
2017	4,143
Thereafter	95,936
	121,986
Less current portion	5,115
	$ 116,871

Interest on long-term debt comprises:

	2012	2011
Interest on:		
Notes payable and loans	$ 5,826	$ 5,129
Regulatory liabilities	712	433
Customer deposits and other	220	71
	6,758	5,633
Less allowance for funds used during construction	197	214
	$ 6,561	$ 5,419

(In thousands of dollars)

12. Employee benefits:

(a) Pensions:

During 2012, the Company made contributions totalling $1,717 (2011 - $1,409) to OMERS.

(b) Employee future benefits:

The Company pays certain benefits on behalf of its retired employees. The Company recognizes these post-retirement costs in the year in which the employees render the services.

A retiree health care spending account ("HCSA") was implemented in the Collective Agreement between the Company, Corporation and the International Brotherhood of Electrical Workers effective April 1, 2011 to March 31, 2015.

Information about the Company's non-contributory defined benefit plans to fund life insurance, health and dental benefits and a retiree HCSA is as follows:

	2012	2011
Accrued benefit liability recognized at January 1	$ 1,681	$ 1,441
Current service costs and interest expense on accrued benefit obligation	424	295
Benefits payments	(56)	(55)
Accrued benefit obligation at December 31	$ 2,049	$ 1,681

The amounts presented are based upon an actuarial valuation performed as of December 31, 2011, with a measurement date of January 1, 2011. The next valuation is expected to be performed for the year ending December 31, 2014.

(In thousands of dollars)

12. Employee benefits (continued):

The main actuarial assumptions employed for the valuations are as follows:

(i) General inflation:

Future general inflation levels, as measured by change in the Consumer Price Index, were assumed at 2.00% for future years.

(ii) Interest (discount) rate:

Amounts were determined using an annual discount rate of 4.00% (2011 - 5.00%).

(iii) Salary levels:

Future general salary and wage levels were assumed to increase at 3.60% (2011 - 3.60%) per annum.

(iv) Health and dental care:

The health and dental care cost increases are 7.63% and 5.00% (2011 - 8.00% and 5.00%), respectively.

13. Share capital:

	2012		2011	
	Number of shares	Amount	Number of shares	Amount
Authorized:				
Unlimited common shares				
Issued	10,000	$ 64,302	10,000	$ 64,302

14. Dividends:

The Company's current dividend policy states:

(a) a base annual dividend to the Corporation be set at $4.6 million from 2012 to 2016;

(b) the base dividend would be increased or decreased depending upon:

- decrease/increase in debt to capitalization ratio of 60%;
- net income projected to be higher/lower than budget; or
- capital expenditure projected to be lower/higher than budget.

(c) the Company's Board should determine annually if earnings from renewable generation be used to supplement the base dividend.

During 2012, the Board of Directors of the Company declared and paid dividends totalling $4,600 (2011 - $4,900) to the Corporation.

15. Contingencies and guarantees:

(a) Insurance claims:

The Company is a member of the Municipal Electric Association Reciprocal Insurance Exchange ("MEARIE"), which was created on January 1, 1987. A reciprocal insurance exchange may be defined as a group of persons formed for the purpose of exchanging reciprocal contracts of indemnity or inter-insurance with each other. MEARIE provides general liability insurance to member electric utilities.

Insurance premiums charged to each member electric utility consist of a levy per $1 of service revenue subject to a credit or surcharge based on each electric utility's claims experience. Insurance limits of $30,000 per occurrence are covered by MEARIE.

15. Contingencies and guarantees (continued):

(b) Contractual obligation - Hydro One Networks Inc.:

The Company is party to a connection and cost recovery agreement with Hydro One related to the construction by Hydro One of a transformer station designed to meet the Company's anticipated electricity load growth. Construction of the project was completed during 2007 and the Company connected to the transformer station during 2008.

To the extent that the cost of the project is not recoverable from future transformation connection revenue, the Company is obliged to pay capital contribution equal to the difference between these revenues and the construction costs allocated to the Company. The construction costs allocated to the Company for the project are $9,975.

The Company has recorded a current liability and a corresponding intangible asset of $1,212 as at December 31, 2012 (2011 - $1,212), based on management's best estimate of future transformation connection revenue shortfall. Hydro One shall perform a true-up based on actual load at the end of the fifth, tenth and fifteenth anniversaries of the in-service date.

(c) Environmental liability:

In 2008, Environment Canada issued its final regulations governing the management of PCBs. Costs relating to future expenditures associated with the removal and destruction of PCB-contaminated transformers and remediation of chemically contaminated lands has been estimated in the amount of $206, which has been recorded as a liability at December 31, 2012. Because such expenditures are expected to be recoverable in future rates, the Company has recorded an equivalent amount as a regulatory asset.

(In thousands of dollars)

16. Lease commitments:

Future minimum lease payment obligations under operating leases are as follows:

2013	$ 32
2014	32
2015	32
2016	24
2017	2
Thereafter	70
	$ 192

17. Other income (loss):

	2012	2011
Late payment charges	$ 460	$ 480
Customer charges	1,793	1,584
Pole rentals	444	458
Recoverable projects and other	545	800
Net gain on disposal of property, plant and equipment	11	39
Loss on disposal of inventory	–	(8)
Foreign exchange gain (loss)	(3)	9
Change in estimates and allocation of indirect costs (note 1(e))	(4,108)	–
	$ (858)	$ 3,362

(In thousands of dollars)

18. Change in non-cash operating working capital:

	2012	2011
Accounts receivable	$ (4,802)	$ 2,214
Income taxes recoverable	(748)	(261)
Inventory	(39)	(219)
Prepaid expenses	23	(195)
Accounts payable and accrued liabilities	(481)	1,750
Advance payments - construction deposits	241	431
Deferred revenue	630	1,201
Developer obligations	(522)	1,031
Due to (from) related parties	46	(1,513)
	$ (5,652)	$ 4,439

19. Financial instruments:

The carrying amounts of all financial instruments, except long-term debt, approximate fair values due to the immediate or short-term maturity of these financial instruments. It is not practicable to estimate the fair value of long-term debt as it is not publicly traded.

(a) Financial instrument risk:

Exposure to market risk, credit risk and liquidity risk arises in the normal course of the Company's business.

(b) Market risk:

Market risk refers primarily to risk of loss that results from changes in commodity prices, foreign exchange rates and interest rates. The Company does not have commodity risk and its foreign exchange risk is considered not material and is limited to U.S. dollar cash and cash equivalents holdings of $87 as at December 31, 2012 (2011 - $189).

Distribution rates and charges are currently based on a revenue requirement less other income, which includes interest income. The difference in the interest revenue reduction and the actual interest income earned by the Company is currently insignificant.

19. Financial instruments (continued):

(c) Credit risk:

Financial assets create credit risk that a counterparty will fail to discharge an obligation, causing a financial loss. The Company's distribution revenue is earned on a broad base of customers. As a result, the Company did not earn a significant amount of revenue from any individual customer. As at December 31, 2012, there were no significant balances of accounts receivable due from any single customer.

The Company manages counterparty credit risk through various techniques, including limiting total exposure levels with individual counterparties consistent with the Company's policies, and monitoring the financial condition of counterparties.

Management believes that the credit risk of accounts receivable is limited due to the following reasons:

(i) There is a broad base of customers with no one customer that accounts for revenue or an accounts receivable balance in excess of 10% of the respective balance.

(ii) The Company, as permitted by the OEB's Retail Settlement and Distribution System Code, may obtain a security deposit or L/C from customers to mitigate risk of payment default.

(iii) The percentage of accounts receivable that is outstanding more than 90 days is approximately 1.94% (2011 - 1.60%) of the total net outstanding balance.

(iv) The Company included an amount of accounts receivable write-offs within operating and maintenance expense for rate-setting purposes.

(In thousands of dollars)

19. Financial instruments (continued):

Pursuant to their respective terms, accounts receivable are aged as follows as at December 31:

	2012	2011
Total accounts receivable	$ 58,238	$ 53,203
Less allowance for doubtful accounts	653	420
Total accounts receivable, net	$ 57,585	$ 52,783
Of which:		
Unbilled revenue	$ 28,056	$ 28,547
Outstanding 1 day but not more than 30 days	27,462	22,485
Outstanding 31 days but not more than 60 days	1,171	854
Outstanding 61 days but not more than 90 days	431	479
Outstanding 91 days but not more than 120 days	717	395
Outstanding more than 120 days	401	443
	58,238	53,203
Less allowance for doubtful accounts	653	420
	$ 57,585	$ 52,783

(d) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. Short-term liquidity is provided through cash and cash equivalents on hand and funds from operations. Short-term liquidity is expected to be sufficient to fund normal operating requirements. The liquidity risks associated with financial commitments are as follows:

	Due within one year	Due between one and five years	Due past five years
Financial liabilities:			
Accounts payable and accrued liabilities	$ 36,706	$ –	$ –
Long-term debt	5,115	20,935	95,936
Short-term loans	1,600	–	–
Lease commitments	32	90	70

19. Financial instruments (continued):

(e) Interest rate risk:

The Company enters into fixed interest rate long-term debt agreements to minimize cash flow and interest rate fluctuation exposure. Long-term debt for $30,000 in 2011 and $15,000 in 2012 for 20-year fixed rate term loans were arranged from a chartered Canadian bank. The Company entered into interest rate swap derivative agreements with the Bank to exchange interest rate cash flows. Under these agreements, the Company and the Bank have the periodic exchange of payments without exchanging the notional principal amount on which the payments are based. This effectively provided the Company with fixed rate loans which reduces the impact of fluctuating interest rates on long-term debt. The Company does not enter into any such financial instrument for speculative purposes.

(f) Fair values:

The Company included $1,982 (2011 - $1,630) of unrealized loss in its financial statements, which represents the amount that the Company would have paid to unwind its position as at December 31, 2012. This is the fair value of the interest rate swap derivative as at December 31, 2012. This unrealized loss is not expected to affect cash as the Company intends to hold the financial instruments until its maturity.

Fair value measurements recognized in the statement of earnings are categorized using a fair value hierarchy that reflects the significance of inputs used in determining the fair values.

- Level 1 - unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 - inputs for assets and liabilities that are not based on observable market data.

The interest rate swap derivatives are all Level 1 as at December 31, 2012.

There were no transfers between levels during the year.

20. Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

Attachment 2 of 5

2011 Audited Statements

Financial Statements of

VERIDIAN CONNECTIONS INC.

Year ended December 31, 2011

KPMG LLP
Chartered Accountants
Yonge Corporate Centre
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Toronto ON M2P 2H3
Canada

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Veridian Connections Inc.

We have audited the accompanying financial statements of Veridian Connections Inc., which comprise the balance sheet as at December 31, 2011, the statements of earnings and retained earnings and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Veridian Connections Inc. as at December 31, 2011, and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

March 20, 2012
Toronto, Canada

VERIDIAN CONNECTIONS INC.

Balance Sheet
(In thousands of dollars)

December 31, 2011, with comparative figures for 2010

	2011	2010
Assets		
Current assets:		
Accounts receivable (note 2)	$ 52,783	$ 54,997
Income taxes recoverable	466	205
Due from related parties (note 10)	48	–
Current portion of regulatory assets (note 5)	288	1,127
Prepaid expenses	916	721
Inventory	1,665	1,446
	56,166	58,496
Other non-current assets	278	417
Property, plant and equipment (note 3)	170,502	160,202
Intangible assets (note 4)	4,647	4,779
Goodwill	8,746	8,746
Future income tax assets (note 6)	11,509	10,860
Regulatory assets (note 5)	7,451	7,913
	$ 259,299	$ 251,413
Liabilities and Shareholder's Equity		
Current liabilities:		
Bank indebtedness	$ 1,264	$ 1,628
Accounts payable and accrued liabilities (note 7)	37,187	35,437
Short-term loans (note 8)	5,000	10,300
Advance payments - construction deposits	522	91
Developer obligations	2,031	1,000
Deferred revenue (note 9)	1,201	–
Due to related parties (note 10)	–	1,465
Current portion of long-term debt (note 11)	4,640	3,503
Current portion of regulatory liabilities (note 5)	3,472	8,916
	55,317	62,340
Long-term liabilities:		
Long-term debt (note 11)	106,987	82,406
Unrealized loss on interest rate swaps	1,630	–
Regulatory liabilities (note 5)	12,746	24,772
Employee future benefits (note 12)	1,681	1,441
Customer deposits and contractor obligations	4,914	5,233
Other non-current liabilities (notes 7(a) and 15(c))	–	1,212
	127,958	115,064
Shareholder's equity:		
Share capital (note 13)	64,302	64,302
Contributed capital	23	23
Retained earnings	11,699	9,684
	76,024	74,009
Contingencies and guarantees (note 15)		
Lease commitments (note 16)		
	$ 259,299	$ 251,413

See accompanying notes to financial statements.

On behalf of the Board:

Doug Dickerson

Chair, Board of Directors

Chair, Audit and Risk Management Committee

VERIDIAN CONNECTIONS INC.

Statement of Earnings and Retained Earnings
(In thousands of dollars)

Year ended December 31, 2011, with comparative figures for 2010

	2011	2010
Revenue	$ 286,271	$ 256,203
Cost of power	238,331	208,748
Gross margin	47,940	47,455
Expenses:		
Operating and maintenance	7,131	6,608
Administration	14,330	14,896
Interest on long-term debt (note 11)	5,419	5,390
Amortization	14,184	13,631
	41,064	40,525
Operating income before the undernoted	6,876	6,930
Other income (note 17)	3,707	4,258
Unrealized loss on interest rate swap (note 19)	(1,630)	–
Earnings before income taxes	8,953	11,188
Income taxes (note 6)	2,038	3,249
Net earnings	6,915	7,939
Retained earnings, beginning of year	9,684	6,965
Dividends paid (note 14)	(4,900)	(5,220)
Retained earnings, end of year	$ 11,699	$ 9,684

See accompanying notes to financial statements.

VERIDIAN CONNECTIONS INC.

Statement of Cash Flows
(In thousands of dollars)

Year ended December 31, 2011, with comparative figures for 2010

	2011	2010
Cash provided by (used in):		
Operating activities:		
Net earnings	$ 6,915	$ 7,939
Items not affecting cash:		
Gain on disposal of property, plant and equipment	(39)	(13)
Increase (decrease) in regulatory assets/liabilities	(16,202)	3,600
Unrealized loss on interest rate swap	1,630	–
Increase in employee future benefits obligation	240	213
Future income taxes	(616)	292
Amortization of property, plant and equipment	13,293	12,632
Amortization of intangible assets	1,838	1,766
	7,059	26,429
Change in non-cash operating working capital (note 18)	4,439	(9,838)
	11,498	16,591
Financing activities:		
Dividends paid (note 14)	(4,900)	(5,220)
Increase (decrease) in customer deposits and contractor obligations	(319)	841
Net proceeds (repayment) of long-term debt	25,718	(2,654)
Proceeds (repayments) from short-term loans	(5,300)	10,300
	15,199	3,267
Investing activities:		
Proceeds from disposition of property, plant and equipment	80	25
Additions to property, plant and equipment, net of contributed capital	(23,634)	(26,093)
Additions to intangible assets	(1,706)	(2,963)
Other non-current assets/liabilities	(1,073)	1,168
	(26,333)	(27,863)
Increase (decrease) in cash and cash equivalents (bank indebtedness)	364	(8,005)
Cash and cash equivalents (bank indebtedness), beginning of year	(1,628)	6,377
Bank indebtedness, end of year	$ (1,264)	$ (1,628)
Supplemental cash flow information:		
Interest received	$ 31	$ 40
Interest paid	6,826	4,180
Income taxes paid	3,000	3,558

See accompanying notes to financial statements.

Veridian Connections Inc. (the "Company") commenced operations on November 1, 1999. It is a wholly owned subsidiary of Veridian Corporation (the "Corporation"). The Company is licensed by the Ontario Energy Board (the "OEB") as an electricity distributor which distributes electricity in the cities of Belleville and Pickering, the towns of Ajax, Gravenhurst, Port Hope and Uxbridge, and the communities of Bowmansville, Newcastle, Orono, Beaverton, Cannington, Sunderland and Port Perry.

1. Significant accounting policies:

(a) Basis of presentation:

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("Canadian GAAP").

(b) Revenue recognition:

(i) Electricity distribution and sale:

Revenue from the sale of electricity is recognized on the basis of cyclical billing based on electricity usage and includes an estimate of unbilled revenue accrued in respect of electricity delivered but not yet billed. Unbilled revenue included within accounts receivable as at December 31, 2011 amounted to $28,547 (2010 - $31,017). Actual results could differ from estimates made of actual electricity usage.

(ii) Other revenue:

Other revenue, which includes revenue from electricity distribution-related services, is recognized as the services are rendered.

(c) Rate setting:

The Company is regulated by the OEB under authority of the Ontario Energy Board Act, 1998. The OEB is charged with the responsibility of approving or setting rates for the transmission and distribution of electricity and the responsibility for ensuring that distribution companies fulfill obligations to connect and service customers.

1. Significant accounting policies (continued):

The OEB has the general power to include or exclude costs, revenue, losses or gains in the rates of a specific period, resulting in the change in the timing of accounting recognition from that which would have applied in an unregulated company. Such change in the timing involves the application of rate-regulated accounting, giving rise to the recognition of regulatory assets and liabilities. The Company's regulatory assets represent certain amounts receivable from future customers and costs that have been deferred for accounting purposes because it is probable that they will be recovered in future rates. In addition, the Company has recorded regulatory liabilities which represent amounts for expenses incurred in different periods that would be the case had the Company been unregulated. Specifically, the following accounting treatments have been applied:

(i) An amount to represent the cost of funds used during construction and development has been applied based on the value of construction in progress.

(ii) The Company has deferred certain post-market opening retail settlement variances in accordance with Article 490 of the OEB's Accounting Procedures Handbook.

(d) Inventory:

Inventory, which consists of parts and supplies acquired for internal construction or consumption, is valued at the lower of cost and net realizable value. Cost is determined on a weighted moving average basis.

Any impairment losses taken on inventory are reversed if and when net realizable value subsequently recovers. Major spare parts and standby equipment are recorded as part of property, plant and equipment and amortized once they are put into use.

(e) Property, plant and equipment:

Property, plant and equipment purchased or constructed by the Company are stated at cost and include contracted services, materials, labour, engineering costs, overheads and an allowance for the cost of funds used during construction when applied. Certain assets may be acquired or constructed with financial assistance in the form of contributions from developers or customers. The OEB requires that such contributions be offset against the related asset cost.

(In thousands of dollars)

1. Significant accounting policies (continued):

When identifiable buildings, distribution station equipment and office equipment are retired or otherwise disposed of, their original cost and accumulated amortization are removed from the accounts and the related gain or loss is included in current operations. Repairs and maintenance expenditures are charged to operations. The cost and related accumulated amortization of grouped assets, such as transmission and distribution systems, are removed at the end of the estimated service lives.

Amortization is provided on the straight-line basis over the estimated service lives at the following annual rates:

Land rights	2%
Buildings	2% - 4%
Distribution station equipment	3% - 33%
Transmission and distribution system	4% - 10%
Meters	4.00% - 6.67%
Office equipment	10%
Computer hardware	20%
Vehicle fleet	12.50% - 33.33%

In the event that facts and circumstances indicate that property, plant and equipment may be impaired, an evaluation of recoverability is performed. For purposes of such an evaluation, the estimated future undiscounted cash flows associated with the asset are compared to the carrying amount of the asset to determine if a write-down is required. The impairment loss is measured as the amount by which the carrying amount of the asset exceeds its fair value.

Construction in progress comprises property, plant and equipment under construction, assets not yet placed into service and pre-construction activities related to specific projects expected to be constructed.

An allowance for the cost of funds used during the construction period has been applied. The rate applied is equal to the rate prescribed in each quarter by the OEB. The average rate for the current fiscal period, in respect of long-term borrowing, is 4.20% (2010 - 4.34%).

1. Significant accounting policies (continued):

When portions of the Company's distribution facilities are replaced or relocated, the asset is charged with the costs of construction less the salvage value of any material returned to inventory. Amortization is then provided at the same rate used for the original asset.

(f) Intangible assets:

Amortization of intangible assets is provided on a straight-line basis over the estimated service lives at the following annual rates:

Application software	20.00% - 33.33%

(g) Impairment of long-lived assets:

Long-lived assets are reviewed for impairment whenever events or circumstances indicate that the carrying amount of the long-lived assets is not recoverable. Any resulting impairment loss is recorded in the year in which the impairment occurs.

(h) Goodwill:

Goodwill relates to the cost of acquired local distribution companies in excess of fair value of the net identifiable assets purchased and is evaluated for impairment on an annual basis, or more frequently, if circumstances require. Goodwill impairment is assessed based on a comparison of the fair value of the assets acquired to the underlying carrying value of those net assets, including goodwill, with any write-down of the carrying value of goodwill being charged to operations. The Company has determined that goodwill is not impaired.

(i) Customer deposits and contractor obligations:

Customers and contractors may be required to post security to obtain electricity or other services. Interest is paid on customer balances at rates established from time to time by the Company. The current portion of customer deposits and contractor obligations are included in accounts payable and accrued liabilities.

1. Significant accounting policies (continued):

(j) Pension and other post-employment benefits:

The Company accounts for its participation in the Ontario Municipal Employees Retirement System ("OMERS"), a multi-employer public sector pension fund, as a defined contribution plan.

The Company actuarially determines the cost of other employment and post-employment benefits offered to employees. These unfunded plans are accounted for as defined benefit obligations. The Company applies the projected benefit method, prorated on service and based on management's best estimate and assumptions. Under this method, the projected post-retirement benefit is deemed to be earned on a pro rata basis over the years of service in the attribution period commencing at date of hire, and ending at the earliest age the employee could retire and qualify for benefits.

(k) Income taxes:

Under the Electricity Act, 1998, the Company is required to make payments in lieu of corporate income taxes ("PILs") to Ontario Electricity Financial Corporation. These payments are calculated in accordance with the rules for computing income and taxable capital and other relevant amounts contained in the Income Tax Act (Canada) and the Corporations Tax Act (Ontario) as modified by the Electricity Act, 1998 and related regulations. References in these financial statements to income taxes are with respect to PILs.

The Company uses the asset and liability method of accounting for the tax effect of temporary differences between the carrying amount and tax bases of the Company's assets and liabilities. Temporary differences arise when the realization of an asset or the settlement of a liability would give rise to either an increase or decrease in the Company's income taxes payable in the year or a later period.

Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in earnings in the year that includes the date of enactment or substantive enactment. A valuation allowance is recorded against a future income tax asset to the extent that the Company determines that it is more likely than not that a future income tax asset will not be realized in the future.

1. Significant accounting policies (continued):

Where the Company expects the future income taxes to be recovered from or refunded to customers as part of the rate setting process, the future income tax assets and liabilities result in regulatory liabilities and assets; otherwise, the future income tax assets and liabilities result in a future tax provision that is charged to the statement of earnings.

(l) Measurement uncertainty:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Accounts receivable and regulatory assets are reported based on amounts expected to be recovered and an appropriate allowance for unrecoverable amounts. Inventory is recorded net of provisions for obsolescence. Due to inherent uncertainty involved in making such estimates, actual results reported in future years could differ from those estimates recorded in preparing these financial statements, including changes as a result of future decisions made by the OEB or the Minister of Energy.

(m) Financial instruments:

The Company categorizes its financial instruments as follows:

Accounts receivable and unbilled revenue	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Short-term loans	Other financial liabilities
Bank indebtedness	Other financial liabilities
Advance payments - construction deposits	Other financial liabilities
Developer obligations	Other financial liabilities
Long-term debt	Other financial liabilities
Customer deposits and contractor obligations	Other financial liabilities

1. Significant accounting policies (continued):

(n) Derivative financial instruments:

Derivative financial instruments are measured at their fair value upon initial recognition and on each subsequent reporting date. The Company has not elected to apply hedge accounting for its interest rate swap contracts and does not enter into derivative agreements for speculative purposes. Changes in the fair value of the derivatives are recorded each year in the statement of earnings and retained earnings.

(o) Future accounting changes:

Transition to International Financial Reporting Standards ("IFRS"):

The Canadian Accounting Standards Board ("AcSB") adopted a new strategic plan that will have Canadian GAAP converge with IFRS, effective January 1, 2011.

On September 8, 2010, the AcSB granted an option to permit rate-regulated entities to defer IFRS implementation date to January 1, 2012. This decision came in light of the uncertainty created by the International Accounting Standards Board in regard to the rate-regulated project which is assessing the potential recognition of regulatory assets and regulatory liabilities under IFRS.

The Company made the decision to take the option of one year deferral for the rate-regulated entities and will apply IFRS to its financial statements for the year ending December 31, 2012. The adoption date of January 1, 2012 will require the restatement, for comparative purposes, of the amounts reported by the Company for its year ended December 31, 2011, and the opening balance sheet as at January 1, 2011. The Company continues to assess the impacts of the adoption of IFRS on the results of its operations and financial position.

(In thousands of dollars)

1. Significant accounting policies (continued):

(p) Capital disclosures:

The Company's objectives with respect to its capital structure are to maintain effective access to capital on a long-term basis, at reasonable rates, and to deliver the appropriate financial returns. As of December 31, 2011, the Company's definition of capital includes shareholder's equity, long-term debt, including the Municipal and Corporation promissory notes and a short-term loan facility from a Canadian chartered bank. The OEB has determined the Company to have a capital structure of 60% long-term debt and 40% equity. The OEB uses this deemed structure as a basis of how capital is funded for rate-setting purposes only. The actual capital structure for the Company may be different from the OEB-deemed structure.

The Company has been in compliance with all the covenants included in its long-term debt agreements, notes from the shareholder and the short-term loans. During the year, there have been no changes to how the Company assesses its capital structure.

2. Accounts receivable:

	2011	2010
Energy revenue	$ 21,679	$ 22,438
Unbilled revenue	28,547	31,017
Project expenditures recoverable	2,315	1,506
Pole rentals and other	662	707
	53,203	55,668
Less allowance for doubtful accounts	420	671
	$ 52,783	$ 54,997

(In thousands of dollars)

3. Property, plant and equipment:

	Cost	Accumulated amortization	2011 Net book value	2010 Net book value
Land	$ 1,778	$ –	$ 1,778	$ 1,811
Land rights	753	358	395	346
Buildings	21,717	5,213	16,504	12,718
Distribution station equipment	33,657	16,755	16,902	14,481
Transmission and distribution system	304,548	162,120	142,428	140,306
Meters	17,852	5,103	12,749	13,014
Office equipment	4,703	3,253	1,450	1,272
Computer hardware	6,891	6,041	850	977
Vehicle fleet	8,199	4,248	3,951	4,082
Construction in progress	14,433	–	14,433	8,399
Contributions in aid of construction	(54,264)	(13,326)	(40,938)	(37,204)
	$ 360,267	$ 189,765	$ 170,502	$ 160,202

During the year, $214 (2010 - $219), representing an allowance for the cost of funds used during construction, was capitalized.

4. Intangible assets:

	Cost	Accumulated amortization	2011 Net book value	2010 Net book value
Application software	$ 12,997	$ 10,665	$ 2,332	$ 3,041
Construction in progress related to application software	1,103	–	1,103	526
Capital contributions	1,212	–	1,212	1,212
	$ 15,312	$ 10,665	$ 4,647	$ 4,779

(In thousands of dollars)

5. Regulatory assets and liabilities:

Regulatory assets and liabilities can arise out of the rate-making process.

	2011	2010
Regulatory assets:		
Other deferred costs (a)	$ 1,281	$ 2,398
Smart meter (b)	7,234	7,217
	8,515	9,615
Less:		
Amounts expected to be settled in the next year (a) and (b)	288	1,127
Valuation allowance	776	575
	1,064	1,702
	$ 7,451	$ 7,913
Regulatory liabilities:		
Regulatory liability for future income tax assets	$ 11,901	$ 11,868
Conservation and demand management	–	127
Post-market opening retail settlement variances (c)	(1,681)	7,584
Hydro One Networks Inc. ("Hydro One") low voltage	1,916	1,923
Other regulatory liabilities (d)	847	795
Balance of amounts approved to be refunded to customers through distribution rates	3,235	11,391
	16,218	33,688
Less amounts expected to be settled in the next year (c)	3,472	8,916
	$ 12,746	$ 24,772

(a) The OEB approved the establishment of regulatory deferral accounts to record the Company's incremental cost for polychlorinated biphenyls ("PCBs") testing that occurred in 2009. The Company has been approved for recovery of this cost in its 2011 incentive rate mechanism application. Late payment penalty ("LPP") is a regulatory asset account related to Company's settlement payment of the LPP class action suit. Recovery of these costs from customers began in May 2011 for a period of one year. Another deferral account has been established for one-time administrative costs during transition to IFRS. Other deferred costs will be sought for recovery in future rates.

5. Regulatory assets and liabilities (continued):

(b) The OEB approved the establishment of smart meter variance accounts to record revenue approved by the OEB for smart meters and related capital costs incurred by the Company. In 2011, the costs associated with smart meter capital, incremental operating, maintenance, amortization and administrative expenses have been transferred from the variance accounts to the associated balance sheet and statement of earnings accounts. The net book values of stranded meters, as well as amounts to be recovered in future rates, remain as smart meter regulatory assets. The total net amount transferred from the variance accounts is $7,022 (2010 - $6,766). The Company has recorded a valuation allowance against smart meter variance accounts.

(c) Post-market opening retail settlement variances are variances that have occurred since May 1, 2002 when the competitive electricity market was declared open and that have accumulated pursuant to direction from the OEB. In 2010, the OEB approved the disposition of the Company's retail settlement variances as at December 31, 2008. The post-market opening retail settlement variances for 2010 are variances that have accrued since January 1, 2009. Specifically, these amounts include variances between the amount charged by the Independent Electricity System Operator ("IESO") for the operation of the markets and grid, as well as various wholesale market settlement charges and transmission charges as compared to the amount billed to consumers based on the OEB-approved wholesale market service rate. In the absence of rate-regulated accounting, interest expense in 2011 would have been lower by $433 (2010 - $224) and interest revenue in 2011 would have been lower by $313 (2010 - $228).

(d) Other regulatory liabilities include a variance in amounts collected for PILs prior to April 30, 2006 that may be required to be refunded to the ratepayers.

Management continues to assess the likelihood of recovery of its regulatory assets and believes that it is probable that its regulatory assets and liability balances will be factored into setting of future rates. In the event that recovery from future rates is no longer considered probable or portions of amounts deferred are determined not be recoverable, such amounts will be expensed in the year this determination is made.

(In thousands of dollars)

6. Income taxes:

The provision for income taxes differs from the amount that would have been recorded using the combined Canadian federal and Ontario statutory income tax rate. The reconciliation between the statutory and effective tax rates is provided as follows:

	2011	2010
Earnings before provision for income taxes	$ 8,953	$ 11,188
Federal and Ontario statutory income tax rate	28.25%	31.00%
Provision for income taxes at statutory rate	$ 2,529	$ 3,468
Increase (decrease) resulting from:		
Temporary differences expected to be recovered from customers	63	140
Impact of change in tax rate	(80)	(70)
Other miscellaneous	(474)	(289)
Income tax expense	$ 2,038	$ 3,249
Allocated:		
Current	$ 2,654	$ 2,957
Future	(616)	292
	$ 2,038	$ 3,249

Future income tax assets and liabilities arise from differences between carrying amounts and tax bases of the Company's assets and liabilities.

The tax effects of these differences are as follows:

	2011	2010
Future income tax assets:		
Property, plant and equipment and intangible assets	$ 11,312	$ 11,360
Employee future benefits	560	480
Unrealized loss on interest rate swap	407	–
Total future income tax assets	12,279	11,840
Future income tax liabilities:		
Regulatory assets	770	980
Net future income tax assets	$ 11,509	$ 10,860

(In thousands of dollars)

7. Accounts payable and accrued liabilities:

	2011	2010
Power bill accrual	$ 17,239	$ 14,667
Current portion of customer deposits	2,006	2,903
Customer credit balances	6,476	5,903
Other accounts payable and accrued liabilities	10,254	11,964
Hydro One contractual obligation (a)	1,212	–
	$ 37,187	$ 35,437

(a) The Company has recorded a corresponding intangible asset of $1,212 based on management's best estimate of the present value of future transformation connection revenue shortfall for a transformer station designed to meet the Company's anticipated load growth. Hydro One will perform a true-up based on actual load in 2012. In 2010, this Hydro One contractual liability was classified as a long-term liability of $1,212.

8. Credit facilities and short-term loans:

As at December 31, 2011, the Company had the following credit facilities with a Canadian chartered bank:

(a) Uncommitted revolving demand credit facility. The facility at all times is required to be no greater than $20,000 with letter of credit ("L/C") carve-out availability of up to $807.

(b) Committed reducing term facility with a credit limit of $30,000 with the amortization terms of up to 20 years with an optional exit strategy at 10 years and 15 years.

The financial covenants for the above credit facilities requires a funded debt to capitalization ratio of no greater than 0.60:1, and maintain a debt service coverage ratio of not less than 1.25:1.

As at December 31, 2011, $5,000 and $807 was drawn out of facility (a) and $29,921 was outstanding out of $30,000 of facility (b) during the year. To cover the risk of fluctuating interest rates, facility (b) was structured with a 20 year interest rate swap agreement with the Bank, effectively converting the obligation into a fixed interest rate of approximately 4.24%.

(In thousands of dollars)

8. Credit facilities and short-term loans (continued):

The Company utilized $807 to issue an irrevocable L/C in favour of the IESO. The IESO requires all purchasers of electricity in Ontario to provide security to mitigate the risk of their default based on their expected purchases from the IESO administered spot market. The IESO could draw on the L/C if the Company defaults on its payment.

9. Deferred revenue:

Deferred revenue represents the balance at year-end of unearned revenues from funding received from the Ontario Power Authority ("OPA") to deliver OPA Conservation and Demand Management ("CDM") programs. On February 3, 2011, the Company entered into an agreement to deliver these CDM programs. All programs to be delivered under the OPA agreement are expected to be fully funded and paid in advance by the OPA.

10. Related party transactions and balances:

The Company purchases or supplies administrative and management services from and to the Corporation and Veridian Energy Inc., another subsidiary of the Corporation. Charges for these services are recorded at exchange amounts established and agreed to by the related parties. For the year ended December 31, 2011, the recovery of these services is as follows:

	2011	2010
Executive services	$ 195	$ 183
Water heater services	–	25
Sentinel lights	24	26

(In thousands of dollars)

10. Related party transactions and balances (continued):

At December 31, 2011, balances due from (to) related parties are as follows:

	2011	2010
The Corporation:		
Receivable relating to services rendered, without interest or terms of repayment	$ 48	$ –
Payable relating to services rendered, without interest or terms of repayment	–	(1,465)
	48	(1,465)
Less current portion	48	(1,465)
	$ –	$ –

During the year, interest in the amount of $2,312 (2010 - $2,586) was recorded to the Corporation.

The Company provides electricity and services to the shareholders of its parent company, the Town of Ajax, the Municipality of Clarington, the City of Pickering and the City of Belleville (collectively, the "shareholders"). Electrical energy is sold to the shareholders at the same prices and terms as other electricity customers consuming equivalent amounts of electricity. The Company also provides power line maintenance services to the shareholders on a contract basis. The charges for these services are at rates similar to those charged to other customers of maintenance services. A summary of amounts charged by the Company to the parent company shareholders is as follows:

	2011	2010
Electrical energy and services	$ 6,111	$ 5,543

At December 31, 2011, accounts receivable include $763 (2010 - $715) due from the shareholders.

(In thousands of dollars)

11. Long-term debt:

	2011	2010
Notes payable to shareholders of the Corporation, due on November 1, 2039, at a rate equal to the OEB-deemed long-term debt rate, less 30 basis points	$ 43,588	$ 43,588
Notes payable to the Corporation, maturing on June 1, 2017, at a rate of 5.56%	18,518	21,321
Notes payable to the Corporation, maturing on December 17, 2039, at a rate equal to OEB-deemed long-term debt rate, less 30 basis points	19,600	21,000
Long-term debt from a Canadian chartered bank, maturing on November 3, 2031	29,921	–
	111,627	85,909
Less current portion	4,640	3,503
	$ 106,987	$ 82,406

The notes payable to the shareholders of the Corporation mature on November 1, 2039. However, the noteholders have the right to demand repayment of this note (in whole or in part) at any time upon six months prior written notice to the Company, provided that a duly enacted resolution or by-law is passed by the noteholders certifying that the funds are required for municipal purposes.

During the year, the Company entered into a fixed rate committed reducing term facility for $30,000 by way of interest rate swap via bankers' acceptance. It is a 20-year term loan with an optional exit strategy at 10 years and 15 years. By entering into this agreement, the Company has effectively converted its obligation to a fixed rate of 4.24% payable monthly.

(In thousands of dollars)

11. Long-term debt (continued):

Scheduled payments for the next five years and thereafter are as follows:

2012	$ 4,640
2013	4,851
2014	5,073
2015	5,306
2016	5,553
Thereafter	86,204
	111,627
Less current portion	4,640
	$ 106,987

Interest on long-term debt comprises:

	2011	2010
Interest on:		
Notes payable and loans	$ 5,129	$ 5,338
Regulatory liabilities	433	224
Customer deposits and other	71	47
	5,633	5,609
Less allowance for funds used during construction	214	219
	$ 5,419	$ 5,390

(In thousands of dollars)

12. Employee benefits:

(a) Pensions:

During 2011, the Company made contributions totalling $1,409 (2010 - $1,148) to OMERS.

(b) Employee future benefits:

The Company pays certain benefits on behalf of its retired employees. The Company recognizes these post-retirement costs in the year in which the employees render the services.

A retiree health care spending account ("HCSA") was implemented in the Collective Agreement between the Company, Corporation and the International Brotherhood of Electrical Workers effective April 1, 2011 to March 31, 2015.

Information about the Company's non-contributory defined benefit plans to fund life insurance, health and dental benefits and a retiree HCSA is as follows:

	2011	2010
Accrued benefit liability recognized at January 1	$ 1,441	$ 1,228
Current service costs and interest expense on accrued benefit obligation	295	260
Benefits payments	(55)	(47)
Accrued benefit obligation at December 31	$ 1,681	$ 1,441

The amounts presented are based upon an actuarial valuation performed as of December 31, 2011, with a measurement date of January 1, 2011. The next valuation is expected to be performed for the year ending December 31, 2014.

(In thousands of dollars)

12. Employee benefits (continued):

The main actuarial assumptions employed for the valuations are as follows:

(i) General inflation:

Future general inflation levels, as measured by change in the Consumer Price Index, were assumed at 2.00% for future years.

(ii) Interest (discount) rate:

Amounts were determined using an annual discount rate of 5.00% (2010 - 5.50%).

(iii) Salary levels:

Future general salary and wage levels were assumed to increase at 3.60% (2010 - 3.30%) per annum.

(iv) Health and dental care:

The health and dental care cost increases are 8.00% and 5.00% (2010 - 8.33% and 5.00%), respectively.

13. Share capital:

	2011		2010	
	Number of shares	Amount	Number of shares	Amount
Authorized:				
Unlimited common shares				
Issued	10,000	$ 64,302	10,000	$ 64,302

14. Dividends:

The Company's current dividend policy states:

(a) a quarterly dividend shall be declared and paid to the Corporation;

(b) the total of quarterly dividend paid by the Company to the Corporation will be equal to the total of the quarterly dividends paid by the Corporation to its shareholders;

(c) debt to regulatory rate base projected for the end of the year should remain within 5% plus or minus of the deemed debt ratio as established by OEB, currently 60%; and

(d) in the event that the debt to regulatory rate base is below 55% or greater than 65%, the Company's Board of Directors will review and determine whether the annual dividend should be amended.

During 2011, the Board of Directors of the Company declared and paid dividends totalling $4,900 (2010 - $5,220) to the Corporation.

15. Contingencies and guarantees:

(a) Insurance claims:

The Company is a member of the Municipal Electric Association Reciprocal Insurance Exchange ("MEARIE"), which was created on January 1, 1987. A reciprocal insurance exchange may be defined as a group of persons formed for the purpose of exchanging reciprocal contracts of indemnity or inter-insurance with each other. MEARIE provides general liability insurance to member electric utilities.

Insurance premiums charged to each member electric utility consist of a levy per $1 of service revenue subject to a credit or surcharge based on each electric utility's claims experience. Insurance limits of $30,000 per occurrence are covered by MEARIE.

15. Contingencies and guarantees (continued):

(b) Other claims:

An action was brought under the Class Proceedings Act, 1992. The plaintiff class sought $500,000 in restitution for amounts paid to Toronto Hydro and to other Ontario municipal electric utilities ("LDCs") who received late payment penalties, which constitute interest at an effective rate in excess of 60% per year, contrary to Section 347 of the Criminal Code.

By Order dated July 22, 2010, the Ontario Superior Court of Justice formalized a settlement pursuant to which the defendant LDCs will pay the amount of $17,000 plus costs and taxes in settlement of all claims. Under the settlement, all of the LDCs involved in the settlement, including the Company, requested an order from the OEB allowing for the future recovery from customers of all costs related to the settlement.

As per the OEB order dated February 22, 2011, the costs and damages arising from the settlement of this class action shall be recoverable from all rate payers of the LDCs. The OEB issued its decision allowing the Company to recover its share of the settlement in the amount of $347.

The payment to settle the Company's portion of the class action suit was made on June 30, 2011. The OEB order authorized the Company to recover the balance of $345 effective over a 12-month period of recovery from May 1, 2011 to April 30, 2012.

(c) Contractual obligation - Hydro One Networks Inc.:

The Company is party to a connection and cost recovery agreement with Hydro One related to the construction by Hydro One of a transformer station designed to meet the Company's anticipated electricity load growth. Construction of the project was completed during 2007 and the Company connected to the transformer station during 2008.

To the extent that the cost of the project is not recoverable from future transformation connection revenue, the Company is obliged to pay capital contribution equal to the difference between these revenues and the construction costs allocated to the Company. The construction costs allocated to the Company for the project are $9,975.

The Company has recorded a current liability and a corresponding intangible asset of $1,212 as at December 31, 2011 (2010 - $1,212), based on management's best estimate of the present value of future transformation connection revenue shortfall. Hydro One will perform a true-up based on actual load in 2012.

(In thousands of dollars)

15. Contingencies and guarantees (continued):

(d) Environmental liability:

In 2008, Environment Canada issued its final regulations governing the management of PCBs. Costs relating to future expenditures associated with the removal and destruction of PCB-contaminated transformers and remediation of chemically contaminated lands has been estimated in the amount of $412, which has been recorded as a liability at December 31, 2011. Because such expenditures are expected to be recoverable in future rates, the Company has recorded an equivalent amount as a regulatory asset.

16. Lease commitments:

Future minimum lease payment obligations under operating leases are as follows:

2012	$ 19
2013	2
2014	2
2015	2
2016	2
Thereafter	70
	$ 97

17. Other income:

	2011	2010
Late payment charges	$ 480	$ 530
Customer charges	1,584	1,867
Pole rentals	458	472
Interest	345	264
Recoverable projects and other	800	1,318
Net gain on disposal of property, plant and equipment	39	13
Loss on disposal of inventory	(8)	(167)
Foreign exchange gain (loss)	9	(39)
	$ 3,707	$ 4,258

(In thousands of dollars)

18. Change in non-cash operating working capital:

	2011	2010
Accounts receivable	$ 2,214	$ (3,378)
Income taxes recoverable	(261)	1,006
Inventory	(219)	401
Prepaid expenses	(195)	(463)
Accounts payable and accrued liabilities	1,750	(8,793)
Advance payments - construction deposits	431	–
Deferred revenue	1,201	–
Developer obligations	1,031	163
Due to (from) related parties	(1,513)	1,226
	$ 4,439	$ (9,838)

19. Financial instruments:

The carrying amounts of all financial instruments, except long-term debt, approximate fair values due to the immediate or short-term maturity of these financial instruments. It is not practicable to estimate the fair value of long-term debt as it is not publicly traded.

(a) Financial instrument risk:

Exposure to market risk, credit risk and liquidity risk arises in the normal course of the Company's business.

(b) Market risk:

Market risk refers primarily to risk of loss that results from changes in commodity prices, foreign exchange rates and interest rates. The Company does not have commodity risk and its foreign exchange risk is considered not material and is limited to U.S. dollar cash and cash equivalents holdings, which includes an overdraft of $189 as at December 31, 2011 (2010 - $183).

Distribution rates and charges are currently based on a revenue requirement less other income, which includes interest income. The difference in the interest revenue reduction and the actual interest income earned by the Company is currently insignificant.

19. Financial instruments (continued):

(c) Credit risk:

Financial assets create credit risk that a counterparty will fail to discharge an obligation, causing a financial loss. The Company's distribution revenue is earned on a broad base of customers. As a result, the Company did not earn a significant amount of revenue from any individual customer. As at December 31, 2011, there were no significant balances of accounts receivable due from any single customer.

The Company manages counterparty credit risk through various techniques, including limiting total exposure levels with individual counterparties consistent with the Company's policies, and monitoring the financial condition of counterparties.

Management believes that the credit risk of accounts receivable is limited due to the following reasons:

(i) There is a broad base of customers with no one customer that accounts for revenue or an accounts receivable balance in excess of 10% of the respective balance.

(ii) The Company, as permitted by the OEB's Retail Settlement and Distribution System Code, may obtain a security deposit or L/C from customers to mitigate risk of payment default.

(iii) The percentage of accounts receivable that is outstanding more than 90 days is approximately 1.60% (2010 - 1.10%) of the total net outstanding balance.

(iv) The Company included an amount of accounts receivable write-offs within operating and maintenance expense for rate-setting purposes.

(In thousands of dollars)

19. Financial instruments (continued):

Pursuant to their respective terms, accounts receivable are aged as follows as at December 31:

	2011	2010
Total accounts receivable	$ 53,203	$ 55,668
Less allowance for doubtful accounts	420	671
Total accounts receivable, net	$ 52,783	$ 54,997
Of which:		
Unbilled revenue	$ 28,547	$ 31,017
Outstanding 1 day but not more than 30 days	22,485	21,917
Outstanding 31 days but not more than 60 days	854	1,935
Outstanding 61 days but not more than 90 days	479	174
Outstanding 91 days but not more than 120 days	395	375
Outstanding more than 120 days	443	250
	53,203	55,668
Less allowance for doubtful accounts	420	671
	$ 52,783	$ 54,997

(d) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. Short-term liquidity is provided through cash and cash equivalents on hand and funds from operations. Short-term liquidity is expected to be sufficient to fund normal operating requirements. The liquidity risks associated with financial commitments are as follows:

	Due within one year	Due between one and five years	Due past five years
Financial liabilities:			
Accounts payable and accrued liabilities	$ 37,187	$ –	$ –
Long-term debt	4,640	20,783	86,204
Short-term loans	5,000	–	–
Lease commitments	19	8	70

19. Financial instruments (continued):

(e) Interest rate risk:

The Company enters into fixed interest rate long-term debt agreements to minimize cash flow and interest rate fluctuation exposure. Long-term debt for $30 million for a 20-year fixed rate term loan was arranged during the year from a chartered Canadian bank. The Company entered into an interest rate swap derivative agreement with the Bank to exchange interest rate cash flows. Under this agreement, the Company and the Bank have the periodic exchange of payments without exchanging the notional principal amount on which the payments are based. This effectively provided the Company with a fixed rate loan which reduces the impact of fluctuating interest rates on long-term debt. The Company does not enter into any such financial instrument for speculative purposes.

The Company included $1.6 million of unrealized loss in its financial statements, which represents the amount that the Company would have paid to unwind its position as at December 31, 2011. This is the fair value of the interest rate swap derivative as at December 31, 2011. This unrealized loss is not expected to affect cash as the Company intends to hold the financial instrument until its maturity.

20. Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

Attachment 3 of 5

2010 Audited Statements

Financial Statements of

VERIDIAN CONNECTIONS INC.

Year ended December 31, 2010

KPMG LLP
Chartered Accountants
Yonge Corporate Centre
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Toronto ON M2P 2H3
Canada

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Veridian Connections Inc.

We have audited the accompanying financial statements of Veridian Connections Inc., which comprise the balance sheet as at December 31, 2010, the statements of earnings and retained earnings and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Veridian Connections Inc. as at December 31, 2010, and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

March 14, 2011
Toronto, Canada

VERIDIAN CONNECTIONS INC.

Balance Sheet
(In thousands of dollars)

December 31, 2010, with comparative figures for 2009

	2010	2009
Assets		
Current assets:		
Cash and cash equivalents	$ –	$ 6,377
Accounts receivable (note 2)	54,997	51,528
Income taxes recoverable	205	1,211
Current portion of regulatory assets (note 5)	1,127	–
Prepaid expenses	721	258
Inventory	1,446	1,846
	58,496	61,220
Other non-current assets	417	373
Property, plant and equipment (note 3)	159,139	146,754
Intangible assets (note 4)	4,779	3,582
Goodwill	8,746	8,746
Future income tax assets (note 6)	10,860	10,507
Regulatory assets (note 5)	8,976	8,391
	$ 251,413	$ 239,573
Liabilities and Shareholder's Equity		
Current liabilities:		
Bank indebtedness	$ 1,628	$ –
Accounts payable and accrued liabilities (note 7)	35,437	44,230
Short-term loan (note 8)	10,300	–
Advance payments - construction deposits	91	–
Developer obligations	1,000	837
Due to related parties (note 9)	1,465	238
Current portion of long-term debt (note 10)	3,503	4,753
Current portion of regulatory liabilities (note 5)	8,916	6,869
	62,340	56,927
Long-term liabilities:		
Long-term debt (note 10)	82,406	83,810
Regulatory liabilities (note 5)	24,772	21,926
Employee future benefits (note 11)	1,441	1,228
Customer deposits and contractor obligations	5,233	4,392
Other (note 14(c))	1,212	–
	115,064	111,356
Shareholder's equity:		
Share capital (note 12)	64,302	64,302
Contributed capital	23	23
Retained earnings	9,684	6,965
	74,009	71,290
Contingencies and guarantees (note 14)		
Lease commitments (note 15)		
	$ 251,413	$ 239,573

See accompanying notes to financial statements.

On behalf of the Board:

Chair, Board of Directors

Chair, Audit and Finance Committee

VERIDIAN CONNECTIONS INC.

Statement of Earnings and Retained Earnings
(In thousands of dollars)

Year ended December 31, 2010, with comparative figures for 2009

	2010	2009
Revenue	$ 256,203	$ 246,319
Cost of power	208,748	197,332
Gross margin	47,455	48,987
Expenses:		
Operating and maintenance	6,608	6,540
Administration	14,896	14,817
Interest on long-term debt (note 10)	5,390	5,059
Amortization	13,631	14,145
	40,525	40,561
Operating income before the undernoted	6,930	8,426
Other income (note 16)	4,258	4,470
Earnings before income taxes	11,188	12,896
Income taxes (note 6)	3,249	4,258
Net earnings	7,939	8,638
Retained earnings, beginning of year	6,965	6,527
Dividends paid (note 13)	(5,220)	(8,200)
Retained earnings, end of year	$ 9,684	$ 6,965

See accompanying notes to financial statements.

VERIDIAN CONNECTIONS INC.

Statement of Cash Flows
(In thousands of dollars)

Year ended December 31, 2010, with comparative figures for 2009

	2010	2009
Cash provided by (used in):		
Operating activities:		
Net earnings	$ 7,939	$ 8,638
Items not affecting cash:		
Gain on disposal of property, plant and equipment	(13)	(70)
Decrease in regulatory assets/liabilities	2,536	2,407
Increase (decrease) in employee future benefits obligation	213	(163)
Future income taxes	292	716
Amortization of property, plant and equipment	12,632	12,940
Amortization of intangible assets	1,766	1,883
	25,365	26,351
Change in non-cash operating working capital (note 17)	(9,838)	(8,635)
	15,527	17,716
Financing activities:		
Dividends paid (note 13)	(5,220)	(8,200)
Increase (decrease) in customer deposits and contractor obligations	841	(256)
Net proceeds (repayment) of long-term debt	(2,654)	18,490
Proceeds from short-term loan	10,300	–
Amounts due to Hydro One Networks Inc.	–	(30)
	3,267	10,004
Investing activities:		
Proceeds from disposition of property, plant and equipment	25	70
Additions to property, plant and equipment, net of contributed capital	(25,029)	(28,423)
Additions to intangible assets	(2,963)	(2,319)
Increase (decrease) in other non-current assets/liabilities	1,168	(332)
	(26,799)	(31,004)
Decrease in cash and cash equivalents	(8,005)	(3,284)
Cash and cash equivalents, beginning of year	6,377	9,661
Cash and cash equivalents (bank indebtedness), end of year	$ (1,628)	$ 6,377
Supplemental cash flow information:		
Interest received	$ 40	$ 101
Interest paid	4,149	6,583
Income taxes paid	3,558	5,196

See accompanying notes to financial statements.

Veridian Connections Inc. (the "Company") commenced operations on November 1, 1999. It is a wholly owned subsidiary of Veridian Corporation (the "Corporation"). The Company is licensed by the Ontario Energy Board (the "OEB") as an electricity distributor which distributes electricity in the cities of Belleville and Pickering, the towns of Ajax, Gravenhurst, Port Hope and Uxbridge, and the communities of Bowmanville, Newcastle, Orono, Beaverton, Cannington, Sunderland and Port Perry.

1. Significant accounting policies:

(a) Basis of presentation:

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("Canadian GAAP").

(b) Revenue recognition:

(i) Electricity distribution and sale:

Revenue from the sale of electricity is recognized on the basis of cyclical billing based on electricity usage and includes an estimate of unbilled revenue accrued in respect of electricity delivered but not yet billed. Unbilled revenue included within accounts receivable as at December 31, 2010 amounted to $31,017 (2009 - $30,961). Actual results could differ from estimates made of actual electricity usage.

(ii) Other revenue:

Other revenue, which includes revenue from electricity distribution related services, is recognized as the services are rendered.

(c) Rate setting:

The Company is regulated by the OEB under authority of the Ontario Energy Board Act, 1998. The OEB is charged with the responsibility of approving or setting rates for the transmission and distribution of electricity and the responsibility for ensuring that distribution companies fulfill obligations to connect and service customers.

1. Significant accounting policies (continued):

The OEB has the general power to include or exclude costs, revenue, losses or gains in the rates of a specific period, resulting in the change in the timing of accounting recognition from that which would have applied in an unregulated company. Such change in the timing involves the application of rate-regulated accounting, giving rise to the recognition of regulatory assets and liabilities. The Company's regulatory assets represent certain amounts receivable from future customers and costs that have been deferred for accounting purposes because it is probable that they will be recovered in future rates. In addition, the Company has recorded regulatory liabilities which represent amounts for expenses incurred in different periods that would be the case had the Company been unregulated. Specifically, the following accounting treatments have been applied:

(i) An amount to represent the cost of funds used during construction and development has been applied based on the value of construction in progress.

(ii) The Company has deferred certain post-market opening retail settlement variances in accordance with Article 490 of the OEB's Accounting Procedures Handbook.

(d) Inventory:

Inventory, which consists of parts and supplies acquired for internal construction or consumption, is valued at the lower of cost and net realizable value. Cost is determined on a weighted-moving average basis.

Any impairment losses taken on inventory are reversed if and when net realizable value subsequently recovers. Major spare parts and standby equipment are recorded as part of property, plant and equipment and amortized once they are put into use.

(e) Property, plant and equipment:

Property, plant and equipment purchased or constructed by the Company are stated at cost and include contracted services, materials, labour, engineering costs, overheads and an allowance for the cost of funds used during construction when applied. Certain assets may be acquired or constructed with financial assistance in the form of contributions from developers or customers. The OEB requires that such contributions be offset against the related asset cost.

(In thousands of dollars)

1. Significant accounting policies (continued):

When identifiable buildings, distribution station equipment and office equipment are retired or otherwise disposed of, their original cost and accumulated amortization are removed from the accounts and the related gain or loss is included in current operations. Repairs and maintenance expenditures are charged to operations. The cost and related accumulated amortization of grouped assets, such as, transmission and distribution systems, are removed at the end of the estimated service lives.

Amortization is provided on the straight-line basis over the estimated service lives at the following annual rates:

Land rights	2%
Buildings	2% - 4%
Distribution station equipment	3% - 33%
Transmission and distribution system	4% - 10%
Meters	10%
Office equipment	10%
Computer hardware	20%
Vehicle fleet	12.50% - 33.33%

In the event that facts and circumstances indicate that property, plant and equipment may be impaired, an evaluation of recoverability is performed. For purposes of such an evaluation, the estimated future undiscounted cash flows associated with the asset are compared to the carrying amount of the asset to determine if a write-down is required. The impairment loss is measured as the amount by which the carrying amount of the asset exceeds its fair value.

Construction in progress comprises property, plant and equipment under construction, assets not yet placed into service and pre-construction activities related to specific projects expected to be constructed.

An allowance for the cost of funds used during the construction period has been applied. The rate applied is equal to the rate prescribed in each quarter by the OEB. The average rate for the current fiscal period, in respect of long-term borrowing, is 4.34% (2009 - 5.89%).

When portions of the Company's distribution facilities are replaced or relocated, the asset is charged with the costs of construction less the salvage value of any material returned to inventory. Amortization is then provided at the same rate used for the original asset.

1. Significant accounting policies (continued):

(f) Intangible assets:

Amortization of intangible assets is provided on a straight-line basis over the estimated service lives at the following annual rates:

Application software	20.00% - 33.33%

(g) Impairment of long-lived assets:

Long-lived assets are reviewed for impairment whenever events or circumstances indicate that the carrying amount of the long-lived assets is not recoverable. Any resulting impairment loss is recorded in the year in which the impairment occurs.

(h) Goodwill:

Goodwill relates to the cost of acquired local distribution companies in excess of fair value of the net identifiable assets purchased and is evaluated for impairment on an annual basis, or more frequently, if circumstances require. Goodwill impairment is assessed based on a comparison of the fair value of the assets acquired to the underlying carrying value of those net assets, including goodwill, with any write-down of the carrying value of goodwill being charged to operations. The Company has determined that goodwill is not impaired.

(i) Customer deposits and contractor obligations:

Customers and contractors may be required to post security to obtain electricity or other services. Interest is paid on customer balances at rates established from time to time by the Company. The current portion of customer deposits and contractor obligations are included in accounts payable and accrued liabilities.

1. Significant accounting policies (continued):

(j) Pension and other post-employment benefits:

The Company accounts for its participation in the Ontario Municipal Employees Retirement System ("OMERS"), a multi-employer public sector pension fund, as a defined contribution plan.

The Company actuarially determines the cost of other employment and post-employment benefits offered to employees. These unfunded plans are accounted for as defined benefit obligations. The Company applies the projected benefit method, prorated on service and based on management's best estimate and assumptions. Under this method, the projected post-retirement benefit is deemed to be earned on a pro rata basis over the years of service in the attribution period commencing at date of hire, and ending at the earliest age the employee could retire and qualify for benefits.

(k) Income taxes:

Under the Electricity Act, 1998, the Company is required to make payments in lieu of corporate income taxes ("PILs") to Ontario Electricity Financial Corporation. These payments are calculated in accordance with the rules for computing income and taxable capital and other relevant amounts contained in the Income Tax Act (Canada) and the Corporations Tax Act (Ontario) as modified by the Electricity Act, 1998 and related regulations. References in these financial statements to income taxes are with respect to PILs.

The Company uses the asset and liability method of accounting for the tax effect of temporary differences between the carrying amount and tax bases of the Company's assets and liabilities. Temporary differences arise when the realization of an asset or the settlement of a liability would give rise to either an increase or decrease in the Company's income taxes payable in the year or a later period.

Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in earnings in the year that includes the date of enactment or substantive enactment. A valuation allowance is recorded against a future income tax asset to the extent that the Company determines that it is more likely than not that a future income tax asset will not be realized in the future.

1. Significant accounting policies (continued):

Where the Company expects the future income taxes to be recovered from or refunded to customers as part of the rate setting process, the future income tax assets and liabilities result in regulatory liabilities and assets, otherwise the future income tax assets and liabilities result in a future tax provision that is charged to the statement of earnings.

(l) Measurement uncertainty:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Accounts receivable and regulatory assets are reported based on amounts expected to be recovered and an appropriate allowance for unrecoverable amounts. Inventory is recorded net of provisions for obsolescence. Due to inherent uncertainty involved in making such estimates, actual results reported in future years could differ from those estimates recorded in preparing these financial statements, including changes as a result of future decisions made by the OEB or the Minister of Energy.

(m) Financial instruments:

The Company categorizes its financial instruments as follows:

Accounts receivable	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Short-term loans	Other financial liabilities
Bank indebtedness	Other financial liabilities
Advance payments - construction deposits	Other financial liabilities
Developer obligations	Other financial liabilities
Long-term debt	Other financial liabilities
Customer deposits and contractor obligations	Other financial liabilities

1. Significant accounting policies (continued):

(n) Future accounting changes:

Transition to International Financial Reporting Standards ("IFRS"):

The Canadian Accounting Standards Board ("AcSB") adopted a new strategic plan that will have Canadian GAAP converge with IFRS, effective January 1, 2011.

On September 10, 2010, the AcSB granted an option to permit rate-regulated entities to defer IFRS implementation date to January 1, 2012. This decision came in light of the uncertainty created by the International Accounting Standards Board in regard to the rate-regulated project which is assessing the potential recognition of regulatory assets and regulatory liabilities under IFRS.

The Company made the decision to take the option of one year deferral for the rate-regulated entities and will apply IFRS to its financial statements for the year ending December 31, 2012. The adoption date of January 1, 2012 will require the restatement, for comparative purposes, of the amounts reported by the Company for its year ended December 31, 2011, and the opening balance sheet as at January 1, 2011. The Company continues to assess the impacts of the adoption of IFRS on the results of its operations and financial position.

(o) Capital disclosures:

The Company's objectives with respect to its capital structure are to maintain effective access to capital on a long-term basis, at reasonable rates, and to deliver the appropriate financial returns. As of December 31, 2010, the Company's definition of capital includes shareholder's equity, long-term debt, including the Municipal and Corporation promissory notes and a short-term loan facility from a Canadian Chartered bank. The OEB has determined the Company to have a capital structure of 60% long-term debt and 40% equity. The OEB uses this deemed structure as a basis of how capital is funded for rate setting purposes only. The actual capital structure for the Company may be different from the OEB deemed structure.

The Company has been in compliance with all the covenants included in its long-term debt agreements, notes from the shareholder and the short-term loan. During the year, there have been no changes to how the Company assesses its capital structure.

(In thousands of dollars)

2. Accounts receivable:

	2010	2009
Energy revenue	$ 22,438	$ 19,795
Unbilled revenue	31,017	30,961
Project expenditures recoverable	1,506	840
Pole rentals and other	707	452
	55,668	52,048
Less allowance for doubtful accounts	671	520
	$ 54,997	$ 51,528

3. Property, plant and equipment:

	Cost	Accumulated amortization	2010 Net book value	2009 Net book value
Land	$ 1,811	$ –	$ 1,811	$ 1,811
Land rights	694	348	346	357
Buildings	17,408	4,690	12,718	7,517
Distribution station equipment	30,281	15,800	14,481	14,737
Transmission and distribution system	291,781	151,323	140,458	138,982
Meters	17,180	5,230	11,950	10,842
Office equipment	4,291	3,019	1,272	811
Computer hardware	6,616	5,639	977	1,147
Vehicle fleet	7,649	3,567	4,082	2,615
Construction in progress	8,248	–	8,248	4,432
Contributions in aid of construction	(48,475)	(11,271)	(37,204)	(36,497)
	$ 337,484	$ 178,345	$ 159,139	$ 146,754

During the year, $219 (2009 - $246), representing an allowance for the cost of funds used during construction, was capitalized.

(In thousands of dollars)

4. Intangible assets:

			2010	2009
	Cost	Accumulated amortization	Net book value	Net book value
Application software	$ 11,868	$ 8,827	$ 3,041	$ 3,168
Construction in progress related to application software	526	–	526	414
Capital contributions	1,212	–	1,212	–
	$ 13,606	$ 8,827	$ 4,779	$ 3,582

5. Regulatory assets and liabilities:

Regulatory assets and liabilities can arise out of the rate-making process.

	2010	2009
Regulatory assets:		
OEB costs, pension contributions and other deferred costs (a)	$ 2,398	$ 1,561
Smart meter (b)	8,280	7,405
	10,678	8,966
Less:		
Amounts expected to be settled in the next year (a) and (b)	1,127	–
Valuation allowance	575	575
	1,702	575
	$ 8,976	$ 8,391

(In thousands of dollars)

5. Regulatory assets and liabilities (continued):

	2010	2009
Regulatory liabilities:		
Regulatory liability for future income tax assets	$ 11,868	$ 11,223
Conservation and demand management	127	666
Post-market opening retail settlement variances (c)	7,584	14,638
Hydro One low voltage	1,923	2,079
Other regulatory liabilities (d)	795	–
Balance of amounts approved to be refunded to customers through distribution rates	11,391	189
	33,688	28,795
Less amounts expected to be settled in the next year (c)	8,916	6,869
	$ 24,772	$ 21,926

(a) The OEB approved the establishment of regulatory deferral accounts to record the Company's incremental cost for polychlorinated biphenyls ("PCBs") testing that occurred in 2009. The Company has sought for recovery of this cost in its 2011 Incentive Rate Mechanism ("IRM") application. No decision has been received at this time. Another deferral account has been established for one time administrative costs during transition to IFRS. Other deferred costs will be sought for recovery in future rates.

(b) The OEB approved the establishment of smart meter variance accounts to record revenue approved by the OEB for smart meters and related capital costs incurred by the Company. In 2010, the costs associated with smart meter capital, incremental operating, maintenance, amortization and administrative expenses have been transferred from the variance accounts to the associated balance sheet and statement of earnings accounts. The net book value of stranded meters as well as amounts to be recovered in future rates remain as smart meter regulatory assets. The total net amount transferred from the variance accounts is $2,654 (2009 - $10,488). The Company has recorded a valuation allowance against smart meter variance accounts.

5. Regulatory assets and liabilities (continued):

(c) Post-market opening retail settlement variances are variances that have occurred since May 1, 2002 when the competitive electricity market was declared open and that have accumulated pursuant to direction from the OEB. In 2010, the OEB approved the disposition of the Company's retail settlement variances accounts as at December 31, 2008. The post-market opening retail settlement variances for 2010 are variances that have accrued since January 1, 2009. Specifically, these amounts include variances between the amount charged by the Independent Electricity System Operator ("IESO") for the operation of the markets and grid, as well as various wholesale market settlement charges and transmission charges as compared to the amount billed to consumers based on the OEB-approved wholesale market service rate. In the absence of rate regulated accounting, interest expense in 2010 would have been lower by $224 (2009 - $289) and interest revenue in 2010 would have been lower by $228 (2009 - $117).

(d) Other regulatory liabilities include a variance in amounts collected for PILs prior to April 30, 2006 that may be required to be refunded to the ratepayers.

Management continues to assess the likelihood of recovery of its regulatory assets and believes that it is probable that its regulatory assets and liability balances will be factored into setting of future rates. In the event that recovery from future rates is no longer considered probable or portions of amounts deferred are determined not be recoverable, such amounts will be expensed in the year this determination is made.

(In thousands of dollars)

6. Income taxes:

The provision for income taxes differs from the amount that would have been recorded using the combined Canadian federal and Ontario statutory income tax rate. The reconciliation between the statutory and effective tax rates is provided as follows:

	2010	2009
Earnings before provision for income taxes	$ 11,188	$ 12,896
Federal and Ontario statutory income tax rate	31.0%	33.0%
Provision for income taxes at statutory rate	$ 3,468	$ 4,256
Increase (decrease) resulting from:		
Temporary differences expected to be recovered from customers	140	(4)
Impact of change in tax rate	(70)	30
Other miscellaneous	(289)	(24)
Income tax expense	$ 3,249	$ 4,258
Allocated:		
Current	$ 2,957	$ 3,542
Future	292	716
	$ 3,249	$ 4,258

Future income tax assets and liabilities arise from differences between carrying amounts and tax bases of the Company's assets and liabilities.

The tax effects of these differences are as follows:

	2010	2009
Future income tax assets:		
Property, plant and equipment and intangible assets	$ 11,360	$ 12,562
Employee future benefits	480	409
Total future income tax assets	11,840	12,971
Future income tax liabilities:		
Regulatory assets	980	2,464
Net future income tax assets	$ 10,860	$ 10,507

(In thousands of dollars)

7. Accounts payable and accrued liabilities:

	2010	2009
Power bill accrual	$ 14,667	$ 21,815
Current portion of customers deposits	2,903	2,588
Customer credit balances	5,903	7,636
Other accounts payable and accrued liabilities	11,964	12,191
	$ 35,437	$ 44,230

8. Credit facility and short-term loan:

As at December 31, 2010, the Company had an uncommitted revolving demand credit facility with a Canadian Chartered Bank. The facility at all times is required to be the lesser of $20,000 with letter of credit ("L/C") carve-out availability of up to $807.

The financial covenants for the above facility requires a funded debt to capitalization ratio of no greater than 0.60:1, and maintain a debt service coverage ratio of not less than 1.25:1.

As at December 31, 2010, $10,300 and $807 was drawn out of this facility.

The Company utilized $807 to issue an irrevocable L/C in favour of the IESO. The IESO requires all purchasers of electricity in Ontario to provide security to mitigate the risk of their default based on their expected purchases from the IESO administered spot market. The IESO could draw on the L/C if the Company defaults on its payment.

(In thousands of dollars)

9. Related party transactions and balances:

The Company purchases or supplies administrative and management services from and to the Corporation and Veridian Energy Inc., another subsidiary of the Corporation. Charges for these services are recorded at exchange amounts established and agreed to by the related parties. For the year ended December 31, 2010, the recovery of these services is as follows:

	2010	2009
Executive services	$ 183	$ 188
Water heater services	25	119
Fibre services	–	56
Sentinel lights	26	10
Solar generation	–	4

At December 31, 2010, balances due from (to) related parties are as follows:

	2010	2009
The Corporation:		
Receivable relating to services rendered, without interest or terms of repayment	$ –	$ 1
Payable relating to services rendered, without interest or terms of repayment	(1,465)	(489)
Veridian Energy Inc.:		
Receivable relating to services rendered, without interest or terms of repayment	–	263
Payable relating to services rendered without interest or terms of repayment	–	(13)
	(1,465)	(238)
Less current portion	(1,465)	(238)
	$ –	$ –

During the year, interest in the amount of $2,711 (2009 - $1,815) was recorded to the Corporation.

(In thousands of dollars)

9. Related party transactions and balances (continued):

The Company provides electricity and services to the shareholders of its parent company, the Town of Ajax, the Municipality of Clarington, the City of Pickering and the City of Belleville (collectively, the "shareholders"). Electrical energy is sold to the shareholders at the same prices and terms as other electricity customers consuming equivalent amounts of electricity. The Company also provides power line maintenance services to the shareholders on a contract basis. The charges for these services are at rates similar to those charged to other customers of maintenance services. A summary of amounts charged by the Company to the parent company shareholders is as follows:

	2010	2009
Electrical energy and services	$ 5,543	$ 5,801

At December 31, 2010, accounts receivable include $715 (2009 - $651) due from the shareholders.

10. Long-term debt:

	2010	2009
Notes payable to shareholders of the Corporation, due on November 1, 2039, at a rate equal to the OEB deemed long-term debt rate, less 30 basis points	$ 43,588	$ 43,588
5.56% notes payable to the Corporation, due on June 1, 2017	21,321	23,975
Notes payable to the Corporation, due on December 17, 2039, at a rate equal to OEB deemed long-term debt rate, less 30 basis points	21,000	21,000
	85,909	88,563
Less current portion	3,503	4,753
	$ 82,406	$ 83,810

(In thousands of dollars)

10. Long-term debt (continued):

The notes payable to the shareholders of the Corporation were amended on March 30, 2010 and are convertible at the option of the holder on the basis of one common share for each $1,000 of principal amount. At the sole option of the noteholders, the maturity date and any terms of the notes may be revised, changed or restated by the noteholders following consultation with the Company.

Scheduled payments for the next five years and thereafter are as follows:

2011	$ 3,503
2012	3,663
2013	3,831
2014	4,009
2015	4,196
Thereafter	66,707
	85,909
Less current portion	3,503
	$ 82,406

Interest on long-term debt comprises:

	2010	2009
Interest on:		
Notes payable and loans	$ 5,338	$ 4,722
Regulatory liabilities	224	496
Customer deposits and other	47	87
	5,609	5,305
Less allowance for funds used during construction	219	246
	$ 5,390	$ 5,059

(In thousands of dollars)

11. Employee benefits:

(a) Pensions:

During 2010, the Company made contributions totalling $1,148 (2009 - $992) to OMERS.

(b) Employee future benefits:

The Company pays certain benefits on behalf of its retired employees. The Company recognizes these post-retirement costs in the year in which the employees render the services.

Information about the Company's non-contributory defined benefit plans to fund life insurance, heath and dental benefits is as follows:

	2010	2009
Accrued benefit liability recognized at January 1	$ 1,228	$ 1,391
Current service costs and interest expense on accrued benefit obligation	260	(119)
Benefits payments	(47)	(44)
Accrued benefit obligation at December 31	$ 1,441	$ 1,228

The amounts presented are based upon an actuarial valuation performed as of December 31, 2009, with a measurement date of January 1, 2009. The next valuation is expected to be performed for the year ending December 31, 2012.

The projected accrued benefit obligation ("ABO") at January 1, 2010 per actuarial valuation was recalculated with the increase in the number of employees to the valuation date of December 31, 2010. This increased the expected ABO at December 31, 2010 by approximately 1%, compared to the projections per the actuarial report.

(In thousands of dollars)

11. Employee benefits (continued):

The main actuarial assumptions employed for the valuations are as follows:

(i) General inflation:

Future general inflation levels, as measured by change in the Consumer Price Index, were assumed at 2.00% for future years.

(ii) Interest (discount) rate:

Amounts were determined using an annual discount rate of 5.50%.

(iii) Salary levels:

Future general salary and wage levels were assumed to increase at 3.30% (2009 - 3.30%) per annum.

(iv) Health and dental care:

The health and dental care cost increases are 8.33% and 5.00%, respectively (2009 - 9.00% and 5.00%).

12. Share capital:

	2010		2009	
	Number of shares	Amount	Number of shares	Amount
Authorized:				
Unlimited common shares				
Issued	10,000	$ 64,302	10,000	$ 64,302

13. Dividends:

The Company's current dividend policy states:

(a) a quarterly dividend shall be declared and paid to the Corporation;

(b) the total of quarterly dividend paid by the Company to the Corporation will be equal to the total of the quarterly dividends paid by the Corporation to its shareholders;

(c) debt to regulatory base projected for the end of the year should remain within 5% plus or minus of the deemed debt ratio as established by OEB, currently 60%; and

(d) in the event that the debt to regulatory rate base is below 55% or greater than 65%, the Company's Board of Directors will review and determine whether the annual dividend should be amended.

During 2010, the Board of Directors of the Company declared and paid dividends totalling $5,220 (2009 - $8,200) to the Corporation.

14. Contingencies and guarantees:

(a) Insurance claims:

The Company is a member of the Municipal Electric Association Reciprocal Insurance Exchange ("MEARIE"), which was created on January 1, 1987. A reciprocal insurance exchange may be defined as a group of persons formed for the purpose of exchanging reciprocal contracts of indemnity or inter-insurance with each other. MEARIE provides general liability insurance to member electric utilities.

Insurance premiums charged to each member electric utility consist of a levy per $1 of service revenue subject to a credit or surcharge based on each electric utility's claims experience. Insurance limits of $30,000 per occurrence are covered by MEARIE.

14. Contingencies and guarantees (continued):

(b) Other claims:

An action has been brought under the Class Proceedings Act, 1992. The plaintiff class seeks $500,000 in restitution for amounts paid to Toronto Hydro and to other Ontario municipal electric utilities ("LDCs") who received late payment penalties, which constitute interest at an effective rate in excess of 60% per year, contrary to Section 347 of the Criminal Code.

An Ad Hoc Committee of Electricity Distributor Association ("EDA") participated in a court-supervised mediation process to explore possible settlement of the case against the LDCs and reached a settlement in principle of this litigation on behalf of all LDCs in March, 2010. In order to become effective, this tentative settlement required the consent and approval of all LDCs and approval of the Ontario Superior Court of Justice. As per the terms of the settlement:

(i) LDCs collectively pay $17,000 plus costs and taxes;

(ii) Payment is not due until June 30, 2011; and

(iii) LDCs are at liberty to seek OEB permission to recover settlement costs through rates and the EDA is investigating the best mechanism for obtaining OEB approval.

The settlement was approved by the Ontario Superior Court of Justice in the minutes of the settlement dated April 21, 2010, and the Company gave its consent to pay $347 for its share of the costs and damages related to this class action.

On October 29, 2010, the OEB convened a generic proceeding on its own motion to determine whether amounts related to the settlement should be allowed to be recovered from ratepayers.

As per the Board's order dated February 22, 2011, the costs and damages arising from the settlement of this class action shall be recoverable from all ratepayers of the Affected Electricity Distributors.

The order allocates $345 to the Company, as a share of its costs and damages and, accordingly, the Company has provided for this liability and a corresponding regulatory asset in the amount of $345 as at December 31, 2010, and a request for the recovery of the same has been filed with the OEB.

14. Contingencies and guarantees (continued):

(c) Contractual obligation - Hydro One Networks Inc.:

The Company is party to a connection and cost recovery agreement with Hydro One related to the construction by Hydro One of a transformer station designed to meet the Company's anticipated electricity load growth. Construction of the project was completed during 2007 and the Company connected to the transformer station during 2008.

To the extent that the cost of the project is not recoverable from future transformation connection revenue, the Company is obliged to pay capital contribution equal to the difference between these revenues and the construction costs allocated to the Company. The construction costs allocated to the Company for the project are $9,975.

The Company has recorded a liability and a corresponding intangible asset of $1,212, as at December 31, 2010, based on management's best estimate of the present value of future transformation connection revenue shortfall.

(d) Environmental liability:

In 2008, Environment Canada issued its final regulations governing the management of PCBs. As at December 31, 2010, the cost of testing performed to date has been included within the regulatory assets. Costs relating to future expenditures associated with the removal and destruction of PCB contaminated transformers and remediation of chemically-contaminated lands has been estimated in the amount of $824, which has been recorded as a liability at December 31, 2010. Because such expenditures are expected to be recoverable in future rates, the Company has recorded an equivalent amount as a regulatory asset.

(In thousands of dollars)

15. Lease commitments:

Future minimum lease payment obligations under operating leases are as follows:

2011	$ 29
2012	15
2013	2
2014	2
2015	2
Thereafter	72
	$ 122

16. Other income:

	2010	2009
Late payment charges	$ 530	$ 523
Customer charges	1,867	1,714
Pole rentals	472	406
Interest	264	270
Recoverable projects and other	1,318	1,487
Net gain on disposal of property, plant and equipment	13	70
Loss on disposal of inventory	(167)	–
Foreign exchange loss	(39)	–
	$ 4,258	$ 4,470

17. Change in non-cash operating working capital:

	2010	2009
Accounts receivable	$ (3,469)	$ (4,719)
Income taxes recoverable	1,006	422
Prepaid expenses	(463)	(43)
Inventory	400	492
Accounts payable and accrued liabilities	(8,793)	1,098
Advance payments - construction deposits	91	(425)
Developer obligations	163	(1,199)
Due to (from) related parties	1,227	(4,261)
	$ (9,838)	$ (8,635)

18. Financial instruments:

The carrying amounts of all financial instruments, except long-term debt, approximate fair values due to the immediate or short-term maturity of these financial instruments. It is not practicable to estimate the fair value of long-term debt as it is not publicly traded.

(a) Financial instrument risk:

Exposure to market risk, credit risk and liquidity risk arises in the normal course of the Company's business.

(b) Market risk:

Market risk refers primarily to risk of loss that results from changes in commodity prices, foreign exchange rates and interest rates. The Company does not have commodity risk and its foreign exchange risk is considered not material and is limited to U.S. dollar cash and cash equivalents holdings which includes an overdraft of $183 as at December 31, 2010 (2009 - $169).

Distribution rates and charges are currently based on a revenue requirement less other income, which includes interest income. The difference in the interest revenue reduction and the actual interest income earned by the Company is currently insignificant.

(c) Credit risk:

Financial assets create credit risk that a counterparty will fail to discharge an obligation, causing a financial loss. The Company's distribution revenue is earned on a broad base of customers. As a result, the Company did not earn a significant amount of revenue from any individual customer. As at December 31, 2010, there were no significant balances of accounts receivable due from any single customer.

The Company manages counterparty credit risk through various techniques, including limiting total exposure levels with individual counterparties consistent with the Company's policies, and monitoring the financial condition of counterparties.

(In thousands of dollars)

18. Financial instruments (continued):

Management believes that the credit risk of accounts receivable is limited due to the following reasons:

(i) There is a broad base of customers with no one customer that accounts for revenue or an accounts receivable balance in excess of 10% of the respective balance.

(ii) The Company, as permitted by the OEB's Retail Settlement and Distribution System Code, may obtain a security deposit or L/C from customers to mitigate risk of payment default.

(iii) The percentage of accounts receivable that is outstanding more than 90 days is approximately 1.10% (2009 - 2.20%) of the total net outstanding balance.

(iv) The Company included an amount of accounts receivable write-offs within operating and maintenance expense for rate setting purposes.

Pursuant to their respective terms accounts receivable are aged as follows as at December 31:

	2010	2009
Total accounts receivable	$ 55,668	$ 52,048
Less allowance for doubtful accounts	671	520
Total accounts receivable, net	$ 54,997	$ 51,528
Of which:		
Unbilled revenue	$ 31,017	$ 30,961
Outstanding 1 day but not more than 30 days	21,917	18,714
Outstanding 31 days but not more than 60 days	1,935	1,030
Outstanding 61 days but not more than 90 days	174	178
Outstanding 91 days but not more than 120 days	375	139
Outstanding more than 120 days	250	1,026
	55,668	52,048
Less allowance for doubtful accounts	671	520
	$ 54,997	$ 51,528

(In thousands of dollars)

18. Financial instruments (continued):

(d) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. Short-term liquidity is provided through cash and cash equivalents on hand and funds from operations. Short-term liquidity is expected to be sufficient to fund normal operating requirements. The liquidity risks associated with financial commitments are as follows:

	Due within one year	Due between one and five years	Due past five years
Financial liabilities:			
Accounts payable and accrued liabilities	$ 35,437	$ –	$ –
Short-term loan	10,300	–	–
Long-term debt	3,503	20,093	62,313
Lease commitments	29	31	62

19. Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

Attachment 4 of 5

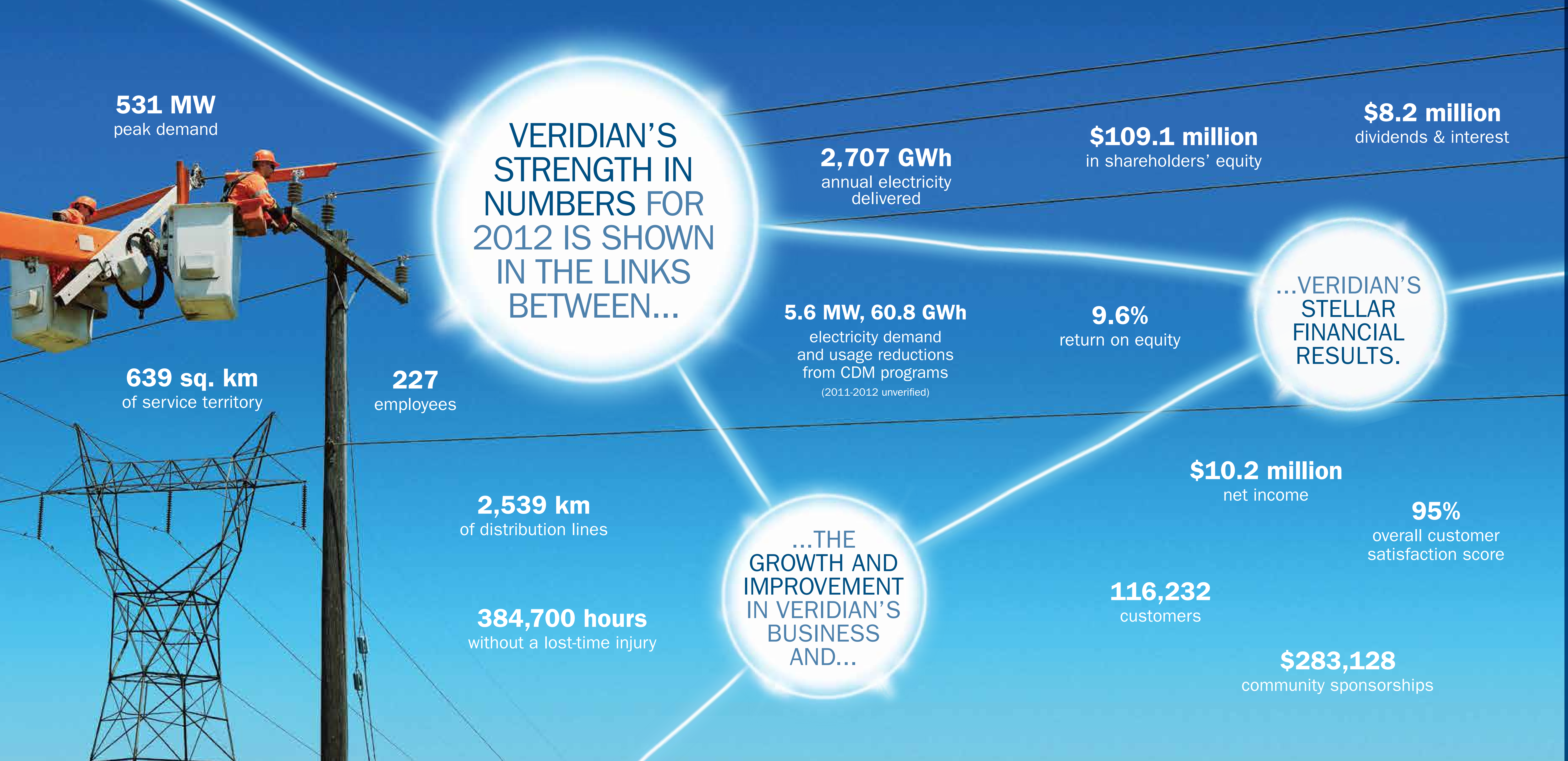
Annual Report and MD&A-2012

2012 ANNUAL REPORT

VERIDIAN

The power to make your community better.

Connected to power's future



2012 VERIDIAN CORPORATION ANNUAL REPORT

CONNECTED TO POWER'S FUTURE

VERIDIAN CORPORATION OWNS AND OPERATES VERIDIAN CONNECTIONS INC., A SUBSIDIARY COMPANY THAT DISTRIBUTES ELECTRICITY, GENERATES POWER AND PROVIDES ENERGY SERVICES.

Veridian's 200-plus employees focus on providing reliable, efficient and sustainable energy solutions and services, while maintaining the highest standards in health and safety within the workplace and in the communities they serve. Veridian is committed to providing value and healthy financial returns to its shareholders – the City of Pickering, the Town of Ajax, the Municipality of Clarington and the City of Belleville.

Veridian Connections is the seventh largest, municipally owned electricity distributor in Ontario. The company safely and reliably delivers electricity to more than 116,000 customers in the cities of Pickering and Belleville, the towns of Ajax, Port Hope and Gravenhurst, and the communities of Uxbridge, Bowmanville, Newcastle, Orono, Port Perry, Beaverton, Sunderland and Cannington.

JOINT LETTER FROM THE CHAIR AND PRESIDENT & CEO

MORE THAN THE STRENGTH OF OUR NUMBERS

“2012 SHOWED US THE TRUE POWER OF UNITING PLANNING, TECHNOLOGY AND PEOPLE. THE RESULT IS STRONGER MUNICIPALITIES AND BETTER COMMUNITIES.”

President & CEO Michael Angemeer (left) alongside Board Chair Doug Dickerson (right) by the wetland area at the company's corporate headquarters in Ajax. The wetland is a unique feature that provides for the required parking lot drainage in a more sustainable way.

Behind the numbers are the people, plans, partnerships and strategic investments that are building stronger, more resilient communities across Veridian's service territories. The smart grid is just a hint of what's to come. We're connected to power's future – the utility providers, municipalities and post-secondary institutions that provide essential services to our rural and urban communities. Working together, we will ensure tomorrow's power is driven by multi-disciplinary best practices and delivered in an efficient, cost-effective and sustainable way.

From a numbers perspective, 2012 was a year to celebrate. Our 9.6 per cent return on equity was impressive, our operating cost per customer came in under budget and shareholder equity increased 5.3 per cent to $109.1 million. A performance benchmarking report issued by the Ontario Energy Board ranked Veridian as a top quartile performer in spending efficiency among 75 electricity distributors in the province. We had no lost-time accidents. And our customers were the happiest they've ever been with us – 95 per cent said they were satisfied, which exceeds 2011's scores by four per cent.

But numbers only tell part of this year's story.

Our strategic plan, approved by the Board in 2012, sets out a framework to focus business operations to 2014 and a roadmap to achieving our vision of the future. Its goals and objectives – to grow and improve our core activity of electricity distribution, optimize operations, strengthen the organization, provide industry leadership and diversify our business – seemed a fitting way to organize the contents of this year's report.

We thought we were pretty forward-thinking when we put a photo of three solar panels in a green field on the cover of our 2005 annual report. Little did we know that seven years later we would flip the switch on a 140 kW DC solar array on our own roof at corporate headquarters in Ajax, connect the country's largest municipal solar project to the grid in Belleville and invite our employees to become members of a solar co-operative that has partnered with Veridian to put panels on the roof of the Claremont Community Centre.

Data-driven decision-making is the way of the future and we're definitely on board. In 2012, our linepersons started using handheld devices in the field and our state-of-the-art control room took another leap forward with a table-sized touch-screen display for viewing GIS data. Both innovations increase efficiency and quality control. A rigorous asset condition assessment will ensure we're making the best decisions about infrastructure replacement and renewal. Finally, we're finding cost-effective ways to add smart grid capabilities to older sections of the network where we were previously blind.

We're not perfect – but we're quick learners. We had reliability issues in south Ajax that caused outages and frustrated customers – but we listened and took action. By year's end we had increased reliability in the trouble areas by an audited 90 per cent, and improved monitoring, communications and intelligence so that in the event of future outages we can more quickly restore service to this section of the network.

Our investments don't stop at strengthening the grid or enhancing customer service. At Veridian, “empowering communities” means supporting hundreds of events and organizations that promote arts, culture, education and health in each of the communities we serve. From youth to seniors, jazz to symphonies, hospitals to hospices, summer camps to post-secondary scholarships, Veridian is a proud champion of many causes. We've got a scrapbook full of thank you notes to prove it.

2012 was also a year of internal change. We successfully realigned our business functions for efficiency and nimbleness with the input of two of our retiring executives, both former general managers of shareholder community local distribution companies, and the fresh ideas of our incoming team.

It's hard to recap 2012 without some discussion of Superstorm Sandy. Thanks to our emergency preparedness protocols and the willingness of our crews to step up – both at home and away – we were able to send eight linepersons and five trucks to Long Island, N.Y., without compromising service back home. Some say Sandy is just a taste of the storms to come – and Veridian will continue to invest in technology and people so that if the worst arrives, we're ready.

Building the strong communities of tomorrow means connecting with and learning from like-minded organizations today. It's always been Veridian's way, since the days when we embraced the cultures and best practices of our shareholder LDCs. We're founding members of the Durham Strategic Energy Alliance, supporters of the recently opened Energy Research Centre at UOIT and always eager to partner with other utilities and LDCs whose strengths complement our own – because when we work together we all benefit, not only from increased efficiencies and economies of scale, but from the innovations that come from a team approach.

Working together, we are connected to power's future. *And that future is bright.*

M. C. Angemeer

Michael Angemeer, P.Eng
President & CEO

Doug Dickerson

Doug Dickerson
Chair

VERIDIAN'S STRATEGIC PLAN... A ROADMAP TO A VISION OF THE FUTURE

Veridian's Board approved a strategic plan for 2012 to 2014 – a clear framework to focus the company's business operations, and a living document designed to respond to a dynamic business environment that includes government policy, evolving stakeholder expectations and technological change.

FIVE KEY BUSINESS GOALS WERE IDENTIFIED:

1. GROW AND IMPROVE THE ELECTRICITY DISTRIBUTION BUSINESS
   will lead to a larger, greener, more reliable company that provides increased shareholder value.
2. DIVERSIFY THE BUSINESS
   will bring in revenue from renewable and district energy projects.
3. OPTIMIZING OPERATIONAL EFFICIENCY AND EFFECTIVENESS
   will position Veridian as a low-cost, high-value service provider compared to its peers.
4. STRENGTHEN THE ORGANIZATION
   will ensure a highly engaged and skilled workforce, an appropriate governance and executive structure and a focus on core business activities.
5. PROVIDE INDUSTRY LEADERSHIP
   will reinforce Veridian's reputation for innovation through collaborative partnerships.

This report is organized according to these five goals and provides evidence of the important steps the company is taking to become an innovative, collaborative and responsible leader in the utility sector.

ON THE COVER – CONNECTED TO POWER'S FUTURE

In Veridian's vision of the future, water and electricity do mix – as two of the many interconnected infrastructure layers enhancing the quality of life for people in urban and rural communities across the company's service territories and beyond. Comprehensive planning, "smart" systems, cross-utility and government collaborations, and operational innovations will bring electricity, gas, water, wastewater, communications, transportation and other services together through the leadership of utility providers, government and educational institutions. In the end, it will be customers, shareholders and the communities that benefit.

2012 EXECUTIVE TEAM

A Statement of Executive Compensation is available as an appendix to the online version of this report. Visit www.veridiancorporation.ca for details.

VERIDIAN'S CORPORATE PHILOSOPHY CONNECTS EVERYTHING THE COMPANY DOES

VISION

We will be unsurpassed in providing innovative energy solutions that are the cornerstone for creating the sustainable communities of tomorrow.

VALUES

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

MISSION

To provide reliable, efficient and sustainable energy services to our customers while delivering optimal return on investment to our shareholders and promoting economic growth in the communities we serve.

PROVIDING GUIDANCE

VERIDIAN CORPORATION AND VERIDIAN CONNECTIONS INC. BOARDS OF DIRECTORS

Front row (left to right): Colleen Jordan, Regional Councillor, Town of Ajax; Doug Dickerson (Chair), Councillor, City of Pickering; Nancy Maxwell, Retired Business Interiors Consultant, SCI Interiors Ltd.; Mary Novak *C.Dir.*, Regional Councillor, Municipality of Clarington; Erin O'Toole, Counsel, Heenan Blaikie *LLP*; and Kevin Ashe, Councillor, City of Pickering.

Second row (left to right): Sylvain Trépanier, Director, International Financial Data Services (IFDS Canada); Pat Brown, Councillor, Town of Ajax; David Ryan, Mayor, City of Pickering; Ralph Sutton, Retired Manager, Bell Canada; and Jack Alexander, Electrical Generation Consultant, J.W.A. Enterprises Inc.

Third row (left to right): Neil Ellis *BA, C. Dir.* (Vice Chair), Mayor, City of Belleville; David McGregor *CHRP, HRCCC*, Retired VP of Human Resources, Wrigley Canada; Adrian Foster, Mayor, Municipality of Clarington; James Mason, President, Pefco Ontario; David Pickles, Councillor, City of Pickering; and Douglas Parker, Retired General Manager & Secretary, Belleville Utilities Commission.

Back row (left to right): Frank Stapleton, Owner & Operator, Stapleton Auctions/Grist Mill Auction Centre Ltd.; and James Macpherson *C.Dir.*, President, Macpherson & Associates Inc.

Missing: Cindy Holland, Assistant Marketing Manager, Labatt Breweries of Canada.

2012 Board Meeting Attendance is available as an appendix to the online version of this report. Visit www.veridiancorporation.ca for details.

"A system as critical as the delivery of electricity within Veridian's diverse service territory demands built-in redundancy. The company has responded to the challenge of delivering uninterrupted power with its backup System Control Centre in Clarington, where staff can monitor the entire system in the event of an emergency disruption at the main System Control Centre at their corporate headquarters in Ajax."

Mayor Adrian Foster
Municipality of Clarington
(shown here by the cenotaph in front of Clarington Town Hall)

GROWING AND IMPROVING ELECTRICITY DISTRIBUTION WILL SECURE VERIDIAN'S FUTURE SUCCESS

Flipping on a light switch may seem simple, but what goes on behind the scenes is a complex dance between supply and demand, infrastructure and human behaviour, technology and culture. Delivering reliable, sustainable power to customers and healthy returns to shareholders means Veridian is actively seeking partnerships and opportunities for growth both within and outside the company's service territories. It means laying the groundwork for new connections…and responsibly managing the resource.

NET INCOME

2008	$8.7 million
2009	$11.0 million
2010	$8.5 million
2011	$9.4 million
2012	**$10.2 million**

EXCELLENT RETURNS IN 2012

Net income increased 8.5 per cent to $10.2 million thanks, in part, to a return to pre-recession economic activity among commercial customers and effective internal cost control measures. Shareholder equity increased 5.3 per cent to $109.1 million, and the company paid $8.2 million in dividends and interest to shareholders. Return on equity increased to 9.6 per cent. Sound business practices, which are the reason for these results, are providing a solid foundation for Veridian's future success.

CONSOLIDATED RETURN ON EQUITY

2008	9.5%
2009	11.5%
2010	8.6%
2011	9.2%
2012	**9.6%**

STEPPING UP WITH RELIABILITY SOLUTIONS FOR SOUTH AJAX

South Ajax presented Veridian with two distinct challenges in 2012. In south-east Ajax, recent warm winters and hot summers had accelerated tree growth and boosted wildlife populations, causing increased interference with overhead lines. In south-west Ajax, the challenges were underground – with mature cable that was beginning to experience failures.

Service interruptions varied from short-term or "momentary" outages in south-east Ajax to longer term or "sustained" outages in south-west Ajax. Treating both issues as a top priority, Veridian responded quickly to simultaneously increase reliability in the two areas. Underground cable replacement in south-west Ajax was accelerated by quadrupling the 2012 capital budget from $300,000 to $1.2 million. Crews blitzed south-east Ajax with a $300,000 operation that focused on tree trimming, upgrading insulation on overhead lines and installing wildlife guards (shown left).

Proactive public relations efforts also paid off. The company held an open house and met with concerned south-west Ajax customers to provide progress reports, answer questions and address concerns. Issues were resolved almost immediately in south-east Ajax, while reliability steadily improved in south-west Ajax as main and local feeder cables were replaced.

"…thank you for meeting with us this morning. We are appreciative of the actions taken and the initiatives planned by Veridian Connections to eliminate power interruptions. The uninterrupted supply of electricity during the past five weeks appears to validate the tree trimming and insulator replacement undertaken. We trust the pending upgrading of the feeder line substations will further strengthen supply stability…"

Peter Clendinneng,
South Ajax resident

FUTURE CONNECTION

WORK ON VERIDIAN'S 2014 RATE APPLICATION GOT UNDERWAY LATE IN 2012; AN IMPORTANT INITIATIVE THAT WILL SUPPORT INVESTMENTS IN CUSTOMER SERVICE AND RELIABILITY FOR YEARS TO COME.

PROVIDING FOR RURAL CUSTOMERS

Investments in the future aren't only for cities and their suburbs. In 2011, Veridian brought into service a brand new substation in Cannington that became fully operational by early Spring 2012. The priority was turning a relatively remote rural community into a two-transformer town – with all the stability and security that comes with enhanced infrastructure. The substation features state-of-the-art modular enclosed equipment and an innovative environmental safeguard to protect the nearby Beaver River.

"Equipment upgrades such as this one bring longevity to our distribution system, lower costs, improve reliability and reduce maintenance requirements," said Craig Smith, Manager, Planning & Maintenance (shown left in front of Veridian's new Cannington substation).

ALWAYS READY FOR NEW OPPORTUNITIES

Veridian is in step with the growth of its communities – strengthening the grid for existing customers and ready to accommodate tomorrow's residents and businesses.

In 2012, the Town of Ajax reached out to Veridian to move poles in advance of road widening that is part of the development of Pat Bayly Square – a $300 million urban, mixed-use development that will be the first of its kind in Durham Region. Rather than install poles in the new location that would be the same height as the pre-existing poles, crews installed taller poles with room to add another feeder in the future.

The company also dedicated time to the detailed planning and high-level engineering necessary to get customers in Seaton Community – a field of dreams for decades that will eventually be home to more than 40,000 residents and hundreds of businesses – connected to the grid at a rate of 1,500 a year starting in 2015.

(Shown right: Rendering of the future Pat Bayly Square courtesy of the Town of Ajax)

"Over the next 20 years, Pickering will lead the Greater Toronto Area in growth with an additional 70,000 residents and 40,000 jobs. Veridian has done a tremendous job working with local consultants, developers and businesses to provide the necessary electrical infrastructure as Pickering grows into one of the premier municipalities in the province. The utility continues to be a valuable contributor to the city with its involvement in the landmark pedestrian bridge that spans Highway 401, the future extension of Highway 407 and the planned Seaton Community."

Mayor Dave Ryan
City of Pickering
(shown here in front of Pickering City Hall)

OPTIMIZING OPERATIONAL EFFICIENCY AND EFFECTIVENESS REDUCES COSTS AND ADDS VALUE

Veridian's "smart" systems, technological tools and data-driven approaches to decision making ensure that the company is better able to meet today's demands and plan for the future. These cost-effective improvements to the system increase reliability, efficiency, customer responsiveness and allow for better planning. All utilities are striving to do more with less. Veridian's investments make this daunting task a little easier.

TECHNOLOGY IMPROVES EFFICIENCY AND ACCURACY IN THE FIELD AND IN THE SYSTEM CONTROL CENTRE

Most of 2012 was spent preparing for an early 2013 launch of mobile computing for Asset Services employees working in the field, who can now use rugged tablet PCs (shown left) to enter inspection and maintenance information. Once the quality of the data has been verified, it can be seamlessly uploaded to Veridian's geographic information system (GIS) and used in a number of applications.

Veridian's cutting-edge System Control Centre received an extra-special delivery the day before Christmas – a table-sized 55-inch touch-screen display (shown bottom right) on which operators can view and manipulate digital maps of Veridian network assets to reveal ever-expanding amounts of valuable GIS data.

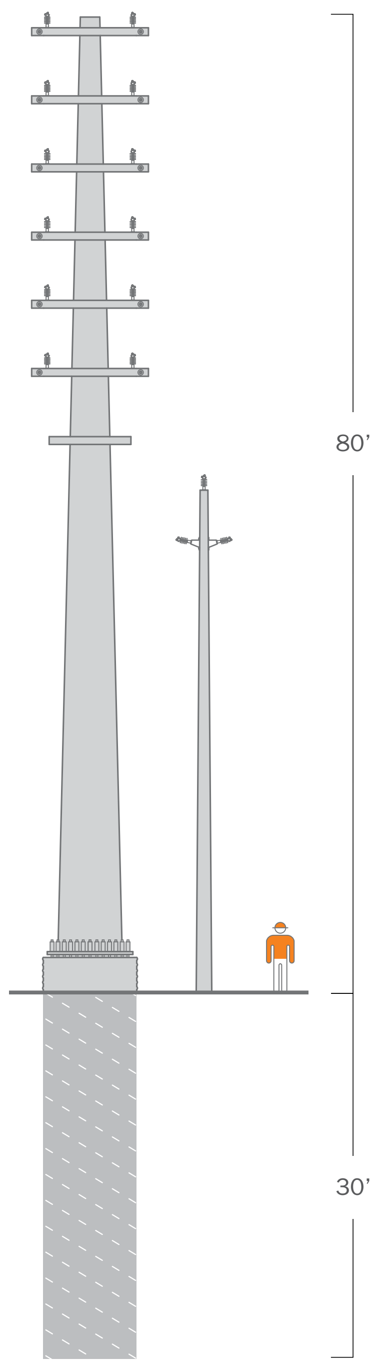
HELP WITH THE HARD DECISIONS

Managing aging assets is a challenge faced by every electrical utility, and Veridian is enhancing its ability to make informed, evidence-based decisions about infrastructure renewal by strengthening its Asset Management Plan. The process started in 2012 with an asset condition assessment that will create a health index of the company's main assets through a rigorous data collection process, a review of maintenance records, failure trending analysis and a statistical interpretation process. Once complete, the plan will highlight the assets most in need of attention. Ultimately, the Asset Management Plan will provide evidence to support and validate the intuition of Veridian's experienced asset managers, helping to efficiently allocate funding for capital projects.

EMBRACING WIRELESS TECHNOLOGY

Thanks to a pilot program that started in 2012, Veridian may no longer need to rely on customers to report outage issues on older parts of the grid that lack the ability to provide live performance data. Real-time information from 27 line-sensing devices (shown left with Falguni Shah, Manager, Distribution Automation and project lead) installed in Ajax and Pickering is being wirelessly relayed to a central location for analysis. If issues are detected, key staff members are automatically notified by email while system operators narrow down the area of concern and the type of issue. Repairs can be completed more quickly, reducing outage times and minimizing customer inconvenience. The highly portable devices can be easily moved to other locations in Veridian's service territories when required.

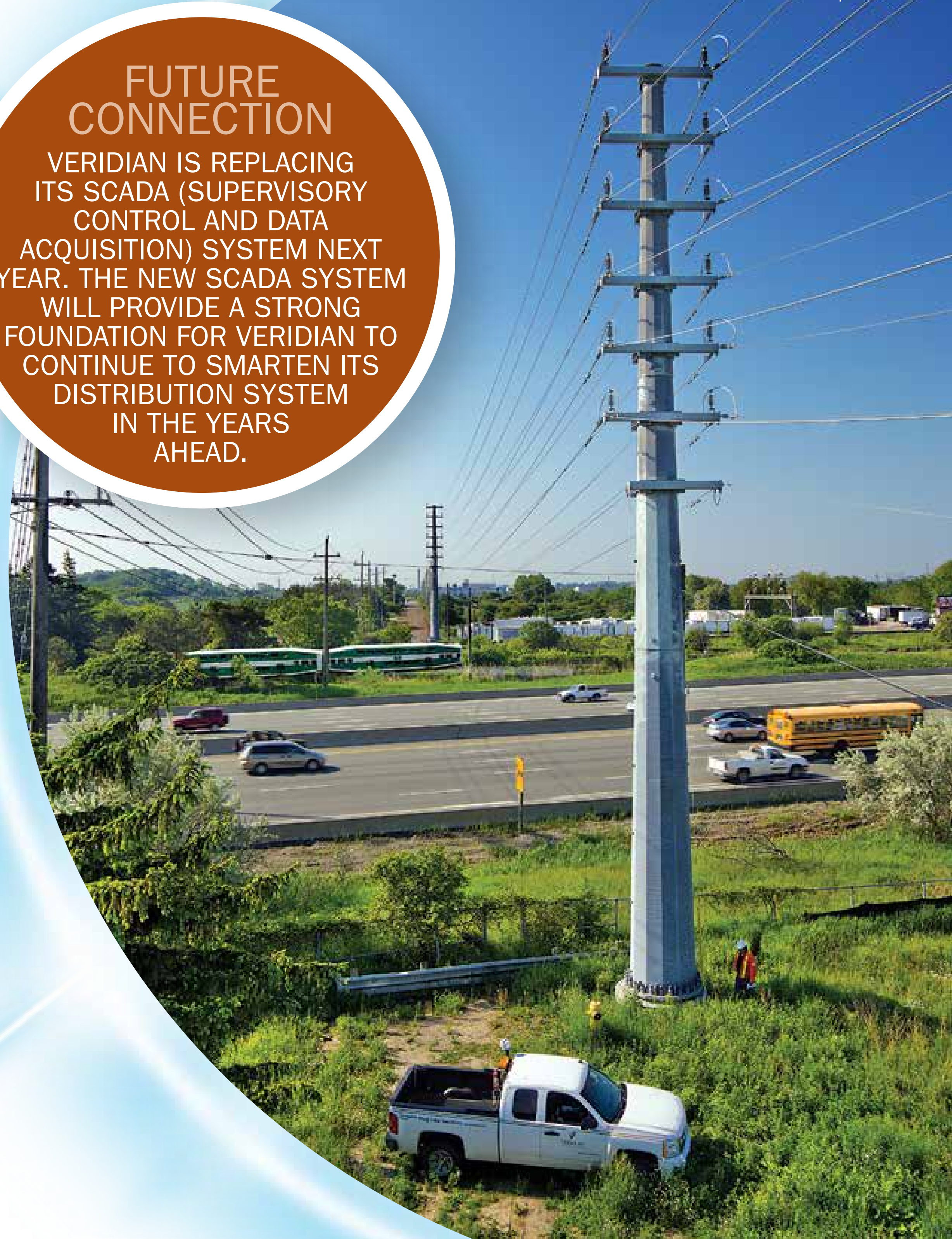
But a line sensing device is more than just a reactive tool. Events on the line – lightning, squirrel activity, a defective breaker, failed switch, tree contact, etc. – create their own unique "wave form" that can be plotted by software. Staff members access these wave forms via the web and gain valuable insight into recurring problems and asset health that can be used in planning, and as an indicator for proactive maintenance or equipment replacement.



TRUE FANS OF THE BIG SPAN

It was a first for Veridian – using custom-made self-supporting steel sectional poles, manufactured locally in south Ajax. The poles were used to span wires across Highway 401, and the GO and CN tracks, at Squires Beach Road and Notion Road.

Stretching 80 feet into the air and extending 30 feet below grade, the poles can weather almost any adverse event, keeping users of the highway and train travellers safe. Spanning the entire 350-foot stretch without supports means Veridian can service lines without interfering with traffic. Costing 20 per cent of running the same lines underground, going overhead proved to be the fiscally prudent choice.



FUTURE CONNECTION

VERIDIAN IS REPLACING ITS SCADA (SUPERVISORY CONTROL AND DATA ACQUISITION) SYSTEM NEXT YEAR. THE NEW SCADA SYSTEM WILL PROVIDE A STRONG FOUNDATION FOR VERIDIAN TO CONTINUE TO SMARTEN ITS DISTRIBUTION SYSTEM IN THE YEARS AHEAD.

"Veridian is a key community partner that continues to provide the necessary infrastructure to accommodate the Town's rapid growth. The utility understands the priorities that continue to make Ajax the forward-thinking municipality it is today."

Mayor Steve Parish
Town of Ajax
(shown here along the Town's waterfront at Rotary Park)

STRENGTHENING THE ORGANIZATION FROM THE INSIDE ENHANCES PERFORMANCE ON THE OUTSIDE

Veridian is proud of the strong relationships it has developed with the municipal councils of its shareholder communities, with citizen groups such as the Gravenhurst Advisory Committee and with its employees. Veridian sees challenge as the best teacher and change as a door opening to possibility. Stellar results from the 2012 customer service survey and a Readers' Choice award from the business community inspire confidence that the company is on the right track.

KEEPING EMPLOYEES IN THE LOOP

Veridian has been steadily rolling out employee-focused initiatives since its 2008 employee engagement survey, including flexible work arrangements and improvements to the work environment. In 2012, the focus was squarely on internal communications. Weekly all-staff emails, highlights of which are broadcast over a network of TV monitors located throughout Veridian's facilities, provide quick updates and news bites.

Quarterly departmental meetings are used to review corporate performance and policies. An internal newsletter that was launched in 2012 – appropriately named *Hot off the Grid* (shown left) – keeps employees connected to important topics inside and outside the company. Training and development received attention in 2012, too. By centralizing staff education under the Human Resources portfolio, Veridian can deliver coordinated and cost-effective training and ensure development plans are implemented.

(Shown right: President & CEO Michael Angemeer addresses staff during a company luncheon)

READERS' CHOICE 2011 AWARD WINNER Durham Business Times

CUSTOMER SERVICE GETS TOP MARKS

Ninety-five per cent of Veridian's customers said they were satisfied with the utility, according to the 2012 UtilityPULSE survey. This represents a four per cent increase over 2011 and is seven per cent higher than average results across the province in 2012. Satisfaction was highest in Belleville, at a whopping 98 per cent.

The results are evidence that Veridian's efforts to improve customer service are paying off, including its customer credo, five pillars of customer service, top-notch employee training programs and a cross-functional problem solving team.

New in 2012 is a tracking system to support performance excellence related to the company's first call resolution program. Business customers also expressed their satisfaction with Veridian. In February 2012, Veridian received the 2011 Readers' Choice Award for being voted the number one Energy Service Provider in Durham Region. Award recipients are selected by owners, managers and key decision makers in Durham's business community.

2012 SURVEY SHOWS VERIDIAN'S CONTINUED IMPROVEMENT IN CUSTOMER SERVICE

(2012 UtilityPULSE Survey)

Ontario Electricity Utility Average	88%
Veridian (4% improvement over 2011)	95%

"I called today regarding my account and was helped over the phone by Matthew. He was very professional, courteous and extremely pleasant. I just wanted to advise you, in a time when service is lacking in so much of our daily business, it was a refreshing difference and much appreciated."

P. Lafferton,
Pickering resident

FUTURE CONNECTION

ADDITIONAL CUSTOMER-FOCUSED INITIATIVES, INCLUDING A NEW CUSTOMER PORTAL AND TELEPHONE SYSTEM, ARE IN THE WORKS FOR 2013.

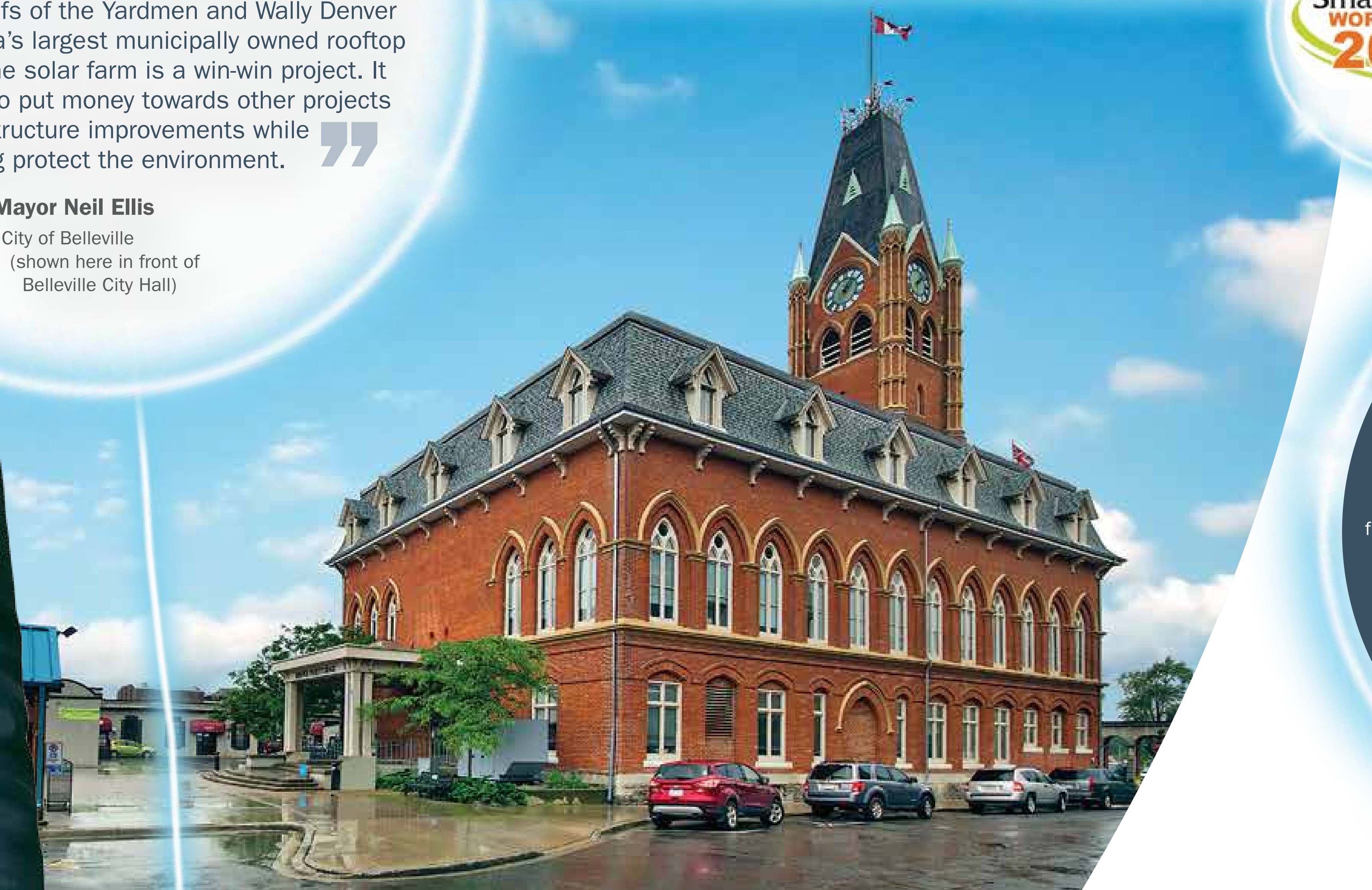
CHANGE STARTS FROM THE TOP

In 2012, Veridian bid farewell to two "founding fathers": Axel Starck (above), the former General Manager of Ajax Hydro who became Veridian's first Executive Vice President of Asset Services and Chief Operating Officer; and Dave Clark (right), who served as General Manager of Clarington Hydro before becoming Executive Vice President, Chief Financial Officer and Corporate Secretary at Veridian.

As President & CEO, Michael Angemeer, wrote in an all-staff email, "We have taken this opportunity to look at deriving efficiencies with a new executive structure that best reflects the needs of today's Veridian." A flatter organizational structure was adopted that avoided a need for external hires and, in the end, customers and shareholders have benefited from a more nimble, responsive, and efficient organization.

“The City of Belleville has benefited tremendously as a shareholder of Veridian Corporation. In addition to the annual dividend and interest payment the city receives – used for initiatives such as the ground-breaking physician recruitment program launched back in 2007 – Veridian has played an integral role in facilitating solar projects such as the one on the roofs of the Yardmen and Wally Denver Arenas – Canada’s largest municipally owned rooftop solar project. The solar farm is a win-win project. It enables the city to put money towards other projects such as infrastructure improvements while helping protect the environment.”

Mayor Neil Ellis
City of Belleville
(shown here in front of Belleville City Hall)



PROVIDING LEADERSHIP MEANS REACHING OUT AND JOINING IN

Veridian has a strong vision of the future: an interconnected network of service providers working together to enhance the quality of life and economic stability in the communities that customers call home. A single utility will not be able to get there alone. Just as there’s a place for bold ideas and strong voices, there’s a need to learn from each other and join forces. In 2012, Veridian led by example and collaborated with others, because the future of power requires both.

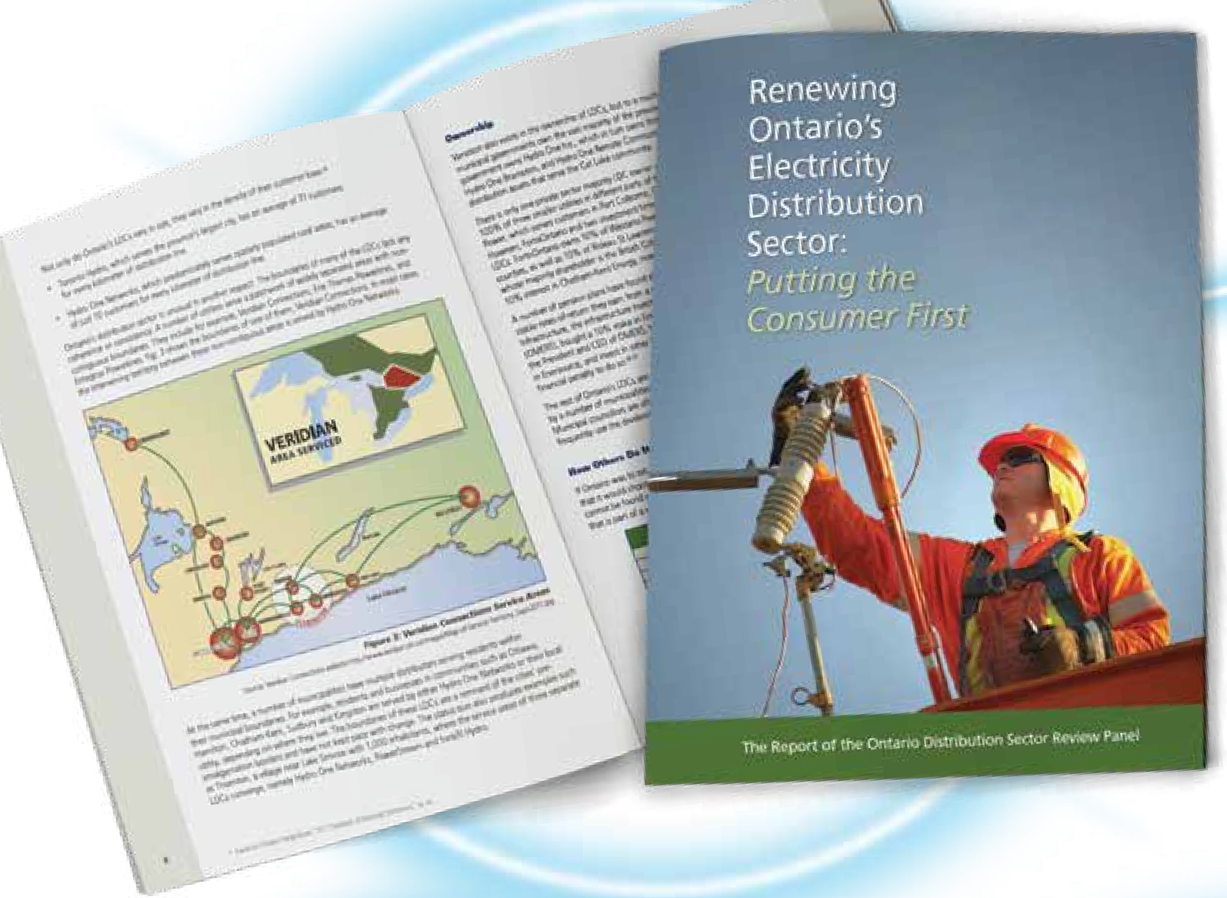
GETTING A CHARGE FROM ELECTRIC VEHICLE PROJECTS

Veridian is a key partner in a Durham Strategic Energy Alliance research project that’s looking at the impact of electric vehicles on the grid. Data from six charging stations located throughout Durham Region is being collected and analyzed to help prepare the province for the day when thousands of electric vehicles hit the road. Veridian is also a supporter of Charge My Car, a web-based tool that aims to be the easiest way to choose, buy and install a charging station for an electric car. The website is a project of Plug’n Drive, a non-profit organization committed to accelerating the adoption of electric vehicles.

[Shown bottom left: Veridian’s Chevrolet Volt (one of two in the company’s “green” fleet) parked at Durham College’s Whitby Campus. The Volt is charging at one of the seven Durham Region stations that are part of a DSEA study into the impact of electric vehicles on the grid.]

SAFETY AND CONSERVATION COME TOGETHER IN HASTINGS COUNTY

A partnership between Hastings County, Veridian and Mississauga-based company, Pioneering Technology, allowed Hastings County to become the first affordable housing provider in the province to receive an energy savings rebate from the Ontario Power Authority for using a particular innovative technology that can save lives...and energy. Electric stove elements can reach temperatures above 700°C – almost double the temperature needed to ignite cooking oil and most common household materials. By installing Safe-T-element technology on 806 new electric ranges, the County’s Housing Programs Branch has increased safety – stovetops can’t exceed 350°C – and conserved energy to the tune of a projected 115,000 kWh each year.



VERIDIAN GETS THE NOD FROM THE PROVINCE'S BLUE RIBBON REPORT

There's no need to look further than the front cover of the December 2012 report (shown left) of the Ontario Distribution Sector Review Panel to see one of the report's priorities – putting the consumer first. Veridian's efforts to reduce consumer costs were recognized twice in the document. The first mention was in relation to the 1999 merger of utilities in Pickering, Ajax and Clarington, which resulted in savings of 13 per cent in operations, maintenance and administration expenses in the first three years of operation. The second reference was to Veridian's purchase of Scugog Hydro and Gravenhurst Hydro in 2005, which provided customers in these two communities with savings on their electricity bills of almost $40 per year.

LEADING BY EXAMPLE

Veridian installed an automatic voltage regulator at its corporate headquarters in 2012. This single efficiency upgrade has allowed Veridian to reduce electricity consumption by 76,000 kWh and eliminate 14 tons of greenhouse gas emissions each year. By dynamically regulating the building's supply voltage, the device will have paid for itself in just under three years. The technology is available to all Veridian's corporate customers through the saveONenergy RETROFIT PROGRAM[OM]. Following Veridian's lead, large commercial and industrial customers may find it's a good investment.

"On behalf of the Ontario Energy Association's (OEA) Board of Directors, I would like to offer my sincere congratulations to Veridian on being distinguished as one of Canada's Greenest Employers for a third consecutive year! In particular the OEA would like to recognize Veridian for embracing a "green" culture throughout the organization that has led to greater efficiencies, customer savings and a significantly smaller impact on our environment."

Elise Herzig
President and CEO,
Ontario Energy Association

2012 Canada's Greenest Employers

PARTNERSHIPS PAY OFF FOR CONSERVATION

Veridian's partnerships with Whitby Hydro Electric Corporation and Oshawa PUC Networks Inc. increased awareness and delivered results for Ontario Power Authority's saveONenergy[OM] programs in 2012. Conservation was on the menu at three breakfast conferences, each focusing on a different program (RETROFIT PROGRAM[OM], DEMAND RESPONSE[OM] and HIGH PERFORMANCE NEW CONSTRUCTION[OM]) and appealing to a unique audience (customers, contractors, aggregators, channel partners, architects, design decision-makers and engineers). The three utilities teamed up again – this time with Windfall Ecology Centre – to deliver the Ontario Power Authority's saveONenergy HOME ASSISTANCE[OM] program, which offers income-qualified homeowners and tenants in-home energy audits, no-cost energy conservation measures and expert advice.

(Shown left: Veridian's Key Account Representative Melanie Walls discusses business and industrial conservation programs with Dave Dickenson, Facilities Manager, Messier-Bugatti-Dowty)

FUTURE CONNECTION

ROVING ENERGY MANAGERS WILL HIT THE STREETS IN 2013 TO HELP COMMERCIAL, INSTITUTIONAL AND INDUSTRIAL CUSTOMERS REDUCE ENERGY USE.

VERIDIAN'S CONSERVATION CHAMPIONS – SUPPORTING STRONGER, GREENER BUSINESSES

Veridian recognized 10 of its business customers for conservation and demand management (CDM) leadership in 2012, applauding their forward-thinking efforts to reduce energy consumption and create more sustainable communities. Veridian's CDM programs can be tailored to businesses of all sizes and include funding for energy audits, replacement equipment, new construction and incentives to reduce demand during peak times.

- Durham Catholic District School Board
- Loblaw Companies Ltd., Distribution Centre, Ajax
- Real Canadian Superstore, Ajax
- GH Manufacturing Inc., Belleville
- 405 Lake Rd. Investments, Bowmanville
- Nordstrong Equipment Ltd., Cannington
- Loblaws Great Food, Pickering
- The Bay, Pickering Town Centre
- CpK Interior Products, Port Hope
- Koch-Glitsch Canada, Uxbridge

DIVERSIFYING VERIDIAN'S BUSINESS TURNS SUSTAINABLE DEVELOPMENT INTO SUSTAINABLE REVENUE

Generating power – and income – from the sun's rays has been on Veridian's horizon for several years. In 2012, Veridian flipped the switch on two important solar projects, including one on its own roof at its corporate headquarters in Ajax. Finding sources of revenue outside the traditional business of electricity delivery is a crucial part of Veridian's strategic plan – the solar projects in 2012 are only a hint of what's to come.

VERIDIAN SEES THE LIGHT WITH ITS OWN ROOFTOP SOLAR ARRAY

Veridian flipped the switch on a 140 kW DC solar array on the roof of its corporate headquarters in Ajax on September 30, 2012. The system, which was approved under the province's FIT 1.0 initiative, is designed to generate approximately 160,000 kWh of clean, green electricity annually – enough to power 20 typical homes for a year. Veridian worked with Pickering's Solera Sustainable Energies to develop the project. An Ajax-based company supplied the racking system and Scarborough's Eclipsall manufactured the more than 400 photovoltaic panels used in the 45,000 square foot project. Called a "flagship project" by Eclipsall CEO, Les Lyster, the solar array is a perfect fit with Veridian's strategic plan to diversify its business, particularly in the renewable sector. The LED monitor in the lobby of the Ajax facility that displays the array's output as kWh and dollars provides real-time evidence that these investments have meaning for employees, the community and the bottom line.

(Shown here: Vice President of Operations Mark Turney with the solar array on the rooftop of Veridian's corporate headquarters in Ajax)

CITY OF BELLEVILLE SEEING GREEN

The City of Belleville found a new "green" source of revenue in 2012, thanks to rooftop solar arrays that feed power into Veridian's grid. The biggest money-maker was the 500 kW "solar farm" on the roof of the Quinte Sports and Wellness Centre, which started generating electricity in March 2012 as Canada's largest municipally owned rooftop solar project. Veridian describes connecting solar projects of this magnitude to the grid as business as usual. This speaks to the strength and capacity of the company's infrastructure and the company's ability to confidently help innovators take advantage of "green" technologies.

FUTURE CONNECTION

DISCUSSIONS ARE UNDERWAY WITH THE CITY OF BELLEVILLE FOR A PROPOSED COMBINED HEAT AND POWER PLANT AT THE CITY'S WASTEWATER TREATMENT FACILITY. THIS INNOVATIVE PROJECT WILL RESULT IN AN ENVIRONMENTAL BENEFIT THROUGH THE REDUCTION OF GREENHOUSE GAS EMISSIONS AND PROVIDE FINANCIAL BENEFITS TO BOTH VERIDIAN AND THE CITY OF BELLEVILLE.

ENGAGING EMPLOYEES IN COMMUNITY-BASED PARTNERSHIPS

Veridian, Solera Sustainable Energies and Queen Street Solar Cooperative have joined forces in developing a 99 kW solar array destined for the roof of the Claremont Community Centre. As part of this innovative, community-based approach – which earns points under the Ontario Power Authority's (OPA) FIT 2.1 program – Veridian offered its employees the chance to join the cooperative and invest in the project. Response to two information sessions was very positive. A contract to lease the roof from the City of Pickering was signed in late 2012 and an application was submitted to the OPA in January 2013.

FOR $5 YOU CAN JOIN A SOLAR CO-OP INVESTING IN SOLAR POWER PROJECTS

BE PART OF OUR GREEN ENERGY FUTURE, TODAY!

As a member of the Queen Street Solar Co-operative you will, at your discretion, be able to invest in commercial rooftop solar installations in the Durham region. These projects will provide an RRSP eligible return starting at 5%. A limited number of bonds will be available for each project for Durham Region property owners. Joining the co-op provides the opportunity but not the obligation to invest. Under the rules of the Provincial Feed In Tariff program (fit.powerauthority.on.ca), we need 50 local co-op members to bring this opportunity to Durham. Veridian staff can learn more about the initiative by attending the Lunch & Learn session being held in the Boardroom on Wednesday, January 9 at noon. Your $5 can go a long way towards our green energy future.

Join us and help bring community solar to Durham!

solera sustainable energies company
solerаenergies.com

Queen Street SOLAR Co-operative
optionsforgreenenergy.ca

VERIDIAN CONNECTIONS
veridian.on.ca

Diana is shown here with her Queen Elizabeth II Diamond Jubilee Medal and 2012 Howard Sokolowski Award (polar bear statue) that acknowledge her decades of public service.

DIANA HILLS-MILLIGAN: VERIDIAN MANAGER AND COMMUNITY CHAMPION

To many, she's the face of Veridian. And it's a face that is always smiling.

Diana Hills-Milligan began working for Pickering Hydro 28 years ago. Today, she is Veridian's Manager of Public Affairs and the mastermind behind remarkably successful internal fundraising campaigns for the United Way and Veridian's big-draw annual charity golf tournament. She's also the driving force behind Veridian's generous financial support of community and charitable organizations across its service territories.

A tireless community volunteer herself, it was the death of Hills-Milligan's first husband in 1989 that initially prompted her to get involved with local charities, including the United Way and the Rouge Valley Ajax and Pickering Hospital. "I had nothing to do on weekends, so I worked on their fundraising campaigns."

"Worked on" is an understatement. The Pickering Mayor's Gala, which Hills-Milligan chairs, has raised approximately $1 million since its inception in 2005. Funds from 2012's event supported equipment for the hospital, Durham Hospice, the Ontario Shores Foundation for Mental Health Sciences and the Young Singers of Durham.

She doesn't do it for the kudos – in fact she's very humble about her contributions and shies away from the limelight. But others recognize the positive impact she's had on the communities she serves and in 2012 she was awarded both the Queen's Diamond Jubilee Medal and the Howard Sokolowski Award.

Hills-Milligan is quick to acknowledge Veridian's support of her efforts, which includes allowing her to spend some of her work time on community and charity events, "Veridian has very much allowed me to support the community."

PROVIDING LEADERSHIP ALSO MEANS GIVING BACK

Contributing $283,128 in sponsorships to organizations across its service territories during 2012 is building strong connections to the communities Veridian serves.

IN 2012, VERIDIAN WAS PROUD TO HAVE HELPED TO SUPPORT MORE THAN 228 WORTHY CAUSES THAT INCLUDED:

- Alzheimer Society of Durham Region
- Big Brothers Big Sisters serving Ajax-Pickering, Clarington, Hastings & Prince Edward Counties and Muskoka
- Canadian Cancer Society
- Children's Wish Foundation of Canada
- Community Care Northumberland
- Community Development Council Durham
- Community Justice Alternatives of Durham Region
- Community Living Oshawa/Clarington
- Drum Artz Canada
- Ganaraska Region Conservation Authority
- Girls Incorporated® of Durham
- Grandview Children's Foundation
- Heart and Stroke Foundation
- Hospice Durham
- Indo-Canadian Cultural Association of Durham Inc.
- Kinark Foundation
- Port Hope and District Chamber of Commerce
- Quinte Arts Council
- Rouge Valley Health System
- Scugog Council for the Arts
- Sick Kids Foundation
- South Muskoka Hospital Foundation
- Special Olympics Ontario
- The Hastings and Prince Edward Learning Foundation
- The Rotary Club of Belleville
- United Way Durham Region
- University of Ontario Institute of Technology
- Uxbridge & District Lions Club

2012 VERIDIAN NEWS STORIES

CORPORATE RESPONSIBILITY SCORES A HOLE-IN-ONE

Golf tournaments are a great way to raise funds for worthy causes. Veridian's annual charity golf tournament, held on August 23, 2012 at Deer Creek Golf & Banquet Facility in Ajax, raised over $37,000 which was divided between Special Olympics Ontario and Big Brothers Big Sisters serving Ajax-Pickering, Clarington, Hastings & Prince Edward Counties and Muskoka; and the United Way Durham Region.

VERIDIAN WINNING FANS AS PRESENTING SPONSOR OF THE BELLEVILLE BULLS

Veridian's 2012-2013 sponsorship of the Belleville Bulls is more than puck drops and photo ops – it's a chance to connect with customers and share important conservation messages. The partnership with Belleville's OHL team, according to majority owner Gord Simmonds, is a natural fit. "The excellent reputation and service quality of Veridian Connections puts them at the highest standard of performance in their field," Simmonds was quoted in a Bulls press release, "which matches well for our goals with the Belleville Bulls."

(Photo courtesy of Aaron Bell)

VERIDIAN'S SUPPORT HELPS SAVE LIVES ON THE WATER

Thanks to a generous grant from Veridian, boaters on Belleville's waters – and their volunteer rescuers – are a whole lot safer. The donation was used to purchase essential navigation and electronic equipment for Quinte Search and Rescue's (QSAR) year-old purpose-built safety vessel. It's no surprise that many of QSAR's calls come in during rough seas. "By helping to equip the new vessel, Veridian has helped enhance our lifesaving capability on the water, improve safety and all weather operation. We're delighted," said unit leader for QSAR, Peter Windfield, in a news release. "It's probably one of the nicest and best-equipped boats now on Lake Ontario," Belleville mayor Neil Ellis said in a QNet News report.

(Photo courtesy of Quinte Search and Rescue)

MAKING MOVIES WITH THE MINISTRY

Veridian's cutting-edge partnership with the Durham Strategic Energy Alliance (DSEA) got a nod from the Ontario Ministry of the Environment when Ministry reps asked Veridian to star in a video promoting the DSEA's electric vehicle charging project. According to Natural Resources Canada, which helped fund the video project, the video "is designed to promote the exchange of knowledge and best practices…to accelerate smart grid development and deployment."

"As Long Island recovers from Hurricane Sandy, I would like to extend on behalf of my entire family our heartfelt gratitude to Veridian Connections, its management, crews and their families for their efforts to help all of us affected by this devastating storm…These men worked tirelessly for my community and got us the power to light and heat our homes. As a parent of two special needs children and an infant, the return to normalcy is priceless and the power these men were able to restore has allowed me the opportunity to offer my home to family and friends who have lost theirs."

Christopher Ostuni
Oyster Bay, New York

GOING BEYOND THE CALL OF DUTY – VERIDIAN'S HURRICANE SANDY RELIEF EFFORTS

When Superstorm Sandy hit Long Island, New York in late October 2012, the devastation was massive – almost 100,000 buildings damaged or destroyed, 44 power substations or other electrical facilities flooded, 500,000 customers without power and more than 100,000 people forced to apply for disaster relief.

But Sandy left her mark on Ontario as well, with downed trees and power lines. Veridian crews worked through the night on October 30, responding to approximately 90 service calls for small outages across the system. "I'm very proud of the dedication and safe work displayed by our staff, and satisfied that our asset and management practices have enabled our distribution system to withstand Hurricane Sandy's high winds and heavy rainfall," said Veridian President & CEO Michael Angemeer, in an article posted on durhamregion.com. "It's times like these that our employees go above and beyond the call of duty."

Veridian's efforts weren't limited to the local community. The company sent eight linepersons from Belleville, Ajax and Clarington and five trucks to help restore power to facilities and families on Long Island during the dark days after Sandy. They arrived on November 3 and stayed for two weeks, working 16-hour shifts and bunking down, first in their trucks and later in a church basement. Within two days, Veridian's crew – in cooperation with 11,000 volunteers from all over North America, including 400 from 25 Ontario utilities – had reduced the number of customers without power by 200,000.

Veridian was able to contribute to the Long Island cause with no undue hardship back home, thanks to the dedication of employees who remained at home. "While providing support to those in the storm stricken areas in the northeast U.S., we did not jeopardize local service in the process and for this the staff that stayed behind needs to be recognized as well," said Peter Petriw, Vice President, Engineering.

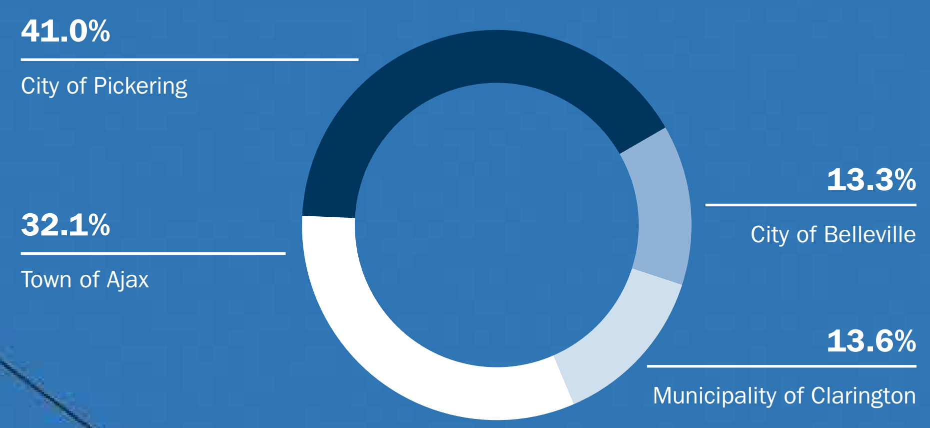
(Far right photo courtesy of Jerome Lessard/The Intelligencer/QMI Agency)

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, 2012. The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles.

VERIDIAN CORPORATION'S SHAREHOLDERS



VISION, CORE BUSINESSES AND STRATEGY

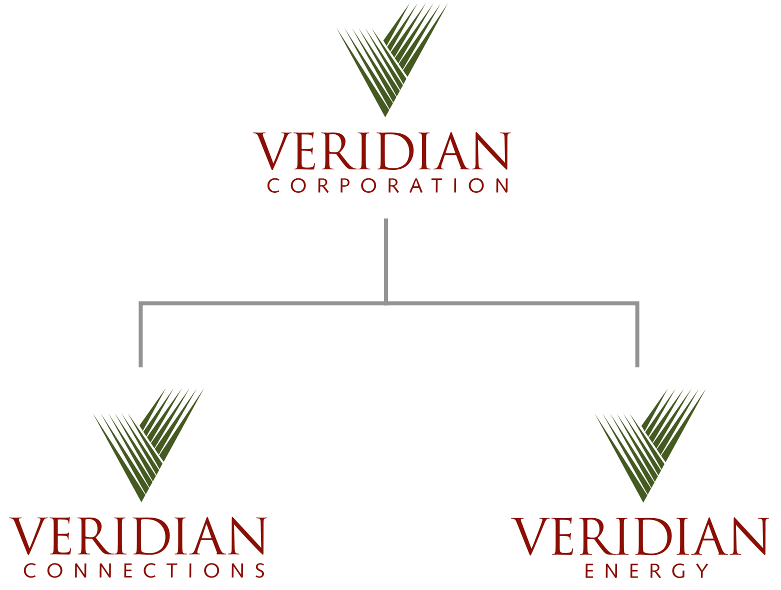
Veridian Corporation's vision is to be a local, provincial and global leader in the provision of innovative energy solutions that are the cornerstone for creating the sustainable communities of tomorrow.

Veridian's strategic goals and objectives:

- Growth and improvement in core distribution business
- Optimize operational efficiency and effectiveness
- Maintain high returns for shareholders
- Be a leader in customer satisfaction
- Provide a high level of power system reliability
- Achieve zero lost-time injuries
- Provide a workplace for employees that is engaging and rewarding.

VERIDIAN CORPORATION ENTERPRISE STRUCTURE

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

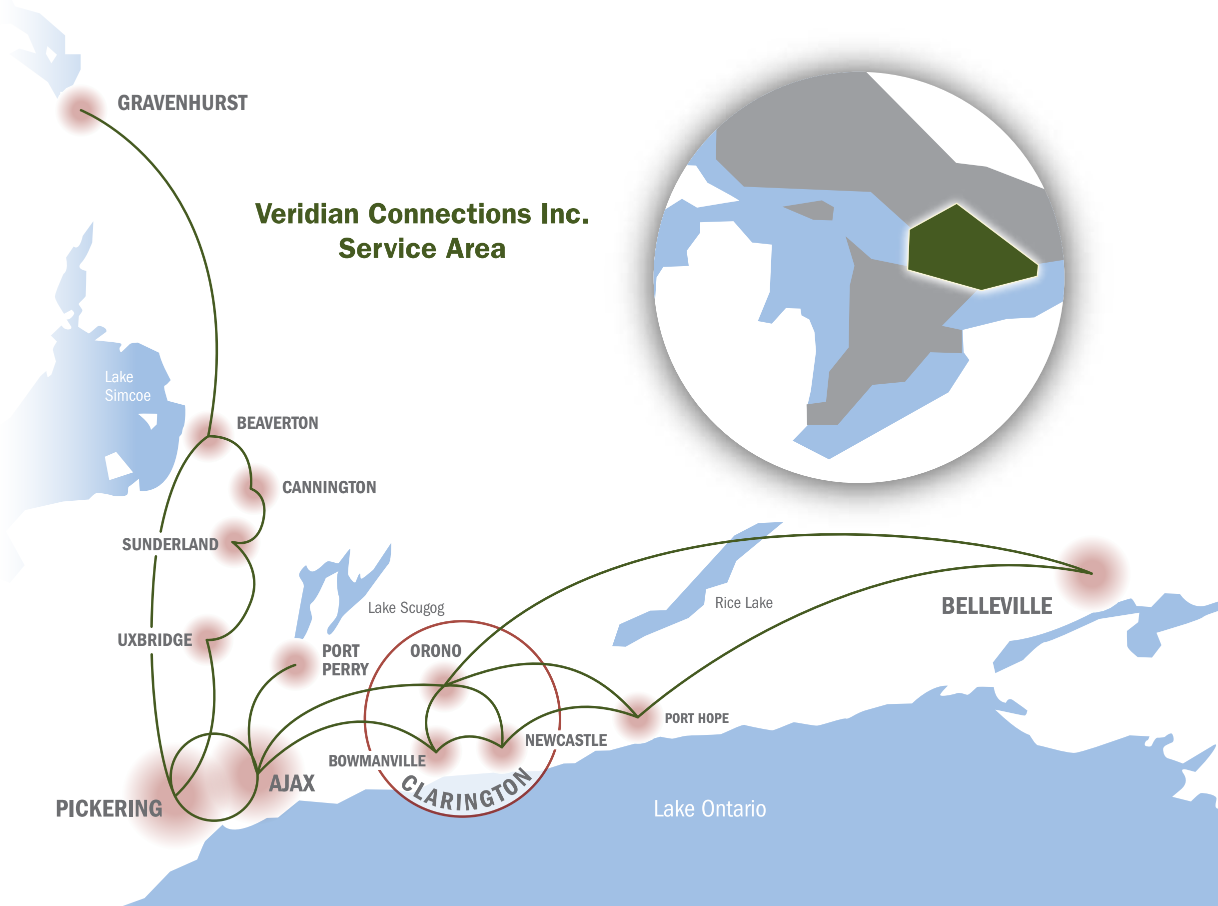


Veridian Corporation provides, through affiliated companies, energy-related services to 116,232 customers located in nine municipalities in east-central Ontario. The core business is distribution of electricity and is provided through the wholly-owned regulated subsidiary, Veridian Connections Inc. Historically, ancillary businesses were operated within Veridian Energy Inc., a wholly-owned unregulated subsidiary.

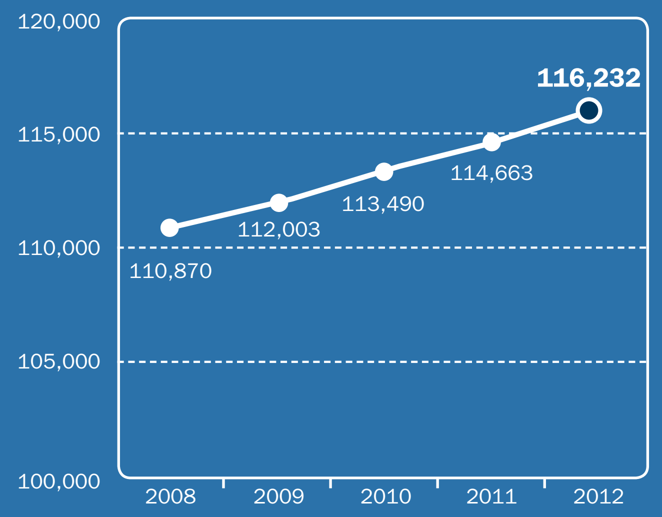
Veridian Energy Inc. ("VEI") in prior years had operated non-regulated businesses such as water heater and equipment rentals as well as other energy-related services. VEI disposed of its non-regulated water heater and sentinel light operations in 2011 for the purposes of regulatory compliance and strategic alignment of investments. As a result, VEI became dormant in 2011 and remained dormant during 2012.

Veridian Connections Inc. ("VCI") is granted a distribution license 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 Veridian's prescribed service territories.

Veridian Corporation is 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%).



CUSTOMERS



TOTAL REVENUE

2008 $228 million
2009 $246 million
2010 $256 million
2011 $286 million
2012 $296 million

VCI COST PER CUSTOMER

2008 $180
2009 $190
2010 $189
2011 $187
2012 $212

NET INCOME

2008 $8.7 million
2009 $11.0 million
2010 $8.5 million
2011 $9.4 million
2012 $10.2 million

SHAREHOLDERS' EQUITY

2008 $94.2 million
2009 $97.0 million
2010 $100.3 million
2011 $103.6 million
2012 $109.1 million

DIVIDENDS & INTEREST*

2008 $8.8 million
2009 $12.8 million
2010 $9.3 million
2011 $9.5 million
2012 $8.2 million
2013 $8.2 million

* Years 2008 to 2012: Actual dividends & interest
Year 2013: Forecast dividends & interest

KEY PERFORMANCE DRIVERS

Growth and Operational Efficiency

Growth is an important measure for Veridian's success. Historically, Veridian has been able to achieve administrative and operational efficiencies derived from both natural customer growth and growth through acquisitions. Natural customer growth over the last two years has averaged 1.2%. Management has projected that natural customer growth during 2013 will decline slightly to 1.1%. Veridian has a strategic objective to grow and improve the electricity distribution business and actively seeks merger and acquisition opportunities focused on this core business.

Electricity distribution revenues have increased $7.8 million to $50.6 million from 2008. Distribution revenues increased $2.7 million, or 6%, from 2011 from increases in revenues related to smart meter activities ($2.4 million in 2012 compared to $1.6 million in 2011) and through stronger distribution consumption (2,707 GWh in 2012 compared to 2,667 GWh in 2011).

Veridian made a prospective accounting change in 2012 whereby certain overheads that were capitalized previously are now charged as a period expense. In 2012, this accounting change increased operating expenses by $1.1 million. This was the primary reason for the cost per customer increasing $25 to $212. Other cost increases over 2011 were: higher vegetation management requirements of $0.4 million, increased bad debt expense of $0.7 million, and incremental operating costs to support new business requirements as well as general inflationary increases. Veridian will continue to focus on operational efficiencies through process improvement and adoption of new technologies. Long-term reductions in operation costs benefit distribution customers through lower distribution rates in the regulated cost of service process. Distribution rates are approved by the OEB to recover operating and capital costs of the LDC.

Returns for Shareholders

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 2016 with base dividends of $4.7 million each year subject to certain provisions. Veridian paid a total of $8.2 million to shareholders in 2012 which included $3.5 million in interest payments on shareholder promissory notes. For 2013, strong interest and dividend payments are also forecast.

Reliability and Customer Service Quality

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 for attention and improvement. Results are reported annually to the OEB and form a basis for corporate performance measurement.

Specific reliability measures are tracked and reported such as System Average Interruption Duration Index (SAIDI) and System Average Interruption Frequency Index (SAIFI). Considerable portions of the service area are heavily treed and susceptible to interference from vegetation which can impact index results. While an aggressive annual cyclic vegetation management program is in place, community standards and aesthetics prevent complete elimination of interference threats in many areas. Technological advancements in distribution system automation provide a further means of achieving improved reliability performance. Veridian continues to invest in distribution automation technology each year, to modernize existing equipment and increase the scope and scale of its deployment. As part of a planned adoption of smart grid technologies, these investments will begin to provide significant improvements in reliability and service quality, increasing customer satisfaction.

Veridian's reliability indices are well positioned vis-a-vis other Ontario utilities and an annual improvement measured against historical results remains a key business goal. This helps to sustain attention on operational and maintenance program development, while annual capital programs include not only smart grid technologies but a sound portfolio of plant modernization and plant hardening.

To provide benchmark measures of customer satisfaction, Veridian annually 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 2012, Veridian's performance was 7% above this benchmark.

Safety

The management of employee health and safety continues to be a key performance indicator for Veridian and a key focus for all staff. The *Occupational Health and Safety Act* and our internal responsibility system assign responsibilities to Veridian as the employer, anyone who performs the role of supervisor and anyone who is a worker. Veridian's policies, communications and training are used as tools to help every employee understand their role and improve their competence in performing their role.

In 2012, Veridian recorded no lost-time injuries and achieved the milestone of 500,000 hours without a lost-time injury.

Veridian continues to build on existing processes for managing health and safety for workers, contractors and members of the public. These include: regular saftey meetings; comprehensive ongoing safety training; incident and injury investigation; and subsequent learning opportunities. Company-wide assessment and mitigation of inherent workplace safety risks, ongoing operating procedures documentation, adoption of third party safety audits and review, will continue to inform and enhance health and safety activities going forward.

CONSERVATION AND DEMAND MANAGEMENT (“CDM”)

CDM Targets and Program Delivery

Through provisions of the Province of Ontario’s *Green Energy Act*, Veridian’s electricity distribution license was amended in December 2010 to include a condition that it meet established CDM targets by December 31, 2014. Under the terms of its license, Veridian must achieve a 2014 net annual peak demand savings target of 29.05 MWs, and a 2011-2014 net cumulative energy savings target of 115.74 GWhs.

During 2011, Veridian contracted with the Ontario Power Authority (“OPA”) to deliver a suite of province-wide CDM programs during 2011-2014. Funding for delivery of the programs is provided by the OPA. Through these programs, Veridian achieved unverified savings of 5.6 MWs and 60.8 GWhs by the end of 2012. The results of all CDM programs will be verified by the OPA in September 2013.

Lost Revenue Adjustment Mechanism (“LRAM”)

On October 14, 2011, Veridian filed an application with the OEB that included a request for recovery of foregone distribution revenues related to CDM program activities during the years 2007 to 2010. The Board approved recovery in the amount of $822,961, which is being recovered from customers over a period of 12 months, beginning May 1, 2012.

On April 26, 2012, the Board introduced a set of Guidelines for Electricity Distributor Conversation and Demand Management which authorized the establishment of an LRAM variance account (“LRAMVA”). This variance account was created to capture the difference between the results of actual, verified impacts of authorized CDM activities undertaken between 2011-2014, and the level of CDM program activities included in the distributor’s load forecast.

The balance of Veridian’s LRAMVA at December 31, 2012 is $292,193. This amount relates to actual verified savings for 2011, and an estimate of 2012 energy savings based on unverified results distributed by the OPA.

CAPABILITY TO DELIVER RESULTS

Resources

Growth of the core electricity distribution system, together with prudent investment in non-regulated businesses that earn returns for shareholders, is the strategic direction for Veridian. Financial and human capital and internal process and systems developments are all necessary resources to support this growth.

Financial Capital

Veridian’s debt to capitalization ratio at December 31, 2012 was 53%. The Corporation debt includes $60.8 million in shareholder promissory note debt, as well as committed reducing term facilities and a revolving demand facility which are held with a Canadian chartered bank. 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 the bank covenants as at December 31, 2012.

In 2012, 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 continues to reflect Veridian’s low business risk profile as a regulated electricity distributor, with a reasonable regulated framework and good 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.

Human Capital

Veridian continues to maintain a highly-trained, skilled and stable workforce. During 2012, employees were enrolled in two core training programs: the Management Training Syllabus and Skilled Trades Training programs. These programs are designed specifically to meet the developmental needs of management staff and skilled trades labour force. The programs are centrally administered and monitored for continual improvement to meet changing business requirements.

Veridian’s commitment to ongoing training and development of staff, along with an engaging and safe workplace contributes to low employee turnover of 0.44% (excluding retirees) in 2012, and a stable workforce.

The number of employees approaching retirement at Veridian is increasing. During 2012, a total of eight employees retired from Veridian or 3.6% of the total workforce. Based on pension eligibility statistics an additional 12.3% of the workforce could retire with an unreduced pension prior to December 31, 2013.

The Corporation’s ongoing training programs continue to address the aging demography of the workforce. Management Syllabus training programs provide career- specific training to existing staff to prepare them for future higher-level positions vacated by retirees and strengthen skills required in their current positions.

Veridian also continues to strengthen various apprenticeship programs to develop new staff into qualified journeypersons within the lines, metering and other technical trades.

Veridian’s Human Resources and Compensation Committee, with the President and CEO, review both the succession training plan and the training progress of senior and mid-level management staff. This committee also continues to support programs and management development plans that sustain succession-planning alternatives.

Finally, Veridian monitors its incentive and compensation systems through surveys and at times with the assistance of compensation consultants to ensure that executive and management compensation plans remain competitive.

Internal Processes and Systems

Operating and financial plans are developed annually to support Veridian’s key business objectives. Continual improvements in internal processes and systems are an integral part of these plans.

Veridian continues to invest in technology platforms such as distribution automation, mobile workforce management, enhanced customer service interfaces and improved business information systems to better manage its assets and improve customer service.

In 2011, Veridian completed its smart meter initiatives and transitioned customers to time-of-use billing. These changes in metering and billing were a major overhaul to the meter-to-cash process introducing new technologies that Veridian continues to leverage to improve customer service and provide its customers opportunities for energy conservation. In 2012, Veridian also completed a significant upgrade to its Customer Information System (“CIS”).

Automation of several back office processes improved productivity and employee efficiencies. Successful pilot programs for mobile workforce management were launched and will be continued through 2013.

Veridian seeks opportunities to contain costs and improve productivity, and encourages innovative and efficient cost structures.

RISK

Regulatory Environment

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.

As a result of the *Green Energy and Green Economy Act, 2009* (“Green Energy Act”) Veridian’s permitted business activities were expanded to include the ownership and operation of generation and energy storage facilities under established criteria.

The rates that VCI may charge for distribution services are set or approved by the OEB through an incentive regulation mechanism (“IRM”). Under IRM, base rates are set through a cost of service application once every four years on a forecast basis. In the subsequent years in which no cost of service application is filed, rates are adjusted by an inflation factor net of a deemed productivity factor and a stretch factor determined by the relative efficiency of an LDC.

In a cost of service proceeding, the OEB approves distribution rates based on forecasted electricity deliveries and customer levels. VCI assumes the revenue risk associated with these forecast levels.

Veridian's last OEB approved cost of service rate application was in 2010. Veridian rates will be reset under a cost of service application in 2014.

All VCI investments in distribution assets are reviewed for prudence by the OEB through cost of service rates proceedings. Veridian expects that all investments in the coming years including smart grid technologies and connection of new communities to be fully recoverable through distribution rates, but any future regulatory decision to limit the recovery of such costs could negatively impact operation results.

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

Additionally, VCI's distribution revenue declines as CDM targets are met or exceeded, and the LRAM established by the OEB may not fully compensate VCI for lost revenue.

Credit Risk

VCI is subject to credit risk with respect to non-payment by customers. 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 bills and collects on behalf of others: charges for the electricity commodity and other charges (Independent Electricity System Operator - "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 allowed by the Board 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. The economic recovery is modest resulting in greater risk to the Corporation for losses related to business bankruptcies and downturns in business energy consumption.

Weather and Equipment Failure

VCI's major electric distribution grid consists of substations, overhead lines; including poles, wires, transformers, and switches, and underground lines; including cables and surface-mounted or underground transformers and switches. Wind, ice, snow and extreme weather conditions can have damaging impacts, particularly on the overhead distribution system. While underground systems are less susceptible to certain weather risks, they also have inherent failure modes and failures can have a greater impact and restoration cost. Most assets in new residential subdivisions are of underground design, and local services in heavily treed areas may be placed underground where cost justified, all contributing to better reliability. To manage risks, VCI follows targeted cyclic programs for vegetation control in the overhead areas, as well as a full program of equipment testing and inspection activities on all 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. To help focus these activities and maximize the effectiveness of annual expenditures, specific work plans are developed using localized performance metrics. A documented Asset Condition Assessment ("ACA") which will serve as an analysis and assessment of the health of Veridian's current equipment as described above began in 2012. It will continue into 2015 and eventually develop into an Asset Management Plan ("AMP") over this time. Overall, it will introduce a formal documented process, rationale, and decision-making structure on capital investment for equipment replacement on a proactive basis that balances the capital cost to replace the equipment against managing the risk of failure of the equipment.

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 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. Veridian is also served via combinations of Hydro One-owned transmission and distribution assets. Consequently, there is significant electricity supply reliance upon these three organizations. To the extent that these three organizations are unable to fulfill their mandate, VCI would be exposed to the risk associated with an inadequate supply or a decline in reliability.

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. The following critical accounting estimates were used in the preparation of Veridian's financial statements.

Property, Plant, and Equipment Useful Lives and Indirect Costs

In anticipation of changeover to International Financial Reporting Structure ("IFRS") in the upcoming future, Veridian changed its estimates of useful lives and componentized certain items of property, plant and equipment. The change in basis of depreciation resulted in decreasing depreciation expense by approximately $5.2 million in 2012.

In addition, Veridian changed its estimation and allocation of indirect costs subject to capitalization, resulting in a change in estimation of costs directly attributable to capital projects. This change resulted in an increase in operating expenses of approximately $1.1 million in 2012. In compliance with OEB guidance, the above changes were accounted for through a variance account resulting in an increase in regulatory liability of $4.1 million. These changes have been applied prospectively.

Regulatory Assets and Liabilities

Regulatory assets amount to $12.0 million and relate primarily to retail settlement variances that have accrued since January 1, 2011, deferral amounts, and the costs of stranded legacy meters and smart meter receivables that are expected to be recovered from future rates. 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 liabilities of $19.3 million relate to $10.2 million for future income taxes, $4.1 million due to changes in estimates of useful lives of capital assets and allocation of indirect costs subject to capitalization, and $0.6 million due to accrued liabilities for payments in lieu of corporate income taxes ("PILs") and other deferred credits. These regulatory liabilities are expected to be returned to customers through future rates. Also included in regulatory liabilities is $4.4 million for approved dispositions for retail settlement variances.

Bad Debt

Accounts receivable and unbilled revenue totalled $58.2 million as at December 31, 2012. Past experience with the collection of accounts has been used to estimate amounts that may not be collected. An allowance of $653 thousand is estimated as a reasonable amount of receivables that may not be collected.

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.

Environmental Liabilities

VCI has recorded a $0.2 million liability and related regulatory asset for the estimated future expenditures to be incurred for legal obligations relating to removal and destruction of polychlorinated biphenyl ("PCB") contaminated electrical equipment. VCI has estimated the cost of testing transformer equipment as well as the destruction costs of those assets that are PCB contaminated and do not meet Environment Canada's PCB regulations. These environmental liabilities represent management's best estimates but it is reasonably possible that volumes of contaminated assets and cost estimates to perform testing and removal of assets may differ from VCI's current assumptions.

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.

FUTURE ACCOUNTING PRONOUNCEMENTS

International Financial Reporting Standards

Rate Regulated Accounting ("RRA")

In accordance with Canadian generally accepted accounting principles ("Canadian GAAP"), Veridian currently follows specific accounting policies unique to rate-regulated entities. Veridian recognizes regulatory assets and liabilities in its financial statements. Regulatory assets and liabilities generally represent settlement variances arising from differences in amounts collected by a rate-regulated entity from its customers on behalf of another unrelated entity and the amounts billed by the unrelated entity to the rate-regulated entity.

In February 2008, the Canadian Accounting Standards Board ("AcSB") announced the adoption of IFRS for publicly accountable enterprises in Canada for fiscal years beginning on, or after, January 1, 2011.

On July 23, 2009, the International Accounting Standards Board ("IASB") issued an Exposure Draft – Rate-Regulated Activities ("ED") regarding the proposed standard for the recognition, measurement, presentation and disclosure of rate-regulated activities under IFRS. The IASB received a significant number of comment letters in response to this ED with divergent views on RRA, and the IASB concluded that the matter would take some time to resolve and decided to defer further consideration of the ED. The RRA project was suspended in 2010.

On September 10, 2010, the AcSB granted an option to permit rate-regulated entities to defer IFRS implementation to January 1, 2012. On March 30, 2012, the AcSB announced its decision to extend, by an additional year, the mandatory changeover date to IFRS for rate-regulated entities to January 1, 2013. This decision was made in light of discussions that the IASB may address rate-regulated activities as part of its future agenda.

In September 2012, the IASB decided that the RRA project would be restarted with the development of a Discussion Paper ("DP"). In preparation for the December IASB meetings, the IASB staff issued Agenda Paper 6 outlining the staff's view of the issues to be addressed in the DP, a proposed project plan and timeline and issues to consider when deciding whether or not to publish an interim standard.

Also in September 2012, the AcSB announced its decision to extend, by an additional year, the mandatory changeover date to IFRS for rate-regulated entities to January 1, 2014.

At its December 2012 meeting, the IASB considered a project plan proposal for the DP and development of an interim standard for rate-regulated activities that would permit grandfathering of existing recognition and measurement policies for those entities that currently recognize regulatory assets and liabilities in accordance with their local accounting requirements.

The IASB met in January 2013 to discuss the IASB staff proposals, and tentatively decided to:

- grandfather an entity's existing accounting policies for recognition, measurement and impairment of regulated assets and liabilities under its previous local GAAP;
- require regulatory balances be shown as separate line items in the financial statements. The regulatory items should be segregated from non-regulatory items using subtotals. A disaggregation of the amounts reported should be disclosed in the notes; and
- make the interim standard available only to first-time adopters of IFRS.

As Veridian has not yet adopted IFRS, should the interim standard for RRA be issued as tentatively decided by the IASB, then Veridian will be able to recognize regulated assets and liabilities as it currently does under Canadian GAAP.

In February 2013, the IASB continued discussions on a proposal for an interim standard for RRA and the IASB staff prepared an exposure draft for the interim standard based on these discussions. The IASB work plan was updated with the interim standard targeted for 2013 Q2 and the DP targeted for 2013 Q4.

Also in February 2013, the AcSB decided to extend the existing deferral of the mandatory IFRS changeover date for entities with qualifying rate-regulated activities by an additional year to January 1, 2015. Veridian plans to monitor the AcSB, IASB, and OEB activities on this issue and consider this further deferral option as new information arises in 2013.

Conversion Project

During 2012, Veridian made a decision to defer adoption of IFRS until 2014 and to continue to report under Canadian pre-changeover accounting standards as set out in Part V of the Canadian Institute of Chartered Accountants (CICA) Handbook. As mentioned above under Accounting Estimates, in anticipation of adopting IFRS in the upcoming future, Veridian changed its estimates of useful lives, componentized certain items of property, plant and equipment, and changed its estimation and allocation of indirect costs subject to capitalization. These changes have been applied prospectively and align Veridian's depreciation and capitalization policies with IFRS.

The OEB, in a letter dated July 17, 2012, encouraged and permitted LDC's remaining under Canadian GAAP in 2012 to change their depreciation and capitalization policies effective January 1, 2012 to align with IFRS. The OEB also gave direction that it would be mandatory to make the changes effective from January 1, 2013. Veridian, in changing its policies effective January 1, 2012, is also aligned with this OEB guidance.

Veridian had planned to adopt IFRS effective January 1, 2012, and as such had substantively completed its IFRS conversion project which included the phases of: scoping, evaluation and design, as well as implementation and review. As noted above, Veridian implemented significant changes to align Canadian GAAP statements with IFRS. If the RRA interim standard as tentatively decided by the IASB is issued, then the view of Veridian management is that the remaining accounting and reporting changes to convert to IFRS are not significant. Veridian continues to monitor new IFRS accounting and reporting developments from the IASB.

Veridian management will continue to work with its IFRS transition advisors, external auditors and other key stakeholders to ensure that the members of the Audit and Risk Management Committee and Board of Directors are provided with assurance on the design and operation of internal controls and procedure required for IFRS, and are updated for key developments and the IFRS impact on the financial statements. Veridian has configured its information and financial systems to meet the requirements of IFRS and modified IFRS and to accommodate Canadian GAAP and IFRS financial reporting when the transition year occurs.

The training of key finance and operational staff, although reduced, is ongoing and external expert advisors are engaged to assist with our IFRS conversion project through to implementation and review. The Corporation's IFRS conversion work is being managed in such a way that when changeover to IFRS is required, it can be effectively completed.

OUTLOOK

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

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

The corporation's future holds continued natural growth opportunities such as in north Pickering (Seaton), opportunities for growth and economies of scale through mergers, and potential electricity industry sector restructuring and investments in renewable generation.

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 our employees and the public is a top priority.

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

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Veridian Corporation

We have audited the accompanying consolidated financial statements of Veridian Corporation, which comprise the consolidated balance sheet as at December 31, 2012, the consolidated statements of earnings and retained earnings and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Veridian Corporation as at December 31, 2012, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

April 4, 2013
Toronto, Canada

Consolidated Balance Sheet (In thousands of dollars)

December 31, 2012, with comparative figures for 2011

	2012	2011
Assets		
Current assets:		
Cash and cash equivalents	$ 24,117	$ 22,529
Accounts receivable (note 2)	57,594	52,792
Inventory	1,704	1,665
Income taxes recoverable	1,214	526
Prepaid expenses	893	1,008
Current portion of regulatory assets (note 5)	813	288
Assets of discontinued operations (note 13)	259	647
	86,594	79,455
Other non-current assets	142	278
Property, plant and equipment (note 3)	177,414	170,502
Intangible assets (note 4)	5,368	4,647
Goodwill	8,746	8,746
Future income tax assets (note 6)	11,152	11,567
Regulatory assets (note 5)	10,625	7,451
	213,447	203,191
	$ 300,041	**$ 282,646**

	2012	2011
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities (note 7)	$ 36,890	$ 37,388
Short-term loans (note 8)	1,600	5,000
Advance payments - construction deposits	763	550
Current portion of regulatory liabilities (note 5)	3,306	3,472
Developer obligations	1,509	2,031
Deferred revenue (note 9)	1,831	1,201
Future income tax liabilities (note 6)	30	30
Current portion of long-term debt (note 11)	3,301	20,201
Liabilities of discontinued operations (note 13)	–	123
	49,230	69,996
Long-term liabilities:		
Long-term debt (note 11)	115,553	86,649
Unrealized loss on interest rate swaps (note 20(f))	2,711	2,644
Regulatory liabilities (note 5)	15,995	12,746
Employee future benefits (note 12)	2,049	1,681
Customer deposits and contractor obligations	5,029	4,914
Future income tax liabilities (note 6)	418	448
	141,755	109,082
Shareholders' equity:		
Share capital (note 14)	67,260	67,260
Contributed capital	25	25
Retained earnings	41,771	36,283
	109,056	103,568
Contingencies and guarantees (note 16)		
Lease commitments (note 17)		
	$ 300,041	**$ 282,646**

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Doug Dickerson

Chair, Board of Directors

Chair, Audit and Risk Management Committee

Consolidated Statement of Earnings and Retained Earnings (In thousands of dollars)

December 31, 2012, with comparative figures for 2011

		2012	2011
Commodity revenue		$ 245,349	$ 238,331
Commodity cost		245,349	238,331
		–	–
Distribution revenue		50,608	47,940
Gross margin		50,608	47,940
Expenses:	Operating and maintenance	8,486	7,131
	Administration	16,768	15,699
	Amortization	8,758	14,185
		34,012	37,015
Operating income before the undernoted		16,596	10,925
Other income (loss) (note 18)		(864)	3,736
Finance income		981	577
Unrealized loss on interest rate swaps (note 20(f))		(67)	(2,644)
Interest on long-term debt (note 11)		(6,272)	(4,959)
		(6,222)	(3,290)
Earnings before income taxes and discontinued operations		10,374	7,635
Income tax recovery (expense) (note 6)		82	(2,193)
Earnings from continuing operations		10,456	5,442
Earnings (loss) from discontinued operations (note 13)		(268)	3,919
Net earnings		10,188	9,361
Retained earnings, beginning of year		36,283	32,982
Dividends paid (note 15)		(4,700)	(6,060)
Retained earnings, end of year		**$ 41,771**	**$ 36,283**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows (In thousands of dollars)

December 31, 2012, with comparative figures for 2011

		2012	2011
Cash provided by (used in):			
Operating activities:	Earnings from continuing operations	$ 10,456	$ 5,442
	Items not affecting cash:		
	Future income taxes	(1,343)	(519)
	Increase (decrease) in regulatory assets/liabilities	1,112	(16,202)
	Unrealized loss on interest rate swaps	67	2,644
	Increase in employee future benefits obligation	368	240
	Amortization of property, plant and equipment	7,568	13,293
	Amortization of intangible assets	1,295	1,838
	Net gain on disposal of property, plant and equipment	(19)	(79)
		19,504	6,657
	Change in non-cash operating working capital (note 19)	(5,591)	6,690
		13,913	13,347
Financing activities:	Long-term debt received	12,004	27,905
	Short-term loans paid	(3,400)	(5,300)
	Dividends paid (note 15)	(4,700)	(6,060)
	Increase (decrease) in customer deposits and contractor obligations	115	(319)
		4,019	16,226
Investing activities:	Intangible asset additions	(2,016)	(1,706)
	Property, plant and equipment additions, net of contributed capital	(14,476)	(23,634)
	Proceeds from disposal of property, plant and equipment	15	120
	Other non-current assets/liabilities	136	(1,073)
		(16,341)	(26,293)
Increase in cash and cash equivalents from continuing operations		1,591	3,280
Increase (decrease) in cash from discontinued operations (note 13)		(3)	4,755
Cash and cash equivalents, beginning of year		22,529	14,494
Cash and cash equivalents, end of year		**$ 24,117**	**$ 22,529**
Supplemental cash flow information:	Interest received	$ 332	$ 264
	Interest paid	4,634	4,981
	Income taxes paid	2,026	4,183

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements (In thousands of dollars)

Year ended December 31, 2012

Veridian Corporation (the "Corporation") was incorporated on July 1, 1999 under the Ontario Business Corporations Act and was formed to conduct electricity distribution and non-regulated utility service ventures through its subsidiaries.

1. SIGNIFICANT ACCOUNTING POLICIES:

(a) Basis of presentation:

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") and include the accounts of the Corporation and its wholly owned subsidiaries, Veridian Connections Inc. ("VCI") and Veridian Energy Inc ("VEI").

(b) Revenue recognition:

(i) Electricity distribution and sale:
Revenue from the sale of electricity is recognized on the basis of cyclical billing based on electricity usage and includes an estimate of unbilled revenue accrued in respect of electricity delivered but not yet billed. Unbilled revenue included within accounts receivable as at December 31, 2012 amounted to $28,056 (2011 - $28,547). Actual results could differ from estimates made of actual electricity usage.

(ii) Other revenue:
Other revenue, which includes revenue from electricity distribution-related services, is recognized as services are rendered.

(c) Rate setting:

VCI is regulated by the Ontario Energy Board ("OEB") under authority of the Ontario Energy Board Act, 1998. The OEB is charged with the responsibility of approving or setting rates for the transmission and distribution of electricity and the responsibility for ensuring that distribution companies fulfill obligations to connect and service customers.

The OEB has the general power to include or exclude costs, revenue, losses or gains in the rates of a specific period, resulting in the change in the timing of accounting recognition from that which would have applied in an unregulated company. Such change in the timing involves the application of rate-regulated accounting, giving rise to the recognition of regulatory assets and liabilities. The Corporation's regulatory assets represent certain amounts receivable from future customers and costs that have been deferred for accounting purposes because it is probable that they will be recovered in future rates. In addition, the Corporation has recorded regulatory liabilities which represent differences in amounts billed to customers and the costs to the Corporation. Specifically, the following accounting treatments have been applied:

(i) An amount to represent the cost of funds used during construction and development has been applied based on the value of construction in progress.

(ii) The Corporation has deferred certain post-market opening retail settlement variances in accordance with Article 490 of the OEB's Accounting Procedures Handbook.

(d) Cash and cash equivalents:

Cash and cash equivalents are defined as cash and bank term deposits or equivalent financial instruments with original maturities upon issue of less than 90 days.

(e) Inventory:

Inventory, which consists of parts and supplies acquired for internal construction or consumption, is valued at the lower of cost and net realizable value. Cost is determined on a weighted moving average basis.

Any impairment losses taken on inventory are reversed if and when net realizable value subsequently recovers. Major spare parts and standby equipment are recorded as part of property, plant and equipment and amortized once they are put into use.

(f) Property, plant and equipment:

Property, plant and equipment are recorded at cost and include contracted services, materials, labour, engineering costs, overheads and an allowance for the cost of funds used during construction when applied. Certain assets may be acquired or constructed with financial assistance in the form of contributions from developers or customers. The OEB requires that such contributions be offset against the related asset cost.

When identifiable assets, such as buildings, distribution station equipment and office equipment, are retired or otherwise disposed of, their original cost and accumulated amortization are removed from the accounts and the related gain or loss is included in the operating results for the related fiscal year. The cost and related accumulated amortization of a pool of like assets, such as transmission and distribution system, are removed at the end of their estimated service lives.

During 2012, the Corporation changed its estimates of useful lives and componentized certain items of property, plant and equipment. The changes have been applied prospectively. The change in the basis of depreciation has had the effect of decreasing depreciation expense by approximately $5,210 in 2012.

In addition, during 2012, the Corporation changed its estimation and allocation of indirect costs subject to capitalization, resulting in a change in estimation of costs directly attributable to capital projects. These changes have been applied prospectively and result in an increase in operating expenses by approximately $1,102 in 2012.

In compliance with OEB directions, the changes mentioned above were accounted for through a variance account resulting in an increase in regulatory liability (note 5) and decrease in other income by $4,108 (note 18).

Amortization of property, plant and equipment is charged to operations on a straight-line basis over their estimated service lives at the following annual rates:

Land rights	2.0%
Buildings	2.0% - 6.7%
Distribution station equipment	1.7% - 4.0%
Transmission and distribution system	1.7% - 10.0%
Meters	4.0% - 6.7%
Office equipment	10.0%
Computer hardware	20.0% - 33.3%
Vehicle fleet	6.7% - 16.7%
Renewal power generation	4.0%

In the event that facts and circumstances indicate that property, plant and equipment may be impaired, an evaluation of recoverability is performed. For purposes of such an evaluation, the estimated future undiscounted cash flows associated with the asset are compared to the carrying amount of the asset to determine if a write-down is required. The impairment loss is measured as the amount by which the carrying amount of the asset exceeds its fair value.

Construction in progress comprises property, plant and equipment under construction, assets not yet placed into service and pre-construction activities related to specific projects expected to be constructed.

An allowance for the cost of funds used during the construction period has been applied. The rate applied is equal to the rate prescribed in each quarter by the OEB. The average rate for the current fiscal year in respect of long-term borrowings is 3.57% (2011 - 4.20%).

(g) Intangible assets:

Amortization of intangible assets is provided on a straight-line basis over the estimated service lives at the following annual rates:

Application software and miscellaneous intangible plant	33.3%
Internally generated software	20.0%

(h) Impairment of long-lived assets:

Long-lived assets are reviewed for impairment whenever events or circumstances indicate that the carrying amount of the long-lived assets is not recoverable. Any resulting impairment loss is recorded in the year in which the impairment occurs.

(i) Goodwill:

Goodwill relates to the cost of acquired local distribution companies and non-regulated businesses in excess of fair value of the net identifiable assets purchased and is evaluated for impairment on an annual basis, or more frequently, if circumstances require. Goodwill impairment is assessed based on a comparison of the fair value of the assets acquired to the underlying carrying value of those net assets, including goodwill, with any write-down of the carrying value of goodwill being charged to operations. The Corporation has determined that goodwill is not impaired.

(j) Customer deposits and contractor obligations:

Customers and contractors may be required to post security to obtain electricity or other services. Interest is paid on customer balances at rates established from time to time by the Corporation. The current portion of customer deposits and contractor obligations are included in accounts payable and accrued liabilities.

(k) Pension and other post-employment benefits:

The Corporation accounts for its participation in the Ontario Municipal Employees Retirement System ("OMERS"), a multi-employer public sector pension fund, as a defined contribution plan.

The Corporation actuarially determines the cost of other employment and post-employment benefits offered to employees. These unfunded plans are accounted for as defined benefit obligations. The Corporation applies the projected benefit method, prorated on service and based on management's best estimates. Under this method, the projected post-retirement benefit is deemed to be earned on a pro rata basis over the years of service in the attribution period commencing at date of hire, and ending at the earliest age the employee could retire and qualify for benefits.

(l) Income taxes:

Under the Electricity Act, 1998, the Corporation is required to make payments in lieu of corporate income taxes ("PILs") to Ontario Electricity Financial Corporation. These payments are calculated in accordance with the rules for computing income and taxable capital and other relevant amounts contained in the Income Tax Act (Canada) and the Corporations Tax Act (Ontario) as modified by the Electricity Act, 1998, and related regulations. References in these financial statements to income taxes are with respect to PILs.

The Corporation uses the asset and liability method of accounting for the tax effect of temporary differences between the carrying amount and the tax bases of the Corporation's assets and liabilities. Temporary differences arise when the realization of an asset or the settlement of a liability would give rise to either an increase or decrease in the Corporation's income taxes payable in the year or a later period.

Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in earnings in the year that includes the date of enactment or substantive enactment. A valuation allowance is recorded against a future income tax asset to the extent that the Corporation determines that it is more likely than not that a future income tax asset will not be realized in the future.

Where the Corporation expects the future income taxes to be recovered from or refunded to customers as part of the rate setting process, the future income tax assets and liabilities result in regulatory assets and liabilities; otherwise, the future income tax assets and liabilities result in a future tax provision that is charged to the statement of earnings and retained earnings.

(m) Measurement uncertainty:

The preparation of the Corporation's financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Accounts receivable and regulatory assets are reported based on amounts expected to be recovered and an appropriate allowance for unrecoverable amounts. Inventory is recorded net of provisions for obsolescence. Due to inherent uncertainty involved in making such estimates, actual results reported in future years could differ from those estimates recorded in preparing these financial statements, including changes as a result of future decisions made by the OEB or the Minister of Energy.

(n) Financial instruments:

The Corporation categorizes its financial instruments as follows:

Accounts receivable and unbilled revenue	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Short-term loans	Other financial liabilities
Advance payments - construction deposits	Other financial liabilities
Developer obligations	Other financial liabilities
Long-term debt	Other financial liabilities
Customer deposits and contractor obligations	Other financial liabilities

(o) Derivative financial instruments:

Derivative financial instruments are measured at their fair value upon initial recognition and on each subsequent reporting date. The Corporation has not elected to apply hedge accounting for its interest rate swap contracts and does not enter into derivative agreements for speculative purposes. Any gain or loss is included in earnings, net of income taxes.

(p) Future accounting changes:

Transition to International Financial Reporting Standards ("IFRS"):

The Canadian Accounting Standards Board ("AcSB") adopted a new strategic plan that will have Canadian GAAP converge with IFRS, effective January 1, 2011.

On September 10, 2010, the AcSB granted an option to permit rate-regulated entities to defer IFRS implementation to January 1, 2012 and then again on March 30, 2012, the AcSB announced its decision to extend, by an additional year, the mandatory changeover date to IFRS for rate-regulated entities to January 1, 2013. This decision was made in light of discussions that the IASB may address rate-regulated activities as part of its future agenda. In September 2012, the AcSB decided to extend the existing deferral of the mandatory IFRS changeover date for entities with qualifying rate-regulated activities by an additional year to January 1, 2014. The AcSB extended the deferral because an interim solution for entities with rate-regulated activities remained a possibility.

On February 13, 2013, the AcSB decided to extend the existing deferral of the mandatory IFRS changeover date for entities with qualifying rate-regulated activities by an additional year to January 1, 2015. The decision was taken in anticipation of the IASB issuing an interim IFRS on rate-regulated activities by the end of 2013 and in order to provide first-time adopters of IFRS adequate time to prepare comparative figures based on such a standard.

During 2012, the Corporation made a decision to adopt IFRS with an adoption date of January 1, 2014. This adoption date will require the restatement, for comparative purposes, of the amounts reported by the Corporation for its year end December 31, 2013, and the opening balance sheet as at January 1, 2013. Depending on the timing of the final interim standard to be issued by the IASB and incorporation of the same in The Canadian Institute of Chartered Accountants' Handbook, the Corporation will make a decision whether to avail deferral of the mandatory changeover date to January 1, 2015.

(q) Capital disclosures:

The Corporation's objectives with respect to its capital structure are to maintain effective access to capital on a long-term basis, at reasonable rates, and to deliver the appropriate financial returns. As at December 31, 2012, the Corporation's definition of capital includes: shareholders' equity; long-term debt, including Municipal promissory notes, a reducing term facility from a Canadian chartered bank; and a short-term note facility also from a Canadian chartered bank.

The Corporation has been in compliance with all the covenants included in its long-term debt agreements, notes from the shareholders and the short-term loan. During 2012, there have been no changes to how the Corporation assesses its capital structure.

2. ACCOUNTS RECEIVABLE:

	2012	2011
Energy revenue	$ 22,605	$ 21,679
Unbilled revenue	28,056	28,547
Project expenditures recoverable from customers	3,588	2,315
Other	3,998	671
	58,247	53,212
Less allowance for doubtful accounts	653	420
	$ 57,594	**$ 52,792**

3. PROPERTY, PLANT AND EQUIPMENT:

			2012	2011
	Cost	Accumulated amortization	Net book value	Net book value
Land	$ 1,777	$ –	$ 1,777	$ 1,778
Land rights	762	369	393	395
Buildings	22,555	6,464	16,091	16,504
Distribution station equipment	36,149	17,437	18,712	16,902
Transmission and distribution system	328,360	167,191	161,169	142,428
Meters	19,018	6,276	12,742	12,749
Office equipment	4,749	3,436	1,313	1,450
Computer hardware	7,170	6,363	807	850
Vehicle fleet	10,565	6,571	3,994	3,951
Renewable power generation	724	15	709	–
Construction in progress	5,237	–	5,237	14,433
Contributions in aid of construction	(60,271)	(14,741)	(45,530)	(40,938)
	$ 376,795	**$ 199,381**	**$ 177,414**	**$ 170,502**

During the year, $197 (2011 - $214), representing an allowance for the cost of funds used during construction, was capitalized.

4. INTANGIBLE ASSETS:

			2012	2011
	Cost	Accumulated amortization	Net book value	Net book value
Application software and other	$ 15,913	$ 11,960	$ 3,953	$ 2,332
Construction in progress related to application software and other	203	–	203	1,103
Capital contributions	1,212	–	1,212	1,212
	$ 17,328	**$ 11,960**	**$ 5,368**	**$ 4,647**

5. REGULATORY ASSETS AND LIABILITIES:

Regulatory assets and liabilities can arise out of the rate-making process.

	2012	2011
Regulatory assets:		
Other deferred costs (a)	$ 2,070	$ 1,281
Smart meter (b)	5,109	7,234
Retail settlement and low voltage variances (c)	4,788	–
	11,967	8,515
Less:		
Valuation allowance	529	776
Amounts expected to be settled in the next year (a)(b)	813	288
	1,342	1,064
	$ 10,625	**$ 7,451**
Regulatory liabilities:		
Regulatory liability for future income tax assets	$ 10,173	$ 11,901
Retail settlement and low voltage variances (c)	–	157
Retail services variances (d)	61	78
Other regulatory liabilities (e)	4,635	847
Balance of amounts approved to be refunded to customers through distribution rates	4,432	3,235
	19,301	16,218
Less amounts expected to be settled in the next year (f)	3,306	3,472
	$ 15,995	**$ 12,746**

(a) The OEB approved the establishment of regulatory deferral accounts to record the Corporation's incremental cost for polychlorinated biphenyls ("PCBs") testing that occurred in 2009. The Corporation has sought for recovery of this cost in its 2011 incentive rate mechanism application. The costs remaining for PCB testing as of December 31, 2012 are $206. Another deferral account has been established for one-time administrative costs during transition to IFRS of $387, smart grid cost of $300 and lost revenue adjustment mechanism costs of $294. Also included in other regulatory assets is an approved recoverable amount of $451 and PIL's recoverable amount of $432.

(b) The OEB approved the establishment of smart meter variance accounts to record revenue approved by the OEB for smart meters and related capital costs. In 2012, the Corporation applied for final disposition of smart meter costs up to December 2012.

Disposition was approved by the OEB and the Corporation began recovering these costs from November 2012. The net book value of stranded meters as well as amounts for amortization costs remain in the smart meter variance accounts. The Corporation has filed a motion to review with the OEB for further recovery of the remaining amortization costs of $529 and will file for recovery of stranded meter costs of $4,580 in the 2014 cost of service application. The Corporation has recorded a valuation allowance against the remaining smart meter amortization costs of $529.

(c) In 2012, the OEB approved the disposition of the Corporation's retail settlement variance accounts as at December 31, 2010. The retail settlement variances for 2012 are variances that have accrued since January 1, 2011. Specifically, these amounts include variances between the amount charged by the Independent Electricity System Operator ("IESO") for the operation of the markets and grid, as well as various wholesale market settlement charges and transmission charges as compared to the amount billed to consumers based on the OEB-approved rates. This amount also includes variances between the amounts charged by Hydro One for low voltage services and the amount billed to consumers based on the OEB-approved rates. In the absence of rate-regulated accounting, interest expense in 2012 would have been lower by $712 (2011 - $433) and interest revenue in 2012 would have been lower by $641 (2011 - $313).

(d) The retail services variance is the difference between the revenue charged to retailers and the retail services costs associated with providing the retail services.

(e) Other regulatory liabilities include $4,108 as a variance for property, plant and equipment transitional amounts for decrease in depreciation expense resulting from changes in useful lives of assets and increase in operating expenses resulting from changes in estimation and allocation of overheads effective January 1, 2012 due to anticipated changeover to IFRS, $432 in accrued liabilities for PILs and $95 in other deferred credits.

(f) The amounts expected to be settled are approved dispositions for retail settlement variances up to December 31, 2010.

Management continues to assess the likelihood of recovery of its regulatory assets and believes that it is probable that its regulatory asset and liability balances will be factored into setting of future rates. In the event that recovery from future rates is no longer considered probable or portions of amounts deferred are determined not to be recoverable, such amounts will be expensed in the year this determination is made.

6. INCOME TAXES:

The provision for income taxes differs from the amount that would have been recorded using the combined Canadian federal and Ontario statutory income tax rate. The reconciliation between the statutory and effective tax rates is provided as follows:

	2012	2011
Earnings before income taxes and discontinued operations	$ 10,374	$ 7,635
Federal and Ontario statutory income tax rate	26.50%	28.25%
Provision for income tax at statutory rate	$ 2,749	$ 2,157
Increase (decrease) resulting from:		
Temporary differences expected to be recovered from customers	(1,891)	63
Legislative change in tax rate	(43)	(80)
Change in valuation allowance	(77)	366
Other	(820)	(313)
Income tax expense (recovery)	**$ (82)**	**$ 2,193**

The income tax expense is allocated as follows:

	2012	2011
Current	$ 1,317	$ 2,712
Future, operating activities	(1,343)	(519)
Future, discontinued activities	(56)	–
Total income tax expense (recovery)	**$ (82)**	**$ 2,193**

Future income tax assets and liabilities arise from differences between the carrying amounts and tax bases of the Corporation's assets and liabilities. The tax effects of these differences are as follows:

	2012	2011
Future income tax assets:		
Property, plant and equipment and intangible assets	$ 10,294	$ 10,890
Employee future benefits	739	560
Non-capital losses and other	77	213
Unrealized loss on interest rate swaps	718	662
Deferred revenue and contingent liability	977	–
	12,805	12,325
Valuation allowance	(271)	(466)
	12,534	11,859
Future income tax liabilities:		
Regulatory assets	1,830	770
Net future income tax assets	**$ 10,704**	**$ 11,089**

The Corporation has losses for income tax purposes of $191 (2011 - $193) available to reduce future years' income for tax purposes, which will expire in 2031. The potential future tax benefit of these losses has not been recognized since management has determined that it is more likely than not that these amounts will not be realized in the foreseeable future.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES:

	2012	2011
Power bill accrual	$ 18,074	$ 17,239
Current portion of customer deposits	1,153	2,006
Customer credit balances	6,767	6,476
Other accounts payable and accrued liabilities	9,684	10,455
Hydro One contractual obligation (a)	1,212	1,212
	$ 36,890	**$ 37,388**

(a) The Corporation is party to a connection and cost recovery agreement with Hydro One related to the construction by Hydro One of a transformer station designed to meet the Corporation's anticipated electricity load growth (see note 16(b)). Hydro One will perform a true up, based on actual load at the end of the fifth, tenth and fifteenth anniversaries of the in service date.

8. CREDIT FACILITIES AND SHORT-TERM LOANS:

As at December 31, 2012, the Corporation had the following credit facilities with a Canadian chartered bank ("Bank"):

(a) Uncommitted revolving demand credit facility. The facility at all times is required to be the lesser of $20,000 with a letter of credit ("L/C") carve-out availability of up to $807.

(b) Committed reducing term facility with a credit limit of $20,000 and amortization term of 10 years (note 11).

(c) Committed reducing term facility with a credit limit of $30,000 and amortization term of 20 years with an optional exit strategy at 10 years and 15 years (note 11).

(d) Committed reducing term facility with a credit limit of $15,000 and amortization term of 30 years with an optional exit strategy at 10 years and 15 years (note 11).

The financial covenants for the above facilities require a funded debt to capitalization ratio of no greater than 0.60:1, and maintain a debt service coverage ratio of not less than 1.20:1.

As at December 31, 2012, $1,600 was drawn out of the facility (a), $14,118 was outstanding out of the facility (b), $28,942 was outstanding out of facility (c) and, $15,000 was outstanding out of the facility (d) above. To cover the risk of fluctuating interest rates, facilities (b), (c) and (d) were structured with interest rate swap agreements with the Bank effectively converting the obligations into fixed interest rate loans of approximately 4.76%, 4.24% and 3.99%, respectively.

The Corporation utilized $807 to issue an irrevocable L/C in favour of the IESO. The IESO requires all purchasers of electricity in Ontario to provide security to mitigate the risk of their default based on their expected purchases from the IESO-administered spot market. The IESO could draw on the L/C if the Corporation defaults on its payments.

	2012	2011
Revolving, uncommitted demand credit facility with a Canadian chartered bank at prime rate	$ 1,600	$ 5,000

9. DEFERRED REVENUE:

Deferred revenue represents the balance at year end of unearned revenue from funding received from the Ontario Power Authority ("OPA") to deliver OPA Conservation and Demand Management ("CDM") programs. On February 3, 2011, the Corporation entered into an agreement to deliver these CDM programs. All programs to be delivered under the OPA agreement are expected to be fully funded and paid in advance by the OPA.

10. RELATED PARTY TRANSACTIONS:

The Corporation provides electricity and services to its principal shareholders: the Town of Ajax, the Municipality of Clarington, the City of Pickering and the City of Belleville (collectively, the "shareholders"). Electrical energy is sold to the shareholders at the same prices and terms as other electricity customers consuming equivalent amounts of electricity. The Corporation also provides power line maintenance services to the shareholders on a contract basis. The charges for these services are at rates similar to those charged to other customers of maintenance services. A summary of amounts charged by the Corporation to the shareholders is as follows:

	2012	2011
Electrical energy and services	$ 6,464	$ 6,111

Interest on long-term debt includes interest of $3,458 (2011 - $3,853) on the notes paid to the shareholders.

At December 31, 2012, accounts receivable include $952 (2011 - $763) due from the shareholders.

11. LONG-TERM DEBT:

	2012	2011
Notes payable to shareholders, due on November 1, 2039, at a rate equal to the OEB-deemed long-term debt rate, less 30 basis points	$ 43,588	$ 43,588
Notes payable to shareholders, due on December 31, 2015, at a rate equal to the greater of 6% or the OEB-deemed long-term debt rate	17,206	17,206
Long-term debt from a Canadian chartered bank, maturing on November 3, 2031	28,942	29,921
Long-term debt from a Canadian chartered bank, maturing on November 23, 2019	14,118	16,135
Long-term debt from a Canadian chartered bank, maturing on December 20, 2032	15,000	–
	118,854	106,850
Less current portion	3,301	20,201
	$ 115,553	$ 86,649

The notes payable with the maturity date of November 1, 2039 are repayable prior to the maturity date based on certain conditions. The noteholders have the right to demand repayment of this note (in whole or in part) at any time upon six months prior written notice to the Corporation provided that a duly enacted resolution or by-law is passed by the noteholders certifying that the funds are required for municipal purposes.

The notes payable with the maturity date of December 31, 2015 are convertible on or before the maturity date at the option of the noteholders on the basis of one common share for each $1,000 of principal amount.

During the year, the Corporation entered into a fixed rate committed reducing term facility for $15,000 by way of interest rate swap via bankers' acceptance. It is a 20-year term loan with an optional exit strategy at 10 years and 15 years. By entering into this agreement the Corporation has effectively converted its obligation to a fixed rate of 3.99% payable monthly.

Scheduled payments for the next five years and thereafter are as follows:

2013	$ 3,301
2014	3,356
2015	20,620
2016	3,473
2017	3,535
Thereafter	84,569
	118,854
Less current portion	3,301
	$ 115,553

Interest on long-term debt comprises:

	2012	2011
Interest on notes payable and loans	$ 5,537	$ 4,669
Interest on regulatory liabilities	712	433
Interest on customer deposits and other	220	71
	6,469	5,173
Less allowance for funds used during construction	197	214
	$ 6,272	$ 4,959

12. EMPLOYEE BENEFITS:

(a) Pensions:

During 2012, the Corporation made contributions totalling $1,717 (2011 - $1,409) to OMERS.

(b) Employee future benefits:

The Corporation pays certain benefits on behalf of its retired employees. The Corporation recognizes these post-retirement costs in the period in which the employees render the services.

A retiree health spending account ("HCSA") was implemented in the collective agreement between the Corporation and the International Brotherhood of Electrical Workers effective April 1, 2011 to March 31, 2015.

Information about the Corporation's non-contributory defined benefit plan to fund life insurance and health and dental care benefits and a retiree HCSA is as follows:

	2012	2011
Accrued benefit liability recognized at January 1	$ 1,681	$ 1,441
Current service costs and interest expense on accrued benefit obligation	424	295
Benefit payments	(56)	(55)
Accrued benefit obligation at December 31	**$ 2,049**	**$ 1,681**

The amounts presented are based upon an actuarial valuation performed as of December 31, 2011 with a measurement date of January 1, 2011. The next valuation is expected to be performed for the year ending December 31, 2014.

The main actuarial assumptions employed for the valuations are as follows:

(i) General inflation:
Future general inflation levels, as measured by changes in the Consumer Price Index, are assumed at 2.00% for future years.

(ii) Interest (discount) rate:
Amounts were determined using an annual discount rate of 4.00% (2011 - 5.00%).

(iii) Salary levels:
Future general salary and wage levels were assumed to increase at 3.60% (2011 - 3.60%) per annum.

(iv) Health and dental care:
The health and dental care cost increases are 7.63% and 5.00% (2011 - 8.00% and 5.00%), respectively.

13. DISCONTINUED OPERATIONS:

On August 15, 2011, the Corporation disposed of certain assets and liabilities previously employed in its water heater and sentinel lights business as operated by VEI.

Under the terms of the sale agreement, the Corporation did not transfer the accounts receivable or accounts payable of the business arising prior to August 15, 2011. Consequently, at December 31, 2012, assets and liabilities of discontinued operations represent remaining amounts related to periods prior to the sale.

As a result of the sale of the water heater and sentinel lights business, the results of operations for the discontinued operations have been reported separately in the consolidated statement of earnings and retained earnings.

Summarized financial information for the discontinued operations is as follows:

	2012	2011
Current assets	$ 259	$ 647
Current liabilities	–	123
Net assets	**$ 259**	**$ 524**
Revenue	$ 163	$ 1,113
Expenses:		
Operating	207	390
Administration	–	351
	207	741
Earnings (loss) before income taxes	(44)	372
PILs of corporate income taxes	224	882
Loss from discontinued operations	(268)	(510)
Gain on sale of discontinued operations - net of tax	–	4,429
Earnings (loss) from discontinued operations	**$ (268)**	**$ 3,919**
Statement of cash flows:		
Cash provided by (used in) discontinued operations:		
Operating activities	$ (3)	$ (599)
Investing activities	–	5,354
	$ (3)	**$ 4,755**

14. SHARE CAPITAL:

	2012		2011	
	Number of shares	Amount	Number of shares	Amount
Authorized: Unlimited common shares				
Issued	10,000	$ 67,260	10,000	$ 67,260

15. DIVIDENDS:

The Corporation's dividend policy states:

(a) a base annual dividend to the shareholders be set at $4,700 from 2012 to 2016;

(b) the base dividend to the shareholders may be:

- increased due to earnings favourable to the forecast;
- increased if there is any cash surplus available; and
- increased/decreased due to higher/lower dividends from VCI to the Corporation.

During 2012, the Board of Directors of the Corporation declared and paid dividends totalling $4,700 (2011 - $6,060) to the shareholders.

16. CONTINGENCIES AND GUARANTEES:

(a) Insurance claims:

The Corporation is a member of the Municipal Electric Association Reciprocal Insurance Exchange ("MEARIE"), which was created on January 1, 1987. A reciprocal insurance exchange may be defined as a group of persons formed for the purpose of exchanging reciprocal contracts of indemnity or inter-insurance with each other. MEARIE provides general liability insurance to member electric utilities.

Insurance premiums charged to each member electric utility consist of a levy per $1 of service revenue subject to a credit or surcharge based on each electric utility's claims experience. Insurance limits of $30,000 per occurrence are covered by MEARIE.

(b) Contractual obligation - Hydro One:

The Corporation's subsidiary, VCI, is party to a connection and cost recovery agreement with Hydro One related to the construction by Hydro One of a transformer station designated to meet VCI's anticipated electricity load growth. Construction of the project was completed during 2007 and VCI connected to the transformer station during 2008.

To the extent that the cost of the project is not recoverable from future transformation connection revenues, VCI is obliged to pay a capital contribution equal to the difference between these revenues and the construction costs allocated to VCI. The construction costs allocated to VCI for the project are $9,975.

The Corporation has recorded a liability and a corresponding intangible asset for $1,212 as at December 31, 2012 (2011 - $1,212), based on management's best estimate of the future transformation connection revenue shortfall. Hydro One shall perform a true-up based on actual load at the end of the fifth, tenth and fifteenth anniversaries of the in-service date.

(c) Environmental liability:

In 2008, Environment Canada issued its final regulations governing the management of PCBs. Costs relating to future expenditures associated with the removal and destruction of PCB-contaminated transformers and remediation of chemically contaminated lands has been estimated in the amount of $206, which has been recorded as a liability at December 31, 2012. Because such expenditures are expected to be recoverable in future rates, the Corporation has recorded an equivalent amount as a regulatory asset.

17. LEASE COMMITMENTS:

Future minimum lease payment obligations under operating leases are as follows:

2013	$	32
2014		32
2015		32
2016		24
2017		2
Thereafter		70
	$	**192**

18. OTHER INCOME (LOSS):

		2012		2011
Third-party revenue	$	533	$	1,132
Late payment charge		460		480
Customer charges		1,793		1,584
Pole rentals		444		458
Gain on disposal of property, plant and equipment		17		79
Loss on disposal of inventory		–		(8)
Foreign exchange gain (loss)		(3)		11
Change in estimates and allocation of indirect costs (note 1(f))		(4,108)		–
	$	**(864)**	**$**	**3,736**

19. CHANGE IN NON-CASH OPERATING WORKING CAPITAL:

		2012		2011
Accounts receivable	$	(4,802)	$	2,908
Income taxes recoverable		(688)		(155)
Inventory		(39)		(218)
Prepaid expenses		115		(194)
Accounts payable and accrued liabilities		(498)		1,683
Advance payments - construction deposits		213		434
Deferred revenue		630		1,201
Developer obligations		(522)		1,031
	$	**(5,591)**	**$**	**6,690**

20. FINANCIAL INSTRUMENTS:

The carrying amounts of all financial instruments, except long-term debt, approximate fair values due to the immediate or short-term maturity of these financial instruments. It is not practicable to estimate the fair value of long-term debt as it is not publicly traded.

(a) Financial instrument risk:

Exposure to market risk, credit risk and liquidity risk arises in the normal course of the Corporation's business.

(b) Market risk:

Market risk refers primarily to risk of loss that results from changes in commodity prices, foreign exchange rates and interest rates. The Corporation does not have commodity risk and its foreign exchange risk is considered not material and is limited to U.S. dollar cash and cash equivalents holdings of $87 (2011 - $189) as at December 31, 2012.

Distribution rates and charges are currently based on a revenue requirement less other income, which includes interest income. The difference in the interest revenue reduction and the actual interest income earned by the Corporation is currently insignificant.

(c) Credit risk:

Financial assets create credit risk that a counterparty will fail to discharge an obligation, causing a financial loss. The Corporation's distribution revenue is earned on a broad base of customers. As a result, the Corporation did not earn a significant amount of revenue from any individual customer. As at December 31, 2012, there were no significant balances of accounts receivable due from any single customer.

The Corporation manages counterparty credit risk through various techniques, including limiting total exposure levels with individual counterparties consistent with the Corporation's policies, and monitoring the financial condition of counterparties.

Management believes that the credit risk of accounts receivable is limited due to the following reasons:

(i) There is a broad base of customers with no one customer that accounts for revenue or an accounts receivable balance in excess of 10% of the respective balance.

(ii) The Corporation, as permitted by the OEB's Retail Settlement and Distribution System Code, may obtain a security deposit or L/C from customers to mitigate risk of payment default.

(iii) The percentage of accounts receivable that is outstanding more than 90 days is approximately 1.94% (2011 - 1.59%) of the total net outstanding balance.

(iv) The Corporation includes an amount of accounts receivable write-offs within operating and maintenance expense for rate-setting purposes.

Pursuant to their respective terms, accounts receivable are aged as follows as at December 31, 2012:

		2012		2011
Total accounts receivable	$	58,247	$	53,212
Less allowance for doubtful accounts		653		420
Total accounts receivable, net	**$**	**57,594**	**$**	**52,792**
Of which:				
Unbilled revenue	$	28,056	$	28,547
Outstanding 1 day but not more than 30 days		27,471		22,494
Outstanding 31 days but not more than 60 days		1,171		854
Outstanding 61 days but not more than 90 days		431		479
Outstanding 91 days but not more than 120 days		717		395
Outstanding more than 120 days		401		443
		58,247		53,212
Less allowance for doubtful accounts		653		420
Net future income tax assets	**$**	**57,594**	**$**	**52,792**

(d) Liquidity risk:

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they become due. Short-term liquidity is provided through cash and cash equivalents on hand and funds from operations. Short-term liquidity is expected to be sufficient to fund normal operating requirements. The liquidity risks associated with financial commitments are as follows:

	Due within one year	Due between one and five years	Due past five years
Financial liabilities:			
Accounts payable and accrued liabilities	$ 36,890	$ –	$ –
Short-term loans	1,600	–	–
Long-term debt	3,301	30,984	84,569
Lease commitments	32	90	70

(e) Interest rate risk:

The Corporation enters into fixed interest rate long-term debt agreements to minimize cash flow and interest rate fluctuation exposure. Long-term debt for $20,000 for a 10-year fixed rate term loan was arranged in 2010. Additionally, long-term debt for $30,000 in 2011 and $15,000 in 2012 for 20-year fixed rate term loans were arranged from a Canadian chartered bank (the "Bank"). The Corporation entered into interest rate swap derivative agreements with the Bank to exchange interest rate cash flows. Under these agreements, the Corporation and the Bank have the periodic exchange of payments without exchanging the notional principal amount on which the payments are based. This effectively provided the Corporation with fixed rate loans, which reduce the impact of fluctuating interest rates on long-term debt. The Corporation does not enter into any such financial instrument for speculative purposes.

(f) Fair values:

The Corporation included $2,711 (2011 - $2,644) of unrealized loss in its financial statements, which represents the amount that the Corporation would have paid to unwind its position as at December 31, 2012. This is the fair value of the interest rate swap derivatives as at December 31, 2012. This unrealized loss is not expected to affect cash as the Corporation intends to hold the financial instruments until its maturity.

Fair value measurements recognized in the statement of earnings are categorized using a fair value hierarchy that reflects the significance of inputs used in determining the fair values.

- Level 1 - unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 - inputs for assets and liabilities that are not based on observable market data.

The interest rate swap derivatives are all Level 1 as at December 31, 2012.

There were no transfers between levels during the year.

21. COMPARATIVE FIGURES:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

Statement of 2012 Executive Compensation

The Human Resources and Compensation Committee develops for approval by the Board of Directors an Executive Compensation Plan that is aligned to promote performance that will attain the Corporation's key business goals. Attracting, retaining and motivating skilled and experienced executive staff are important elements of the plan. Executive cash compensation consists of base salary and "pay-at-risk" (incentive pay). The Human Resources and Compensation Committee evaluates annually the performance of the President and CEO and recommends for approval by the Board the level of "pay at risk" attainment.

In discharging its responsibility for recommending executive compensation The Human Resources and Compensation Committee annually:

1. Reviews salary, "pay at risk", and benefits for executive employees including periodic comparisons with compensation for executives at comparable utilities.
2. Establishes expected "pay at risk" performance levels for key business objectives that have been approved by the Board.
3. Determines appropriate "pay at risk" payments for the President and CEO for performance achieved towards key business objectives.
4. Reviews the President and CEO's recommendation for "pay at risk" payments for other executive staff based on performance achieved towards key business objectives.

The Committee's review of compensation for Veridian executives has found that Veridian executive compensation is average compared to comparable utilities and industrial organizations in the same geographic area as Veridian.

Name	Principal Position	Salary	Performance Incentive[1]	Other Annual Compensation[2]	Total
Michael Angemeer	President and Chief Executive Officer, Veridian Corporation	$230,933	$50,937	$20,722	$302,592
Rob Scarffe	Executive Vice President, Customer Services and Information Technology, Veridian Connections Inc.	$176,006	$34,762	$13,421	$224,189
David Clark	Executive Vice President, Corporate Services and Chief Financial Officer, Veridian Connections Inc. * Mr. Clark occupied this position until July 31, 2012	$113,734	$81,000	$9,916	$204,650
Axel Starck	Executive Vice President, Asset Services and Chief Operating Officer, Veridian Connections Inc. * Mr. Starck occupied this position until December 4, 2012	$195,122	$62,942	$3,835	$261,899
George Armstrong	Vice President, Corporate Services, Veridian Connections Inc. * Mr. Armstrong assumed this position on February 1, 2012	$117,742	$ –	$3,711	$121,453
Laurie McLorg	Vice President, Financial Services, Chief Financial Officer and Treasurer, Veridian Connections Inc. * Ms. McLorg assumed this position on February 1, 2012	$120,340	$ –	$3,256	$123,596
Peter Petriw	Vice President, Engineering, Veridian Connections Inc. * Mr. Petriw assumed this position on April 2, 2012	$95,830	$ –	$3,129	$98,959
Mark Turney	Vice President, Operations, Veridian Connections Inc. * Mr. Turney assumed this position on April 2, 2012	$93,788	$ –	$2,841	$96,628

1. Incentive payments relate to performance in the prior year, with the exception of those for Mr. Clark and Mr. Starck which pertain to performance for 2011 and 2012 combined.
2. Includes automobile and life insurance benefits.

Veridian Executives are enrolled in the OMERS pension plan. Executive benefits under this defined benefit pension plan are calculated in accordance with OMERS pension calculation formulas that are linked to the number of years of service and highest average annual earnings.

2012 Board and Committee Meeting Attendance

During 2012, the Boards of Directors of Veridian Corporation and Veridian Connections Inc. met four times each.

Veridian Corporation	Board Meetings	Committee Meetings
Jack Alexander (2)	4/4	4/4
Kevin Ashe (3)	4/4	4/4
Pat Brown (1,4)	3/4	5/5
Doug Dickerson *Chair* (1,2,3,5)	4/4	18/18
Neil Ellis *Vice Chair* (3,4,5)	4/4	9/9
Adrian Foster (4,5)	4/4	4/5
Colleen Jordan (3,5)	4/4	9/9
James Macpherson (1)	3/4	5/5
David McGregor (3)	4/4	4/4
Mary Novak (2)	4/4	3/4
David Pickles (2)	4/4	4/4
David Ryan (4,5)	3/4	4/5
Frank Stapelton (3)	4/4	4/4
Ralph Sutton (5)	4/4	5/5

Veridian Connections Inc.	Board Meetings	Committee Meetings
Pat Brown (1,4)	3/4	5/5
Doug Dickerson *Chair* (1,2,3,5)	4/4	18/18
Neil Ellis *Vice Chair* (3,4,5)	4/4	9/9
Cindy Holland (2)	4/4	4/4
Colleen Jordan (3,5)	4/4	9/9
James Mason (5)	4/4	5/5
Nancy Maxwell (2)	4/4	3/4
Mary Novak (2)	4/4	3/4
Erin O'Toole (1)	3/4	3/5
Doug Parker (1)	4/4	4/5
David Pickles (2)	4/4	4/4
Sylvain Trépanier (1)	4/4	5/5

Member of:

1. Audit & Risk Management Committee
2. Governance Committee
3. Human Resources & Compensation Committee
4. Nominating Committee (the Committee did not meet in 2012)
5. Business Development Committee Meeting

Veridian is proud to be a member of:

The Durham Strategic Energy Alliance (DSEA) is a non-profit organization comprised of business, government and educational institutions working together for the advancement of energy initiatives. Over the last seven years, the DSEA has worked to further develop the natural strategic relationships between the academic community, the local government and private sector that exist in Durham Region to create a positive contribution within the energy sector.

The Conference Board of Canada's Senior Executive Health and Safety Leadership Charter is an initiative that involves CEOs and other leaders focused on and dedicated to improving health and safety for their organizations and communities. Leadership Charter signatories realize the vital link between a culture of health and safety and a successful organization, and are united in their vision and support for a safer, healthier, more prosperous Canada.

EcoBusiness members are provided with practical solutions, tools and support to make themselves greener and more successful.

Smart Commute Durham helps local employers and commuters explore and promote different commuter choices, such as carpooling, teleworking, transit, cycling, walking and flexible work hours.

The Electricity Distributors Association (EDA) is the voice of Ontario's local electricity distributors, the publicly and privately owned companies that safely and reliably deliver electricity to over 4.8 million Ontario homes, businesses and public institutions.

World Alliance for Decentralized Energy (WADE) Canada is a registered, national, non-profit industry association which supports growth and development of the decentralized energy industry.

The Ontario Energy Association (OEA) is the eyes, ears and trusted voice of Ontario's energy community. A bridge between business, government and other groups to foster common understanding of each other's positions and interests, the OEA provides support and resources to help people in the energy community share information and ideas and make connections that enhance their ability to do their jobs.

VERIDIAN

The power to make your community better.

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www.veridiancorporation.ca

905-427-9870 or 1-888-445-2881

Attachment 5 of 5

Rating Agency Report

Rating Report

Report Date:
May 16, 2013

Previous Report:
October 26, 2012

Insight beyond the rating.

Veridian Corporation

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The Company

Veridian Corporation is a municipally owned holding company that owns and operates Veridian Connections Inc. (VCI), a regulated electricity distribution company that services nine municipalities in Eastern Ontario. Veridian is 41%-owned by the City of Pickering, 32.1% by the Town of Ajax, 13.6% by the Municipality of Clarington, and 13.3% by the City of Belleville. Its service area is an amalgamation of the former municipal electric utilities of the aforementioned municipalities as well as the municipalities of Brock, Port Hope, Uxbridge, Gravenhurst and Scugog.

Rating

Debt	Rating	Rating Action	Trend
Issuer Rating	A	Confirmed	Stable

Rating Update

DBRS has confirmed the Issuer Rating of Veridian Corporation (Veridian or the Company) at "A" with a Stable trend. The rating reflects its low business risk profile, stemming from its regulated electricity distribution business, reasonable regulatory framework and good credit metrics.

Virtually all of the Company's earnings and cash flow are generated from its regulated electricity distribution business and are expected to remain stable, underpinned by a reasonable regulatory framework in Ontario. Veridian currently operates under a three-year Incentive Regulation Mechanism (IRM) where it has an allowed return on equity (ROE) of 9.85% and deemed equity component of 40%. These are viewed as reasonable and are expected to remain unchanged until rebasing under the Cost of Service (COS) framework in 2014. In October 2012, the Ontario Energy Board (OEB) released its report on the renewed regulatory framework for electricity distributors in Ontario. Under this new framework, DBRS expects Veridian to transition to the 4th Generation Incentive Regulation (IR; see Regulation section). Although these frameworks have a longer IR period (four-plus years, versus three years), which increases regulatory risk, Veridian, like its peers in Ontario, has the option to initiate a regulatory review of the IR application if actual ROE is less than 300 basis points consistently, providing downside protection. In addition, the OEB expects to release details on key factors for the IR frameworks in mid-2013. Should the key factors increase regulatory risk (e.g., aggressive efficiency targets), it could have negative rating implications.

The Company's financial profile remained reasonable in 2012, supported by good cash flow and interest coverage ratios (although cash flow-to-total debt has declined since 2008, due to higher debt and lower cash flow). Rising debt levels over the past few years were largely due to increased capital expenditures (capex) spent on the smart meter program and system developments. However, Veridian's debt leverage of 52.5% for 2012 is still well within the current rating category. In addition, approximately 50% of the Company's total long-term debt is owed to its shareholders, providing it with significant financing flexibility. Over the near-to-medium term, Veridian's metrics should remain stable as free cash flow deficits are expected to decline, since the Company has completed its smart meter program and a building extension project.

Rating Considerations

Strengths
(1) Low-risk business/reasonable regulation
(2) Good financial profile and credit metrics
(3) Relatively stable franchise area
(4) Supportive shareholders

Challenges
(1) Volume risk
(2) Uncertain regulatory framework
(3) Limited access to equity markets

Financial Information

Veridian Corporation	CGAAP	CGAAP	CGAAP	CGAAP	CGAAP
(Consolidated)	**For the year ended December 31**				
(CA$ millions)	**2012**	**2011**	**2010**	**2009**	**2008**
Total debt	120.5	111.9	89.2	80.8	60.8
Total debt in capital structure (1)	52.5%	51.6%	48.1%	46.6%	40.9%
Cash flow/Total debt	15.3%	20.4%	25.5%	30.5%	33.2%
EBIT gross interest coverage (times)	3.00	2.34	2.41	2.51	2.03
Cash flow from operations	18.4	22.9	22.7	24.7	20.2
Net income before non-recurring items	10.4	7.6	8.2	9.0	7.6

(1) Includes operating leases.

Rating Considerations Details

Strengths

(1) Low risk business/reasonable regulation. Following the disposal of its water heater business, virtually all of Veridian's income is generated from its regulated distribution business, Veridian Connections Inc. (VCI), which operates under a reasonable regulatory framework. VCI receives roughly 40% of its distribution revenues from fixed monthly connection fees, while the remaining 60% comes from variable volume throughput.

(2) Good financial profile and credit metrics. Veridian's key credit metrics remained relatively reasonable for the "A" rating category. DBRS notes that the Company's debt levels have increased recently; however, the debt-to-capital ratio of approximately 52.5% (including debt owed to the shareholders) for 2012 remained reasonable.

(3) Relatively stable franchise area. VCI's distribution system operates within an economically stable service territory, with approximately 116,232 customers in nine municipalities in East-Central Ontario. Its customer base consists primarily of residential and small commercial customers, which provides reasonably stable demand loads year-over-year. Larger industrial customers, whose profiles are more cyclical, account for less than 3% of VCI's total distribution revenue. Natural customer growth over the last two years has averaged 1.2% and is expected to be 1.1% for 2013.

(4) Supportive shareholders. Approximately 50% of Veridian's total long-term debt is owed to its shareholders in the form of Promissory Notes, which are subordinated to the Company's credit facilities. Shareholders also have the option to convert $17.2 million of the Promissory Notes into equity, which provides the Company with more financial flexibility.

Challenges

(1) Volume risk. Earnings and cash flow for electricity distribution companies are partially dependent on the volume of electricity sold, and therefore, on revenue earned from electricity sales. Seasonality, economic cyclicality and year-over-year changes in weather patterns directly affect the volume of electricity sold and the revenue earned from electricity sales.

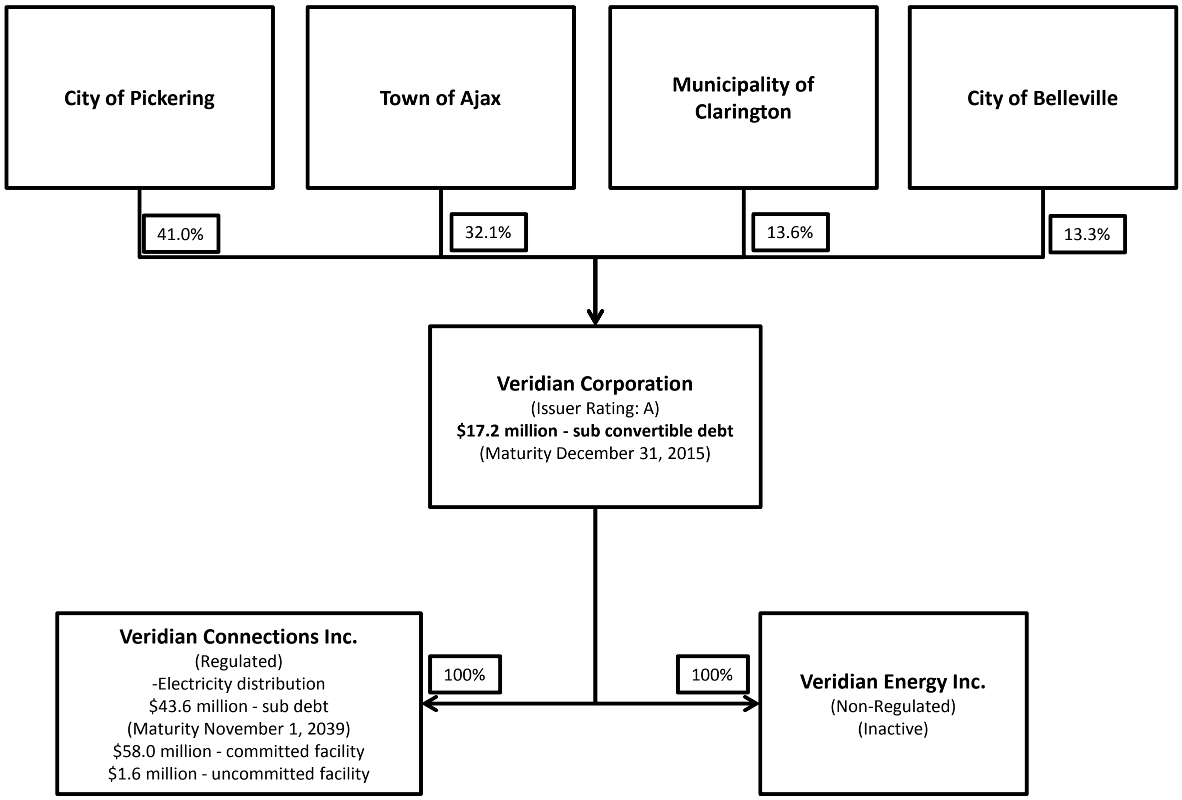
(2) Uncertain regulatory framework. The regulatory framework for distribution companies in Ontario is expected to change from the current 3rd Generation IR framework to the renewed regulation framework for electricity distributors. There is much uncertainty surrounding the renewed regulatory framework and its effect on Veridian (see DBRS commentary: No Real Credit Substance in the Ontario Energy Board's Report on Renewed Regulation Framework for Electricity Distributors dated October 19, 2012).

(3) Limited access to equity markets. The Company is owned by four municipalities; as a result, the Company does not have access to the public equity markets. If equity funding is required, it must be provided by shareholders.

Veridian Corporation

Report Date:
May 16, 2013

Ownership and Organizational Structure (December 31, 2012)



Veridian Energy Inc. divested its water heater business on August 15, 2011. Veridian Energy Inc. is now dormant.

Earnings and Outlook

Income Statement	CGAAP	CGAAP	CGAAP	CGAAP	CGAAP
(Consolidated)	For the year ended December 31				
(CA$ millions)	2012	2011	2010	2009	2008
Net sales	50.6	47.9	47.5	49.0	42.8
Operating expenses	25.1	21.9	21.7	22.1	20.8
EBITDA	25.5	26.1	25.8	26.9	21.9
Depreciation & amortization	8.9	15.1	14.4	15.1	12.6
EBIT	16.6	10.9	11.4	11.8	9.4
Gross interest expense	5.5	4.7	4.7	4.7	4.6
Other income	(0.8)	3.7	4.6	5.9	7.2
Net income before non-recurring items	10.4	7.6	8.2	9.0	7.6
Non-recurring items	(0.2)	1.8	0.3	2.0	1.2
Net income	10.2	9.4	8.5	11.0	8.7
Net income from discontinued operations	(0.3)	3.9	0.4	1.8	0.1
Return on equity	9.7%	7.4%	8.3%	9.4%	8.2%
Rate base	187	187	187	144	144

2012 Summary

- Earnings have remained relatively stable in the past few years as the company generated virtually all of its earnings from its stable regulated distribution business.
  - Historically, approximately 98% of Veridian's earnings were generated from its electricity distribution operations. However, following the sale of the non-regulated water heater rental business in 2011, virtually all earnings were generated from regulated distribution operations.
- Net income before non-recurring items was higher in 2012 due mainly to increases in revenues related to smart meter activities, higher consumption, and growth in customer base.
  - However, these were partially offset by higher vegetation management expense, increased bad debt expense and incremental operating costs to support new business.
- The Company's ROE from its regulated operations remained in line with its approved ROE.

2013 Outlook

- DBRS expects the Company to continue to generate relatively stable earnings since its rate base and ROE are expected to remain stable until the next COS application in 2014.
- The Company expects a 1.1% growth in customers in 2013, which could partially offset the impact of energy conservation and operating performance targets under IRM.
- Earnings could potentially be affected by weather conditions and the Company's ability to contain its operating costs within the increased rates allowed by the OEB (0.48% increase from 2012 effective May 1, 2013).

Veridian Corporation

Report Date:
May 16, 2013

Financial Profile and Outlook

Cash Flow Statement	CGAAP	CGAAP	CGAAP	CGAAP	CGAAP
(Consolidated)	For the year ended December 31				
(CA$ millions)	2012	2011	2010	2009	2008
Net income before non-recurring items	10.4	7.6	8.2	9.0	7.6
Depreciation & amortization	8.9	15.1	14.4	15.1	12.6
Deferred income taxes and other	(0.9)	0.1	0.1	0.6	0.1
Cash Flow From Operations	18.4	22.9	22.7	24.7	20.2
Dividends paid	(4.7)	(6.1)	(5.2)	(8.2)	(4.2)
Capital expenditures	(16.5)	(25.3)	(29.1)	(31.0)	(17.0)
Free Cash Flow (bef. work. cap. changes)	(2.8)	(8.5)	(11.6)	(14.5)	(1.0)
Changes in working capital	(5.6)	6.7	(12.1)	(4.5)	3.4
Changes in regulatory assets/liabilities	1.1	(16.2)	3.6	2.4	(5.5)
Net Free Cash Flow	(7.3)	(18.1)	(20.1)	(16.6)	(3.1)
Other investment activities	0.0	0.1	0.0	0.2	1.1
Net equity change	0.0	0.0	0.0	0.0	0.0
Net debt change	8.6	22.6	8.5	20.0	0.0
Other and discontinued operations	0.2	3.4	2.2	2.9	(1.8)
Change In Cash	1.6	8.0	(9.4)	6.5	(3.8)
Total debt	120.5	111.9	89.2	80.8	60.8
Total debt in capital structure (1)	52.5%	51.6%	48.1%	46.6%	40.9%
Cash flow/Total debt	15.3%	20.4%	25.5%	30.5%	33.2%
EBIT interest coverage (times)	3.00	2.34	2.41	2.51	2.03
(Cash flow-dividends)/Capex (times)	0.83	0.66	0.60	0.53	0.94
Dividend payout ratio	45.2%	79.7%	63.5%	90.9%	55.6%

(1) Includes operating leases.

2012 Summary

- Debt levels have steadily risen since 2008, resulting in weaker debt-to-capital and cash flow ratios. However, these key credit metrics remained reasonable for the current “A” rating category.
- Cash flow from operations declined modestly in 2012, due to changes in the accounting policy related to depreciation and allocation of indirect cost subject to capitalization.
- Capex was lower in 2012 as the Company completed its smart meter program and administrative building expansion.
- For 2012 to 2016, Veridian’s Board approved a dividend policy with base dividends of $4.7 million each year.
  - For 2012, the Company’s dividend payout ratio decreased and was more comparable to its peers.
- Free cash flow deficits have been primarily funded by increases in credit facilities, which has led to higher leverage.

2013 Outlook

- DBRS expects Veridian to continue to generate sufficient cash flow from operations to fund the majority of its dividends and capex.
- The Company expects to spend approximately $26 million of capex (net of contributions) in 2013, the majority of which will be used for development projects. This will likely result in a free cash flow deficit similar to 2010 and 2011.
- DBRS expects Veridian to fund free cash flow deficits with debt.
- Key credit metrics are expected to remain relatively stable in 2013.

Long-Term Debt and Liquidity

Bank Lines and Liquidity

Credit Facility and Short Term Loan	As at Dec. 31, 2012		
(CA$ million)	Committed	Drawn/LC	Available
Uncommitted revolving demand credit facility	20.0	2.4	17.6

- Veridian has three committed reducing term facilities as follows:
  - The committed reducing term facility of $20 million, of which $14.1 million was outstanding as at December 31, 2012. This is recorded as long-term debt (see below).
  - The committed reducing facility of $30 million, of which $28.9 million was outstanding as at December 31, 2012. This is recorded as long-term debt (see below).
  - The committed reducing facility of $15 million, of which $15 million was outstanding as at December 31, 2012. This is recorded as long-term debt (see below).
- The $20 million, $30 million and $15 million committed credit facilities have amortization terms of 10, 20 and 30 years, respectively. For the latter two committed credit facilities, both the Company and the bank have an optional exit strategy at 10 and 15 years.
- In addition, the Company has $17.6 million of uncommitted credit facility and $24 million of cash on hand, which is sufficient to meet its ongoing operational and capital spending needs.

Debt

Long-Term Debt	**Dec. 31**	
(CA$ million)	**2012**	**2011**
Notes payable to shareholders, due in 2039	43.6	43.6
Notes payable to shareholders, due in 2015	17.2	17.2
LTD from a Canadian chartered bank, due in 2031	28.9	29.9
LTD from a Canadian chartered bank, due in 2019	14.1	16.1
LTD from a Canadian chartered bank, due in 2032	15.0	0.0
Total	118.9	106.9
Less: Current portion	3.3	20.2
Total Long Term Debt	115.6	86.6

Debt Payment Schedule

(CA$ million)	2013	2014	2015	2016	2017	Thereafter	Total
Long-term debt	3.3	3.4	20.6	3.5	3.5	84.6	118.9
Short-term debt (credit facility)	1.6						1.6
Total	4.9	3.4	20.6	3.5	3.5	84.6	120.5
% of Total	4%	3%	17%	3%	3%	70%	100%

As at Dec. 31, 2012

- Approximately $60.8 million (50%) of the Company's total long-term debt is due to its shareholders. This debt is in the form of Promissory Notes, subordinated to the credit facilities and bank debt.
- The maturity of the $17.2 million Promissory Notes payable to shareholders was extended from November 1, 2012 to December 31, 2015. The shareholders have the option to convert the $17.2 million Promissory Notes into equity on or before maturity.
- Veridian's debt maturity is well spread, with the exception of 2015, when $20.6 million comes due. However, DBRS views refinancing as manageable in 2015, since $17.2 million is owed to its shareholders.

Veridian Corporation

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Regulation

- Veridian's electricity distribution operations are regulated by the OEB under the *Ontario Electricity Act, 1998*.
- The Company currently operates under the 3rd Generation IRM with rebasing in between the IRM period, which is currently three-years. During the IRM period, rates are adjusted based on a formula known as the price cap index – base year revenues plus an inflation rate less a productivity and stretch factor.
- Veridian currently operates with a deemed capital structure of 60% debt, divided into 56% long-term and 4% short-term, and 40% equity.
- The Company has an approved ROE of 9.85%, which has been unchanged since rebasing in 2010.
- The next rebasing year will be 2014.
- For the May 2013 to April 2014 period, the Company is allowed to increase rates by 0.48% from 2012 rates. This is based on a price escalator (inflation rate) of 1.6%, productivity factor of 0.72% and a stretch factor of 0.4%, which resulted in a price cap index of 0.48%.
- The price cap index does not apply to rate riders, rural remote protection charges and some other charges.
- All power costs are fully passed through to customers.
- The regulatory framework for electricity distribution companies in Ontario could potentially change from the current IRM framework to the proposed renewed regulatory framework (see DBRS commentary: No Real Credit Substance in the Ontario Energy Board's Report on the Renewed Regulation Framework for Electricity Distributors dated October 19, 2012).
- The chart below reflects DBRS's assessment of the regulatory environment for Veridian based on DBRS's criteria guideline (see *DBRS Study: Assessing Regulatory Risk in the Utilities Sector*, dated May 25, 2012).

Criteria	Score	Analysis
(1) Deemed Equity	Outstanding Excellent **Very Good** Good Satisfactory	The OEB allows Veridian to have a deemed equity of 40%, which is consistent with the other electricity distribution companies in Ontario. Due to the need to maintain the regulatory capital structure, Veridian's leverage has been in line with the "A" rating range.
(2) Allowed ROE	Outstanding **Excellent** Very Good Good Satisfactory	Veridian has an allowed ROE of 9.85% for 2013, which is higher than the allowed ROE outlined in the OEB's cost of capital decision. DBRS expects Veridian's ROE to decrease after rebasing in 2014.
(3) Energy Cost Recovery	**Outstanding** Excellent Very Good Good Satisfactory	There is no power price risk for Veridian as it is not responsible for purchasing power from generation facilities or the wholesale market. Power costs are passed on to rate payers at rates set by the OEB and Veridian collects the payments from its customers on a bi-monthly basis.

(4) COS vs. IRM	Outstanding **Excellent** Very Good Good Satisfactory	Veridian is regulated under an IRM framework, with three years in between the COS rebasing year. Veridian will rebase in 2014. During the IRM period, Veridian can also file under ICM if there are significant, non-discretionary and prudent incremental capital needs between rebasing years. DBRS notes that Veridian's current efficiency targets have been reasonable.
(5) Capital Cost Recovery	Outstanding Excellent **Very Good** Good Satisfactory	Some capital costs are pre-approved at the time of the COS application. Subsequent capital spending after the base year will not be approved until the next rate application and approval of the rate base. If incremental capital costs were significant, non-discretionary and prudent, Veridian can file under ICM to request for the recovery of the costs.
(6) Political Interference	Outstanding Excellent Very Good **Good** Satisfactory	The government of Ontario plays a significant role in the electricity sector in Ontario given that the majority of the utilities are government owned (Veridian is owned by four municipalities). Further, stakeholders such as the Ontario Power Authority and Independent Electricity System Operator are also government owned. As a result, the government has direct and indirect influence in Ontario's electricity industry.
(7) Retail Rate	Outstanding Excellent **Very Good** Good Satisfactory	The cost of power in Veridian's service territory is set by the OEB. On average, electricity prices for Veridian's residential customers are around 11 cents per kwh. This is lower than other service territories where rates range up to 14 cents per kwh, thus providing Veridian with greater flexibility for future rate increases.
(8) Stranded Cost Recovery	Outstanding **Excellent** Very Good Good Satisfactory	Minimal stranded costs exist in the Ontario market. For costs related to smart meters, Veridian is allowed to earn a return on the assets once it comes into service. DBRS notes that there is some regulatory lag for the inclusion of these assets in rate base. Although stranded costs have been fully recovered in the past years, assets could potentially be written down if the OEB does not approve the recovery of the costs.
(9) Rate Freeze	Outstanding **Excellent** Very Good GoodSatisfactory	Distribution rates were frozen for a short time period in the early 2000s, but did not have a material impact on Veridian's financial profile. Since distribution costs represent 20% to 30% of a customer's overall electricity bill, an increase in rates would have a greater nominal impact on customers' bill. This could increase the risk of potential rate freezes.

(10) Market Structure (Deregulation)	Outstanding Excellent **Very Good** Good Satisfactory	Following the restructuring of Ontario Hydro in 1999, Ontario's electricity market became partially deregulated, specifically for the generation segment. Distribution (including Veridian's electricity distribution business) and transmission remains fully regulated under the OEB. DBRS notes that no single utility in Ontario is fully integrated.

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Balance Sheet (consolidated)	CGAAP	CGAAP	CGAAP		CGAAP	CGAAP	CGAAP
(CA$ millions)	**Dec. 31**	**Dec. 31**	**Dec. 31**		**Dec. 31**	**Dec. 31**	**Dec. 31**
Assets	**2012**	**2011**	**2010**	**Liabilities & Equity**	**2012**	**2011**	**2010**
Cash & equivalents	24.1	22.5	14.5	S.T. borrowings	1.6	5.0	10.3
Accounts receivable	57.6	52.8	55.7	Current portion L.T. debt	3.3	20.2	2.0
Inventories	1.7	1.7	1.4	Accounts payable & deferred tax	36.9	37.4	35.7
Prepaid expenses & others	3.2	2.5	2.6	Regulatory liabilities	3.3	3.5	8.9
				Other current liab.	4.1	3.9	1.3
Total Current Assets	**86.6**	**79.5**	**74.3**	**Total Current Liab.**	**49.2**	**70.0**	**58.3**
Net fixed assets	177.4	170.5	160.2	Long-term debt	115.6	86.6	76.9
Future income tax assets	11.2	11.6	11.0	Regulatory liabilities	16.0	12.7	24.8
Goodwill & intangibles	14.1	13.4	13.5	Deferred income taxes	0.4	0.4	0.5
Regulatory assets	10.6	7.5	7.9	Other L.T. liab.	9.8	9.2	7.9
Investments & others	0.1	0.3	1.7	Shareholders' equity	109.1	103.6	100.3
Total Assets	**300.0**	**282.6**	**268.6**	**Total Liab. & SE**	**300.0**	**282.6**	**268.6**

(Consolidated)	CGAAP	CGAAP	CGAAP	CGAAP	CGAAP
Balance Sheet &	**For the year ended December 31**				
Liquidity & Capital Ratios	**2012**	**2011**	**2010**	**2009**	**2008**
Current ratio	1.76	1.14	1.27	1.09	0.64
Total debt in capital structure	52.5%	51.4%	47.1%	45.4%	39.2%
Total debt in capital structure (1)	52.5%	51.6%	48.1%	46.6%	40.9%
Cash flow/Total debt	15.3%	20.4%	25.5%	30.5%	33.2%
(Cash flow-dividends)/Capex (times)	0.83	0.66	0.60	0.53	0.94
Dividend payout ratio	45.2%	79.7%	63.5%	90.9%	55.6%
Coverage Ratios (times)					
EBIT interest coverage	3.00	2.34	2.41	2.51	2.03
EBITDA interest coverage	4.60	5.58	5.46	5.71	4.75
Fixed-charges coverage	2.85	3.14	3.38	3.77	3.58
Profitability Ratios					
EBITDA margin	50.3%	54.4%	54.3%	54.9%	51.3%
EBIT margin	32.8%	22.8%	23.9%	24.1%	21.9%
Profit margin	20.5%	15.9%	17.3%	18.4%	17.7%
Return on equity	9.7%	7.4%	8.3%	9.4%	8.2%
Return on capital	6.4%	5.2%	6.0%	7.0%	6.7%

(1) Includes operating leases.

Electricity Throughputs	**2012**	**2011**	**2010**	**2009**	**2008**
Residential	965	956	972	942	942
Commercial	1,416	1,377	1,335	1,316	1,345
Large users	192	200	217	196	195
Street lighting	21	20	19	20	19
Total (GWh)	2,594	2,553	2,543	2,473	2,501

Number of Customers	**2012**	**2011**	**2010**	**2009**	**2008**
Residential	105,543	104,060	102,929	101,547	100,534
Commercial	10,676	10,590	10,547	10,442	10,322
Large users	4	4	5	5	5
Street lighting	9	9	9	9	9
Total	116,232	114,663	113,490	112,003	110,870

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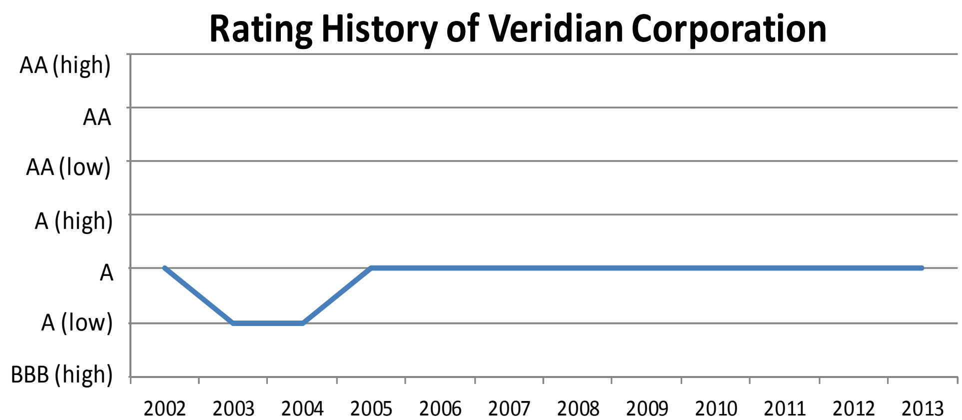
Rating

Debt	Rating	Rating Action	Trend
Issuer Rating	A	Confirmed	Stable

Rating History

	Current	2012	2011	2010	2009
Issuer Rating	A	A	A	A	A



Note:
All figures are in Canadian dollars unless otherwise noted.

Adjustments to RRR Historical Account Balances

Within this application, Veridian references historic financial account information from sources such as 2010 Board Approved and historic years of 2010, 2011 and 2012. This information is used in variance analysis, calculations of rate base and in year over year comparison.

The source for historical 2010 – 2012 account values are those filed by Veridian in section 2.1.7 of its annual RRR filings with various adjustments.

Adjustments

Several adjustments are required to historical 2010 – 2012 RRR account values for use in comparisons for rate making purposes. The various types of adjustments are described below. Following the descriptions are schedules listing the adjustments on an account by account basis filed as Exhibit 1, Tab 5, Schedule 2, Attachment 1. The adjusted values are those used within fixed asset continuity schedules within this Application.

Reclassification of amounts between accounts

During the 2006 EDR process it was identified that some distributors may have classified distribution assets values into USoA accounts that were not treated or considered as distribution assets and instructions were provided for utilities to reclassify these as distribution assets. Veridian had, during the mapping of its chart of accounts from the previous Municipal Utility accounting treatments to the USoA accounting treatment, recorded distribution assets in accounts that are not normally considered distribution assets.

Asset values recorded in Accounts 1725, 1730, 175 and 1740 are for distribution assets under 50 kV that it had previously classified (under the previous accounting treatment) as Sub-transmission assets. As these assets are distribution assets, they have been reclassified to Accounts 1830, 1835, 1840 and 1845 respectively.

These adjustments are noted on the reconciliation schedules as "To" and "From" in the explanation column.

Fair Market Value Adjustment

In 2001, in the recording of the merger of Veridian with Belleville Utilities, entries were made in the accounting books of Veridian Connections Inc. to increase distribution asset values by a portion of the Fair Market Value assessment of Veridian's assets. This accounting treatment was recommended by Veridian's external auditors and was in accordance with Generally Accepted Accounting Principles (GAAP). While this entry was acceptable for GAAP and for tax accounting, it is not in keeping with regulatory accounting for rate setting and inclusion of these amounts would overstate Veridian's regulated rate base as the increase in assets were not funded through distribution rate revenues. Accordingly, Veridian has made an adjustment to remove the remaining un-depreciated value of this accounting write up from the appropriate assets values. Appropriately, the related accumulated amortization has also been adjusted. These adjustments are noted on the reconciliations as 'FMV' in the explanation column.

Amortization Adjustment for Half Year Rule

For financial statement purposes, prior to 2009, Veridian had applied full-year, all year-amortization calculations which calculated full year amortization to assets in the year of acquisition. While this was acceptable for purposes of GAAP, it was not in keeping with regulatory accounting and rate making purposes. Accordingly, amortization expense and accumulated amortization have been adjusted for the periods of 2006 through 2008.

These adjustments are noted on the reconciliation as ‘1/2 year rule adj’.

Non-Utility Assets

Amounts related to non-utility assets recorded under Accounts 1865 have been removed as these amounts are not to be included in regulatory rate base for rate setting purposes. An amount related to non-rate base asset has been removed from Account 1610-Miscellaneous Intangible Plant. For financial statement purposes, an intangible asset related to an estimated future capital contribution to Hydro One for transmission connection revenue shortfall related to the Whitby TS, has been recorded. This intangible asset is not eligible for inclusion in rate base and therefore has been removed. The adjustment has been noted as ‘Pending Contribution to Hydro One-Non-Rate Base’.

Non-Recoverable Amount

Any amounts recorded in Account 6205 – Donations not allowed for rate setting purposes have been removed. This adjustment has been noted on the reconciliation as ‘Non-Recoverable amount’. No amounts for non-recoverable donations were recorded in prior years.

Adjustments related to Smart Meters

As prescribed by the Board, Veridian had recorded the value of stranded meter costs (the remaining net book value of mechanical meters) within the 'Stranded Meter Costs' sub-account of Account 1555- Smart Meter Capital Variance Account.

Veridian did not propose disposition of the stranded meter costs through either of its interim or final Smart Meter Disposition applications. Accordingly, the gross asset amounts and accumulated amortization related to stranded meter costs have been reallocated from Account 1555-Smart Meter Capital Variance Account to Accounts 1860 – Meters and Account 2105 Accumulated Amortization, respectively.

In 2012 Veridian applied for and received approval for Final Disposition of costs related to its Smart Metering activities in 2009 through 2011. As per guidance set out in the Board's *APH FAQ of August 2008*, in 2012 upon Board approval of disposition of Accounts 1555 and 1556, Veridian transferred the various OM&A and Amortization expenses previously recorded in Account 1556 to the respective OM&A and Amortization expense accounts as if they have occurred in 2012. For purposes of providing 2012 actual expense values that do not include prior year smart meter expenses, Veridian has made the appropriate adjustments.

The combined adjustments are noted as 'Stranded Meter/Smart Meter Adjustments.

Attachment 1 of 1

RRR Filings and Reconciliation Schedules 2010-2012

Reconciliation of RRR Balances related to PP&E Balances - Adjustments for Use in 2014 Rate Application - 2010 Actual

Account Number	Account Description	2010 Actual as reported in RRR	Adjustments	Adjustments	Adjustments	Explanation	Adjusted 2010 Actuals
		$	$	$			$
1606	Organization						0
1608	Franchises and Consents						0
1610	Miscellaneous Intangible Plant	2,093,150	(1,212,000)			Pending Contribution to Hydro One- Non-Rate Base	881,150
1615	Land						0
1616	Land Rights						0
1620	Buildings and Fixtures						0
1630	Leasehold Improvements						0
1635	Boiler Plant Equipment						0
1640	Engines and Engine-Driven Generators						0
1645	Turbogenerator Units						0
1650	Reservoirs, Dams and Waterways						0
1655	Water Wheels, Turbines and Generators						0
1660	Roads, Railroads and Bridges						0
1665	Fuel Holders, Producers and Accessories						0
1670	Prime Movers						0
1675	Generators						0
1680	Accessory Electric Equipment						0
1685	Miscellaneous Power Plant Equipment						0
1705	Land						0
1706	Land Rights						0
1708	Buildings and Fixtures						0
1710	Leasehold Improvements						0
1715	Station Equipment						0
1720	Towers and Fixtures						0
1725	Poles and Fixtures	9,551,766	(9,551,766)			To 1830	0
1730	Overhead Conductors and Devices	5,793,977	(5,793,977)			To 1835	0
1735	Underground Conduit	750,549	(750,549)			To 1840	0
1740	Underground Conductors and Devices	1,451,659	(1,451,659)			To 1845	0
1745	Roads and Trails						0
1805	Land	775,281		(78,000)		FMV Adj	697,281
1806	Land Rights	538,243					538,243
1808	Buildings and Fixtures	668,106					668,106
1810	Leasehold Improvements						0
1815	Transformer Station Equipment - Normally Prima	176,775					176,775
1820	Distribution Station Equipment - Normally Primar	30,280,646		(80,000)		FMV Adj	30,200,646
1825	Storage Battery Equipment						0
1830	Poles, Towers and Fixtures	28,995,291	9,551,766	(625,000)		From 1725, FMV Ad	37,922,057
1835	Overhead Conductors and Devices	51,982,494	5,793,977			From 1730	57,776,471

Reconciliation of RRR Balances related to PP&E Balances - Adjustments for Use in 2014 Rate Application - 2010 Actual

Account Number	Account Description	2010 Actual as reported in RRR	Adjustments	Adjustments	Adjustments	Explanation	Adjusted 2010 Actuals
1840	Underground Conduit	57,601,057	750,549	219,000		From 1740, FMV Ad	58,570,606
1845	Underground Conductors and Devices	26,275,892	1,451,659			From 1745	27,727,551
1850	Line Transformers	69,169,806		113,000		FMV Adj	69,282,806
1855	Services	31,689,856		(1,392,117)		FMV Adj	30,297,739
1860	Meters	10,655,132			8,455,330	Smart Meter Adjustm	19,110,462
1865	Other Installations on Customer's Premises	289,224	(289,224)			Non-Utility Assets	0
1870	Leased Property on Customer Premises						0
1875	Street Lighting and Signal Systems						0
1905	Land	1,035,730					1,035,730
1906	Land Rights	155,953					155,953
1908	Buildings and Fixtures	15,410,491					15,410,491
1910	Leasehold Improvements	1,152,890					1,152,890
1915	Office Furniture and Equipment	3,882,486					3,882,486
1920	Computer Equipment - Hardware	6,499,351					6,499,351
1925	Computer Software	10,474,966					10,474,966
1930	Transportation Equipment	7,648,873					7,648,873
1935	Stores Equipment	408,496					408,496
1940	Tools, Shop and Garage Equipment	2,194,700					2,194,700
1945	Measurement and Testing Equipment	80,865					80,865
1950	Power Operated Equipment						0
1955	Communication Equipment	520,269					520,269
1960	Miscellaneous Equipment	188,888					188,888
1965	Water Heater Rental Units						0
1970	Load Management Controls - Customer Premises						0
1975	Load Management Controls - Utility Premises						0
1980	System Supervisory Equipment	5,093,037		(15,000)		FMV Adj	5,078,037
1985	Sentinel Lighting Rental Units						0
1990	Other Tangible Property						0
1995	Contributions and Grants - Credit	(48,475,389)					(48,475,389)
2005	Property Under Capital Leases						0
2010	Electric Plant Purchased or Sold						0
2020	Experimental Electric Plant Unclassified						0
2030	Electric Plant and Equipment Leased to Others						0
2040	Electric Plant Held for Future Use						0
2050	Completed Construction Not Classified--Electric						0
2055	Construction Work in Progress--Electric	8,774,531					8,774,531
2060	Electric Plant Acquisition Adjustment	8,909,173					8,909,173
2065	Other Electric Plant Adjustment						0
2070	Other Utility Plant						0
2075	Non-Utility Property Owned or Under Capital Leases						0

Reconciliation of RRR Balances related to PP&E Balances - Adjustments for Use in 2014 Rate Application - 2010 Actual

Account Number	Account Description	2010 Actual as reported in RRR	Adjustments	Adjustments	Adjustments	Explanation	Adjusted 2010 Actuals
2105	Accum. Amortization of Electric Utility Plant - Pr	(184,827,647)	641,305	592,089	(3,462,431)	1/2 yr rule adj, FMV adj, tranded Meter/Smart Meter Adj	(187,056,684)
2120	Accumulated Amortization of Electric Utility Plar	(657,966)					(657,966)
5705	Amortization Expense - Property, Plant, and Equi	13,015,192	120,305	(48,954)		From 5715, FMV adj	13,086,543
5710	Amortization of Limited Term Electric Plant						0
5715	Amortization of Intangibles and Other Electric Pl	120,305	(120,305)				0

Reconciliation of RRR Balances related to PP&E Balances - Adjustments for Use in 2014 Rate Application - 2011 Actual

Account Number	Account Description	2011 Actual as reported in RRR	Adjustments	Adjustments	Adjustments	Explanation	Adjusted 2011 Actuals
		$	$	$			$
1606	Organization						0
1608	Franchises and Consents						0
1610	Miscellaneous Intangible Plant	2,097,975	(1,212,000)			Pending Contribution to Hydro One- Non-Rate Base	885,975
1615	Land						0
1616	Land Rights						0
1620	Buildings and Fixtures						0
1630	Leasehold Improvements						0
1635	Boiler Plant Equipment						0
1640	Engines and Engine-Driven Generators						0
1645	Turbogenerator Units						0
1650	Reservoirs, Dams and Waterways						0
1655	Water Wheels, Turbines and Generators						0
1660	Roads, Railroads and Bridges						0
1665	Fuel Holders, Producers and Accessories						0
1670	Prime Movers						0
1675	Generators						0
1680	Accessory Electric Equipment						0
1685	Miscellaneous Power Plant Equipment						0
1705	Land						0
1706	Land Rights						0
1708	Buildings and Fixtures						0
1710	Leasehold Improvements						0
1715	Station Equipment						0
1720	Towers and Fixtures						0
1725	Poles and Fixtures	12,108,702	(12,108,702)			To 1830	0
1730	Overhead Conductors and Devices	6,705,476	(6,705,476)			To 1835	0
1735	Underground Conduit	775,698	(775,698)			To 1840	0
1740	Underground Conductors and Devices	1,633,828	(1,633,828)			To 1845	0
1745	Roads and Trails						0
1805	Land	741,435		(78,000)		FMV Adj	663,435
1806	Land Rights	596,988					596,988
1808	Buildings and Fixtures	668,106					668,106
1810	Leasehold Improvements						0
1815	Transformer Station Equipment - Normally Prima	176,775					176,775
1820	Distribution Station Equipment - Normally Primar	33,657,420		(80,000)		FMV Adj	33,577,420
1825	Storage Battery Equipment						0
1830	Poles, Towers and Fixtures	30,065,350	12,108,702	(625,000)		From 1725, FMV Adj	41,549,052
1835	Overhead Conductors and Devices	54,266,338	6,705,476			From 1730	60,971,814
1840	Underground Conduit	58,747,827	775,698	219,000		From 1740, FMV Adj	59,742,525

Reconciliation of RRR Balances related to PP&E Balances - Adjustments for Use in 2014 Rate Application - 2011 Actual

Account Number	Account Description	2011 Actual as reported in RRR	Adjustments	Adjustments	Adjustments	Explanation	Adjusted 2011 Actuals
1845	Underground Conductors and Devices	28,838,975	1,633,828			From 1745	30,472,803
1850	Line Transformers	71,765,085		113,000		FMV Adj	71,878,085
1855	Services	33,725,333		(1,392,117)		FMV Adj	32,333,216
1860	Meters	10,522,784			9,028,278	Smart Meter Adjustment	19,551,062
1865	Other Installations on Customer's Premises	289,224	(289,224)			Non-Utility Assets	0
1870	Leased Property on Customer Premises						0
1875	Street Lighting and Signal Systems						0
1905	Land	1,035,730					1,035,730
1906	Land Rights	155,953					155,953
1908	Buildings and Fixtures	19,719,406					19,719,406
1910	Leasehold Improvements	1,152,890					1,152,890
1915	Office Furniture and Equipment	4,285,737					4,285,737
1920	Computer Equipment - Hardware	6,755,662					6,755,662
1925	Computer Software	11,474,203					11,474,203
1930	Transportation Equipment	8,198,741					8,198,741
1935	Stores Equipment	417,234					417,234
1940	Tools, Shop and Garage Equipment	2,263,257					2,263,257
1945	Measurement and Testing Equipment	132,513					132,513
1950	Power Operated Equipment						0
1955	Communication Equipment	521,004					521,004
1960	Miscellaneous Equipment	202,887					202,887
1965	Water Heater Rental Units						0
1970	Load Management Controls - Customer Premises						0
1975	Load Management Controls - Utility Premises						0
1980	System Supervisory Equipment	5,355,061		(15,000)		FMV Adj	5,340,061
1985	Sentinel Lighting Rental Units						0
1990	Other Tangible Property						0
1995	Contributions and Grants - Credit	(54,263,737)					(54,263,737)
2005	Property Under Capital Leases						0
2010	Electric Plant Purchased or Sold						0
2020	Experimental Electric Plant Unclassified						0
2030	Electric Plant and Equipment Leased to Others						0
2040	Electric Plant Held for Future Use						0
2050	Completed Construction Not Classified--Electric						0
2055	Construction Work in Progress--Electric	12,486,975					12,486,975
2060	Electric Plant Acquisition Adjustment	8,909,173					8,909,173
2065	Other Electric Plant Adjustment						0
2070	Other Utility Plant						0
2075	Non-Utility Property Owned or Under Capital Leases						0
2105	Accum. Amortization of Electric Utility Plant - Pr	(197,305,551)	641,305	639,090	(5,069,147)	1/2 yr rule adj, FMV adj, Stranded Meter/Smart Meter Adj	(201,094,303)

Reconciliation of RRR Balances related to PP&E Balances - Adjustments for Use in 2014 Rate Application - 2011 Actual

Account Number	Account Description	2011 Actual as reported in RRR	Adjustments	Adjustments	Adjustments	Explanation	Adjusted 2011 Actuals
2120	Accumulated Amortization of Electric Utility Plar	(775,076)					(775,076)
5705	Amortization Expense - Property, Plant, and Equi	13,404,251	117,110	(47,001)		From 5175, 1/2 yr rule adj, FMV adj, Smart Meter Adj	13,474,360
5710	Amortization of Limited Term Electric Plant						0
5715	Amortization of Intangibles and Other Electric Pla	117,110	(117,110)				0

Reconciliation of RRR Balances related to PP&E Balances and Distribution Expenses- Adjustments for Use in 2014 Rate Application - 2012 Actual

Account Number	Account Description	2012 Actual as reported in RRR	Adjustments	Adjustments	Adjustments	Explanation	Adjusted 2012 Actuals
		$	$	$			$
1606	Organization						0
1608	Franchises and Consents						0
1610	Miscellaneous Intangible Plant	2,581,934	(1,212,000)			Pending Contribution to Hydro One- Non-Rate Base	1,369,934
1615	Land						0
1616	Land Rights						0
1620	Buildings and Fixtures						0
1630	Leasehold Improvements						0
1635	Boiler Plant Equipment						0
1640	Engines and Engine-Driven Generators						0
1645	Turbogenerator Units						0
1650	Reservoirs, Dams and Waterways						0
1655	Water Wheels, Turbines and Generators						0
1660	Roads, Railroads and Bridges						0
1665	Fuel Holders, Producers and Accessories						0
1670	Prime Movers						0
1675	Generators						0
1680	Accessory Electric Equipment						0
1685	Miscellaneous Power Plant Equipment						0
1705	Land						0
1706	Land Rights						0
1708	Buildings and Fixtures						0
1710	Leasehold Improvements						0
1715	Station Equipment						0
1720	Towers and Fixtures						0
1725	Poles and Fixtures	13,743,231	(13,743,231)			To 1830	0
1730	Overhead Conductors and Devices	7,469,103	(7,469,103)			To 1835	0
1735	Underground Conduit	776,460	(776,460)			To 1840	0
1740	Underground Conductors and Devices	1,607,577	(1,607,577)			To 1845	0
1745	Roads and Trails						0
1805	Land	741,435		(78,000)		FMV Adj	663,435
1806	Land Rights	606,039					606,039
1808	Buildings and Fixtures	668,106					668,106
1810	Leasehold Improvements						0
1815	Transformer Station Equipment - Norma	216,815					216,815
1820	Distribution Station Equipment - Norma	36,149,079		(80,000)		FMV Adj	36,069,079
1825	Storage Battery Equipment						0
1830	Poles, Towers and Fixtures	32,027,100	13,743,231	(625,000)		From 1725, FMV Adj	45,145,331
1835	Overhead Conductors and Devices	56,689,591	7,469,103			From 1730	64,158,694
1840	Underground Conduit	62,401,092	776,460	219,000		From 1740, FMV Adj	63,396,552

Reconciliation of RRR Balances related to PP&E Balances and Distribution Expenses- Adjustments for Use in 2014 Rate Application - 2012 Actual

Account Number	Account Description	2012 Actual as reported in RRR	Adjustments	Adjustments	Adjustments	Explanation	Adjusted 2012 Actuals
1845	Underground Conductors and Devices	34,573,212	1,607,577			From 1745	36,180,789
1850	Line Transformers	76,872,832		113,000		FMV Adj	76,985,832
1855	Services	36,097,968		(1,392,117)		FMV Adj	34,705,851
1860	Meters	18,803,710			9,028,278	Smart Meter Adjustment	27,831,988
1865	Other Installations on Customer's Premi	289,224	(289,224)			Non-Utility Assets	0
1870	Leased Property on Customer Premises						0
1875	Street Lighting and Signal Systems						0
1905	Land	1,035,730					1,035,730
1906	Land Rights	155,953					155,953
1908	Buildings and Fixtures	20,517,288					20,517,288
1910	Leasehold Improvements	1,152,890					1,152,890
1915	Office Furniture and Equipment	4,331,591					4,331,591
1920	Computer Equipment - Hardware	7,169,921					7,169,921
1925	Computer Software	14,469,256					14,469,256
1930	Transportation Equipment	8,601,405					8,601,405
1935	Stores Equipment	417,234					417,234
1940	Tools, Shop and Garage Equipment	2,306,102					2,306,102
1945	Measurement and Testing Equipment	132,513					132,513
1950	Power Operated Equipment						0
1955	Communication Equipment	750,450					750,450
1960	Miscellaneous Equipment	252,623					252,623
1965	Water Heater Rental Units						0
1970	Load Management Controls - Customer Premises						0
1975	Load Management Controls - Utility Premises						0
1980	System Supervisory Equipment	5,476,355		(15,000)		FMV Adj	5,461,355
1985	Sentinel Lighting Rental Units						0
1990	Other Tangible Property						0
1995	Contributions and Grants - Credit	(60,270,535)					(60,270,535)
2005	Property Under Capital Leases						0
2010	Electric Plant Purchased or Sold						0
2020	Experimental Electric Plant Unclassified						0
2030	Electric Plant and Equipment Leased to Others						0
2040	Electric Plant Held for Future Use						0
2050	Completed Construction Not Classified--Electric						0
2055	Construction Work in Progress--Electric	2,222,298					2,222,298
2060	Electric Plant Acquisition Adjustment	8,909,173					8,909,173
2065	Other Electric Plant Adjustment						0
2070	Other Utility Plant						0
2075	Non-Utility Property Owned or Under C	73,886	(73,886)			Non-Utility Assets	0

Reconciliation of RRR Balances related to PP&E Balances and Distribution Expenses- Adjustments for Use in 2014 Rate Application - 2012 Actual

Account Number	Account Description	2012 Actual as reported in RRR	Adjustments	Adjustments	Adjustments	Explanation	Adjusted 2012 Actuals
2105	Accum. Amortization of Electric Utility	(209,136,186)	641,305	684,217	(3,918,064)	1/2 yr rule adj, FMV adj, non-utility assets, Stranded Meter/Smart Meter Adj	(211,728,728)
2120	Accumulated Amortization of Electric U	0					0
5705	Amortization Expense - Property, Plant,	10,763,659	(1,244,364)	(45,126)		SM disposition for 2009-2011 costs, FMV adj, add in intangibles	9,474,169
5710	Amortization of Limited Term Electric Plant						0
5715	Amortization of Intangibles and Other E	125,828			(125,828)		0
	Distribution Expenses						0
5005	Operation Supervision and Engineering	1,160,741					1,160,741
5010	Load Dispatching	825,450					825,450
5012	Station Buildings and Fixtures Expense	291,575					291,575
5014	Transformer Station Equipment - Opera	94,802					94,802
5015	Transformer Station Equipment - Operation Supplies and Expenses						0
5016	Distribution Station Equipment - Operat	91,356					91,356
5017	Distribution Station Equipment - Operation Supplies and Expenses						0
5020	Overhead Distribution Lines and Feeder	704,957					704,957
5025	Overhead Distribution Lines & Feeders - Operation Supplies and Expenses						0
5030	Overhead Subtransmission Feeders - Op	9,603					9,603
5035	Overhead Distribution Transformers- O	124,446					124,446
5040	Underground Distribution Lines and Fee	823,968					823,968
5045	Underground Distribution Lines & Feeders - Operation Supplies & Expenses						0
5050	Underground Subtransmission Feeders -	721					721
5055	Underground Distribution Transformers	105,906					105,906
5060	Street Lighting and Signal System Expense						0
5065	Meter Expense	523,818		(146,205)		SM disposition for 2009-2011 costs	377,613
5070	Customer Premises - Operation Labour	132,473					132,473
5075	Customer Premises - Materials and Exp	106					106
5085	Miscellaneous Distribution Expense	410,169					410,169
5090	Underground Distribution Lines and Fee	0					0
5095	Overhead Distribution Lines and Feeder	107,565					107,565
5096	Other Rent	295					295
5105	Maintenance Supervision and Engineeri	528,947					528,947
5110	Maintenance of Buildings and Fixtures -	1,169					1,169
5112	Maintenance of Transformer Station Equipment						0
5114	Maintenance of Distribution Station Equ	166,185					166,185
5120	Maintenance of Poles, Towers and Fixtu	81,102					81,102

Reconciliation of RRR Balances related to PP&E Balances and Distribution Expenses- Adjustments for Use in 2014 Rate Application - 2012 Actual

Account Number	Account Description	2012 Actual as reported in RRR	Adjustments	Adjustments	Adjustments	Explanation	Adjusted 2012 Actuals
5125	Maintenance of Overhead Conductors a	213,563					213,563
5130	Maintenance of Overhead Services	17,847					17,847
5135	Overhead Distribution Lines and Feeder	1,162,484					1,162,484
5145	Maintenance of Underground Conduit	4,668					4,668
5150	Maintenance of Underground Conducto	304,401					304,401
5155	Maintenance of Underground Services	142,531					142,531
5160	Maintenance of Line Transformers	202,980					202,980
5165	Maintenance of Street Lighting and Signal Systems						0
5170	Sentinel Lights - Labour	0					0
5172	Sentinel Lights - Materials and Expenses						0
5175	Maintenance of Meters	239,857					239,857
5178	Customer Installations Expenses- Leased Property						0
5185	Water Heater Rentals - Labour						0
5186	Water Heater Rentals - Materials and Expenses						0
5190	Water Heater Controls - Labour						0
5192	Water Heater Controls - Materials and Expenses						0
5195	Maintenance of Other Installations on Customer Premises						0
5205	Purchase of Transmission and System Services						0
5210	Transmission Charges						0
5215	Transmission Charges Recovered						0
5305	Supervision						0
5310	Meter Reading Expense	316,716		(45,686)		SM disposition for 2009-2011 costs	271,030
5315	Customer Billing	4,642,887		(1,791,286)		SM disposition for 2009-2011 costs	2,851,601
5320	Collecting	1,081,135					1,081,135
5325	Collecting- Cash Over and Short	(738)					(738)
5330	Collection Charges						0
5335	Bad Debt Expense	941,497					941,497
5340	Miscellaneous Customer Accounts Expe	2,119,394		(760,251)		SM disposition for 2009-2011 costs	1,359,143
5405	Supervision	0					0
5410	Community Relations - Sundry	140,687					140,687
5415	Energy Conservation	0					0
5420	Community Safety Program	15,969					15,969
5425	Miscellaneous Customer Service and Inf	35,408					35,408
5505	Supervision						0
5510	Demonstrating and Selling Expense						0
5515	Advertising Expense						0
5520	Miscellaneous Sales Expense						0
5605	Executive Salaries and Expenses	2,019,451					2,019,451
5610	Management Salaries and Expenses	0					0

Reconciliation of RRR Balances related to PP&E Balances and Distribution Expenses- Adjustments for Use in 2014 Rate Application - 2012 Actual

Account Number	Account Description	2012 Actual as reported in RRR	Adjustments	Adjustments	Adjustments	Explanation	Adjusted 2012 Actuals
5615	General Administrative Salaries and Ex	4,138,597					4,138,597
5620	Office Supplies and Expenses	505,027					505,027
5625	Administrative Expense Transferred Cr	(101,898)					(101,898)
5630	Outside Services Employed	337,845					337,845
5635	Property Insurance	176,159					176,159
5640	Injuries and Damages	211,591					211,591
5645	Employee Pensions and Benefits						0
5650	Franchise Requirements						0
5655	Regulatory Expenses	571,936					571,936
5660	General Advertising Expenses	100,217					100,217
5665	Miscellaneous General Expenses	362,586					362,586
5670	Rent	0					0
5675	Maintenance of General Plant	1,071,190					1,071,190
5680	Electrical Safety Authority Fees						0
5681	Special Purpose Charge Expense	0					0
5685	Independent Market Operator Fees and Penalties						0
5720	Amortization of Electric Plant Acquisition Adjustments						0
5725	Miscellaneous Amortization						0
5730	Amortization of Unrecovered Plant and Regulatory Study Costs						0
5735	Amortization of Deferred Development Costs						0
5740	Amortization of Deferred Charges						0
6005	Interest on Long Term Debt	3,318,709					3,318,709
6010	Amortization of Debt Discount and Expense						0
6015	Amortization of Premium on Debt Credit						0
6020	Amortization of Loss on Reacquired Debt						0
6025	Amortization of Gain on Reacquired Debt--Credit						0
6030	Interest on Debt to Associated Companies						0
6035	Other Interest Expense	3,438,984					3,438,984
6040	Allowance for Borrowed Funds Used D	(196,730)					(196,730)
6042	Allowance For Other Funds Used During Construction						0
6045	Interest Expense on Capital Lease Obligations						0
6105	Taxes Other Than Income Taxes						0
6110	Income Taxes	(55,555)					(55,555)
6115	Provision for Future Income Taxes						0
6205	Donations	262,632	(207,083)			Non-Recoverable Amount	55,549
6210	Life Insurance						0
6215	Penalties	41,809					41,809
6225	Other Deductions						0
6305	Extraordinary Income						0
6310	Extraordinary Deductions						0
6315	Income Taxes, Extraordinary Items						0

Reconciliation of RRR Balances related to PP&E Balances and Distribution Expenses- Adjustments for Use in 2014 Rate Application - 2012 Actual

Account Number	Account Description	2012 Actual as reported in RRR	Adjustments	Adjustments	Adjustments	Explanation	Adjusted 2012 Actuals
6405	Discontinues Operations - Income/ Gains						0
6410	Discontinued Operations - Deductions/ Losses						0
6415	Income Taxes, Discontinued Operations						0

Reconciliation between Financial Statements and Results Filed

As filed under Section 2.1.13 of the Board's Reporting and Record Keeping Requirements (RRR), refer to Exhibit 1, Tab 5, Schedule 3, Attachment 1 for reconciliations between Veridian's audited financial statements regulatory financial statements for the years 2010 to 2012.

Reconciliation items noted include:

a) Financial Statement reclassifications on regulatory assets and liabilities between current and long term and between net assets and liabilities.
b) Adjustments related to smart meter revenues, expenses and fixed assets – Veridian recognized smart meter related transactions for financial statement purposes within regular revenue, expense and fixed asset accounts whereas these amounts were recognized within deferral and variance account balances for regulatory purposes.
c) Financial balances related to Veridian's Investments in Renewable Generation.

Attachment 1 of 1

Detailed Reconciliation between Financial Statements and Results Filed

Veridian Connections
Balance Sheet
As at December 31, 2010

	Audited 2010	*Less: VCI Investment in Renewable Generation*	*VCI - Regulated Only*	*Reverse of Reclassifications for Financial Statement Presentation*	*Less: Smart Meter Adjustments*	*RRR Groupings*
Assets						
Current assets:						
Cash and cash equivalents						
Accounts receivable	54,997,000		54,997,000	220,008		55,217,008
Income Taxes recoverable	205,000		205,000			205,000
Regulatory assets - current portion	1,127,000		1,127,000			1,127,000
Prepaid expenses	721,000		721,000			721,000
Inventory	1,446,000		1,446,000			1,446,000
	58,496,000	**0**	**58,496,000**	**220,008**	**0**	**58,716,008**
Other Non-current assets	417,000		417,000			417,000
Property, plant and equipment	159,139,000	(151,233)	158,987,767		(5,467,136)	153,520,631
Intangible assets	4,779,000		4,779,000			4,779,000
Goodwill	8,746,000		8,746,000			8,746,000
Future income tax assets	10,860,000		10,860,000			10,860,000
Regulatory assets	8,976,000		8,976,000	(21,024,244)	4,466,656	(7,581,588)
	192,917,000	**(151,233)**	**192,765,767**	**(21,024,244)**	**(1,000,480)**	**170,741,043**
	251,413,000	**(151,233)**	**251,261,767**	**(20,804,236)**	**(1,000,480)**	**229,457,051**
Liabilities and Shareholders' Equity						
Current liabilities:						
Bank Indebtedness	1,628,000		1,628,000			1,628,000
Accounts payable and accrued liabiliti	35,437,000		35,437,000			35,437,000
Short-term loans	10,300,000		10,300,000			10,300,000
Advance payments - construction dep	91,000		91,000	(3,382)		87,618
Developer obligations	1,000,000		1,000,000			1,000,000
Due to related parties	1,465,000	(185,166)	1,279,834	223,390		1,503,224
Current portion of long-term debt	3,503,000		3,503,000			3,503,000
Regulatory liabilities current portion	8,916,000		8,916,000	(8,916,130)		(130)
	62,340,000	**(185,166)**	**62,154,834**	**(8,696,122)**		**53,458,712**
Long-term liabilities:						
Long-term debt	82,406,000		82,406,000			82,406,000
Regulatory liabilities	24,772,000		24,772,000	(12,108,114)		12,663,886
Employee future benefits	1,441,000		1,441,000			1,441,000
Customer deposits and contractor obl	5,233,000		5,233,000			5,233,000
Other	1,212,000		1,212,000			1,212,000
	115,064,000	**0**	**115,064,000**	**(12,108,114)**		**102,955,886**
Shareholders' Equity:						
Share capital	64,302,000		64,302,000			64,302,000
Contributed capital	23,000		23,000			23,000
Contributed surplus			0			0
Retained earnings	1,737,331		1,737,331		(1,067,424)	669,907
Net income	7,946,669	33,931	7,980,600		66,946	8,047,546
	74,009,000	**33,931**	**74,042,931**	**0**	**(1,000,478)**	**73,042,453**
	251,413,000	**(151,235)**	**251,261,765**	**(20,804,236)**	**(1,000,478)**	**229,457,051**

Veridian Connections
Statement of Operations
For the Twelve Months Ending December 31, 2010

	Audited 2010	*Less: VCI Investment in Renewable Generation*	*VCI - Regulated Only*	*Reverse of Reclassifications for Financial Statement Presentation*	*Less: Smart Meter Recognition*	*RRR Groupings*
Commodity and distribution revenue	256,203,399		256,203,399		(1,385,766)	254,817,633
Commodity cost	208,748,099		208,748,099			208,748,099
Gross Margin	47,455,300		47,455,300		(1,385,766)	46,069,534
Expenses:						
Operating and maintenance	6,608,011		6,608,011		(916,917)	5,691,094
Administration	14,896,000		14,896,000		(495,061)	14,400,939
Interest on long-term debt	5,389,818		5,389,818			5,389,818
Amortization	13,630,558		13,630,558			13,630,558
	40,524,387		40,524,387		(1,411,978)	39,112,409
Operating income before the undernote	**6,930,913**		**6,930,913**		**26,212**	**6,957,125**
Other income	4,258,000	33,931	4,291,931		40,734	4,332,665
Income before income taxes	11,188,913		11,222,844		66,946	11,289,790
Payments in lieu of corporation income tax	3,249,262		3,249,262			3,249,262
Income from continuing operations	7,939,651		7,973,582		66,946	8,040,528
Net income	**7,939,651**		**7,973,582**	**0**	**66,946**	**8,040,528**

Veridian Connections
Balance Sheet
As at December 31, 2011

	2011	*Less: VCI Investment in Renewable Generation*	*VCI - Regulated Only*	*Reverse of Reclassifications for Financial Statement Presentation*	*Less: Smart Meter Adjustments*	*Add: Adjustments from OEB Audit Oct 2012*	*Add: Adjustments for 1588 Power and GA*	*RRR Groupings*
Assets								
Current assets:								
Cash and cash equivalents								
Accounts receivable	24,235,830		24,235,830		200,000			24,435,830
Unbilled revenue	28,546,629		28,546,629				1,269,860	29,816,489
Inventory	1,665,219		1,665,219	100				1,665,319
Amounts receivable in lieu of corporate income taxes	466,416		466,416	368,769				835,185
Inter-company accounts	47,501	345,574	393,075	86,187				479,262
Regulatory assets - current portion	288,135		288,135					288,135
Prepaid expenses	916,396		916,396					916,396
	56,166,126	345,574	56,511,700	455,056	200,000	0	1,269,860	58,436,616
Other Non-current assets	277,707		277,707					277,707
Property, plant and equipment	170,501,742	(201,784)	170,299,958		(5,751,006)			164,548,952
Intangible assets	4,647,251		4,647,251					4,647,251
Goodwill	8,746,197		8,746,197					8,746,197
Future income tax assets	11,509,196		11,509,196					11,509,196
Regulatory assets	7,451,257		7,451,257	(3,469,713)	4,705,011	135,611	(1,280,767)	7,541,399
Assets of discontinued operations								0
	203,133,350	(201,784)	202,931,566	(3,469,713)	(1,045,995)	135,611	(1,280,767)	197,270,702
	259,299,476	143,790	259,443,266	(3,014,657)	(845,995)	135,611	(10,908)	255,707,317
Liabilities and Shareholders' Equity								
Current liabilities:								
Accounts payable and accrued liabilities	37,186,610		37,186,610	700		180,381		37,367,691
Bank Indebtedness	1,263,923		1,263,923					1,263,923
Short-term loans	5,000,000		5,000,000					5,000,000
Advance payments - construction deposits	522,357		522,357					522,357
Inter-company			0	86,187				86,187
Amounts payable in lieu of corporate income taxes	0		0	368,769				368,769
Deferred Revenue	1,200,969		1,200,969					1,200,969
Regulatory liabilities current portion	3,472,280		3,472,280	(3,472,280)				0
Developer obligations	2,031,208		2,031,208					2,031,208
Current portion of long-term debt	4,640,151		4,640,151					4,640,151
	55,317,498	0	55,317,498	(3,016,624)	0	180,381		52,481,255
Long-term liabilities:								
Long-term debt	106,986,974		106,986,974	(300)				106,986,674
Regulatory liabilities	12,745,770		12,745,770	2,567				12,748,337
Employee future benefits	1,681,442		1,681,442	(500)				1,680,942
Customer deposits	4,914,406		4,914,406	200				4,914,606
Unrealized loss/(gain) on interest rate swaps	1,629,813		1,629,813					1,629,813
Provisions			0					0
	127,958,405	0	127,958,405	1,967	0	0		127,960,372
Shareholders' Equity:								
Share capital	64,302,002		64,302,002					64,302,002
Contributed capital	22,765		22,765					22,765
Retained earnings	4,783,690	33931	4,817,621		(1,078,928)			3,738,693
Net income	6,915,116	109859	7,024,975		232,932	(44,770)	(10,908)	7,202,229
	76,023,573	143,790	76,167,363	0	(845,996)	(44,770)	(10,908)	75,265,689
	259,299,476	143,790	259,443,266	(3,014,657)	(845,996)	135,611	(10,908)	255,707,316

Veridian Connections
Statement of Operations
For the Twelve Months Ending December 31, 2011

	Actual 2011	***Less: VCI Investment in Renewable Generation***	***VCI - Regulated Only***	***Reverse of Reclassifications for Financial***	***Less: Smart Meter Recognition***	***Add: Adjustments from OEB Audit Oct***	***Add: Adjustments for 1588 Power and GA***	***RRR Groupings***
Dist Reve	47,940,529		47,940,529		(1,171,869)	(44,770)		46,723,890
Commo Reve	238,330,731		238,330,731					238,330,731
Commodity and distribution revenue	286,271,260		286,271,260		(1,171,869)	(44,770)		285,054,621
RSVA clearing COP SB ZERO	0							
Commodity and distribution revenue	286,271,260		286,271,260					286,271,260
Commodity cost	238,330,731		238,330,731					238,330,731
Distribution revenue	47,940,529		47,940,529		(1,171,869)	(44,770)		46,723,890
Expenses:								
Operating and maintenance	7,131,078		7,131,078		(49,754)			7,081,324
Administration	14,329,646	102,360	14,227,286		(692,483)		10,908	13,545,711
Interest on long-term debt	5,419,664		5,419,664					5,419,664
Amortization	14,183,927		14,183,927		(662,564)			13,521,363
	41,064,315	102,360	40,961,955		(1,404,801)	0	10,908	39,568,062
Operating income before the undernote	**6,876,214**	102,360	6,978,574		232,932	(44,770)	(10,908)	7,155,828
								0
Other income	3,706,410	7,498	3,713,908					3,713,908
Unrealized gain/loss on swap	(1,629,813)		(1,629,813)					(1,629,813)
								0
Income before income taxes	8,952,811	109,858	9,062,669		232,932	(44,770)	(10,908)	9,239,923
								0
Payments in lieu of corporation income ta	2,037,696		2,037,696					2,037,696
								0
Income from continuing operations	6,915,115	109,858	7,024,973		232,932	(44,770)	(10,908)	7,202,227
								0
								0
Net income	**6,915,115**	109,858	7,024,973		232,932	(44,770)	(10,908)	7,202,227

Veridian Connections
Balance Sheet
As at December 31, 2012

	2012	*Less: VCI Investment in Renewable*	*VCI - Regulated Only*	*Reverse of Reclassifications for Financial*	*Less: Smart Meter Adjustments*		*RRR Groupings*
Assets							
Current assets:							
Cash and cash equivalents							
Accounts receivable	29,528,426	971,346	30,499,774		(3,198,776)		27,300,998
Unbilled revenue	28,055,484		28,055,484				28,055,484
Inventory	1,703,513		1,703,513				1,703,513
Amounts receivable in lieu of corporate income taxe:	1,214,020		1,214,020				1,214,020
Inter-company accounts	2,414		2,414	72,160			74,574
Regulatory assets - current portion	813,239		813,239				813,239
Prepaid expenses	893,396		893,396				893,396
	62,210,492	971,346	63,181,840	72,160	(3,198,776)	0	60,055,224
Other Non-current assets	142,168		142,168				142,168
Property, plant and equipment	177,414,278	(821,367)	176,592,912				176,592,912
Intangible assets	5,367,958		5,367,958				5,367,958
Goodwill	8,746,197		8,746,197				8,746,197
Future income tax assets	11,150,421		11,150,421				11,150,421
Regulatory assets	10,624,901		10,624,901	(8,600,789)			2,024,112
Assets of discontinued operations							0
	213,445,923	(821,367)	212,624,557	(8,600,789)	0	0	204,023,768
	275,656,415	149,979	275,806,397	(8,528,629)	(3,198,776)	0	264,078,992
Liabilities and Shareholders' Equity							
Current liabilities:							
Accounts payable and accrued liabilities	36,705,795		36,705,795				36,705,795
Bank Indebtedness	1,398,345		1,398,345				1,398,345
Short-term loans	1,600,000		1,600,000				1,600,000
Advance payments - construction deposits	763,100		763,100				763,100
Inter-company			0	72,160			72,160
Amounts payable in lieu of corporate income taxes	0		0				0
Deferred Revenue	1,830,851		1,830,851				1,830,851
Regulatory liabilities current portion	3,305,969		3,305,969	(3,305,969)			0
Developer obligations	1,508,624		1,508,624				1,508,624
Current portion of long-term debt	5,115,219		5,115,219				5,115,219
	52,227,903	0	52,227,903	(3,233,809)	0	0	48,994,094
Long-term liabilities:							
Long-term debt	116,871,450		116,871,450				116,871,450
Regulatory liabilities	15,995,187		15,995,187	(5,294,820)			10,700,367
Employee future benefits	2,048,552		2,048,552				2,048,552
Customer deposits	5,029,147		5,029,147				5,029,147
Unrealized loss/(gain) on interest rate swaps	1,981,886		1,981,886				1,981,886
Provisions			0				0
	141,926,222	0	141,926,222	(5,294,820)	0	0	136,631,402
Shareholders' Equity:							
Share capital	64,302,002		64,302,002				64,302,002
Contributed capital	22,765		22,765				22,765
Retained earnings	7,098,806	143789	7,242,595		(830,332)		6,412,263
Net income	10,078,719	6191	10,084,910		(2,368,444)		7,716,466
	81,502,292	149,980	81,652,272	0	(3,198,776)	0	78,453,496
	275,656,417	149,980	275,806,397	(8,528,629)	(3,198,776)	0	264,078,992

Veridian Connections
Statement of Operations
For the Twelve Months Ending December 31, 2012

	Actual ***2012***	***Less: VCI Investment in Renewable Generation***	***VCI - Regulated Only***	***Reverse of Reclassificati ons for Financial***	***Less: Smart Meter Recognition***	***RRR Groupings***
Dist Reve	50,608,311		50,608,311	(6,555)	2,506,845	53,115,156
Commo Reve	245,348,801		245,348,801			245,348,801
Commodity and distribution revenue	295,957,112		295,957,112	(6,555)	2,506,845	298,463,957
RSVA clearing COP SB ZERO	0					
Commodity and distribution revenue	295,957,112		295,957,112			295,957,112
Commodity cost	245,348,801		245,348,801			245,348,801
Distribution revenue	50,608,311		50,608,311	(6,555)	2,506,845	53,115,156
Expenses:						
Operating and maintenance	8,485,708		8,485,708		146,205	8,631,913
Administration	16,234,898		16,234,898		2,597,223	18,832,121
Amortization	8,757,627		8,757,627		2,131,861	10,889,488
	33,478,233	0	33,478,233		4,875,289	38,353,522
Operating income before the undernot	**17,130,078**	0	17,130,078	(6,555)	(2,368,444)	14,761,634
						0
Other income (loss)	(858,107)	6,190	(851,917)	6,555		(851,917)
Finance Income	664,230					
Unrealized gain/loss on swap	(352,073)		(352,073)			(352,073)
Interest on long-term debt	(6,560,964)					0
Income before income taxes	10,023,164	6,190	10,029,354	0	(2,368,444)	7,660,910
						0
Income tax recovery (expense)	55,555		55,555			55,555
						0
Income from continuing operations	10,078,719	6,190	10,084,909	0	(2,368,444)	7,716,465
						0
						0
Net income	**10,078,719**	6,190	10,084,909	0	(2,368,444)	7,716,465