Potential Merger:

Veridian Corporation and Whitby Hydro Energy Corporation

Presentation to Municipal Shareholders

March 2018

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The purpose of this presentation is to provide an overview of the business case and to provide the rationale to support of the proposed merger of Veridian Corporation ("Veridian") and Whitby Hydro Energy Corporation ("Whitby Hydro") (the "Proposed Merger" or the "New Energy Services Company").

BACKGROUND

Why merge our Companies?

We wish to come together to find the efficiencies of scale that will allow us to (1) mitigate future rate increases to our customers, and (2) secure long-term dividends to our municipal shareholders.

The traditional lines and wires electricity distribution businesses are expected to continue to experience significant change. Greater scale and efficiency will be needed to drive the innovation and new investment needed for success.

Therefore, we need the ability to invest in innovative energy services our customers are demanding; otherwise, we risk being left behind while other companies step in to meet the needs of our customers and realize the opportunity created by industry change.

Merger Process

The process has been focused on engaging stakeholders to understand their perspectives on key issues and ensuring appropriate analysis and due diligence has been completed, including the following highlights:

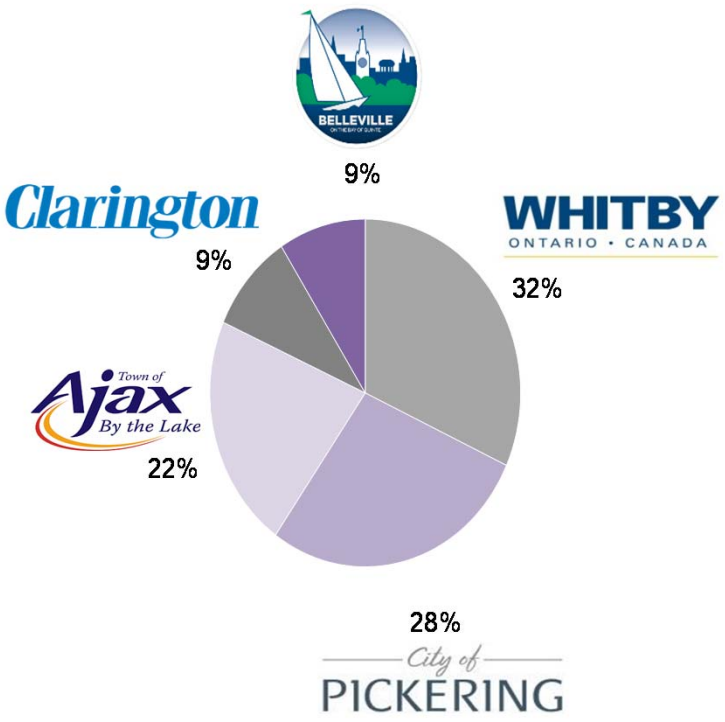
- A steering committee was struck with representatives of Veridian and Whitby Hydro to oversee the Proposed Merger (the "Steering Committee");
- A working group consisting of the leadership of both entities was struck to develop the business case and supporting workstreams, with a particular focus on strategy, operations, due diligence, financial forecasting, rate impact and synergy estimates;
- Grant Thornton LLP acted as financial advisor to the New Energy Services Company to provide project management, prepare the financial analysis (shareholder and customer benefits, rate impact, pro forma statements) of the Proposed Merger and provide a fairness opinion;
- Aird & Berlis LLP acted as legal counsel to New Energy Services Company and prepared all legal documents;
- Each entity has independent legal counsel that advised on the legal agreements and legal due diligence;
- Each entity had an independent valuation prepared to confirm the ownership positions;
- Both utilities' employees were kept up to date throughout the entire Merger process;
- Each entities' shareholder(s) engaged their own independent firm to prepare a Peer Review Report on the entire merger process to date. Each report confirmed that the Proposed Merger was beneficial for all stakeholders;
- Synergy estimates were reviewed by an independent synergy consultant to gain comfort that they were achievable and appropriate;
- Customers were engaged through an interactive website, and
- Representatives of the shareholders were engaged to understand their perspectives on key issues including governance and shareholder rights & protections and preliminary feedback was received on the legal agreements. These discussions are continuing and the Board will be updated on material changes that arise.

New Energy Services Company:

100% Municipal Ownership

The New Energy Services Company would create a stronger municipally owned and influenced energy services company that is positioned to be a strategic contributor to the long-term success of all its stakeholders and communities.

Whitby Hydro and Veridian believe their combination creates a New Energy Services Company with the right scale and capability to realize the opportunity from a changing industry landscape.



What are the Benefits of this Merger?

The Proposed Merger strengthens our **municipally owned and influenced utilities** and better positions the New Energy Services Company to realize the opportunity created in this rapidly changing industry.

- The shareholders are expected to benefit from approximately $42M of savings over the first 10 years, while the customers will benefit from additional **savings of over $6.7M every year thereafter** (ie. over $109M over the following 15 years).
- On average, customers of the New Energy Services Company will enjoy approximately 3.8% lower distribution / delivery **rates** than they otherwise would have as customers of their standalone utilities.
- **Stronger and more sustainable cash flow** to shareholders in interest and dividends.
- The ability to dedicate significant **leadership and investment focus on innovation and growth** both in the regulated utility and in new non-regulated businesses.
- A locally-owned company fully located in our communities to create **continued local employment and economic benefits**
- **Improved customer service** through leveraging best practices and capabilities of both utilities.
- A **stronger energy and infrastructure partner** for our local businesses and communities.

Why Not Sell Instead?

Under a sale option, the shareholders forgo future equity growth of the LDC and their regulated return on equity (approx. 8-9%) in exchange for funds that would be used to pay down, or avoid incurring, debt at municipal borrowing costs, therefore, continued ownership generates a much greater return on capital than other alternatives.

Additionally, the shareholders lose influence over key decisions of the utility that can impact customer power distribution rates and service.

Merits:

- Receive large sum of money and can potentially be invested in new infrastructure;
- Remove operational and industry change risk of LDC; and
- Take advantage of historically high LDC valuation (or ratebase multiples).

Concerns:

- Loss of influence over community hydro, local focus and power distribution rates;
- Loss of further growth opportunities available through a merger (ie. $42M in synergies, affiliate growth and overall LDC growth) or standalone scenario;
- Loss of corporate head office and employment;
- Political risk of what to do with a large sum of money (i.e. hard to replace the current annual cash flow stream at similar risk profile);
- Loss of access to increased resources to be used on further non-regulated opportunities; and
- Loss of participation in equity growth in utility value.

Why Not Continue with the Status Quo / Stand Alone?

Under a status quo option, the shareholders do not achieve the scale needed to be successful amongst the change being experienced in the industry and forgo the opportunity to realize efficiencies to pass along to customers and shareholders.

The Status Quo option also misses the opportunity to create a continued municipally owned utilities and energy services platform in Southeastern Ontario.

Merits:

- Continue with existing ownership and governance model; and
- Remove merger and transaction risks.

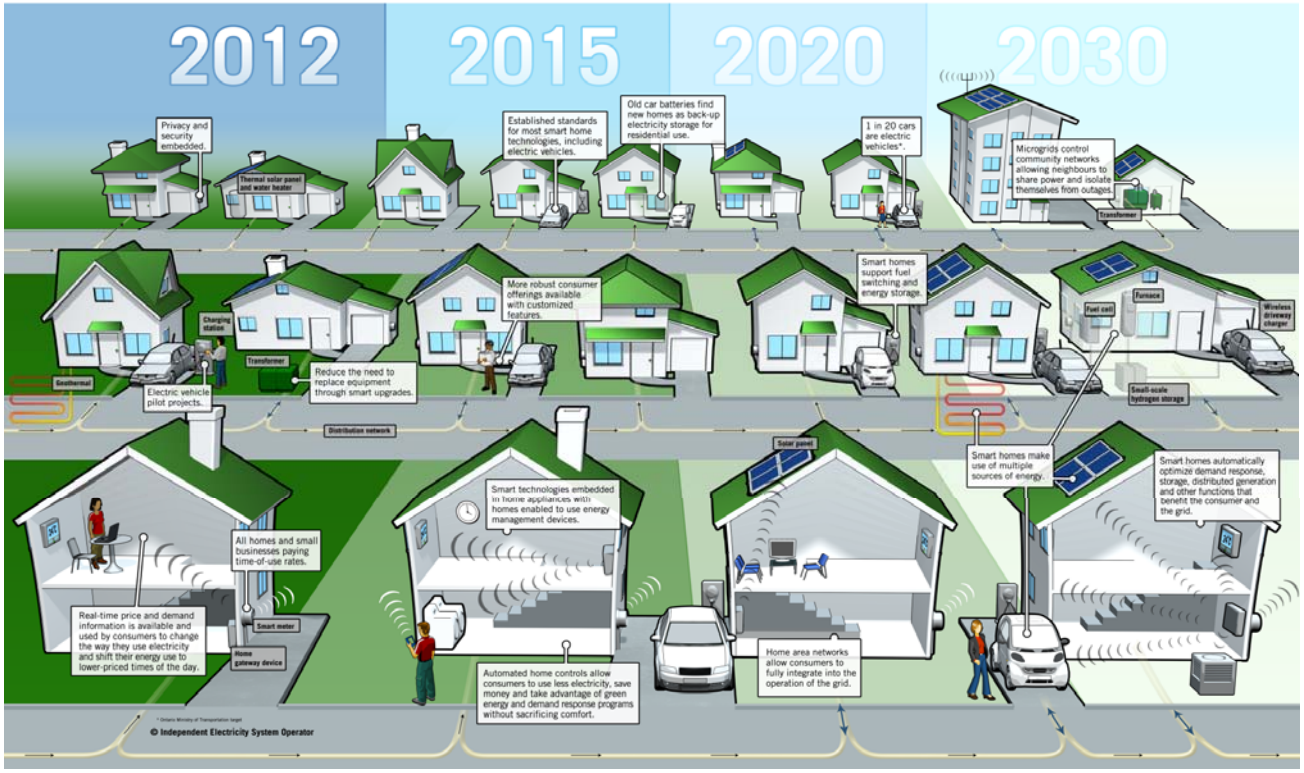
Concerns:

- Miss opportunity to realize significant efficiencies for customers and shareholders, which will help keep rates lower than they otherwise would have been;
- Loss of access to increased resources from scale and efficiencies to be used on further non-regulated opportunities arising from industry change;
- Missed opportunity to de-risk business through greater service territory diversification and scale;
- Dividend sustainability becomes a greater risk;
- Greater exposure to government actions to force industry consolidation;
- Creates opportunities for others to pursue merger partners and limit future opportunity in the region; and
- Missed opportunity to create a continued municipally owned utilities and energy services platform in Southeastern Ontario.

A Changing Industry Landscape

LDC Pressures to Enhance Scale and Scope

Ontario Smart Home Roadmap



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- The customer is always right.
- LDCs are under immense pressure to maintain safe, reliable systems while addressing consumer demand.
- Distributed energy resources (“DERs”) are creating choices consumers have never had (e.g., solar, storage, electric vehicles, smart-home automation).

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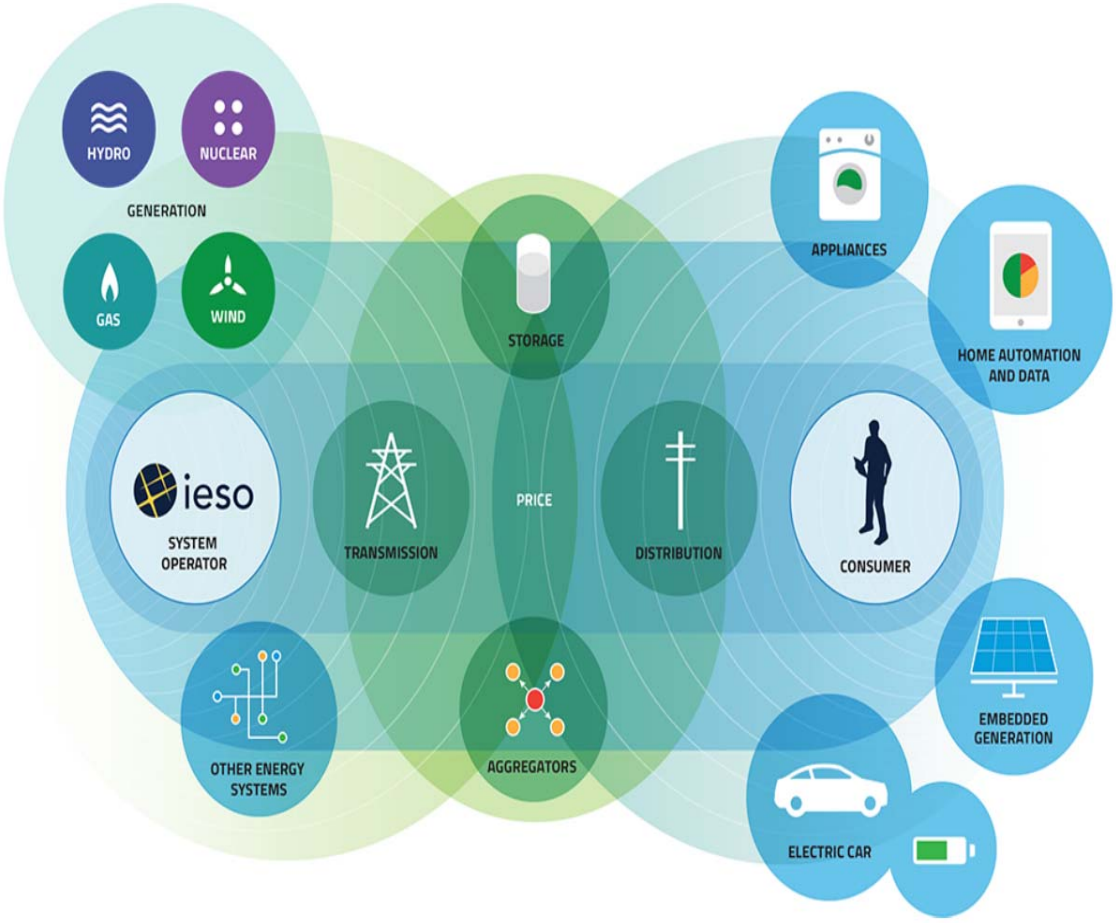
A Changing Industry Landscape

- Increasing focus on collaboration with communities, residential and business customers, and other electricity sector partners to establish new pathways to reliability and affordability.

- DERs are driving a transition toward a system more characterized by two-way flows, with generation and distribution to and within communities.

- This creates an opportunity for distribution utilities to be the common platform for customers regardless of the method they choose to meet their energy needs.



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Benefits to Customers

2019 to 2028
Rate Certainty

Over the next ten years, all customers will pay less in distribution rates than they otherwise would have.

POST 2028
Cost Savings

Every year thereafter, 100% of the almost $6.7M of annual cost savings will flow through entirely to the customers.

For the years 11 through 25, these total synergy savings are forecast to amount to over $109M for the customers.

Benefit to All Customers: As a result of sharing in the significant cost savings, all customers of New Energy Services Company are expected to benefit from lower distribution rates than what they would have to pay as customers of their respective utilities.

Avoid Possible Rate Increases from other alternatives: Under a standalone future there is less opportunity for efficiency due to smaller scale, which creates rate increase pressure. Under a sale option to third parties there is concern that there tends to be eventual rate increases once short-term commitments expire.

Potential for More Savings: The cost savings currently being modelled are considered to be achievable with a low risk of degradation of service levels and a high likelihood that that the core principles of the transaction will be maintained. In the event more savings were achieved, an Earnings Sharing Mechanism would be used and the savings would be shared with the customers of the New Energy Services Company resulting in even lower distribution rates and greater shareholder returns.

Rate Harmonization

Stand-alone Rates Would Be Higher

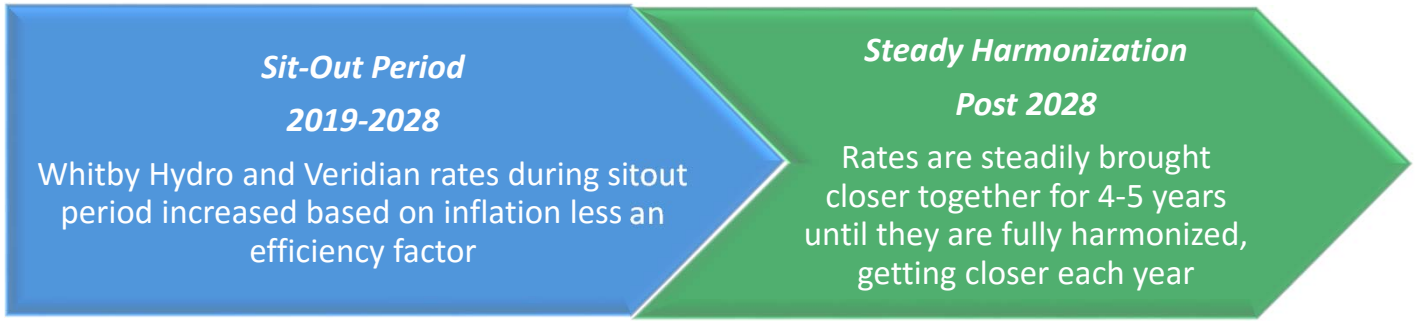
Customer rates would be higher under the Stand-Alone forecasts.

Ten Year Sit-Out Period

For the initial ten years following the merger period, each entity will continue with their existing rates subject to inflationary increases less an efficiency factor. This provides rate stability for ten years.

Gradual Phased-In Harmonization After Ten Year Sit-Out Period

It's a key customer and regulatory commitment that no customers are harmed by a merger. This means that the rates must be carefully harmonized to ensure that the customer benefits from the merger relative to their stand-alone expectations. Veridian customer power rates on a stand-alone basis are currently lower than Whitby Hydro customer power rates on a stand-alone basis, so gradual harmonization is required to ensure no customer is harmed. During the harmonization period, rates get closer each year until they are fully harmonized after 4-5 years.



Benefits to Customers and Shareholders

Savings Through Economies of Scale:

- Cost savings are expected to arise primarily through employee attrition, as well as other aspects of the businesses such as:
  - Elimination of duplicate/overlapping 3rd party administrative services such as legal, auditing, banking and consulting services;
  - Cost reductions through consolidating of key systems such as Customer Information System (CIS), Financial Reporting, Call Centre/Phone systems and IT Networks; and
  - Distribution System Operations & Maintenance savings: Achieved through review and adoption of each utility's best practices.
- In total net cost savings of $42M (after transaction and transition costs) during the first 10 years. These savings would total $109M over the next 15 years

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Total
Cost Savings	$ 0.1	$ 2.1	$ 4.7	$ 5.4	$ 5.5	$ 5.6	$ 6.1	$ 6.2	$ 6.3	$ 6.4	$ 48.6
Less: Transition costs	(4.0)	(2.6)	-	-	-	-	-	-	-	-	(6.6)
Net cost savings	(3.9)	(0.4)	4.7	5.4	5.5	5.6	6.1	6.2	6.3	6.4	42.1

Benefits to Customers

Currently, both utilities are strong service providers and excel across the different industry service metrics, but the Proposed Merger creates an opportunity to improve even further. As a result, the New Energy Services Company expects to provide the following service benefits:

- Access to greater resources when responding to major outage events.
- 24/7 control room capabilities across entire service area.
- Improvements in overall customer experience through leveraging best practices of both utilities.
- More effectively deliver conservation programs.
- Better able to connect new businesses.
- Economies of scale for local businesses that once had to work with two utilities.
- Consistent customer experience for businesses, developers and contractors who operate in the current service areas of both LDCs.
- Continued focus on public and safety standards.

Benefits to Municipal Shareholders

The merger is expected to result in all shareholders receiving increased cashflows, over the 17* year period, summarized as follows:

In millions of $CAD	Whitby	Pickering	Ajax	Clarington	Belleville	Total
Standalone Returns						
Expected dividends	$ 46.33	$ 38.09	$ 29.82	$ 12.63	$ 12.36	$ 139.24
Expected Pnote interest	20.76	15.76	12.34	5.23	5.11	59.21
Total Shareholder returns	**67.09**	**53.85**	**42.16**	**17.86**	**17.47**	**198.44**
New Energy & Services Co. Returns						
Expected dividends	62.52	54.47	42.65	18.07	17.67	195.37
Expected Pnote interest	17.92	13.03	10.20	4.32	4.23	49.70
Total Shareholder returns	**80.44**	**67.50**	**52.85**	**22.39**	**21.90**	**245.07**
Change in Shareholder Returns						
Increase/(decrease) in dividends	16.18	16.38	12.82	5.43	5.31	56.13
Increase/(decrease) in pnote interest	(2.84)	(2.73)	(2.14)	(0.91)	(0.89)	(9.51)
Total Shareholder returns	**$ 13.34**	**$ 13.64**	**$ 10.68**	**$ 4.53**	**$ 4.43**	**$ 46.62**

*17 years was used for the forecast period based on current company forecasts and expected rate filings

The above table represents a dividend payout ratio for the regulated operations of the New Energy Services Company of 52.5% of annual net income.

Benefits to Municipal Shareholders

- We also looked at the rate of return ("IRR") each shareholder is currently earning on their investment in their respective LDCs and compared this IRR to their estimated IRR as a shareholder of the New Energy Services Company.
- In addition to the increased cash returns, Veridian shareholders could see a 159 bps increase in their return while Whitby Hydro shareholders could see a 286 bps lift.
- The return includes their share of expected free cashflows as well as their share in the value of the New Energy Services Company as a whole.

Key Risks of Merging vs. Not Merging

Risk of not merging:

- Lost opportunity to realize merger efficiencies for customers and shareholders, including foregoing sunk transaction costs.
- Lack of scale and financial capacity hinders ability to develop core or new services and/or respond to industry change/increased competition in an uncertain future.
- Risk of future dividend stream.
- Risk of provincial government policy or regulatory change that forces merger, penalties for not merging or puts forecasted dividends at risk.
- Lost opportunity to create platform for growth, improved reliability and greater regional collaboration.
- Loss of first mover advantage to become lead consolidator in Southeastern Ontario.
- LDC merger candidates may pursue other suboptimal options.

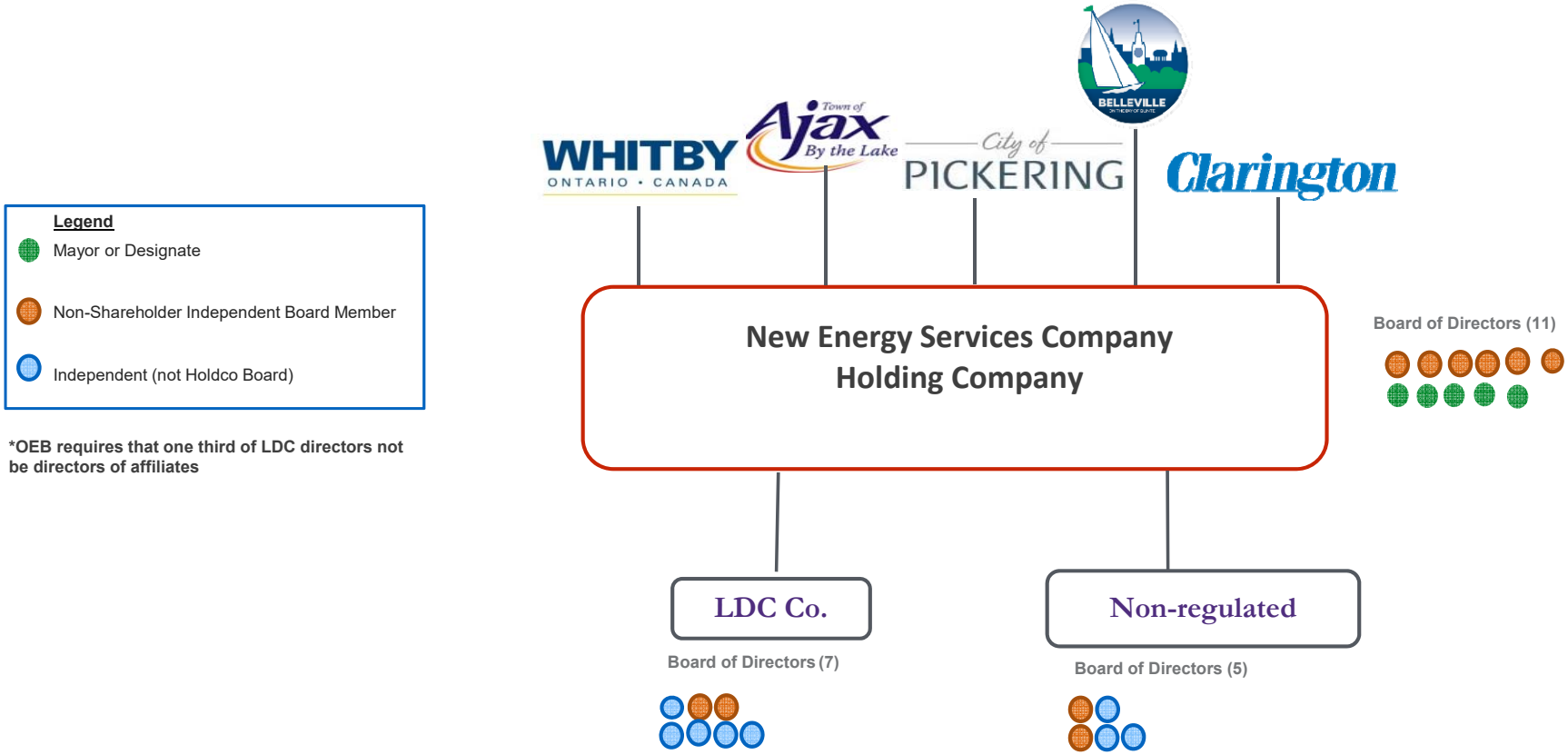
Risk of merging:

- Achieving less savings than projected for customers and shareholders due to integration challenges.
- Loss or dilution of control moving from single shareholder models to multi-shareholder models.
- Cultural alignment challenges between organizations.
- Unsatisfactory regulatory decisions or support through the merger process

Risk mitigation: Focus on strong leadership and post merger integration to realize savings and mitigate risk, supported by strong governance and shareholder agreement protections.

Governance

A collaborative process was taken to gather input from shareholders and the Boards of Directors of Whitby Hydro and Veridian, as well as consider governance best practices and regulatory requirements.



Next steps

If the Board of Directors of each entity and the Shareholders choose to approve the Proposed Merger, the following next steps will occur:

1. **The Merger Participation Agreement would be executed.**

2. **The MAAD Application would be prepared and submitted for regulatory approval.**

3. **Key governance and leadership positions would be appointed based upon the processes described in the detailed business case.**

4. **Detailed post merger integration preparation would begin.**

5. **Following MAAD approval by the OEB (expected in the second half of 2018), the amalgamation would proceed and the Shareholder Agreement would be executed.**