

GUELPH MUNICIPAL HOLDINGS INC.

2013 ANNUAL REPORT

ADVANCING INNOVATION
AND PROSPERITY



MESSAGE TO THE SHAREHOLDER

The Board of Directors is pleased to present the 2013 Annual Report for Guelph Municipal Holdings Inc. (GMHI). This marks GMHI's third Annual Report.

2013 has been a productive and exciting year as we continue to develop effective governance and management oversight of key city assets that support effective and forward-thinking city building.

GMHI has been focused on three key areas of development:

1. Major decisions made by the Board to develop a management structure that is independent of the City and to create a development corporation to provide a mechanism for the transfer of City assets.
2. Approval in principle of a District Energy Strategic Plan and the initiation of a number of projects in support of the Community Energy Initiative.
3. The growth of GMHI revealed the constraints of the existing governance and corporate structure and this has resulted a decision by the GMHI Board in early 2014 to propose a corporate and governance restructuring to the shareholder.

These key activities and those further described in this report show that GMHI is on mission to function as a key element in the City's development of enterprising approaches to city building.

Our 2013 achievements and directions have positioned us well for the exciting and opportunity-filled future for Guelph.

Respectfully,



Karen Farbridge
Chair
Guelph Municipal Holdings Inc.



GMHI OVERVIEW

Historical Overview

In 2009, a Steering Committee established by City Council to review the future direction and opportunities of the Guelph Hydro business enterprise made a recommendation to Council to modify the existing asset management approach of the City and to develop a business case study for the incorporation of a holding company for current and future-owned City assets. In 2010, Council approved the incorporation of a holding company for current and future city-owned assets, including Guelph Hydro Inc., its affiliates Guelph Hydro Electric Services and Envida Community Energy, and Guelph Junction Railway Company. Guelph Municipal Holdings Inc. was incorporated in August 2011 and the City's shares of Guelph Hydro Inc. were transferred to GMHI on December 31, 2011.

A Shareholder Declaration was made in 2011 by the City establishing GMHI's objectives, its governance requirements and the oversight of financial matters, including reporting and performance. The Declaration also defined the relationship between the City and GMHI and GMHI and the GHI group of companies.

During its first full year of operation in 2012, GMHI focused on building its governance capacity and learning the GHI businesses. A Strategic Framework for the corporation for 2013 to 2016 was developed at the end of 2012, establishing the Vision, Mission and Mandate for GMHI.

VISION, MISSION AND MANDATE

Vision

An adaptive, agile and creative corporation focused on value-added public asset management in support of municipal innovation, revenue generation and community prosperity.

Mission

To actively explore opportunities, establish stakeholder partnerships and act as a vehicle for leveraging and implementing innovative delivery models

Mandate *(as approved by Guelph City Council June 28, 2011)*

- To work with operating companies, investors and private partners as appropriate to maximize the value of current and future City-owned assets;
- Act as a catalyst for operational excellence, and;
- Advise, inform and make recommendations to the City, as Shareholder, on matters and opportunities pertaining to the operating companies reporting to GMHI.

WORKING WITH THE CITY OF GUELPH

The City of Guelph is the sole shareholder of GMHI. As an arm's length corporation, GMHI works in partnership with the City's Enterprise departments to create value and deliver on the City's objectives. While the focus to date has been on energy-related corporations supporting the Community Energy Initiative, commencing in 2014 GMHI began positioning itself to expand its business to include those enterprise areas of land development, downtown renewal and railway.



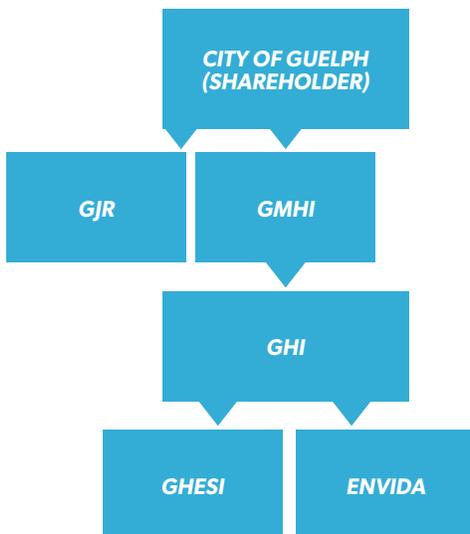
GMHI EXPANDING FROM ENERGY-FOCUSED HOLDINGS

GMHI is proposing to the City approval of a new corporate and governance structure and the addition of a development corporation. The new organization structure would amalgamate GMHI and GHI.

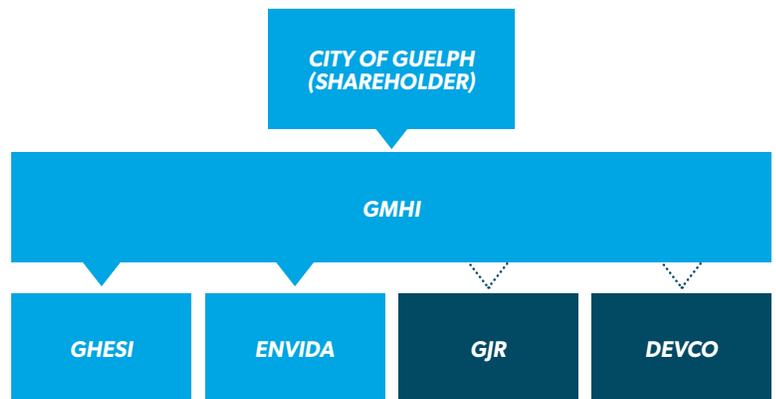


Organization Structure

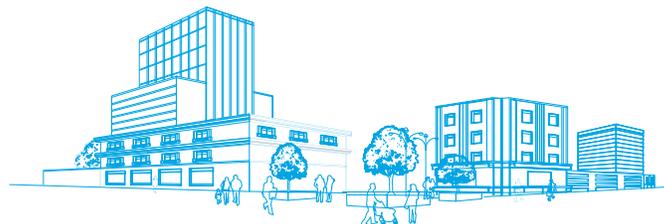
Current



Proposed



GMHI'S MANDATE TO MANAGE ASSETS WILL BE BETTER ACHIEVED THROUGH NEW CORPORATE AND GOVERNANCE STRUCTURE



2013 Results of Operations

FINANCIAL IMPACT

Given that GMHI is still in the early stages of development, 2013 was a year of continued focus on exploring new and innovative opportunities that will benefit our community.

The following summarizes GMHI's revenues and expenses for the calendar year 2013:

	2013	2012
Revenue		
Dividend income	1,500,000	3,000,000
Other	651	-
	<u>1,500,651</u>	<u>3,000,000</u>
Expenses		
Administrative and general	95,922	1,900
Consulting and legal	59,642	4,482
Insurance	30,789	23,914
Training and development	2,465	1,594
	<u>188,818</u>	<u>31,890</u>
Net comprehensive income for the year	1,311,833	2,968,110
Less: Dividends paid	<u>(1,518,110)</u>	<u>(2,950,000)</u>
Net (loss) income	<u>(206,277)</u>	<u>18,110</u>

GMHI's dividend revenues were received from its wholly-owned subsidiary Guelph Hydro Inc. ("GHI"). Unique to 2012, GMHI received the income from two dividend payments arising from a change in the timing of the declaration and payment of these funds.

The increase in expenditures year-over-year is a result of dedicated focus on GMHI's initiatives. During the year GMHI seconded a General Manager and will continue to expand staffing levels as projects proceed and resources are secured. Consulting costs supported the work of the Mergers and Acquisitions and Thermal Utility Task Forces as outlined elsewhere in this report. GMHI's expenditures came in significantly under 2013 budgeted expenses of \$388,500 due to certain projects being pushed out to 2014, as well as a reduction in consulting costs due to increased staff resources.

On February 20th, 2013 GMHI issued 777 common shares to the City of Guelph for consideration of \$777,000 to GMHI.

Guelph Hydro Inc.

SUMMARY OF RESULTS *(Annual Report attached)*

- Net loss was \$2.5 million in 2013 compared to net income of \$0.6 million in 2012;
- Capital expenditures were \$14.8 million in 2013 compared to \$11.5 million in 2012, with the increase primarily related to spending on district energy projects;
- On July 24, 2012, GHESI filed its 2013 electricity distribution rates application using the OEB's 3rd Generation Incentive Regulation Mechanism ("IRM") as the basis for its application. The OEB rendered its Decision on December 6, 2012, which approved a distribution rate increase of 1.08 per cent for all customers, effective January 1, 2013;
- On August 16, 2013, GHESI filed its 2014 electricity distribution rates application using the OEB's 4th Generation IRM as the basis for its application. The OEB rendered its Decision on December 5, 2013 which approved a distribution rate increase of 1.4 per cent for all customers, effective January 1, 2014.

YEARS ENDED DECEMBER 31 *(in thousands of dollars)*

	2013	2012	Change	Change
			\$	%
Revenues	166,411	145,308	21,103	14.52
Costs				
Purchased Power and other non-distribution cost of sales	145,253	119,872	25,381	21.17
Operations and maintenance expenses	12,396	11,398	998	8.75
Administration Expenses	11,203	11,898	(695)	(5.84)
Income before financial expense and income taxes	(12)	4,280	(4,292)	(100.28)
Income before provision for PILs	(3,149)	964	(4,113)	(426.66)
Income Tax Expense (Recovery)	(299)	(125)	(174)	139.20
Other Comprehensive Income	306	(465)	771	(165.81)
Net Income	(2,544)	624	(3,168)	(507.69)

- GHI and its subsidiaries (GHESI and Envida) prepare their financial statements in accordance with International Financial Reporting Standards ("IFRS"). GHESI is regulated by the Ontario Energy Board (OEB). Among other things, the OEB has the power and responsibility to approve or set rates for the transmission and distribution of electricity. In its capacity to approve or set rates, the OEB has the authority to specify regulatory accounting treatments that may differ from IFRS for enterprises operating in a non-rate regulated environment. The regulatory accounting treatment prescribed by the OEB for reporting distribution companies is termed Modified IFRS (MIFRS).
- Under MIFRS, the timing and recognition of certain regulatory costs and billings may differ from those otherwise expected under IFRS. IFRS records these costs and billings as expenses and revenues respectively, whereas MIFRS recognizes these items as assets and liabilities. For the year ended December 31, 2013 under MIFRS, regulatory assets, comprised mainly of commodity costs of power, increased by \$6.1 million and the Corporation's 2013 net income was \$2.83 million, which compares to 2012 MIFRS-based net income of \$2.39 million, an 18.4% increase. Under IFRS, the \$6.1 million was recognized as an expense in the Corporation's Statements of Comprehensive Income, and this expense recognition underpinned the reported net loss of \$2.544 million shown in the table above.

EVOLVING COMMUNITY IMPACT



*GMHI IS GUIDED BY THE
STRATEGIC VISION AND PRIORITIES
OF GUELPH CITY COUNCIL*

Still in the early stages of GMHI's development, 2013 focused on continuing to position the corporation to realize its full potential. Nevertheless, GMHI's operations have already resulted in increased business investment in Guelph through quality jobs and national reputation. Strategic asset management will allow for new revenue generation options and greater investment in city building. Some highlights:

- Throughout 2013, the implementation strategy for the development of a long-term thermal energy strategy was investigated with Envida Community Energy playing a leadership role. Thermal energy is a cornerstone in achieving the energy and greenhouse gas targets identified in Guelph's internationally-recognized 2007 Community Energy Initiative. The City of Guelph has benefitted directly as the first customer of the thermal energy provided by systems at Sleeman Centre. Thermal energy systems at the Hanlon Creek Business Park have played a key role in attracting investment and development to the Park.
- A growing number of companies from around the world have demonstrated interest in investing in Guelph directly as a result of the visible strategic alignment of the City of Guelph, through GMHI, and its constituents companies under GHI.



“Würth Canada is excited to be moving its head offices to Guelph’s Hanlon Creek Business Park. Reliable and economical thermal energy services, supported by this combined heat and power facility, demonstrates the City’s continuing commitment to supporting the success of local business.”

– Ernie Sweeney, President and CEO, Würth Canada

2014-2015 BUSINESS DEVELOPMENT PLAN

GMHI's current Business Development Plan is founded on three fundamental strategic directions that guide GMHI's development:

Readiness

GMHI will build its resources and skill sets to be in a strong position of readiness to deliver on initiatives.

The 2013-14 Business Development Plan set out a number of objectives based on these directions. The following is a progress report regarding the achievement against these objectives.

Capability

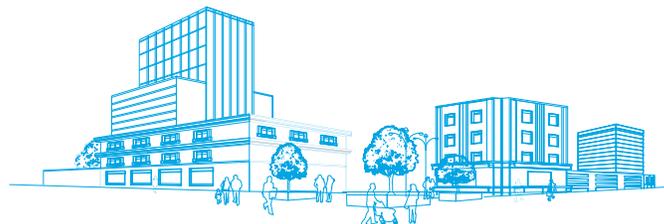
GMHI will put into place a collaborative structure that will take ideas and process them into outcomes.

A new Strategic Plan and Business Plan will be developed for the amalgamated corporation in 2015.

Identity

GMHI will differentiate itself from the City and its purpose will be clearly understood by all stakeholders and the community.

READINESS OBJECTIVES	Status	Comments
Develop and confirm the Strategic Framework and Business Plan	Partially Accomplished	With pending changes to the corporate and governance structure, a new strategic framework and business plan required for 2015
Ongoing board training and learning	Partially Accomplished	Training and knowledge development has occurred. Further analysis of skill gaps required.
Cultivate and leverage relationships with community, private sector and government partners supported by an Inter-Governmental Advocacy Strategy	Partially Accomplished	Relationships with stakeholders, including the provincial government, have been cultivated.
Continue to research into municipal best practice	Ongoing	Contacted and shared information with increasing number of Ontario cities developing Holding Companies.
Filter identified opportunities through Criteria and Process Map for initial prioritization	Early Development	Held pending creation of a Development Company
Prioritize opportunities for early success through to longer term developments	Partially complete	GJR has been identified as an opportunity that will result in early success.



CAPABILITY OBJECTIVES	Progress	Comments
Develop a process to define and scope City-owned "assets"	Partially Accomplished	Initial connection established with City-led asset management process
Create a Steering Committee to allow for governance and oversight in the development process	Not complete	Held pending creation of a Development Company
Create a Development Group that will analyze and report recommendations back to the GMHI Board	Not complete	Held pending creation of a Development Company
Hire a Business Development resource to deliver the objectives in the Strategic Plan	Not complete	Re-focused on hiring a CEO for GMHI
Identify and engage outside support services in the implementation of the 2013-2014 Work Plan	Not complete	Not required
Implement a structure and identify communication paths that enables the City and GMHI to work collaboratively	Not complete	Held pending creation of a Development Company
Continue to review Shareholder Declaration and its relationship to the business process	Complete	New Shareholder Declarations to be in place in 2014

CAPABILITY OBJECTIVES	Progress	Comments
Develop processes and procedures that would facilitate transferring an asset from the City to GMHI	Partially complete	Held pending creation of a Development Company
Continue to identify Development Company opportunities	Partially complete	Early stage activities developed pending creation of a Development Company
Continue to analyze and determine resource requirements for 2014 and beyond	Ongoing	To be incorporated in 2015 Work Plan

IDENTITY OBJECTIVES	Progress	Comments
Develop Vision, Mission, Mandate	Complete	To carry through 2015 and beyond implementation process
Develop Reporting Mechanism	Partially complete	Established protocols and procedures for reporting to City Council
Environmental Scan - Context	Ongoing	Increasing activity of other Ontario cities creating development corporations



IDENTITY OBJECTIVES	Progress	Comments
Create GMHI Branding and Communications Strategy with external assistance	Near completion	Established branding through logo, design standard, key messages and media channels
Design and refresh GMHI website content	Ongoing	Website established. Content update procedures in development

GMHI WILL HELP CREATE REVENUE AND JOBS BY EFFECTIVELY LEVERAGING CITY ASSETS WHICH ALLOWS FOR GREATER INVESTMENT IN CITY BUILDING

2013 MANAGEMENT DISCUSSION AND ANALYSIS

The following information has been prepared in conjunction with the unaudited financial statements of GMHI and the audited consolidated financial statements of Guelph Hydro Inc. for the period ended December 31, 2013.

For GMHI, 2013 was a year of ongoing board and management development accompanied by significant movement toward its mission.

Five areas of major business developments in 2013 include:

1. Corporate Amalgamation

Since its establishment, GMHI has provided oversight for Guelph Hydro Inc. (GHI) and its subsidiaries, the regulated utility Guelph Hydro Electric Systems Inc. (GHESI) and the unregulated company Envida Community Energy Inc. (Envida). The City of Guelph is GMHI's sole shareholder.

GMHI has the capacity to bring other City assets under its umbrella to maximize their value and alignment, and it is actively exploring new partnership opportunities. However, under its current governance structure, GMHI is constrained from fully achieving what it was established to do. A change in governance structure would improve GMHI's agility and responsiveness, strategically align the family of companies, and increase the value of assets.

In 2014-2015, GMHI will bring on-stream two businesses: a new real estate based development corporation (i.e. Dev Co) to direct select City assets and operations such as downtown land parcels and parking; and Guelph Junction Railway (GJR), an established railway with emerging potential.

Guelph is also incubating a Guelph Thermal Utility to deliver on its District Energy Strategic Plan as a key element in implementing the Community Energy initiative.

In reviewing its current situation, GMHI has identified that its family of companies is not optimally or strategically aligned. Its governance structure is cumbersome, with multiple holding companies and subsidiary boards with different communication protocols, systems, and approaches to risk management. This complicates business deliberations, information sharing, and the pursuit of shared strategic directions.

In keeping with best practices in corporate governance, the structure should be more streamlined to enable greater alignment, more efficient use of resources and talent, and the ability to capitalize on business opportunities and increase value.

Recommendations for an amalgamated GMHI corporate structure are expected to be presented to City Council as GMHI Shareholder in mid-2014.



2. Creation of a Development Corporation

On December 2, 2013, the GMHI Board directed staff to seek City approval for the incorporation of a development company which would be used to develop City assets within the GMHI structure. The incorporation of new company (Dev Co) to be used to develop City assets is one of the key next steps in assisting GMHI to meet its objectives. Operating in a business environment under GMHI, Dev Co will play an integral role in enabling the following:

1. Provide a corporate structure into which City-owned assets (both physical and knowledge-based) can be transferred and “incubated” to achieve the desired returns from the assets. This will build value for the community through synergistic collaboration that strengthens the individual and collective position of City-owned assets and investments.
2. Allow the City to pursue investors from the private sector and other levels of government to stimulate the development and increased value of City-owned assets.
3. Achieving enhanced operational excellence through a continuum of improved communications between the operating companies under GMHI, City Council as the Shareholder and potential investors in the private sector as well as other levels of government.

When incorporating a company such as Dev Co, the Municipal Act requires public consultation and the development of a business case study. These activities are underway in early 2014 and recommendations are expected to be put before City Council, as GMHI Shareholder in mid-2014.

3. Development of a Management Team

In 2013, GMHI continued to develop its management team. Two key developments were initiated:

Based on a recommendation from GMHI staff, in the fall of 2013 the Board approved the secondment of a City employee to serve as an interim General Manager for GMHI. A job description was developed and circulated to the corporation and affiliated organizations. An interim General Manager was established in late 2013 to ensure that operations continue to move forward in a focused direction consistent with the approved GMHI business plan and strategic directions.

Ideal qualifications and a summary of duties and expectations associated with the key position of Chief Executive Officer were also tabled by management in 2013 for Board discussion. The current GMHI CEO (currently the City’s CAO) had cited concerns regarding the potential conflict of interest arising on future matters involving the City and GMHI. This concern has initiated the current CEO replacement process. Resolution to the process is expected in mid-2014.

4. Provincial Assessment of the Local Distribution Network and GMHI Endorsement of Action

In April 2012, the Province of Ontario created the Ontario Distribution Sector Review (Panel) with a specific mandate “to provide advice and make recommendations to the Minister of Energy on issues related to Ontario’s electricity distribution sector and distribution models, including opportunities for consolidating distributors”. To that end, the Panel put forward recommendations to the Ontario Minister of Energy for reform of the utilities industry.

It is unclear what the Provincial government may do with these recommendations although the Province continues to explore whether or not to pursue some or all of the Panel’s recommendations. To address this uncertainty, GMHI is obliged to complete a thorough analysis of all options in order to be fully prepared to react swiftly to pending direction from the Province.

To that end, the Board of GMHI initiated the Task Force on Mergers and Acquisitions. The Task Force is made up of board members from GMHI and Guelph Hydro Inc. as well as officers and staff from both organizations. The Task Force’s primary objective is to consider various merger or acquisition scenarios that may be presented to GMHI from Guelph Hydro Inc. and to assess the impact on issues such as local oversight, reliability of services, asset value to the City and the ability to continue to develop the Community Energy Initiative.

5. Project Development in Support of the Community Energy Initiative

The project work initiated under GMHI in 2013 was founded on the strategic framework established by Community Energy Initiative (CEI) in 2007 and supported by the 2010 Memorandum of Intention with Guelph Hydro Inc., mandating Envida Community Energy to develop activities that support the goals of the CEI.

Envida Community Energy Inc. continues to focus on working with community partners, provincial bodies and the City of Guelph in identifying and developing projects that support the goals of the CEI in the following categories:

1. The Province of Ontario’s Feed-In-Tariff (FIT) Program offers opportunity for proponents to submit application to generate solar photo voltaic electricity for sale to the Ontario Power Authority. Envida has taken a strong lead in monitoring the evolution of the FIT program to identify over 10 opportunities for solar installation on city facilities. Six of these projects were approved in early 2014.
 2. In April of 2013, the GMHI Board endorsed, in principle, the long-term goal of developing a thermal energy utility and endorsed Envida to pursue the development of economically viable projects that would support that long-term goal. The direction is based on the presentation of the Guelph District Energy Strategic Plan which addressed the technical, financial, partnership and governance considerations necessary to achieve the long-term goals of the Community Energy Initiative.
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In 2013, two fundamental projects in support of the District Energy Strategic Plan were initiated:

- a. The Sleeman Centre District Energy Facility
- b. The Combined Heat and Power Facility at the Hanlon Creek Business Park and the thermal energy services being provided to initial customers within the Park.

(More information on these two projects can be found in Guelph Hydro Inc.'s Annual Sustainability Report for 2013 – attached to this Annual Report)

In 2013, the GMHI Board initiated the Thermal Utility Task Force to address the long-term goal of building a thermal utility. While Envida and its partners continue to pursue economically viable projects, the Task Force will explore the more detailed aspects of building a utility and report to the GMHI board.



In summary, 2013 can be characterized as a successful year of continued development and positioning the corporation to effectively leverage existing and emerging opportunities. It was also a year where tangible work in support of GMHI's mission was initiated. The dedicated contributions of Board Directors, Officers and staff will continue to work towards achieving the long-term goal of value-added public asset management in support of municipal innovation, revenue generation and community prosperity.

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