

Shareholder Annual General Meeting – AGENDA
City of Guelph – Council Chambers
June 16, 2014
6:00 p.m. to 6:30 p.m.

| # | ITEM | TIME | ACTION | LEAD | Attmt(s) |
|-----------------------------|---|-------------|--------------------|-----------|----------------|
| OPEN SESSION MEETING | | | | | |
| 1. | Agenda Approval | 6:00 | Standing | Chair | A. |
| 2. | Declaration of Pecuniary Interest or Conflict of Interest | | Standing | Chair | |
| 3. | GMHI Shareholder Meeting Minutes <ul style="list-style-type: none"> July 10, 2013 | 6:05 | Approve | Chair | B. |
| 4. | GMHI Annual Report to the City <ul style="list-style-type: none"> GHI Sustainability Report Report on Compensation for Directors for 2013 Compliance Report | 6:10 | Receive | Chair/CEO | C. D. E. |
| 5. | Audited 2013 Financial Statements <ul style="list-style-type: none"> Report from CFO GMHI Financial Statements | 6:25 | Approve Receive | CFO | F. G. |
| 6. | Recess to Closed Session <ul style="list-style-type: none"> THAT the Council of the City of Guelph meeting as Shareholder of Guelph Municipal Inc. now hold a meeting that is closed to the public, pursuant to Section 239 (2)(b) and (a) of the Municipal Act, with respect to: b) personal matters about an identifiable individual, including municipal or local board employees in regards to the appointment of auditors; and a) security of the property of the | 6:30 | | | |

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|--|--|--|--|--|--|
| | municipality or local board in regards to the governance of Guelph Municipal Holdings. | | | | |
|--|--|--|--|--|--|

Attachments:

- A. Resolutions
- B. July 10, 2013 Shareholder Meeting Minutes
- C. GHI Sustainability Report
- D. Report on Directors' Compensation
- E. Compliance Report
- F. Report from CFO
- G. 2013 Audited Financial Statements

Report to Shareholder (Open)

Date of Meeting: June 16, 2014

RE: Resolutions

Action Required:

GMHI Shareholder Minutes

RESOLVED that:

The Minutes of the GMHI Annual General Meeting (opens session) of the Shareholder held July 10, 2013 be approved.

Report on Compensation

RESOLVED that:

The Compensation Report from the Board of Directors of GMHI regarding the activities of GMHI in 2013 be received.

Compliance Report

RESOLVED that:

The Compliance Report from the Board of Directors of GMHI dated May 29, 2014 regarding the activities of GMHI in 2013 be received.

2013 Financial Statements

RESOLVED that:

In lieu of an audit of the consolidated 2013 financial statements of GMHI as

required by IFRS 10, the 2013 unconsolidated audited financial statements shall be presented to the Shareholder with an accompanying special report on the audit of the GMHI financial statements by Deloitte.

RESOLVED that:

The 2013 audited, unconsolidated GMHI Financial Statements and auditor's report are received.

Report to Shareholder (Open)

Date of Meeting: June 16, 2014

RE: GMHI Annual General Meeting (Open Session) Meeting Minutes

Action Required:

RESOLVED THAT:

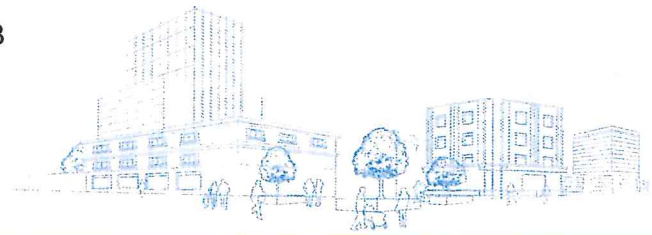
The Minutes of the GMHI Annual General Meeting (Open Session) of the Shareholder held July 10, 2013 be approved.

REPORT:

The official Minutes of the GMHI Annual General Meeting of Shareholder are regularly approved the following year at the time of the next annual general meeting.

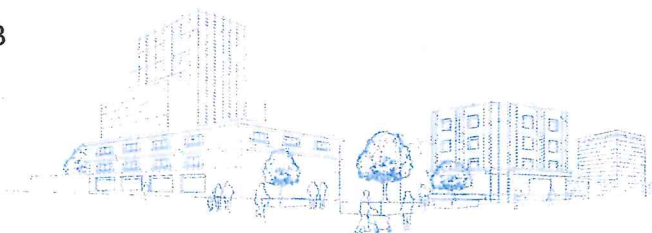
Report Prepared By:

Donna Jaques, Corporate Secretary, GMHI

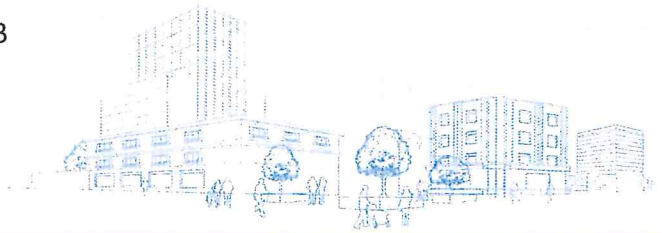


**Annual General Meeting of the Shareholder
 Minutes of Meeting – Wednesday, July 10, 2013 at 5:15 P.M.
 Guelph City Hall, Meeting Room C**

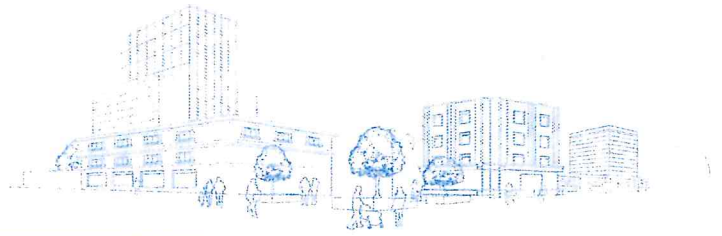
| PRESENT | | | |
|--|---|---|--|
| SHAREHOLDERS | K. Farbridge (Chair) J. Furfaro L. Piper (Director) J. Hofland (Director) | B. Bell L. Burcher (Director) K. Wettstein (Director) T. Dennis (Director) | C. Guthrie I. Findlay M. Laidlaw |
| BOARD | J. Urisk M. Goldberg T. Sehl | | |
| STAFF | A. Pappert T. Baker | D. Jaques P. Cartwright | A. Horsman S. Holder |
| GUESTS | R. Collins | | |
| ABSENT | | | |
| ITEM | COMMENTS | | RESPONSIBILITY & FOLLOW-UP |
| 1. Welcome and Agenda Approval | Motion to approve the agenda. The GMHI Annual General Meeting of the Shareholder agenda is approved. Moved, Seconded and Carried. | | |
| 2. Declaration of Pecuniary Interest or Conflict of Interest | None declared. | | |
| 3. Motion to Move into Closed Session | Motion to move into closed session. Moved, Seconded and Carried. | | |
| Resumption of Open Session | The meeting resumed at 6:00 p.m. | | |



| | | |
|--|---|---|
| <p>4.a) Annual General Meeting of the Shareholder Minutes (June 25, 2012)</p> | <p>Motion to approve.</p> <p>The Minutes of the GMHI Annual General Meeting (Open Session) of the Shareholder held June 25, 2012 are approved.</p> <p>Moved, Seconded and Carried.</p> | |
| <p>4.b) 2012 Chair's Report</p> | <p>The Chair presented the GMHI Chair's Report for 2012.</p> <p>Motion to receive.</p> <p>The 2012 Chair's Report is received.</p> <p>Moved, Seconded and Carried.</p> | |
| <p>4.c) 2012 Annual Report including Major Business Developments - GMHI</p> | <p>The CEO provided a verbal report.</p> <p>Motion to receive.</p> <p>The 2012 Annual Report including 2013 Major Business Developments – GMHI is received.</p> <p>AND THAT:</p> <p>The Guelph Hydro Inc. publication entitled "Partnership with the City of Guelph to create a sustainable energy future" be received.</p> <p>Moved, Seconded and Carried.</p> | |
| <p>4.d) 2012 Financial Statements GMHI (unaudited) and 2012 Financial Statements GHI</p> | <p>The Treasurer provided a verbal report of the Financial Statements. The Corporate Secretary confirmed that three quotes had been sought for GMHI Insurance.</p> <p>Motion to receive.</p> | <p>ACTION</p> <p>Guelph Hydro to provide the Shareholder with 2011 to 2012 energy conservation/consumption comparison and peak demand information.</p> |



| | | |
|--|--|--|
| | <p>The 2012 GMHI Financial Statements (unaudited) are received</p> <p>AND THAT:</p> <p>The 2012 Guelph Hydro Inc. Statements are received.</p> <p>Moved, Seconded and Carried.</p> | |
| <p>4.e) 2012 Compliance Report</p> | <p>The CEO delivered the Compliance Report. The risk of lack of compliance was discussed and confirmed as low.</p> <p>Motion to receive.</p> <p>The Compliance Report from the Board of Directors of GMHI dated June 20, 2013 regarding the activities of GMHI in 2012 be received.</p> <p>Moved, Seconded and Carried.</p> | |
| <p>4.f) Report from Closed Session</p> | <p>Motion to receive.</p> <p>The Report from Closed session is approved</p> <p>AND THAT:</p> <p>Deloitte & Touche are appointed as auditors for Guelph Municipal Holdings Inc.</p> <p>AND THAT:</p> <p>KPMG are appointed as auditors for Guelph Hydro Inc. and its subsidiaries for its 2013 fiscal year</p> <p>AND THAT:</p> | |



| | | |
|-------------------|--|--|
| | <p>The recommendation of the GMHI Board of Directors regarding the reappointment of Jasmine Urisk as a Director of Guelph Hydro Inc. for a term of one year is approved.</p> <p>Moved, Seconded and Carried.</p> | |
| <p>5. Adjourn</p> | <p>Motion to Adjourn.</p> <p>That the GMHI Annual General Meeting of the Shareholder be adjourned.</p> <p>Moved, Seconded and Carried.</p> <p>Annual General Meeting adjourned at 6:36 p.m.</p> | |



AN ENERGY COMPANY POWERING SUSTAINABLE COMMUNITIES



2013 SUSTAINABILITY REPORT

SAFETY RELIABILITY EFFICIENCY INNOVATION LEADERSHIP
CARING RELATIONSHIPS ENVIRONMENTAL STEWARDSHIP

CORPORATE PROFILE



GUELPH MUNICIPAL HOLDINGS INC.



www.guelphhydroinc.com

Guelph Hydro Inc.* is a holding company, 100 per cent owned by Guelph Municipal Holdings Inc. which is, in turn, 100 per cent owned by the City of Guelph. Guelph Hydro Inc. wholly owns two subsidiary operating companies: Guelph Hydro Electric Systems Inc. and Envida Community Energy Inc. In addition to distributing electricity through its regulated utility, Guelph Hydro Inc. and its subsidiaries are developing, own and/or operate high-efficiency, low carbon, sustainable energy projects (solar, biogas, combined heat and power/cogeneration and district energy) that will help achieve the energy and greenhouse gas emission reduction targets set out in the *Guelph Community Energy Initiative* while facilitating economic development in the community.



www.guelphhydro.com

Guelph Hydro Electric Systems Inc. is a regulated electricity distribution company that delivers electricity safely and reliably to more than 52,000 homes and businesses in the City of Guelph and Village of Rockwood, Ontario, Canada, and promotes energy conservation to customers.

Guelph Hydro Electric Systems Inc. is regulated by the Ontario Energy Board, a Crown corporation that regulates the province's electricity and natural gas sectors in the public interest.



www.envida.ca

Envida Community Energy Inc. is a non-regulated, diversified infrastructure company that owns and operates assets within three business segments—electricity generation, thermal distribution systems and energy management.

Envida Community Energy Inc assets include a 100-kilowatt rooftop solar facility and the 1.8-megawatt Eastview Landfill Biogas Plant.

STAY CONNECTED WITH US @GuelphHydro and @EnvidaEnergy

Guelph Hydro Inc., Guelph Hydro Electric Systems Inc. and Envida Community Energy Inc.

*Throughout this report, the use of the name Guelph Hydro refers to the holding company, Guelph Hydro Inc., which incorporates two subsidiary companies: a regulated utility, Guelph Hydro Electric Systems Inc., and a non-regulated company, Envida Community Energy Inc. The name Guelph Hydro Electric Systems Inc. is written out in full when referring specifically to the regulated electricity distribution utility.

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ABOUT POLLINATORS
There are more than 1,000 species of bees in Canada that serve as pollinators.

COVER - PLANTING GARDENS TO ATTRACT POLLINATORS

Pollinators are the insects and birds that pollinate more than 90 per cent of all flowering plants. They primarily include native bees, flies, butterflies, moths, birds and bats, and their daily work is essential for the successful production of fruits and vegetables. Unfortunately, native pollinator populations are declining drastically due to loss of habitat and food sources, disease and pesticide use.



ABOUT POLLINATORS
Flies, bees, wasps, butterflies and moths are all pollinating insects.

In 2013, in an effort to help protect the indigenous pollinator population, Guelph Hydro worked with Pollination Guelph to plant a pollinator-friendly garden on company grounds and, today has plans for other similar gardens in the community.

We have used images of pollinators and the plants they pollinate throughout this report. For more information about pollinators and pollinator gardens, please contact Pollination Guelph at www.pollinationguelph.ca



STRONG FINANCIAL PERFORMANCE

| GUELPH HYDRO INC. FINANCIAL HIGHLIGHTS (IN MILLIONS OF DOLLARS) | 2010 | 2011 | 2012 | 2013 |
|---|---------|---------|---------|---------|
| Service Revenues | \$146.5 | \$153.2 | \$144.4 | \$166.6 |
| Net Operating Revenue | \$29.1 | \$28.1 | \$27.6 | \$23.6 |
| Total Assets | \$181.4 | \$193.5 | \$188.1 | \$190.5 |
| Capital Expenditures | \$18.2 | \$26.5 | \$11.6 | \$14.9 |
| Dividends Paid | \$1.5 | \$1.5 | \$3.0* | \$1.5 |
| Total Debt | \$117.4 | \$66.0 | \$65.2 | \$64.6 |
| Total Equity | \$68.8 | \$78.3 | \$75.9 | \$71.8 |

*In 2012, Guelph Hydro Inc. provided our shareholder, Guelph Municipal Holdings Inc., with a dividend of \$1.5 million for fiscal year 2011 plus a dividend of \$1.5 million for fiscal year 2012.

BENEFITS OF OUR STRONG FINANCIAL PERFORMANCE

Maintaining a strong balance sheet and credit profile enables us to:

- > Support significant capital investment programs to ensure safety and reliability of the electricity distribution network
- > Modernize and expand the electricity distribution network to support community growth
- > Invest in sustainable energy projects that improve the environment and support the *Guelph Community Energy Initiative*

Guelph Hydro Inc. 2013 Financial Statements are available at: www.guelphhydroinc.com

To request a hard copy, email: sustainability@guelphhydro.com

A LEADER IN ENERGY CONSERVATION

| | 2011-2014 PROVINCIAL ENERGY CONSERVATION TARGET | 2011-2014 GUELPH HYDRO ELECTRIC SYSTEMS INC. TARGET | 2013 ENERGY CONSERVATION SAVINGS** | % OF TARGET | PROVINCIAL RANKING (# OF 76) |
|--------------------------|---|---|------------------------------------|-------------|------------------------------|
| Reduction in Peak Demand | 1,330 megawatts | 16.71 megawatts* | 12 megawatts | 72% | #4 |
| Reduction in Consumption | 6,000 gigawatt hours | 79.53 gigawatt hours | 92.33 gigawatt hours | 116% | #4 |

*2014 net annual peak demand savings. Equivalent to removing one of Guelph Hydro Electric System Inc.'s largest customers from the grid. **Unverified.

MESSAGE TO OUR STAKEHOLDERS

At Guelph Hydro, we pride ourselves on being a trusted community partner: one that not only provides a vital service, but also makes a fundamental contribution to the economic prosperity and well-being of the Village of Rockwood and the City of Guelph, one of the fastest growing and most liveable municipalities in Ontario.

Last year resulted in some exceptional achievements in customer satisfaction, safety, reliability and energy conservation. Clearly, we are continuing to build long-term, sustainable value for customers, our shareholder and the community by supplying safe, reliable and affordable electricity, providing a stable dividend and investing in innovative local energy projects designed to improve the environment.

OPERATING ONE OF THE MORE RESILIENT GRIDS IN ONTARIO

In the Ontario utility industry, 2013 will be remembered as the year when the resiliency of our electricity distribution networks was put to the test by high winds, lightning, flooding and an ice storm that hit just prior to the year-end holiday season. Although Guelph Hydro customers experienced some weather-related power outages, the interruptions were not nearly as protracted as those experienced in other areas. In fact, after restoring power to customers in Guelph and Rockwood following the December ice storm, we were able to send crews to two neighbouring municipalities to assist them with their restoration efforts.

It was no accident that we weathered the storms of 2013 so well. Unquestionably, our engineering design standards, our grid modernization programs including smart grid technologies and even our three-year tree-trimming cycle have paid off in a robust system that is able to withstand weather extremes. Coupled with this is the dedication and

willingness of our people to respond swiftly to get the lights back on when a crisis hits. Thanks to their tireless efforts, 99.9 per cent of our customers had their power restored within 48 hours of the December ice storm.



Jasmine Urisk, Chair, Guelph Hydro Inc. Board of Directors & Barry Chuddy, Chief Executive Officer, Guelph Hydro Inc.

INSPIRED ENERGY INFRASTRUCTURE PLANNING

Global climate change has been identified by the scientific community as a social, environmental and economic risk facing our communities. The challenge for utilities is twofold—how to ensure the resiliency of our electricity distribution networks in the face of changing weather patterns and how to help our customers and community reduce energy use and greenhouse gas emissions.

Climate change experts predict that severe weather events will become even more frequent in years to come. We keep this thought in mind not only in designing and maintaining our modern electricity distribution network, but also in developing local sustainable energy projects—solar, district energy,

combined heat and power and biogas—that will increase the resiliency and security of the power supply in our service territory.

Envida Community Energy Inc., our non-regulated subsidiary, is working with the City of Guelph to identify sustainable energy projects that will help Guelph achieve the significant reductions in energy usage and greenhouse gas emissions outlined in the **Guelph Community Energy Initiative**. Achieving these goals will put Guelph among the top energy performers in the world and make it one of the most competitive and attractive communities in which to invest and live.

We are firmly focused on creating a sustainable energy future for the Guelph community. For this reason we take a regional perspective, apply a long-term view and consider novel approaches and fresh ideas in our strategic planning. This was evidenced by two important achievements in 2013.

First, Envida Community Energy Inc. collaborated with the City of Guelph to develop a **District Energy Strategic Plan**. By formally setting out a clear vision for a cleaner, more sustainable energy future underpinned by a city-wide district energy network, Guelph is, once again, way ahead of other municipalities and setting an example for inspired energy infrastructure planning.

Secondly, 2013 marked the beginning of commercial operation of Guelph Hydro's thermal energy facility located in the Sleeman Centre. This new high-efficiency heating and cooling plant will function as a key component of the Galt District Energy System that will serve Guelph's downtown core. Details about this district energy project as well as the company's plans for combined heat and power projects in the community are outlined in the Environmental Stewardship section of this report. (See pg. 26)

TOP RANKING IN CUSTOMER SATISFACTION AND SAFETY

Our employees work very hard at ensuring we are meeting the needs of our customers so, in mid-2013, we were absolutely delighted to learn that our customers had ranked Guelph Hydro number one in customer satisfaction among 14 Ontario electric utilities that took part in the **Annual Electric Utility Customer Satisfaction Survey** conducted by UtilityPULSE, a division of Simul Corporation. (See pg. 36)

“OUR SAFETY RECORD IS OUTSTANDING: GUELPH HYDRO IS ONE OF ONLY TWO ELECTRICITY DISTRIBUTION UTILITIES IN ONTARIO TO HAVE ACHIEVED THE TOP LEVEL IN THE ZEROQUEST SAFETY AWARD PROGRAM.”

KAZI MAROUF, CHIEF OPERATING OFFICER,
GUELPH HYDRO ELECTRIC SYSTEMS INC.

Safety is always our number one priority so we were also pleased to be recognized in 2013 for our ongoing commitment to safety with the Infrastructure Health and Safety Association's top-level **ZeroQuest® Sustainability Award**. Only one other utility in Ontario has achieved this distinction in safety.*

LEADING IN ENERGY CONSERVATION IN ONTARIO

Ranking fourth in the province among 76 utilities, Guelph Hydro is also ahead in achieving the energy conservation and peak electricity demand reduction targets that are set as a condition of licence for all Ontario utilities by the Ontario Energy Board. Our efforts to help create an energy conservation culture are clearly having an impact, winning us kudos from residents, businesses, the City, the Chamber of Commerce and local environmental organizations.

*As at 2013.

ENGAGING WITH CUSTOMERS TO DETERMINE THEIR NEEDS

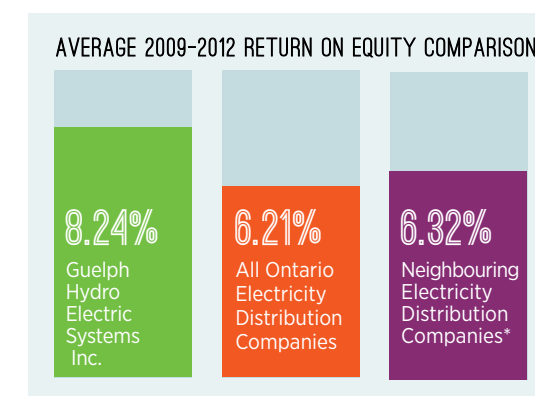
Society, the environment, technology and our customers' needs are all changing rapidly. To gain insight into the issues that are material to our stakeholders, in 2014 we will be engaging various groups in face-to-face discussions and conducting on-line and telephone surveys.

We will be using the feedback we receive to design our capital investment and business plans for 2015 and beyond. This approach will put our stakeholders at the heart of our decision-making processes; thus, ensuring that our plans directly support their needs.

CREATING DIRECT ECONOMIC VALUE

Guelph Hydro is committed to sound financial planning and budgeting that balances quality electricity distribution services with affordability for ratepayers while fostering innovation and making investments in energy infrastructure that will benefit the community in the long term.

We are proud of our strong balance sheet, investment-grade credit rating and stable dividend history. With a dividend payment of \$1.5 million made in 2013, this brings the total amount of dividends paid to our shareholder over the past four years to \$7.5 million, an average return on



*Neighbouring electric utilities include: Cambridge and North Dumfries Hydro Inc., Centre Wellington Hydro Ltd., Halton Hills Hydro Inc., Kitchener-Wilmot Hydro Inc., Milton Hydro Distribution Inc., Wellington North Power Inc. and Woodstock Hydro Services Inc.

equity of 8.24 per cent between 2009 and 2012, which was more than two per cent higher than our peer group average of 6.21 per cent.

It is important to note that dividends are only a small portion of the value Guelph Hydro contributes to the economy. In 2013, the communities served by Guelph Hydro, as well as the Province of Ontario, derived more than \$58.9 million in economic benefits from the company's operations. Added to this are the many environmental and social benefits described throughout this report.

| \$58.9 MILLION IN DIRECT ECONOMIC VALUE* | |
|---|----------------|
| Operating Expenses Property taxes, water costs, facility costs, professional fees, local purchasing, employee compensation and benefits, etc. | \$23.6 million |
| Dividends Dividends paid to our shareholder, Guelph Municipal Holdings Inc. | \$1.5 million |
| Capital Expenditures Investments in electricity distribution and thermal energy infrastructure to serve the needs of the growing community | \$14.9 million |
| Payments To Capital Providers and Government Interest and payments in lieu of taxes | \$2.8 million |
| Energy Incentives and Rebates Includes the Ontario Clean Energy Benefit, rebates for customers who generate renewable electricity, and electricity conservation and demand management incentives paid to local residents and businesses | \$16.0 million |
| Corporate Giving Employer and employee contributions to the United Way and other not-for-profit and community organizations | \$0.1 million |

*In order to measure our financial impact, Guelph Hydro uses the key Global Reporting Initiative metric of direct economic value. This metric calculates the value generated and distributed including: revenues, operating costs, employee compensation, donations, other community investments, retained earnings and payments to capital providers and government.

We are proud of the many accomplishments of our people in 2013. Their ability to put our customers first—during normal operations or the worst weather-related event—is the key to our success and we thank them for their efforts.

As we look forward, our commitment to operational excellence, social responsibility and environmental

stewardship will ensure our business continues to thrive and provide value to our customers, our communities and our shareholder.

We have a terrific team here at Guelph Hydro and know we can count on them as we build our business as a leader in powering sustainable communities.



Jasmine Urisk
Chair, Guelph Hydro Inc. Board of Directors



Barry Chuddy
Chief Executive Officer, Guelph Hydro Inc.

“GUELPH HYDRO IS A VITAL PARTNER IN THE IMPLEMENTATION OF GUELPH'S COMMUNITY ENERGY INITIATIVE WHICH IS HAVING A SIGNIFICANT IMPACT ON OUR LOCAL ECONOMY BY ENSURING A RESILIENT AND SUSTAINABLE ENERGY SUPPLY THAT KEEPS ENERGY DOLLARS LOCAL, ATTRACTS INVESTMENT AND CREATES JOBS.”

GUELPH MAYOR KAREN FARBRIDGE



GUELPH'S ENERGY FOOTPRINT GETTING SMALLER



The **2012 Energy Usage and Greenhouse Gas Emissions Summary Report** produced by Guelph Hydro indicates that the City of Guelph's per capita energy use and greenhouse gas emissions have fallen significantly since the introduction of the **Guelph Community Energy Initiative**.

The data collected and summarized in this report focuses on the five most common sources of greenhouse gases that contribute to climate change: natural gas, gasoline, diesel fuel, electricity and municipal waste.

OUR VISION, MISSION & GOALS

OUR VISION

An energy company powering sustainable communities.

OUR MISSION

Provide superior customer service while investing in energy-related initiatives that benefit the communities in which we operate and align with the energy-related objectives of the Province of Ontario, the City of Guelph, and our shareholder, Guelph Municipal Holdings Inc.; thus enabling the Guelph Hydro group of companies to grow and enhance our position as an industry leader.

OUR GOALS

- > “Keeping the lights on” in the communities we serve
- > Benefiting our communities through the achievement of the energy and environmental goals set out in the *Guelph Community Energy Initiative*
- > Implementing a sustainable growth strategy in appropriate platforms
- > Earning a fair and reasonable return for our shareholder, Guelph Municipal Holdings Inc.

OUR MANAGEMENT TEAM



BARRY CHUDDY*
Chief Executive Officer
Guelph Hydro Inc.



KAZI MAROUF***
Chief Operating Officer
Guelph Hydro Electric Systems Inc.



PANKAJ SARDANA*
Chief Financial Officer
Guelph Hydro Inc.



SEYMOUR TRACHIMOVSKY*
Corporate Secretary
Guelph Hydro Inc.



RON COLLINS****
Vice-President, Business Development & Partnerships
Guelph Hydro Inc.



NICOLE MAILLOUX**
Vice-President, Human Resources
Guelph Hydro Electric Systems Inc.



DAN AMYOT
Director, Information Systems
Guelph Hydro Electric Systems Inc.



CRISTINA BIRCEANU
Director, Regulatory Affairs
Guelph Hydro Electric Systems Inc.



SANDY MANNERS
Director, Corporate Communications
Guelph Hydro Inc.



ERIK VENEMAN
Director, Operations
Guelph Hydro Electric Systems Inc.



MATT WENINGER
Director, Metering & Conservation
Guelph Hydro Electric Systems Inc.



MICHAEL WITTEMUND
Director, Engineering
Guelph Hydro Electric Systems Inc.

*Corporate Officer of Guelph Hydro Inc., Guelph Hydro Electric Systems Inc., and Envida Community Energy Inc. **Corporate Officer of Guelph Hydro Inc. and Guelph Hydro Electric Systems Inc. ***Corporate Officer of Guelph Hydro Electric Systems Inc. and Envida Community Energy Inc. ****Corporate Officer of Guelph Hydro Inc. and Envida Community Energy Inc.

Note: Biographies of Management Team are available at: www.guelphhydroinc.com, www.guelphhydro.com, www.envida.ca

RELATIONSHIP WITH THE CITY OF GUELPH

POSITIVE ENVIRONMENTAL AND ECONOMIC OUTCOMES



Guelph Hydro and the City of Guelph enjoy a strong relationship that is resulting in measurable, positive environmental impacts while attracting jobs and investment to the community.



GOALS OF GUELPH'S COMMUNITY ENERGY INITIATIVE BY 2031

50% LESS ENERGY

PER CAPITA — ELECTRICITY, GAS, WATER & TRANSPORTATION

60% LESS EMISSIONS

PER CAPITA — 6 TONNES VS 12 TONNES OF GREENHOUSE GAS

ALTERNATIVE ENERGY

SOLAR DISTRICT ENERGY COMBINED HEAT & POWER

As a key member of the Mayor's Task Force on Energy, Guelph Hydro is working with the City and other community partners to achieve the energy and environmental goals set out in the *Guelph Community Energy Initiative* while simultaneously supporting the economic development objectives of the City.

At its core is the critical role we play supporting the visionary and internationally renowned *Guelph Community Energy Initiative*: a Municipal Energy Plan that sets out ambitious goals for energy and greenhouse gas reductions to be achieved by 2031.

Guelph Hydro Inc. is actively engaged with the City's Economic Development Department in order to leverage the company's activities identifying community energy projects to attract and anchor companies, jobs and investment in the City of Guelph.

Key community energy projects operational or under development include:

- > Galt District Energy System in downtown Guelph
- > Hanlon Creek Business Park Combined Heat and Power Facility feeding a district energy thermal grid
- > Combined heat and power (CHP) unit in a recreational facility
- > Eastview Landfill Gas Facility
- > Solar rooftop facilities

CITY-WIDE DISTRICT ENERGY

THE FOUNDATION FOR A CLEANER, HEALTHIER AND PROSPEROUS COMMUNITY

Currently, the energy required to heat and cool homes and buildings accounts for about half of Guelph's total energy use and is a major contributor to greenhouse gas emissions. In order to achieve the targets set out in the *Guelph Community Energy Initiative*, the efficiency of the heating and cooling of homes and buildings must be greatly improved.

Central to our vision for our community is the creation of a highly-efficient, city-wide, thermal energy grid as detailed in *Guelph's District Energy Strategic Plan*. (See pg. 27)

This landmark document outlines how this community-wide thermal grid could grow from a modest beginning with district energy networks in two "high-priority" areas—downtown and the Hanlon Creek Business Park—and evolve over the years with the addition of other "medium-priority" areas to form an interconnected grid capable of providing large portions of the City with economical heating and domestic hot water. The result would be a significant drop in energy use and greenhouse gas emissions.

GUELPH'S FIRST DISTRICT ENERGY FACILITY

The first segment of a district energy network for Guelph's downtown core—a thermal energy facility located in the Sleeman Centre—went into commercial operation in December 2013, signaling the beginning of an exciting new energy future for Guelph. (See pg. 27)

We believe our strategy to invest in a sustainable energy infrastructure to benefit the community, enhanced by strategic partnerships, will prove to be a competitive advantage that will create long-term value for our communities.

FUEL FLEXIBILITY OF COMMUNITY ENERGY PROJECTS

District energy and combined heat and power systems are fuel flexible, providing the ability to use a variety of renewable and fossil fuels.



Heat Sources For Community Energy
Illustration available at: www.envida.ca

Although natural gas is the most common fuel, locally sourced renewable fuels can include solar, landfill or digester biogas, biomass including clean construction by-products and surplus urban forest materials, and waste heat from municipal, commercial and industrial facilities.

As an added benefit, these systems can be adapted or changed over time to new, more advantageous energy sources as they become available.

2013 FAST FACTS

| | |
|--|---|
| TOTAL FULL-TIME EMPLOYEES | 123 EMPLOYEES |
| Guelph Hydro Inc. | 8 |
| Guelph Hydro Electric Systems Inc. | 115 |
| Envida Community Energy Inc. | 0 |
| SERVICE TERRITORY | GUELPH & ROCKWOOD |
| Population – Guelph and Rockwood | 131,682 |
| Total service area | 93 square kilometres |
| TOTAL CUSTOMERS | 52,366 CUSTOMERS |
| TOTAL ELECTRICITY CONSUMED | 1,737 GIGAWATT HOURS |
| RESIDENTIAL | |
| Number of customer accounts | 47,832 |
| Total electricity consumption | 378 gigawatt hours |
| Average monthly consumption | 659 kilowatt hours |
| COMMERCIAL (INCLUDES SCATTERED LOADS, SENTINEL LIGHTING AND STREETLIGHTING) | |
| Number of customer accounts | 4,529 |
| Total electricity consumption | 1,050 gigawatt hours |
| LARGE INDUSTRIAL USERS > 5,000 KILOWATTS | |
| Number of customer accounts | 5 |
| Total electricity consumption | 309 gigawatt hours |
| TOTAL ASSETS | \$190 MILLION |
| Overhead lines / Underground cable | 427 kilometres / 672 kilometres |
| Total circuit length | 1,099 kilometres |
| Municipal transformer stations / Substations | 1 transformer station / 2 substations |
| Transformers | 6,015 |
| Poles | 10,715 |
| Fleet vehicles | 41 (Includes 1 hybrid bucket truck, 1 all-electric service van) |
| LEED®-certified office building and service centre | 1 |
| Electricity generation facilities | 3 with a capacity of 2 megawatts of energy (MWe) |
| Thermal energy generation facilities | 1 with a capacity of 13 million BTU per hour of hot water and 350 tonnes of chilled water |

| | |
|--|-------------------------------|
| DISTRIBUTION SYSTEM PERFORMANCE | |
| SYSTEM PEAK DEMAND | |
| 2013 peak demand – summer / winter | 303 megawatts / 268 megawatts |

*LEED® - Leadership in Energy and Environmental Design

DISTRIBUTION SYSTEM RELIABILITY

See inside of back cover for additional detail about indices and calculations.

Note: Reliability statistics for all Ontario local electricity distribution companies can be found at: www.OntarioEnergyBoard.ca

INDEX OF RELIABILITY

| | |
|-----------------------------------|----------|
| Excluding upstream loss of supply | 99.9754% |
| Including upstream loss of supply | 99.9621% |

SAIDI – SYSTEM AVERAGE INTERRUPTION DURATION INDEX

| | |
|-----------------------------------|--|
| Excluding upstream loss of supply | 2.21 = Avg. customer without power 132.6 minutes |
| Including upstream loss of supply | 3.41 = Avg. customer without power 204.6 minutes |

SAIFI – SYSTEM AVERAGE INTERRUPTION FREQUENCY INDEX

| | |
|-----------------------------------|--------------------|
| Excluding upstream loss of supply | 3.36 interruptions |
| Including upstream loss of supply | 4.01 interruptions |

CAIDI – CUSTOMER AVERAGE INTERRUPTION DURATION INDEX

| | |
|-----------------------------------|---|
| Excluding upstream loss of supply | 0.66 = 40 minutes per avg. customer interrupted |
| Including upstream loss of supply | 0.85 = 51 minutes per avg. customer interrupted |

MAIFI – MOMENTARY AVERAGE INTERRUPTION FREQUENCY INDEX

| | |
|---|--------------|
| Number of momentary interruptions | 258 |
| Months with highest number of momentary interruptions | July, August |

ELECTRICITY GENERATED BY GUELPH HYDRO INC.

| | |
|-----------------------------|---------------------------|
| Total electricity generated | 10,440,477 kilowatt hours |
|-----------------------------|---------------------------|

ENVIDA COMMUNITY ENERGY – SOUTHGATE ROOFTOP SOLAR FACILITY

| | |
|-----------------------------|------------------------|
| Total electricity generated | 122,662 kilowatt hours |
| Average monthly generation | 10,222 kilowatt hours |

GUELPH HYDRO ELECTRIC SYSTEMS INC. – ARLEN TRANSFORMER STATION ROOFTOP SOLAR FACILITY

| | |
|-----------------------------|---------------------------------|
| Total electricity generated | 4,029 kilowatt hours (5 months) |
| Average monthly generation | 806 kilowatt hours (5 months) |

ENVIDA COMMUNITY ENERGY – EASTVIEW LANDFILL BIOGAS FACILITY

| | |
|-----------------------------|---------------------------|
| Total electricity generated | 10,307,163 kilowatt hours |
| Average monthly generation | 858,930 kilowatt hours |
| Reliability performance | 81.5% |

GUELPH HYDRO ELECTRIC SYSTEMS INC. – EMERGENCY BACKUP GENERATOR

| | |
|-----------------------------|----------------------|
| Total electricity generated | 6,623 kilowatt hours |
|-----------------------------|----------------------|

ELECTRICITY GENERATED BY CUSTOMERS

| | |
|---|--------------------------|
| Customer Feed-in Tariff (FIT) installations | 27 |
| Total electricity generated | 7,929,844 kilowatt hours |
| Average monthly generation | 660,820 kilowatt hours |
| Customer microFIT installations | 242 |
| Total electricity generated | 1,690,789 kilowatt hours |
| Average monthly generation | 140,899 kilowatt hours |

ABOUT POLLINATORS

Butterflies pollinate a wide variety of flowers that open during the day. They frequent large, brightly colored blooms. Unlike bees, butterflies can see red flowers.



SUSTAINABILITY COMMITMENT

At Guelph Hydro, we recognize our organization is a vital strategic asset that is fundamental to the well being, economic prosperity and growth of the communities we serve. By taking a triple-bottom-line approach to the management of our organization, we place as much focus on our environmental and social goals as we do on our economic performance for the benefit of our stakeholders.

We publish an annual Sustainability Report because we believe it is important for our stakeholders to understand who we are, what we do, what we believe, how we conduct our business and where we are headed.

Guelph Hydro's goals in publishing this report are to provide key stakeholders with information about the following:

- > Actions taken in 2013 to ensure a safe, reliable supply of electricity, promote energy conservation and integrate sustainable business practices into our company operations
- > Activities and plans to develop sustainable energy projects in support of the **Guelph Community Energy Initiative** and the potential these projects may have on the economic development of the community
- > Company performance on key environmental, social and economic elements using the Global Reporting Initiative™ (GRI), an internationally recognized standardized framework and indicators for sustainability reporting

MATERIALITY

Central to sustainability reporting is the concept of materiality: reporting on those topics that are

identified by stakeholders as material to our business in terms of economic, environmental or social value creation.

Performance metrics established by the Ontario Energy Board, Customer Satisfaction Survey results, media attention and feedback from stakeholders gathered through a variety of channels provide a strong indication of the topics and issues that are of most significance, or material, to our stakeholders.

The following are the material issues that are addressed in this report.

- > Reliability and Affordability
- > Customer Service
- > Energy Conservation
- > Financial Performance
- > Sustainable Energy Projects

In order to help us better identify topics and issues that are of particular concern to our stakeholders and develop strategies to address them, Guelph Hydro will initiate a more formal Stakeholder Engagement Strategy in 2014.

RISK MANAGEMENT

An important part of good business planning and sustainability means understanding the risks that can impact our organization's ability to create value for our shareholder, customers, employees and other stakeholders.

At Guelph Hydro, we recognize that a wide range of risks is associated not only in delivering a safe, reliable and affordable supply of electricity to tens of thousands of customers who depend on us, but also in developing sustainable energy projects to benefit the community.

Although risk cannot be entirely eliminated, we identify, assess and take action to mitigate risks commonly associated with the energy industry and those specific to our business. We prioritize our response to risks based on each risk's probability

and its ability to significantly impact the health or safety of our employees or the public, or the operations, financial standing or reputation of our business.

The Guelph Hydro Management Team and Board review and update our risk assessment on a regular schedule. The corporation has also initiated an internal audit program to provide independent, objective assurance of the adequacy of processes and controls in place to manage risk. The Board of Directors reviews the risk matrix presented by management on a regular basis.



HEALTH AND SAFETY RISKS

Risks and compliance matters related to the health and safety of employees or the public. Includes injuries, fatalities, workplace violence and pandemics.

HUMAN RESOURCES, FINANCIAL, REGULATORY AND COMPLIANCE RISKS

Includes risks associated with human resources, accounting, operations, financial reporting, billing, credit, theft of power and customer receivables as well as those related to regulatory or legal matters, environmental regulations and compliance.

OPERATIONAL RISKS

Includes risks that could have a severe impact on customer service, physical assets of our network or our ability to deliver electricity or thermal energy. It includes security and access control, loss of supply, loss of critical infrastructure and cyber security.

REPUTATIONAL RISKS

Risks resulting from loss of trust or confidence in the company by key stakeholder groups including employees, customers, the shareholder, the Ontario Energy Board, the Ministry of Energy, labour unions, community groups, business partners and the media.



STAKEHOLDER ENGAGEMENT

We believe the solid, long-term relationships we forge with our many stakeholders, built on a platform of integrity, partnership and trust, contribute to the success of Guelph Hydro and are an essential part of our approach to sustainability.

We strive to be accessible and responsive to stakeholders' needs, communicating in an open, honest and transparent manner using a variety of formal and informal communication channels. The information presented on these two pages highlights some of ways we engaged with our key stakeholders in 2013. Stakeholder engagement will be an area of continued emphasis in 2014.

COMMUNITY INVOLVEMENT



TWO \$1,000

BURSARIES FOR FULL-TIME STUDENTS IN YEAR TWO OF THE POWERLINE TECHNICIAN PROGRAM AT CONESTOGA COLLEGE

13

ELECTRICAL SAFETY & ENERGY CONSERVATION PRESENTATIONS AT LOCAL SCHOOLS

5 CO-OP STUDENTS EMPLOYED

TRANSATLANTIC URBAN CLIMATE DIALOGUE

ORGANIZED BY THE UNIVERSITY OF BERLIN, GERMANY. GUELPH HYDRO PARTNERED WITH THE CITY OF GUELPH TO HOST DELEGATES FROM GERMANY AND THE U.S. TO SHARE INFORMATION ON ENERGY CONSERVATION EFFORTS

ACTIVE PARTICIPATION IN COMMUNITY ORGANIZATIONS



\$61,244

to the United Way

\$12,425

raised by employees for Children's Foundation of Guelph & Wellington, Habitat for Humanity, Southern Ontario Flood Relief & the Canadian Cancer Society

\$6,025

in corporate donations to St. Joseph's Health Centre, Hospice Wellington and The Rotary Forest

EMPLOYEE & CORPORATE SUPPORT



ELECTRICAL SAFETY WORKSHOPS AND CRISIS SIMULATIONS WITH EMERGENCY RESPONDERS

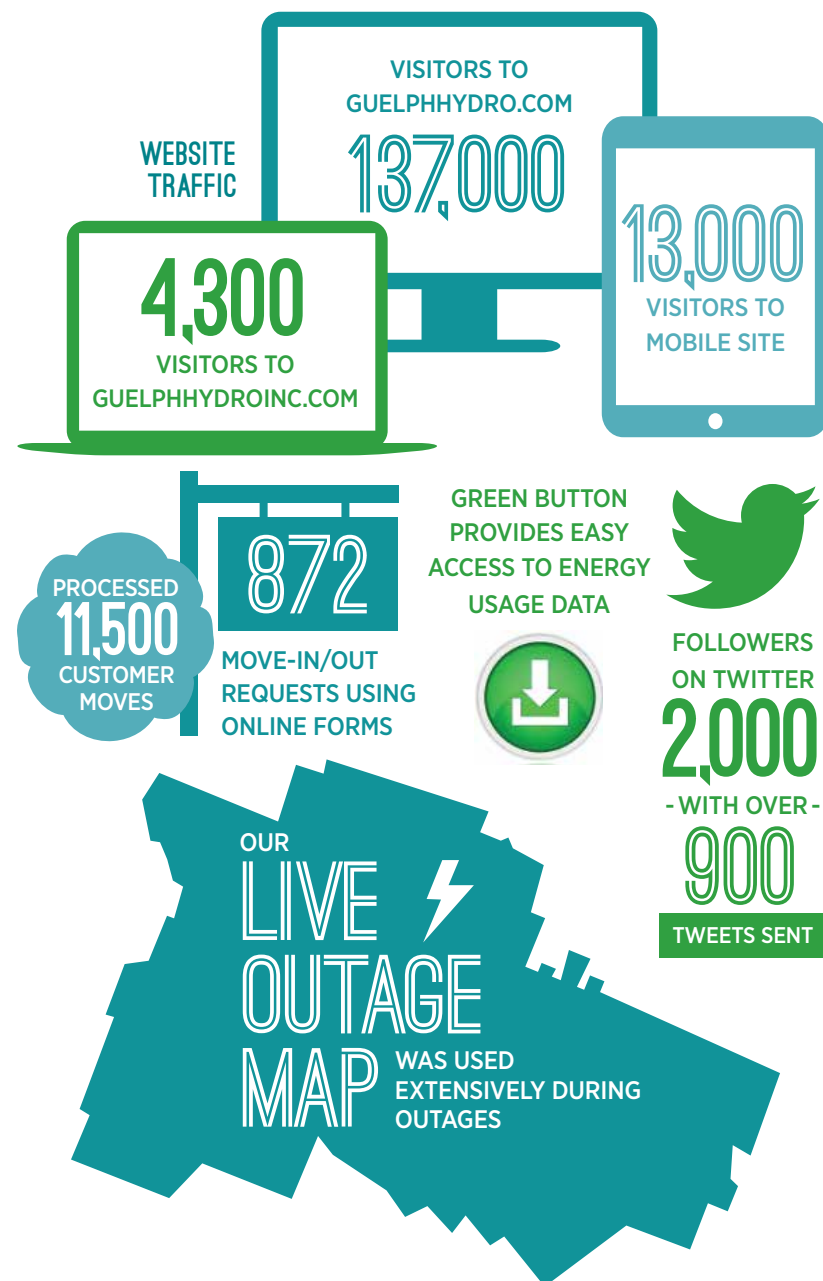


RESIDENTIAL & COMMERCIAL CUSTOMERS

WE RANKED #1

IN CUSTOMER SATISFACTION AMONG 14 ONTARIO ELECTRIC UTILITIES that took part in the *Annual Electric Utility Customer Satisfaction Survey* and scored substantially higher than the national and provincial customer satisfaction averages.

STAYING CONNECTED



IN 2013, WE RESPONDED TO **83.65%** OF THE **40,520** CALLS RECEIVED **IN 30 SECONDS** AT OUR CUSTOMER CALL CENTRE IN GUELPH

RESPONDED TO **100%** OF **4,878** WRITTEN REQUESTS FOR INFORMATION OR SERVICES WITHIN **48 HOURS** USING OUR DEDICATED CUSTOMER SERVICE EMAIL ADDRESS

FINANCIAL ASSISTANCE PROGRAMS FOR LOW INCOME CUSTOMERS ARE DELIVERED THROUGH LOCAL SOCIAL SERVICE AGENCIES

DELIVERING ECONOMIC VALUE

At Guelph Hydro, we deliver economic value by maintaining a strong balance sheet, keeping our distribution rates affordable, directly and indirectly contributing to the local economy and fostering the growth, economic prosperity and vitality of the communities we serve through the services provided by Guelph Hydro Electric Systems Inc. and Envida Community Energy Inc.

2013 HIGHLIGHTS

- > Generated \$58.9 million in economic benefits from our operations for the benefit of our communities and the Province of Ontario (See pg. 5)
- > Paid a dividend of \$1.5 million to Guelph Municipal Holdings Inc.
- > Maintained a strong investment-grade, "A" credit rating from Standard and Poor's
- > Invested \$14.9 million in capital projects in the regulated and non-regulated sides of our business, creating jobs and helping our communities thrive
- > Paid out \$1.2 million to customers in energy conservation rebates and incentives
- > Paid more than \$330,000 in property taxes to support law enforcement, fire and other emergency services and municipal government programs including local schools

MAINTAINING OUR STRONG FINANCIAL PERFORMANCE

Guelph Hydro Inc. is committed to maintaining the corporation's solid financial standing and providing our shareholder, Guelph Municipal Holdings Inc., with a fair return on investment while growing our balance sheet. (See pg. 2)

We deliver strong economic results while continuing to ensure the affordability of our services through disciplined financial administration, careful management of risks, cost-effective and efficient business practices and the strategic growth of our non-regulated businesses.

FOSTERING ECONOMIC VITALITY AND COMMUNITY GROWTH

Guelph Hydro Inc. and its subsidiaries foster economic vitality and growth by:

- > Providing the electrical distribution infrastructure and services required to meet the needs of our growing community
- > Developing district energy projects that will attract new businesses and residents (See pg. 27)
- > Indirectly creating jobs through local procurement

ABOUT POLLINATORS

Bees are typically fuzzy and carry an electrostatic charge that helps pollen grains adhere to their bodies. Honey bees also have a specialized "pollen basket" structure on their hind legs.

WORKING TO KEEP ELECTRICITY DISTRIBUTION RATES AFFORDABLE

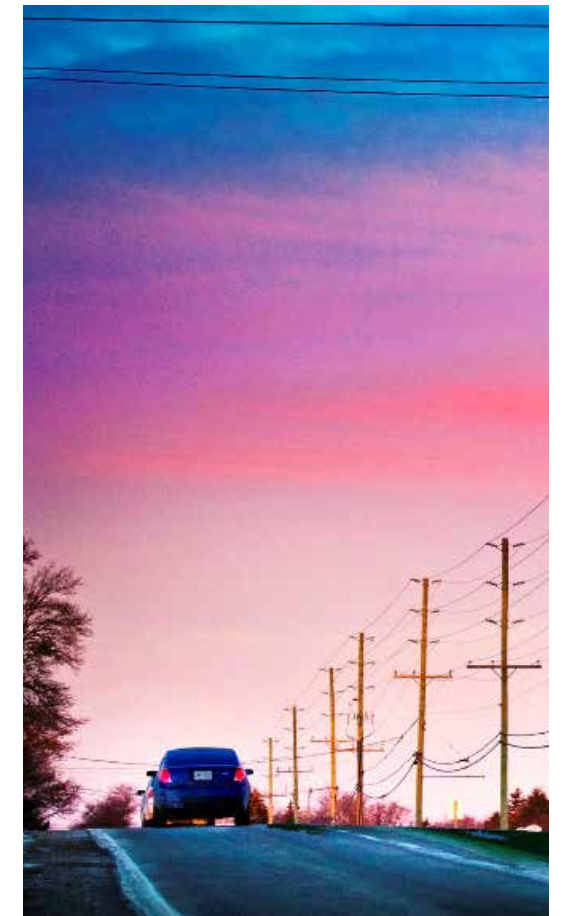
The Ontario Energy Board has the responsibility for setting electricity rates across the province. However, electricity distribution charges for each of Ontario's local electricity distribution companies (LDCs) vary widely, reflecting each utility's unique operational structure and costs. As a result, customer electricity bills differ depending on the utility service territory in which they are located.

When applying for new electricity distribution rates, Guelph Hydro Electric Systems Inc. endeavours to keep rates affordable while generating enough revenue to support capital projects to upgrade and expand the network to meet the needs of our growing community.

HOW EFFICIENT IS OUR OPERATION?

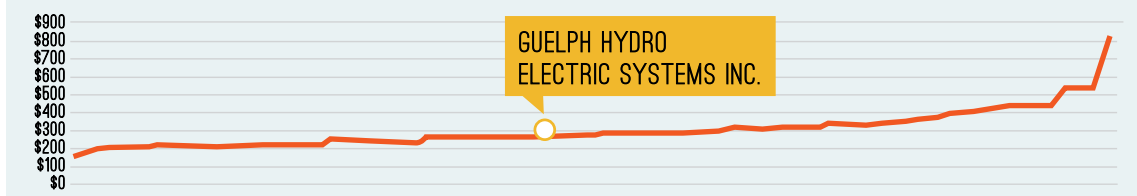
Guelph Hydro's ability to run an efficient and productive operation can be measured by comparing our operating, maintenance and administration (OM&A) costs per customer against those of other utilities. (See below)

Because we have invested in smart, cost-efficient technologies and worked hard to keep operating costs down, the bill of a typical



residential customer using 800 kilowatt hours of electricity per month compares favourably against those of other utilities.

COST COMPARISON: OPERATING, MAINTENANCE AND ADMINISTRATIVE COSTS PER CUSTOMER - 2012



— All other local electricity distribution companies (LDCs) in Ontario

Source: Ontario Energy Board

OPERATING ONE OF THE MOST EFFICIENT ELECTRIC UTILITIES IN THE PROVINCE

Perhaps a more accurate way of comparing the efficiency of Guelph Hydro Electric Systems Inc. against other Ontario utilities is to consider how much it costs per megawatt-hour to distribute the electricity consumed in our service territory.

This calculation may give a truer picture of the operation's productivity because not all "users" of electricity are counted as "customers." For example, in Guelph, university students who live in residence or renters whose utility costs are included in their rent are not counted as customers despite the fact that they use electricity. Instead, the University or the landlord who pays the bill for an entire building is counted once each as the "customer."

Also, in an urban centre like Toronto, large numbers of "electricity users" make a workweek daily pilgrimage to jobs in the city or visit to attend sporting events or concerts. These users are not counted as customers despite the fact that they may effectively use a lot of electricity while they are in the city.

Measuring the cost per megawatt-hour of electricity consumed in a utility's service territory eliminates these sorts of inconsistencies and provides a fairer and more transparent picture of operational efficiency.

Looked at in this fashion, it is clear that Guelph Hydro Electric Systems Inc. operates one of the most efficient electric utilities in the province.

COMPARING RATES OF ONTARIO'S ELECTRIC UTILITIES

Because we have invested in smart, cost-efficient technologies and worked hard to keep operating costs down, typical Guelph Hydro Electric Systems Inc. customer bills compare favourably against those of other utilities.

For companies looking to locate a new business or expand a current operation, affordable electricity rates are one of the factors they consider in making a decision.

COST COMPARISON: OPERATING, MAINTENANCE & ADMINISTRATION COSTS PER MEGAWATT HOUR OF ELECTRICITY CONSUMED - 2012



Source: Ontario Energy Board

COMPARING ELECTRICITY PRICES AGAINST OTHER HOUSEHOLD EXPENSES*

How does what we get for our electricity bill compare to what we spend on other necessities such as food, clothing and shelter or today's modern conveniences such as cell phones and cable packages?

Using data from Statistics Canada, the Canadian Electricity Association has compared the average daily amount Ontarians spend on electricity against the average amounts paid for other goods and services commonly purchased by a household.

Although how much Ontario households spend depends on personal circumstances, this analysis reveals that:

- > The average Ontario household spends about \$3.34 per day on electricity**
- > Many apartment dwellers spend less than \$3 a day on electricity**
- > Electricity costs many dollars less per day than the daily cost of shelter and food – two other indispensable necessities**

DID YOU KNOW?
Over the past decade, electricity prices in Canada have risen less than property taxes, water, gasoline and Internet services.

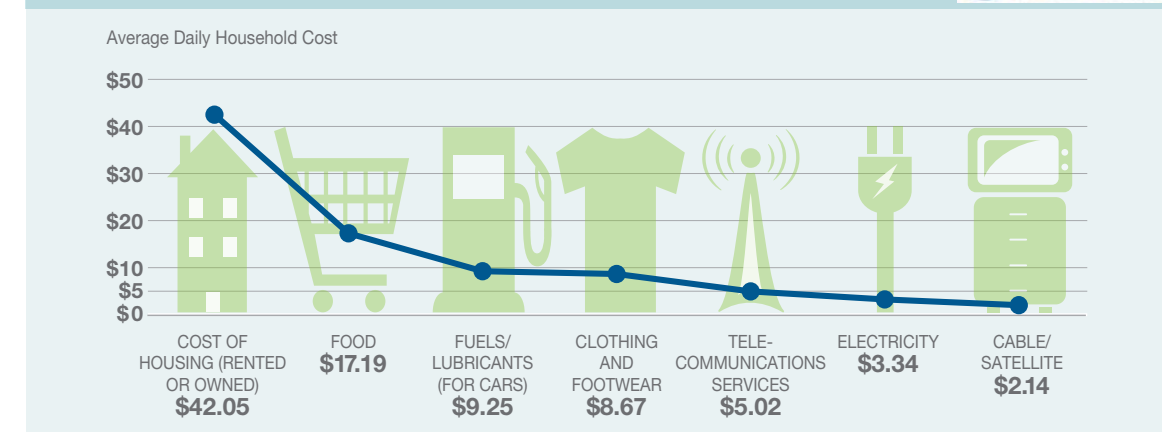
In Canada, as a share of major daily household expenses, electricity averages out to less than three per cent, or three cents of every dollar spent. In many other parts of the world electricity can be far more expensive and forces many more difficult budgeting decisions.

Power outages, like those experienced by many Ontarians during the December 2013 ice storm, serve as a stark reminder of just how much our modern society relies on a constant supply of power for lighting, heat, communications, entertainment and, in some cases, survival.

These are important points to take into consideration when comparing the value of electricity against the value of other household purchases.

For more information about the electricity industry in Canada, visit the Canadian Electricity Association's Power for the Future website at: www.PowerForTheFuture.ca

ELECTRICITY PRICING COMPARISON FOR ONTARIO, 2012



Source: Statistics Canada

*Information and chart provided compliments of the Canadian Electricity Association – www.electricity.ca

**Statistics Canada

UNDERSTANDING ELECTRICITY CHARGES

BREAKDOWN OF CHARGES ON A MONTHLY RESIDENTIAL ELECTRICITY BILL
 AVG. ELECTRICITY CONSUMPTION = 800 KILOWATT HOURS / AVG. BILL = \$122

MONTHLY ELECTRICITY BILL* = \$122

DID YOU KNOW?

78% of the charges on a Guelph Hydro electricity bill* are collected on behalf of other organizations. Only 22% of the total bill* is kept by Guelph Hydro Electric Systems Inc. to provide electricity distribution services to Guelph and Rockwood.

22% TO GUELPH HYDRO



\$29 DISTRIBUTION COSTS
 Cost to distribute electricity in Guelph and Rockwood

SERVICES PROVIDED BY GUELPH HYDRO FOR APPROX. \$29 PER MONTH*

INFRASTRUCTURE

Engineering design, construction, operation and maintenance of the infrastructure required to safely and reliably deliver electricity to the communities of Guelph and Rockwood. Infrastructure consists of poles, overhead wires and underground cable, meters, transformers and transformer substations.

EMERGENCY SERVICES

24/7/365 power outage emergency services provided in all kinds of weather by a highly trained workforce equipped with specialized service vehicles and equipment.

ADMINISTRATIVE SERVICES

Administrative services including maintaining a Customer Service Call Centre in Guelph.

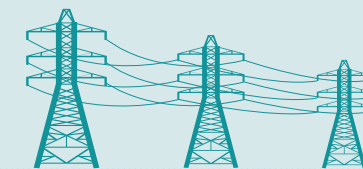
+ 78% PASS-THROUGH CHARGES ON AVERAGE MONTHLY BILL = 100%



GENERATION COSTS

Cost to generate the electricity consumed including building, operating and maintaining power generating stations (nuclear, hydro, gas, wind, solar)

GENERATORS



TRANSMISSIONS COSTS

Cost of transmitting electricity from power generating stations to Guelph and Rockwood including building and maintaining high-voltage transmission lines and towers.

HYDRO ONE & OTHER TRANSMITTERS



REGULATORY CHARGES

Costs for administering Ontario's electricity system and maintaining the reliability of the provincial grid

GOVERNMENT AND GOVERNMENT AGENCIES**



DEBT RETIREMENT CHARGE

Set by the Ontario Ministry of Finance and collected to pay down the debt of the former Ontario Hydro

ONTARIO ELECTRICITY FINANCIAL CORPORATION



HARMONIZED SALES TAX

13%

REVENUE CANADA



ONTARIO CLEAN ENERGY BENEFIT

10% CREDIT

CUSTOMER



WATER CHARGES IF APPLICABLE

CITY OF GUELPH

Source: Ontario Energy Board. Data is based on a provincial average. Based on average monthly electricity bill of \$122.

*Represents an average residential customer on the Regulated Price Plan paying Time-of-Use rates for electricity.

**Ontario Ministry of Energy, Ontario Energy Board, Independent Electricity System Operator, Ontario Power Authority

OPERATIONAL EXCELLENCE IN OUR REGULATED ELECTRICAL UTILITY

With more than 52,000 homes and businesses in our service territory relying on the electricity we distribute to power their lives, safety and reliability are critical areas of focus for Guelph Hydro Electric Systems Inc.

2013 OPERATIONAL HIGHLIGHTS



- > Achieved a system reliability index of 99.9754%*
- > Invested \$11.4 million to operate, maintain, upgrade and expand the electricity distribution network
- > Connected 751 new residential and commercial customers
- > Restored power after the December 2013 ice storm to 99.9 per cent of customers within 48 hours

STRENGTHENING AND GROWING OUR ELECTRICITY DISTRIBUTION NETWORK

Guelph is one of Ontario's fastest growing communities, attracting new residents at a steady pace along with new commercial and industrial investments.

In 2013, Guelph Hydro Electric Systems Inc. connected seven new residential subdivisions adding approximately 716 single-family dwellings and apartment buildings to the electricity distribution network.

To meet this need, over the past five years, Guelph Hydro Inc. built a new transformer station and invested \$72.5 million to upgrade and expand infrastructure to ensure the reliability, resiliency, efficiency and security of the network.

*Excluding upstream loss of supply.

HELP US PLAN FOR THE FUTURE

BUILDING ELECTRICITY DISTRIBUTION INFRASTRUCTURE FOR THE LONG TERM

In 2014, we will be consulting with stakeholders to obtain their input as we develop a new, multi-year capital program and budget. This program will include plans for the continuing replacement of aging infrastructure, increased system capacity, further implementation of smart grid technologies and the expansion of the network into new neighbourhoods.

For information on how to provide your input to this plan, please email: info@guelphhydro.com

IMPROVEMENTS MADE TO THE ELECTRICITY DISTRIBUTION NETWORK

The following is a list of some of the capital projects completed in 2013 to upgrade and maintain the reliability of our electricity distribution network:

- > **Acorn Place, Chestnut Place, Sherwood Drive, Terry Boulevard and Glenburnie Drive, Guelph** - Upgrade of underground facilities and the removal of pole transformers
- > **Speedvale Avenue East, Essex Street, Beechwood Avenue, Chadwick Avenue, and Western Avenue, Guelph** - Overhead pole line rebuilds
- > **Harris Street, Rockwood** - Overhead pole line rebuild
- > **Campbell Transformer Station, Campbell Road, Massey Road and Elmira Road North, Guelph** - New underground feeder system

INTEGRATING RENEWABLE ENERGY

With an eye on the future, Guelph Hydro Electric Systems Inc. is continuing to invest capital to upgrade the electricity distribution network to accommodate more and different sources of renewable and sustainable energy in the community.

Over the last three years alone, Guelph Hydro Electric Systems Inc. has connected more than 269 customer-owned rooftop and ground-mounted solar facilities that have the potential to feed more than 8,000 kilowatts of electricity into the Ontario grid under the Ontario Power Authority's Feed-in-Tariff (FIT) and microFIT programs.

Recognizing that rooftop solar panels can pose a new safety hazard for emergency personnel, Guelph Hydro provides training for firefighters and other first responders to help them minimize the risk of electrical shock should they encounter solar panels when responding to a fire or other emergency.

INVESTING IN A SMARTER GRID

Guelph Hydro Electric Systems Inc. operates a sophisticated, modern, electricity distribution network that features intelligent monitoring systems, automated controls and remotely operable switches that have the ability to detect a fault, isolate it and reroute power to restore power almost instantaneously. The ability of our network to "self-heal" is one of the hallmarks of a smart grid.

Investments in smarter grid technologies are paying off in increased reliability and improved response times to identify and respond to outages. The impact of these investments is significant. Over the past five years, the average duration of unplanned outages has decreased by 23 percent.



A poster illustrating Guelph Hydro's smart grid is available at: www.guelphhydro.com. Hard copies of the poster may be requested by sending an email to: sustainability@guelphhydro.com

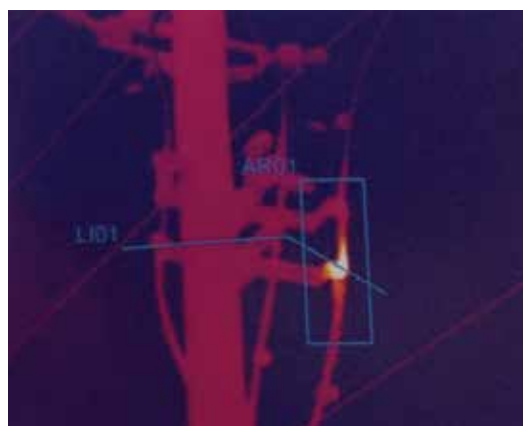
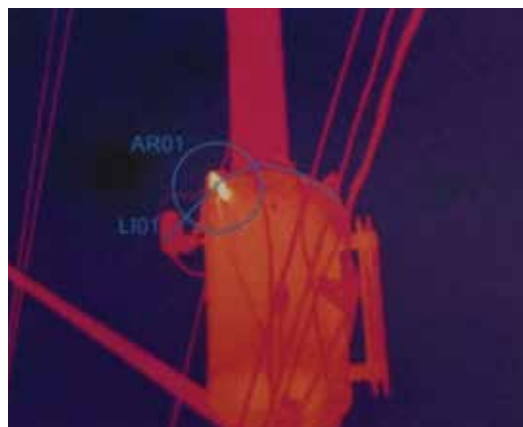
GUELPH HYDRO'S RESILIENT DISTRIBUTION SYSTEM

The reliable performance of our electricity distribution network during normal operation as well as in the face of the high winds, heavy rains, snow and ice associated with severe storms is the direct result of:

- > Continual investments in new electricity distribution infrastructure including smart grid technologies

- > Use of the highest quality engineering design standards
- > Proactive upgrading of equipment
- > Preventive maintenance including infrared scanning, pole testing and underground inspections
- > Smart grid technologies that automate elements of our network
- > Diligent tree-trimming

INFRARED INSPECTIONS



"Hot spots" indicate equipment that is starting to degrade and requires replacement.

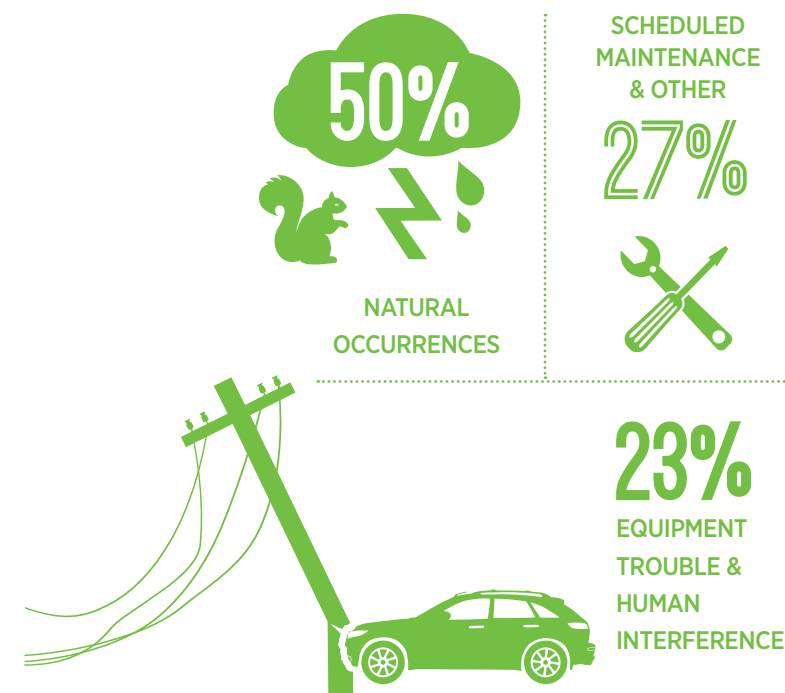
RESPONDING SWIFTLY WHEN THE LIGHTS GO OUT

Power outages can be caused by storms, bird and animal contact, and equipment failure impacting either Guelph Hydro Electric System Inc.'s local distribution network or the province's transmission system that transmits power from generating stations to our community.

We work hard to keep the lights on but, in the event a power outage does occur, customers can be assured our employees can be counted upon to rise to the challenge and restore power safely and as swiftly as possible.

WHY DOES MY POWER GO OUT?

Despite weather extremes, the average time a Guelph Hydro Electric Systems Inc. customer was without power in the event of a failure on our distribution network was 40 minutes in 2013.*



*Excludes upstream loss of supply.



"I BELIEVE OUR ROBUST DESIGN STANDARDS, INVESTMENTS IN SMART GRID TECHNOLOGIES AND CONSCIENTIOUS MAINTENANCE PROGRAMS, INCLUDING TREE TRIMMING, PAID OFF IN FEWER OUTAGES AND FASTER POWER RESTORATION TIMES WHEN THE ICE STORM HIT IN DECEMBER."

KAZI MAROUF, CHIEF OPERATING OFFICER, GUELPH HYDRO ELECTRIC SYSTEMS INC.

IMPROVED OUTAGE COMMUNICATION

Responding to the ever-increasing consumer demand for up-to-the-minute information, in 2013, we improved our outage communications with the addition of an outage map on our website and mobile site as well as the use of Twitter (@GuelphHydro) to keep customers better informed of our outage response.



ENVIRONMENTAL STEWARDSHIP

At Guelph Hydro, Environmental Stewardship is evaluated by our success in meeting or exceeding all environmental laws, regulations and company policies, championing energy conservation, investing in sustainable forms of energy and reducing our impact on the environment.

2013 HIGHLIGHTS

- > Guelph Hydro's first thermal energy plant went into commercial operation in downtown Guelph
- > Worked with the City of Guelph to develop a *District Energy Strategic Plan*
- > Promoted saveONenergy^{OM} conservation programs that achieved projected energy savings of more than 3.7 million kilowatt hours of electricity; enough energy to power 430 homes for one year
- > Helped reduce the network load demand by a projected 5.2 megawatts by promoting saveONenergy^{OM} efficiency programs
- > Supported the development of renewable energy sources by connecting 18 Feed-in-Tariff (FIT) and 73 microFIT solar installations to the company's distribution system
- > Generated 122,662 kilowatt hours of renewable energy from the company's 100-kilowatt rooftop solar facility and 4,029 kilowatt hours from solar panels atop the Arlen Municipal Transformer Station
- > Planted a pollinator-friendly garden

BUILDING RESILIENT, SUSTAINABLE ENERGY INFRASTRUCTURE

The **Guelph Community Energy Initiative**, a Municipal Energy Plan that was endorsed by Guelph City Council in 2006, sets out ambitious goals for reductions in energy use and greenhouse gas emissions by 2031. In order to achieve these goals, the use of thermal energy and electricity must be maximized in the community.

Guelph Hydro is working with the City of Guelph to identify sustainable energy projects—solar, district energy, combined heat and power/cogeneration, biogas—under the **Guelph Community Energy Initiative**. Significant progress was made in 2013 when the company's first district energy facility went into commercial operation in December. This facility, located in the Sleeman Centre, will serve as a central thermal energy plant for the Galt District Energy System planned for downtown Guelph. At the end of 2013, Guelph Hydro's portfolio of sustainable energy facilities included:

- > Eastview Landfill Biogas Plant
- > 100-kilowatt solar facility on the roof of Guelph Hydro's head office
- > 10-kilowatt solar facility on the roof of a Guelph Hydro Electric Systems Inc. transformer station
- > Sleeman Centre District Energy Facility
- > LEED[®]-certified head office that features ground-source geothermal heating and cooling

DISTRICT ENERGY – EFFICIENT HEATING AND COOLING

Currently, the energy required to heat and cool homes and buildings accounts for about one-half of Guelph's total energy use and is a major contributor to greenhouse gas emissions. In order to achieve the energy reduction targets set out in the **Community Energy Initiative**, the heating and cooling of buildings must be greatly improved.

In 2013, Envida Community Energy Inc. assisted the City of Guelph in drafting a **District Energy Strategic Plan** which sets out a vision for Guelph as a cleaner, healthier and more prosperous community powered by a secure, reliable, affordable and sustainable district energy system.

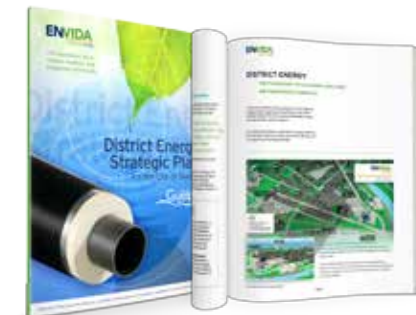
A community-wide district energy grid would result in a significant drop in energy use and greenhouse gases, positioning Guelph as one of the top energy performers in Canada, helping to combat climate change and establishing the community as Canada's District Energy Centre of Excellence.

WHAT IS DISTRICT ENERGY?

District energy systems distribute hot or chilled water for space heating, cooling and/or domestic

water heating to surrounding buildings via a network of underground pipes.

At the heart of the system is a district energy plant equipped with a boiler and chillers. Natural gas or another fuel source is used to heat water in a boiler which is then fed to other buildings via underground pipes. The district energy network is practically invisible, forming an integral part of the infrastructure of the City and installed with other basic networks such as electricity, water and sewage.



The **Guelph District Energy Strategic Plan** provides background information on district energy systems, benefits for individuals and communities and compelling examples of successful district energy networks in operation in other cities. To download a copy visit: www.envida.ca

COMMERCIAL OPERATION – SLEEMAN CENTRE DISTRICT ENERGY FACILITY



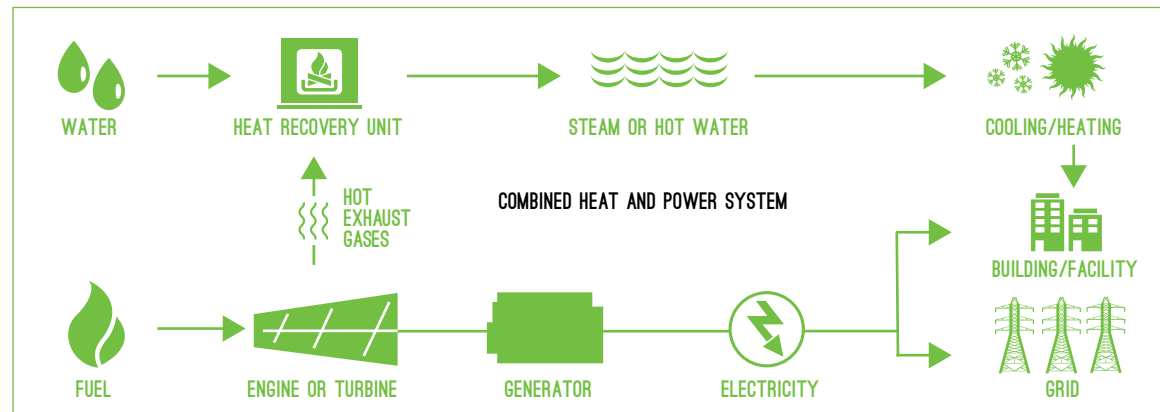
Photo: © iStock.com/modesigns58

Guelph Hydro's gas-fuelled thermal energy plant located in the Sleeman Centre, Guelph's premier sports and entertainment facility located in the downtown core, went into commercial operation in December 2013.

This new high-efficiency heating and cooling plant will function as the centre of the Galt District Energy System that will serve Guelph's downtown core. A network of insulated underground pipes will transport hot water and

chilled water to buildings in the area to provide space heating and cooling as well as domestic hot water heating. Buildings connected to the district energy system will be equipped with a heat exchanger that will transfer the thermal energy from the thermal distribution system to the internal piping system in the buildings. Specifications for the Sleeman Centre District Energy Facility can be found at www.envida.ca

COMBINED HEAT AND POWER - EFFICIENT ELECTRICITY GENERATION



Combined heat and power (also called CHP or cogeneration) is one of the most efficient ways to generate electricity and is, therefore, an important component of the municipality's energy plan and a key area of focus for Envida Community Energy.

WHAT IS COMBINED HEAT AND POWER?

Combined heat and power refers to the simultaneous production of electricity and thermal energy from a single renewable or non-renewable fuel source such as biogas, biomass or, more commonly, natural gas.

Waste heat from the generation of electricity that would normally be exhausted into the atmosphere is captured and used directly as hot air for heating buildings or drying purposes or to produce steam, hot water or chilled water.

These highly efficient systems have long been popular in the manufacturing, healthcare, education and government sectors since they reduce energy bills and carbon emissions, and provide a more secure and reliable local source of electricity.

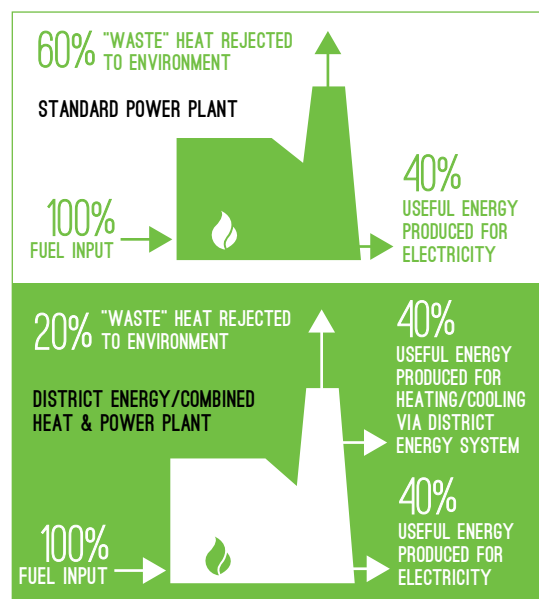
For more information about combined heat and power and district energy, please visit: www.envida.ca or email info@envida.ca.

COMBINED HEAT AND POWER AS A HEAT SOURCE FOR DISTRICT ENERGY

One application particularly relevant to the Guelph community is to use the waste heat from a combined heat and power facility to heat water for a district energy system.

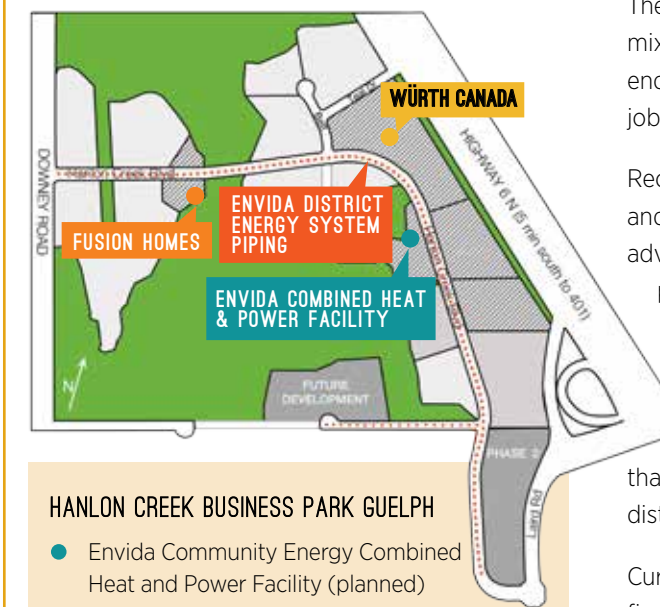
When small combined heat and power units serve as a heat source for a district energy thermal grid, they can achieve operational efficiencies up to 80 per cent compared to the 30-45 per cent efficiencies found in conventional electricity production.

COMPARING ENERGY EFFICIENCY



Source: International District Energy Association

ENVIRONMENTALLY FRIENDLY HANLON CREEK BUSINESS PARK ATTRACTING BUSINESSES AND JOBS



HANLON CREEK BUSINESS PARK GUELPH

- Envida Community Energy Combined Heat and Power Facility (planned)
- Envida District Energy System underground insulated pipes (existing and planned)
- Würth Canada Head Office
- Fusion Homes

The Hanlon Creek Business Park, a 675-acre mixed use greenfield site located in the south end of Guelph, is expected to attract 10,000 jobs by 2031.

Recognizing that a local supply of electricity and thermal energy would be a competitive advantage when marketing the property to prospective tenants, the City's Economic Development Department and Guelph Hydro Inc. and its subsidiaries formulated plans to service the site with a combined heat and power facility that would function as a heat source for a district energy network.

Currently under development, this natural gas-fired combined heat and power plant will generate 10.2 megawatts of electricity that will be fed into the Ontario grid under a 20-year contract with the Ontario Power Authority, granted to Envida Community Energy in early 2014 under Ontario's Combined Heat and Power Standard Offer Program (CHPSOP).

SOURCES OF ENERGY IN THE COMMUNITY

| | GUELPH HYDRO INC. AND SUBSIDIARIES | GUELPH COMMUNITY* |
|--|--|---------------------------|
| INSTALLED/CONNECTED | FACILITY AND CAPACITY | CAPACITY |
| Rooftop Solar Feed-in Tariff program (FIT) | Southgate Rooftop Solar Facility 100 kW | 6,174 kW |
| Rooftop/Ground Mount Solar microFIT Program | Arlen Transformer Station Rooftop Solar Facility 10 kW | 1,823 kW |
| Biogas | Eastview Landfill Biogas Plant 1,850 kW | -- |
| District Energy | District Energy Facility - Sleeman Centre 13,200,000 BTU/hour heating and 350 tons cooling | -- |
| UNDER DEVELOPMENT | | |
| District Energy | Hanlon Creek Business Park - Temporary Portable District Energy Plant 1,320,000 BTU/hour heating and 128 tons cooling | Information not available |
| Combined Heat and Power | West End Community Centre 400 kW/550 kWt | Information not available |

*Feeding electricity into the Ontario grid.

kWe = Kilowatt Of Electrical Energy | kWt = Kilowatt Of Thermal Energy

ACHIEVING EXCELLENCE IN ENERGY CONSERVATION

Reducing the amount of energy used by homes and businesses saves customers money on their electricity bills and avoids the need to build expensive new electricity generation and transmission capacity. It is also the cheapest and easiest way to reduce greenhouse gas emissions.

Recognizing this, the Ontario Energy Board has set conservation targets for all electric utilities in the province to be achieved by the end of 2014 and monitors our progress against these targets.

The efforts of Guelph Hydro Electric Systems Inc. to promote energy conservation have been so effective, the company ranks fourth in the province (see pg. 2) and is recognized as a leader among electric utilities in the quest to achieve Ontario's full energy efficiency potential.

The success of our efforts is the result of dedicated work in building and maintaining relationships with our customers, delivery partners and beyond. In 2013, Guelph Hydro connected with the community to promote energy conservation in a variety of ways:


- > Set up booths at local retail stores and large community events, including the Multicultural Festival and Ribfest, using these opportunities to distribute saveONenergy^{OM} COUPONS and provide information.
- > Held tradeshows for commercial and large user customers to help them understand the energy conservation incentive programs that are available to them. The tradeshows showcased the latest in energy efficiency technology, and highlighted case studies

and success stories for various projects undertaken in 2013.

- > Participated in Guelph Chamber of Commerce events including an event for large industrial customers looking to save energy, and a Business After Five tour of the Guelph Hydro facility.

INNOVATIVE LARGE PROJECTS

As we continue to strive toward our 2014 target, we're excited about some innovative large projects initiated in 2013 through ENGINEERING STUDIES, offered as part of the saveONenergy^{OM} PROCESS AND SYSTEMS UPGRADE INCENTIVE program. These studies confirmed the financial viability of a large combined heat and power (cogeneration) project for an industrial customer and the potential for a large-scale thermal energy storage project that we expect will lead to additional demand savings in 2015.




Guelph Hydro promoted energy conservation by hosting a community booth, complete with a Kid's Corner, and holding "Tweet Your Seat" trivia contests at all the Hamilton Tiger Cat home games played at the University of Guelph Alumni Stadium during the 2013 season.

IMPACT OF RESIDENTIAL AND COMMERCIAL ENERGY CONSERVATION PROGRAMS

Energy conservation programs saved more than 3.7 million kilowatt hours of electricity in 2013, enough energy to power more than 430 homes for one year and the equivalent of taking more than 530 cars off the road.


saveONenergy^{OM}
FRIDGE & FREEZER PICKUP PROGRAM

170 HOUSEHOLDS TOOK ADVANTAGE OF THE SAVEONENERGY^{OM} FRIDGE & FREEZER PICKUP PROGRAM



saveONenergy^{OM}
HEATING & COOLING INCENTIVE

968 HOUSEHOLDS UPGRADED THEIR HOME'S HEATING & COOLING SYSTEM WITH A SAVEONENERGY^{OM} HEATING & COOLING INCENTIVE



saveONenergy^{OM}
AUDIT FUNDING

145 BUSINESS CUSTOMERS HAD UP TO 50% OF THE COST OF AN ENERGY AUDIT PAID FOR

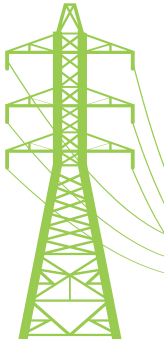


saveONenergy^{OM}
SMALL BUSINESS LIGHTING

76 SMALL COMMERCIAL CUSTOMERS UPGRADED THEIR LIGHTING SYSTEMS & RECEIVED INCENTIVES TOTTALLING MORE THAN \$116,000



7 MILLION KILOWATT HOURS SAVED & 2,200 KILOWATT HOURS OF DEMAND REMOVED FROM THE ELECTRICITY GRID EACH YEAR



saveONenergy^{OM}
RETROFIT PROGRAM

OVER 80 RETROFIT PROJECTS COMPLETED BY INDUSTRIAL, COMMERCIAL & INSTITUTIONAL CUSTOMERS \$4 MILLION PAID OUT IN REBATES SINCE 2007



saveONenergy™
FRIDGE & FREEZER PICKUP

Join the thousands of Ontarians who are removing their old, energy-guzzling fridge or freezer

SINCE 2006 MORE THAN 365,000 FRIDGES AND FREEZERS HAVE BEEN REMOVED!

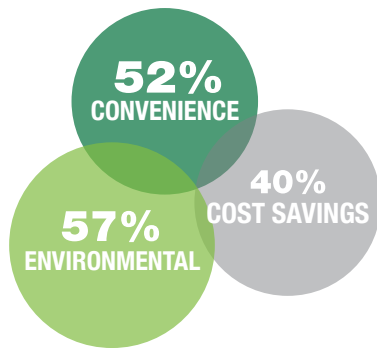


Adding up the + SAVINGS

- Lower electricity costs **\$125 SAVINGS/YEAR**
- We pick up for **FREE \$90 SAVINGS**
- Municipal disposal fee avoided **\$30 SAVINGS**
- Disposing of potentially harmful pollutants in an environmentally responsible way **PRICELESS**

But We're Not **DONE YET!**

WHY THEY DID IT
Most common reasons to remove your old fridge and/or freezer:



From the electricity we've saved... WE COULD POWER **19,000 HOMES** FOR AN ENTIRE YEAR



DID YOU KNOW?

A typical fridge built in 1986 uses 1,500 kilowatt-hours (which could be costing up to \$150 per year to run), while a new ENERGY STAR® qualified appliance uses approximately two-thirds less energy.

Buying a New Appliance?

Make sure your new appliance is:

- 1 The right size
- 2 The right model
- 3 Low EnerGuide rated
- 4 ENERGY STAR qualified



1. Step One: PARTICIPATION

To qualify, you must have a full-sized refrigerator or freezer that is:

- 20 YEARS of age or older
- between 10-27 cubic feet
- in WORKING condition

PLUS, if you have at least one fridge or freezer collected, we'll also pick up your old qualifying window air conditioners and dehumidifiers at the same time.

3. Step Three: BALER TIME!

Next step - an industrial baler. It's used to crush refrigerators. One baler can crush as many as 8 refrigerators at a time. Once the fridges are crushed, all of the steel is recycled and reused to help build such things as bridges and roads.

2. Step Two: FRIDGE IS PICKED UP & RECYCLED



Technicians strip away any copper, plastic and aluminum

- Plastic can be recycled to make lots of things such as flower pots
- Copper can be recycled for copper wiring
- Car parts can be made from recycled aluminum

Refrigerators made before 1995 usually contain Freon

Freon is a chlorofluorocarbon (also known as a CFC). It can destroy the ozone layer which protects us from the sun's harmful UV rays. That's why safe disposal of CFCs is so important.

Every fridge is drilled and tipped to drain the oil

After all the oil is safely removed, the fridge can be destroyed in an environmentally responsible way

DID YOU KNOW?

Some chemicals used in fridges contain atmospheric pollutants and extra attention is given to ensure they are contained and destroyed.

IN THE END, VERY LITTLE GOES TO THE LANDFILL AND THAT'S PRETTY AMAZING!

To learn more and to participate in this program, visit saveonenergy.ca



HELPING BUSINESS CUSTOMERS SAVE MONEY THROUGH ENERGY EFFICIENCY



The Upper Grand District School Board received \$13,758 for switching to 'virtualization' in their data centre. The potential savings were revealed following an energy audit of the servers and air conditioning system at the school board data centre. As part of Guelph Hydro's efforts to encourage business uptake in saveONenergy^{OM} programs, Guelph Hydro supplied electricity meters to measure baseline consumption data. Making the switch to virtualization allowed the school board to host multiple applications on a single server, with each application running as a protected virtual machine while sharing resources such as the central processing unit (CPU) and memory.

With these changes, the Upper Grand District School Board is estimated to reduce their energy consumption by close to 100,000 kilowatt hours annually.



Thanks to incentives received through the saveONenergy^{OM} RETROFIT PROGRAM, the Guelph Youth Music Centre on Cardigan Street upgraded the lighting in its Recital Hall from incandescent floodlights to high-efficiency LEDs, which is providing more reliable lighting for the facility's users, as well as resulting in energy savings of 6,091 kilowatt hours a year.



In June 2013 Guelph Hydro presented the University of Guelph with a cheque for \$106,733, the largest customer incentive granted under the saveONenergy^{OM} AUDIT FUNDING initiative.

In the fall of 2012, the University of Guelph identified the need for a campus-wide electricity, gas, and water audit in order to move towards fulfilling the University's commitment to their Community Energy Plan and campus sustainability pledge. MCW Custom Energy Solutions Ltd. audited 123 campus buildings for the university and identified conservation opportunities including chiller improvements, additional lighting upgrades, building automation system (BAS) re-programming and upgrades, and heating, ventilation and air conditioning (HVAC) system improvements. If all of the audit report recommendations are converted to efficiency projects under the saveONenergy^{OM} RETROFIT PROGRAM, the university will realize substantial energy and demand savings.

ABOUT POLLINATORS

A pollinator-friendly garden contains native plants that provide food, nesting or overwintering habitat for all life stages of bees, flies, butterflies and other pollinators. For more information visit: www.pollinationguelph.ca



SOCIAL RESPONSIBILITY

ABOUT POLLINATORS
 Butterflies only lay eggs on native plants that will provide a good food source for caterpillars.



HIGHLIGHTS

- > 455,222 hours without a lost time injury
- > Provided employees with an average of 6.5 days of training
- > Provided two \$1,000 bursaries to Powerline Technician students at Conestoga College



In recognition of the company's demonstrated safety excellence, in 2013 the Infrastructure Health and Safety Association awarded Guelph Hydro Inc. the **ZeroQuest® Sustainability Award**, the highest level of recognition a company can achieve in the ZeroQuest program.

Manager of Loss Prevention and Environmental Compliance, Roy Burch (right), also received the **Electrical Safety Authority's Worker Safety Award** in 2013.

At Guelph Hydro, we understand that our success depends on the support of our employees and the communities we serve. To gain that support, we believe we must first and foremost hold safety—of our employees, contractors, customers and the general public—as our number one priority. We must also value and invest in our employees, provide exceptional customer service and give back to our communities.

SAFETY: WORKING TOWARDS OUR GOAL OF ZERO INJURIES

Working to deliver electricity or develop sustainable energy projects can be hazardous. Guelph Hydro Electric Systems Inc. line crews and other field staff not only have to prepare for the dangers associated with working with electrical equipment but also often have to deal with harsh weather conditions that add to the challenge of ensuring worker safety. Many Guelph Hydro employees spend time on construction sites, work in offices or drive to meetings and have to be vigilant of the hazards that exist in each of these environments.

Our goal of zero injuries, and the belief that it is attainable, is woven into the cultural fabric of our organization. Thanks to the efforts of all our employees to work safely every day, we are pleased to report that no lost-time incidents took place in 2013. As of December 31, 2013, employees had worked 455,222 hours without a lost time incident.

In recognition of the company's demonstrated safety excellence, in 2013 the Infrastructure Health and Safety Association awarded Guelph Hydro Inc. the **ZeroQuest® Sustainability Award**, the highest level of recognition a company can achieve in the ZeroQuest program.

PROMOTING ELECTRICAL SAFETY IN THE COMMUNITY

Our efforts to keep people safe extend into the community. In 2013, we provided electrical safety training to students in 13 schools, employees of two local firms and the general public at the Guelph Emergency Preparedness Day and the Acton Fall Fair.

INVESTING IN OUR EMPLOYEES

In order to best serve our customers and our communities, Guelph Hydro works hard to attract, develop and retain an engaged, high-performing workforce—one of the best in the industry. We take pride in providing a safe and respectful workplace where employees are highly valued, treated fairly, provided with challenging and meaningful work and recognized and rewarded for their skills, talent and dedication.

Guelph Hydro compensates all employees competitively with the market to ensure it can attract and retain the skills and talent it needs.

We invest in the future of our employees by providing a wide variety of skills training as well as funding for employees pursuing college or university level courses in work-related programs on their own time. In 2013, 15 employees benefitted from the Educational Reimbursement Program.

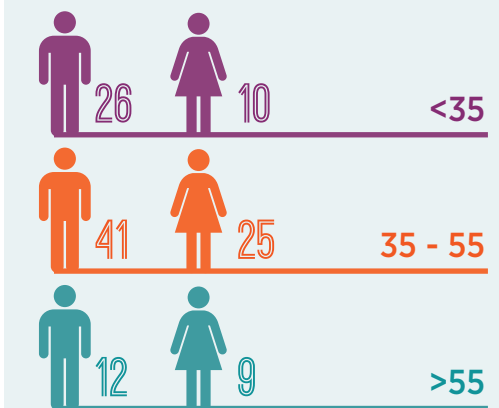
CHALLENGES OF AN AGING WORKFORCE

Like many organizations in the energy sector, we face the challenge of an aging workforce coupled with the prospect of a shortage of leadership, professional, and skilled trades talent.

Approximately 48 per cent of our workforce is eligible to retire within the next 10 years. Many of these employees have acquired in-depth, specialized knowledge about our distribution system or processes that needs to be passed on to the next generation.

Recognizing that it takes four years of apprenticeship or formal training and several years of experience to develop the skills necessary to perform work on our distribution system, Guelph Hydro Electric Systems Inc. has hired nine apprentices and two Engineers-in-Training over the past three years.

*EMPLOYEES BY AGE AND GENDER



*Data includes Guelph Hydro Inc. and Guelph Hydro Electric Systems Inc. employees.

TOP RANKING IN CUSTOMER SATISFACTION

At Guelph Hydro, we value our customers and take pride in providing quick, responsive and consistent customer service. Our customers clearly recognize and appreciate our efforts as evidenced by the fact that Guelph Hydro Electric Systems Inc. was ranked number one in customer satisfaction among 14 Ontario electric utilities that took part in the **Annual Electric Utility Customer Satisfaction Survey** conducted in 2013 by UtilityPULSE, a division of Simul Corporation.

The Annual Electric Utility Customer Satisfaction Survey gauges the satisfaction of customers with the quality and timeliness of information they receive as well as the professionalism, attitude and helpfulness of staff.

With well-trained and knowledgeable customer service representatives, administrative staff and engineers all located in the company's head office in Guelph and highly-skilled powerline workers and other operations staff out on the streets maintaining the distribution network, Guelph Hydro Electric Systems Inc. received top marks in all aspects of customer service.

Power outages and billing problems are the two issues that are most likely to cause grief for utility customers. Guelph Hydro's top ranking was buoyed by customer recognition of the utility's reliable service and minimal billing issues.

With 96 per cent of surveyed customers reporting they are "very" or "fairly" satisfied, Guelph Hydro Electric Systems Inc. also scored substantially higher than the national and provincial customer satisfaction averages for utility companies.

ABOUT POLLINATORS
 Butterflies pollinate trees as well as flowers. Some species lay eggs on the leaves of aspen, birch, cherry, hackberry, oak or willow trees.



“A 96% CUSTOMER SATISFACTION RATING IS SIMPLY THE BEST OF THE BEST AMONG THE 14 ONTARIO ELECTRIC UTILITIES THAT WERE PART OF OUR 2013 ANNUAL CUSTOMER SATISFACTION SURVEY. THESE OUTSTANDING RESULTS FOR GUELPH HYDRO ELECTRIC SYSTEMS INC. ARE PROOF POSITIVE THAT EXCELLENT SERVICE IS RECOGNIZED BY CUSTOMERS.”

SID RIDGLEY, PRESIDENT, UTILITYPULSE DIVISION, SIMUL CORPORATION

ELECTRICITY UTILITY CUSTOMER SATISFACTION SURVEY - 2013



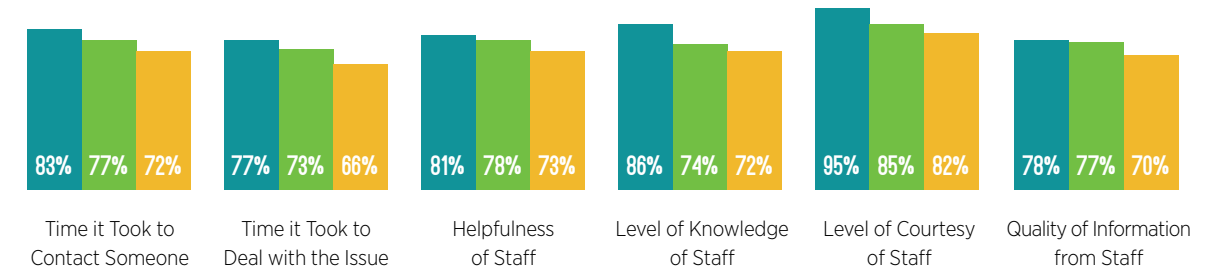
Electricity bill payers who are "Very or Fairly" satisfied with the services provided.

96%
 GUELPH HYDRO ELECTRIC SYSTEMS INC.

90% NATIONAL

90% ONTARIO

CUSTOMER SERVICE EXPECTATIONS



SERVICE QUALITY



Source: Annual Electric Utility Customer Satisfaction Survey - UtilityPULSE, a division of Simul Corporation

ENHANCING CUSTOMER SERVICE

Inside the Guelph Hydro office on Southgate Drive, Customer Service is undergoing a transformation. Calls have become more complex as customers seek help to better understand and manage their energy usage and information about how to conserve energy. Guelph Hydro is responding to these evolving needs by providing our professional team of experienced Customer Service Representatives with increased training and additional resources they can share with customers.

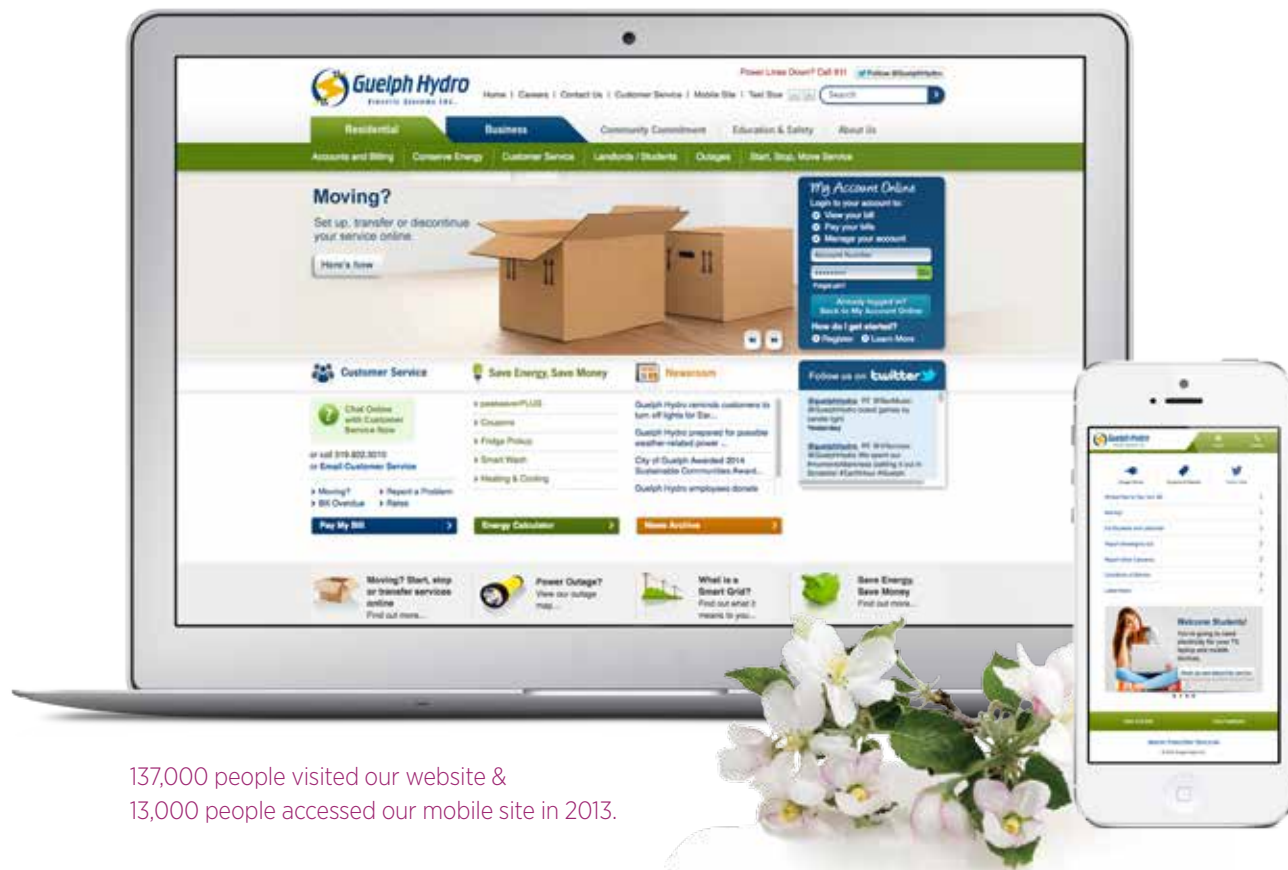
The Guelph Hydro Electric Systems Inc. website, which was redesigned in early 2012, now incorporates on-line forms, an outage map and Green Button next-day access to electricity consumption data that is proving to be very useful to customers.

Additionally, customers are able to contact Guelph Hydro Electric Systems Inc. through multiple channels including email and Twitter. In 2014, customers will be able to engage with our representatives via our website and online chat.

Guelph Hydro's mobile site contains links to our Outage Centre, Twitter stream, information for students and landlords and simple forms to use to report streetlights out or other concerns.

HIGHLIGHTS

- > Our in-house call centre responded to 40,520 calls and almost 5,000 written requests for information
- > Opened and closed accounts for the 11,500 customers who moved in and out of our service territory



137,000 people visited our website & 13,000 people accessed our mobile site in 2013.

FOLLOW US ON TWITTER

In 2013, Guelph Hydro began reaching out to the community via Twitter. **@GuelphHydro** and **@EnvidaEnergy** keep followers informed with company news, energy efficiency insights, safety tips and updates.

During power outages, the immediacy of Twitter communication enables us to provide customers with frequent updates. During and after the ice storm in December 2013, customers tweeted thank you messages and kudos to show their appreciation for the power restoration efforts of Guelph Hydro Electric Systems Inc. line crews.



ABOUT POLLINATORS
Hummingbirds can visit 1,000 to 3,000 flowers a day.

@GuelphHydro Fantastic communication! My go-to during our 24 hour outage in Rockwood. Power back as predicted! Thank you!

@GuelphHydro Kudos to your teams who are working so hard to make sure everyone will be safe and warm this holiday season. Thank you!

Thank you **@GuelphHydro** a lot of people in Ontario still don't have power, but Guelph does. Good work!

Big shout out of thanks to the **@GuelphHydro** crews working tirelessly through the night. Power restored at 3am! #thanks #icestorm2013 #guelph

@GuelphHydro awesome!!! You guys are the best!!

So thankful to **@GuelphHydro** for getting my power back on before midnight last night. You guys are amazing!

CORPORATE GOVERNANCE

Guelph Hydro Inc. is a holding company, 100 per cent owned by Guelph Municipal Holdings Inc., which, in turn, is 100 per cent owned by the City of Guelph.

Our shareholder, Guelph Municipal Holdings Inc., is guided by the community vision and strategic priorities of Guelph City Council. Its Board reports directly to Council and, thus, to Guelph citizens. It operates as an independent and self-funding corporation governed by a Board comprised of municipal officials and private citizens who contribute their broad experience, expertise and oversight. Guelph Municipal Holdings Inc. was set up by Guelph City Council to manage select City of Guelph assets, including Guelph Hydro Inc., for the purpose of maximizing their revenue potential and strengthening community prosperity.

Guelph Hydro Inc. owns 100 per cent of the shares of two operating subsidiaries: Guelph Hydro Electric Systems Inc. and Envida Community Energy Inc.

Each of the three corporate entities—Guelph Hydro Inc., Guelph Hydro Electric Systems Inc. and Envida Community Energy Inc.—has a separate Board* with members fully independent of management. In addition, the Board of Guelph Hydro Electric Systems Inc. has three members who are independent of the Guelph Hydro Inc. Board as required by the Ontario Energy Board's Affiliate Relationships Code.

Although the shares of Guelph Hydro Inc. are not publicly traded, the Board and Management Team strive to meet corporate governance reporting mandates and comply with provisions of the Ontario Securities Act and the Ontario Energy Board's Affiliate Relationships Code.

The following information about our Boards is posted on our websites: www.guelphhydroinc.com, www.guelphhydro.com and www.envida.ca.

*Reference to "the Board" in this disclosure may include the plural, i.e. subsidiary Boards, as the context requires.

- > Board Responsibilities & Composition
- > Board Member Biographies
- > Integrity, Ethics & Code of Conduct
- > Conflict of Interest

COMPOSITION OF BOARDS OF DIRECTORS

The Boards of Directors of Guelph Hydro Inc., Guelph Hydro Electric Systems Inc. and Envida Community Energy Inc. promote and champion diversity in board composition and the recruitment of board members with a broad mix of business and professional backgrounds, gender and ethnicity.

Although local representation on the Board from the Guelph franchise area is a relevant consideration for membership, it is not mandatory in order to ensure that all requisite skill sets, which may not be readily available in the franchise area, are included.

The Boards of Directors each maintain a matrix of skill sets and the Governance Committee, comprised of representatives from each Board, annually reviews the composition of the Board against the available inventory of skills in order to ascertain if further recruitment will be required.

BOARD OF DIRECTOR MEETING ATTENDANCE DURING 2013











During 2013, the following meetings took place:

- > Nine meetings of the Guelph Hydro Inc. Board of Directors and 21 meetings of Board committees

- > Six meetings of the Guelph Hydro Electric Systems Inc. Board of Directors
- > Seven meetings of the Envida Community Energy Inc. Board of Directors

Each Guelph Hydro Inc., Guelph Hydro Electric Systems Inc. and Envida Community Energy Inc. director attended at least 90 per cent of the total number of applicable Board and committee meetings held during the period of his or her service on the Board and Board committees during 2013.

BOARD MEMBERS – AS AT DECEMBER 31, 2013

| INDEPENDENT BOARD MEMBERS | | GUELPH HYDRO INC. | GUELPH HYDRO ELECTRIC SYSTEMS INC. | ENVIDA COMMUNITY ENERGY INC. |
|---|----------------|-------------------------------------|------------------------------------|-------------------------------------|
|  | Jasmine Urisk | BOARD CHAIR | BOARD CHAIR | BOARD CHAIR |
|  | Brian Cowan | BOARD VICE-CHAIR FAC GC | BOARD VICE-CHAIR FAC GC | BOARD VICE-CHAIR FAC GC |
|  | Jane Armstrong | HRCC GC - CHAIR | HRCC GC - CHAIR | HRCC GC - CHAIR |
|  | Jan Carr | FAC | | FAC |
|  | Rob Fennell | | GC | |
|  | Judy Fountain | FAC - CHAIR | FAC - CHAIR | FAC - CHAIR |
|  | Bob Huggard | | FAC HRCC | |
|  | Bill Koornstra | FAC - VICE-CHAIR GC - VICE-CHAIR | | FAC - VICE-CHAIR GC - VICE-CHAIR |
|  | Barbara Leslie | | HRCC - VICE-CHAIR | |
|  | Rick Thompson | HRCC - CHAIR GC | HRCC - CHAIR GC | HRCC - CHAIR GC |

FAC - Finance and Audit Committee | HRCC - Human Resources and Compensation Committee | GC - Governance Committee

RESPONSIBILITIES OF BOARD COMMITTEES

Board committees are comprised of representatives from the Boards of each of the three companies: Guelph Hydro Inc., Guelph Hydro Electric Systems Inc. and Envida Community Energy Inc.

FINANCE AND AUDIT COMMITTEE

- > Internal controls, financial statements and reporting, and external audit
- > Compliance with legal, regulatory and environmental obligations, and dividends
- > Systems relating to disclosure and internal controls, risk management, ethics and compliance with the strategic plan, business plan and budgets

- > Investment opportunities

HUMAN RESOURCES AND COMPENSATION COMMITTEE

- > Attraction, compensation, evaluation and retention of employees
- > Establishment of management performance objectives
- > Evaluation of management performance and review of management compensation
- > Succession planning
- > Organizational structure
- > Approval of employee benefit plans and incentive compensation

GOVERNANCE COMMITTEE

- > Assisting in overseeing the corporation's corporate governance principles and practices
- > Assisting in the strategic and business planning processes

- > Overseeing the evaluation of the Boards and committees including monitoring the annual improvement plan resulting from the evaluations
- > Identifying Board and Board member development opportunities
- > Ensuring compliance with legal, regulatory, and environmental obligations
- > Reviewing Board compensation
- > Assisting with the recruitment and selection process for Board and committee membership

RISK MANAGEMENT

The Boards and Board committees of Guelph Hydro Inc. and its subsidiaries have specific oversight responsibility for risk management as follows:

- > The Boards evaluate risks associated with major investments and strategic initiatives
- > The Boards oversee the implementation and effectiveness of programs to ensure safety, ethics and compliance with legal, regulatory and environmental obligations
- > The corporation's Governance Committee addresses the guidelines and policies that govern the processes for assessing and managing major risks and allocates to other Board committees the specific responsibility to oversee identified enterprise risks
- > The corporation's Human Resources and Compensation Committee oversees the human resources regulations, policies and practices including compensation that fit their scope
- > The corporation's Finance and Audit Committee oversees risk issues associated with overall financial reporting and disclosure processes

SKILL REQUIREMENTS

The Board maintains a matrix of skill sets and the Governance Committee annually reviews the composition of the Board against the available inventory of skills in order to ascertain if further recruitment will be required. Among the skills considered essential to discharge the Board's oversight responsibilities are the following:

- > Business Development, Mergers and Acquisitions
- > Communication, Marketing and Public Relations
- > Community Awareness
- > Electrical Utility Knowledge / Engineering and Operations
- > Environmental
- > Financial / Accounting / Investment
- > Governance, Strategic Planning and Management
- > Human Resources / Diversity
- > Information Systems
- > Legal, Regulatory and / or Government Relations

INTEGRITY AND ETHICS

The Board and the Management Team of Guelph Hydro Inc. and its subsidiaries, Guelph Hydro Electric Systems Inc. and Envida Community Energy Inc. are all committed to the highest standards of corporate governance and business ethics.

Annually, Board and staff members confirm their adherence to the company's policy on Ethics and Values which includes being respectful; conducting business in an ethical manner by acting with

honesty, integrity and impartiality; complying with all legislation; and committing to safeguard company information and assets.

The Board has an approved Whistleblower Policy which directly supports the Ethics and Values Policy. The Whistleblower Policy provides a confidential process by which employees, shielded from recrimination, can report suspected violations of the company Ethics and Values Policy and/or financial reporting, accounting, internal accounting controls, human resources, safety or environmental policies.

As well, the Board, through its Governance Committee, annually conducts an evaluation exercise led by autonomous experts. Once completed, the Board and committees prepare follow up and action plans and schedule time at meetings throughout the remainder of the year to address issues and areas for improvement. In this way, the Board achieves continuous improvement in its relationships, processes and operations.



ABOUT POLLINATORS
Butterflies must land on flowers to feed. Pollen sticks to their legs as they walk around feeding from flower clusters.

SUSTAINABILITY REPORTING

GLOBAL REPORTING INITIATIVE™ (GRI)

The Global Reporting Initiative™ (GRI) produces the world's most comprehensive sustainability reporting framework. This framework has three objectives: comparability of data, transparency of information and accountability to stakeholders. It is designed to encourage sustainability reporting by all organizations.

The standardized GRI reporting framework sets out the principles and performance indicators organizations can use to measure and report their economic, environmental, and social performance.

Guelph Hydro has used the GRI G3.1 Sustainability Reporting Guidelines and the GRI Electric Utilities Sector Supplement to benchmark its performance in the area of sustainability. Guelph Hydro has self-assessed the 2013 Sustainability Report as meeting the requirements for a GRI 3.1 Application Level C.

ABOUT THIS REPORT

This report covers the operations of Guelph Hydro Inc., Guelph Hydro Electric Systems Inc., and Envida Community Energy Inc., all headquartered in Guelph, Ontario, Canada.

Included in the content are topics and indicators that reflect Guelph Hydro's significant economic, environmental and social impacts as well as issues considered to be of material interest to our key

stakeholders as determined through a variety of engagement activities. Statistics and data reported are intended to provide sufficient information to enable stakeholders to assess the corporation's sustainability performance.

We work hard to meet or exceed all local, provincial and federal regulatory and legislative requirements and benchmark our performance against the Global Reporting Initiative™ (GRI), the world's most comprehensive sustainability reporting framework. Results are contained in the GRI 3.1 Content Index included at the end of this report and posted on our websites: www.guelphhydroinc.com, www.guelphhydro.com and www.envida.ca.

We are always seeking ways to improve our report and welcome your feedback and suggestions. Please send any questions or comments to: sustainability@guelphhydro.com

ABOUT POLLINATORS

Butterfly-friendly plants usually produce clusters of brightly colored sweet-smelling flowers and include asters, daisies, butterfly bush, butterfly weed, lantana, marigolds, purple coneflowers and zinnias.

ABOUT POLLINATORS
Flies are more important as pollinators than is commonly realized.



GLOBAL REPORTING INITIATIVE™ (GRI) CONTENT INDEX

The GRI Content Index provides an overview of all the disclosures in the GRI Report. The Index functions as a communication tool by detailing what has been reported or why certain data has not been reported. At the same time, the Index is a navigational mechanism for report users, directing them to the GRI data of interest.

The GRI 3.1 Content Index for Application Level C along with the Electric Utilities Sector Supplement Content Index are included on pages 45-52 and are posted on company websites at: www.guelphhydroinc.com, www.guelphhydro.com and www.envida.ca.

More information about GRI and application levels is available at www.globalreporting.org

We welcome your feedback on our Sustainability Report. Comments may be addressed to: sustainability@guelphhydro.com

GRI G3.1 CONTENT INDEX ELECTRIC UTILITIES SECTOR SUPPLEMENT - GRI APPLICATION LEVEL C

STANDARD DISCLOSURES: PROFILE DISCLOSURES

1. STRATEGY & ANALYSIS

| PROFILE DISCLOSURE | DISCLOSURE | LEVEL OF REPORTING | LOCATION OF DISCLOSURE |
|--------------------|--|--------------------|--|
| 1.1 | Statement from the most senior decision-maker of the organization. | Fully | 2013 Sustainability Report - Message to Our Stakeholders - p.3 |

2. ORGANIZATIONAL PROFILE

| | | | |
|------|--|-------|---|
| 2.1 | Name of the organization. | Fully | 2013 Sustainability Report - Cover & Corporate Profile - inside cover |
| 2.2 | Primary brands, products, and/or services. | Fully | 2013 Sustainability Report - Corporate Profile - inside cover |
| 2.3 | Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures. | Fully | 2013 Sustainability Report - Corporate Profile - inside cover |
| 2.4 | Location of organization's headquarters. | Fully | 395 Southgate Drive, Guelph, Ontario, Canada N1G 4Y1 |
| 2.5 | Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report. | Fully | Canada only |
| 2.6 | Nature of ownership and legal form. | Fully | 2013 Sustainability Report - Corporate Profile - inside cover |
| 2.7 | Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries). | Fully | 2013 Sustainability Report - Corporate Profile - inside cover |
| 2.8 | Scale of the reporting organization. | Fully | 2013 Sustainability Report - Corporate Profile - inside cover 2013 Sustainability Report - Fast Facts - p.10 |
| 2.9 | Significant changes during the reporting period regarding size, structure, or ownership. | Fully | No significant changes |
| 2.10 | Awards received in the reporting period. | Fully | 2013 Sustainability Report - Social Responsibility - p. 34 |

2. ORGANIZATIONAL PROFILE (CONT'D)

| | | | |
|-----|--|-------|--|
| EU1 | Installed capacity, broken down by primary energy source and by regulatory regime. | Fully | Regulatory regime - Not regulated Thermal energy generation facility - Hot water & chilled water = 13,200,000 BTUs per hour heating / 350 tons cooling Regulatory regime - Independent Electricity System Operator Emergency back-up generator - Natural gas - 500 kW Eastview Landfill Biogas Facility - Landfill gas - 1,850 kW Southgate Rooftop Solar Facility - Solar energy - 100 kW Arlen Rooftop Solar Facility - Solar energy = 10 kW |
| EU2 | Net energy output broken down by primary energy source and by regulatory regime. | Fully | Regulatory regime - Independent Electricity System Operator Emergency back-up generator = 6,623 kWh Southgate Rooftop Solar Facility = Solar energy = 122,662 kWh Eastview Landfill Biogas Facility = 10,307,163 kWh Arlen Rooftop Solar Facility - Solar energy - 4.029 kWh (5 months) |
| EU3 | Number of residential, industrial, institutional and commercial customer accounts. | Fully | 2013 Sustainability Report - 2013 Fast Facts - p.10 |
| EU4 | Length of above and underground transmission and distribution lines by regulatory regime. | Fully | 2013 Sustainability Report - 2013 Fast Facts - p.10 |
| EU5 | Allocation of CO ₂ e emissions allowances or equivalent, broken down by carbon trading framework. | Not | Canada has not adopted a regulatory framework on the reduction of CO ₂ emissions in connection with the Kyoto Protocol and there is no emissions trading scheme in Canada. Therefore, Guelph Hydro Inc. does not report on CO ₂ allowances. |

3. REPORT PARAMETERS

| | | | |
|------|---|-------|---|
| 3.1 | Reporting period for information provided. | Fully | Calendar year / fiscal year 2013 |
| 3.2 | Date of most recent previous report. | Fully | 2012 |
| 3.3 | Reporting cycle. | Fully | Annual |
| 3.4 | Contact point for questions regarding the report or its contents. | Fully | Sandy Manners Director of Corporate Communications, Guelph Hydro Inc. T: 519.837.4703 E: smanners@guelphhydro.com |
| 3.5 | Process for defining report content. | Fully | 2013 Sustainability Report - Sustainability Commitment - p.12 2013 Sustainability Report - About This Report - p.44 |
| 3.6 | Boundary of the report. | Fully | 2013 Sustainability Report - Sustainability Commitment - p.12 2013 Sustainability Report - About This Report - p.44 |
| 3.7 | Specific limitations on the scope or boundary of the report. | Fully | 2013 Sustainability Report - Sustainability Commitment - p.12 2013 Sustainability Report - About This Report - p.44 |
| 3.8 | Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations. | Fully | 2013 Sustainability Report - Sustainability Commitment - p.12 2013 Sustainability Report - About This Report - p. 44 |
| 3.10 | Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g., mergers/acquisitions, change of base years/periods, nature of business, measurement methods). | Fully | No re-statements |
| 3.11 | Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report. | Fully | No significant changes |
| 3.12 | Table identifying the location of the Standard Disclosures in the report. | Fully | 2013 Sustainability Report - G3.1 Content Index - p.45 |

4. GOVERNANCE, COMMITMENTS AND ENGAGEMENT

| | | | |
|------|--|-------|--|
| 4.1 | Governance structure of the organization, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organizational oversight. | Fully | 2013 Sustainability Report - Corporate Governance - p.40 |
| 4.2 | Indicate whether the Chair of the highest governance body is also an executive officer. | Fully | 2013 Sustainability Report - Corporate Governance - p.40 The Board Chair is completely independent of management and, as such, is not an executive officer. |
| 4.3 | For organizations that have a unitary board structure, state the number and gender of members of the highest governance body that are independent and/or non-executive members. | Fully | 2013 Sustainability Report - Corporate Governance - p.40 |
| 4.4 | Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body. | Fully | Websites and 2013 Sustainability Report - Corporate Governance - p.40 |
| 4.14 | List of stakeholder groups engaged by the organization. | Fully | 2013 Sustainability Report - pg.14. Stakeholders are defined as but not limited to: Boards of Directors, shareholder - Guelph Municipal Holdings Inc., City of Guelph Mayor and City Council, Village of Rockwood Mayor and City Council, employees, International Brotherhood of Electrical Workers, retirees, customers, the community, partner organizations, suppliers, government bodies / agencies, industry associations, investment community, media and potential future employees. |
| 4.15 | Basis for identification and selection of stakeholders with whom to engage. | Fully | Within the company's service territory, all customers and the communities served are considered stakeholders. All stakeholders that are directly affected by or directly affect Guelph Hydro Inc are engaged through various means. A formal survey was conducted with customers in 2013. |

STANDARD DISCLOSURES: PERFORMANCE INDICATORS

ECONOMIC

| INDICATOR | DISCLOSURE | LEVEL OF REPORTING | LOCATION OF DISCLOSURE |
|-----------------------------|---|--------------------|--|
| ECONOMIC PERFORMANCE | | | |
| EC1 | Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments. | Fully | 2013 Sustainability Report - Creating Direct Economic Value - p.5, p.16 |
| EC2 | Financial implications and other risks and opportunities for the organization's activities due to climate change. | Partially | Opportunities are reflected in the activities of Guelph Hydro's non-regulated business activities associated with the company's support of the City of Guelph Community Energy Initiative detailed throughout the 2013 Sustainability Report. Risks due to physical changes associated with climate change (e.g., impacts of modified weather patterns) are considered to be minimal. Although infrastructure may be affected by extreme weather events, Guelph Hydro believes that such occurrences will not materially affect its operating or financial performance. In the unlikely circumstance that the company is materially affected by a major ice storm, wind storm, tornado, etc., costs associated with the damage caused may be recovered through rates upon approval by the Ontario Energy Board. |
| EC3 | Coverage of the organization's defined benefit plan obligations. | Fully | Guelph Hydro provides a pension plan for its employees through the Ontario Municipal Employees Retirement System (OMERS). OMERS is a multi-employer pension plan which operates as the Ontario Municipal Employee Retirement Fund (the "Fund") and provides pensions for employees of Ontario municipalities, local boards, public utilities, and school boards. The Fund is a contributory defined benefit pension plan, which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund. Guelph Hydro uses defined contribution plan accounting as it is only liable for contributions to the Plan. |
| EC4 | Significant financial assistance received from government. | Not | Not material |

MARKET PRESENCE

| | | | |
|-----|---|-------|---|
| EC5 | Range of ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation. | Fully | Not relevant. Guelph Hydro's entry level wages are above provincial minimum wages. |
| EC6 | Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation. | Fully | No formal policy regarding buying from locally-based suppliers. |
| EC7 | Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation. | Fully | No formal policy or common practice of granting hiring preference to local residents. |

INDIRECT ECONOMIC IMPACTS

| | | | |
|-----|--|-------|---|
| EC8 | Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement. | Fully | 2013 Sustainability Report - Relationship with the City of Guelph - p.8 2013 Sustainability Report - Operational Excellence in Our Regulated Electrical Utility - p. 22 2012 Sustainability Report - Environmental Stewardship - p.26 |
| EC9 | Understanding and describing significant indirect economic impacts, including the extent of impacts. | Not | |

AVAILABILITY AND RELIABILITY

| | | | |
|------|---|-------|--|
| EU6 | Management approach to ensure short and long-term electricity availability and reliability | Fully | 2013 Sustainability Report - Message to Our Stakeholders - p. 3 2013 Sustainability Report - Operational Excellence in our Regulated Electrical Utility - p. 22 2013 Sustainability Report - Environmental Stewardship - p. 26 |
| EU10 | Planned capacity against projected electricity demand over the long term, broken down by energy source and regulatory regime. | Not | |

DEMAND-SIDE MANAGEMENT

| | | | |
|-----|---|-------|---|
| EU7 | Demand-side management programs including residential, commercial, institutional and industrial programs. | Fully | 2013 Sustainability Report - Environmental Stewardship - p.26 |
|-----|---|-------|---|

SYSTEM EFFICIENCY

| | | | |
|------|---|-----|----------------|
| EU11 | Average generation efficiency of thermal plants by energy source and regulatory regime. | Not | Not applicable |
| EU12 | Transmission and distribution losses as a percentage of total energy. | Not | |

RESEARCH & DEVELOPMENT

| | | | |
|-----|--|-----|---|
| EU8 | Research and development activity and expenditure aimed at providing reliable electricity and promoting sustainable development. | Not | Smart grid research and development costs included in operational expenditures. |
|-----|--|-----|---|

PLANT DECOMMISSIONING

| | | | |
|-----|--|-----|------------------------|
| EU9 | Provisions for decommissioning of nuclear power sites. | Not | No nuclear power sites |
|-----|--|-----|------------------------|

| ENVIRONMENTAL | | | |
|---------------------------------------|---|--------------------|---|
| INDICATOR | DISCLOSURE | LEVEL OF REPORTING | LOCATION OF DISCLOSURE |
| MATERIALS | | | |
| EN1 | Materials used by weight or volume. | Not | Not tracked |
| EN2 | Percentage of materials used that are recycled input materials. | Not | Not tracked |
| ENERGY | | | |
| EN3 | Direct energy consumption by primary energy source. | Fully | Total direct energy consumption = 4,198,051.6 megajoules Natural gas = 7,481 cubic metres = 291,833.8 megajoules Diesel - 88,800 litres = 2,695,590.0 megajoules Gasoline - 44,029 litres = 1,210,627.7 megajoules |
| EN4 | Indirect energy consumption by primary source. | Fully | 1,737 gigawatt-hours of electricity consumed supplied by the Ontario Independent Electricity System Operator. Supply mix details are posted at: www.ieso.ca |
| EN5 | Energy saved due to conservation and efficiency improvements. | Fully | 2013 Sustainability Report - p.2 and Environmental Stewardship - p.26 |
| EN6 | Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives. | Fully | 2013 Sustainability Report - Environmental Stewardship - p.26 |
| EN7 | Initiatives to reduce indirect energy consumption and reductions achieved. | Fully | 2013 Sustainability Report - p.2 and Environmental Stewardship - p.26 |
| WATER | | | |
| EN8 | Total water withdrawal by source. | Fully | All of Guelph Hydro's water comes from municipal sources. Total water consumption in 2013 = 1,792 cubic metres |
| EN9 | Water sources significantly affected by withdrawal of water. | Not | Not applicable |
| EN10 | Percentage and total volume of water recycled and reused. | Fully | No water is recycled or reused |
| BIODIVERSITY | | | |
| EN11 | Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas. | Fully | 13.8 acre head office property is located adjacent to wetland owned by the Grand River Conservation Authority. |
| EN12 | Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas. | Fully | Guelph Hydro's potential impacts on biodiversity in its service territory are minor. Examples include: harm to wildlife that comes into contact with electrified infrastructure, emissions from fleet and facilities, construction of new infrastructure, in-service PCB/SF6 (sulfur hexafluoride) and other chemicals used in processes. |
| EU13 | Biodiversity of offset habitats compared to the biodiversity of the affected areas | Not | Not tracked |
| EN13 | Habitats protected or restored. | Fully | None |
| EN14 | Strategies, current actions, and future plans for managing impacts on biodiversity. | Fully | 2013 Sustainability Report - Planting Gardens to Attract Pollinators - p. 1 |
| EN15 | Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk. | Fully | Not applicable |
| EMISSIONS, EFFLUENTS AND WASTE | | | |
| EN16 | Total direct and indirect greenhouse gas emissions by weight. | Not | Not tracked |
| EN17 | Other relevant indirect greenhouse gas emissions by weight. | Not | Not tracked |
| EN18 | Initiatives to reduce greenhouse gas emissions and reductions achieved. | Fully | 2013 Sustainability Report - Environmental Stewardship - p.26 |
| EN19 | Emissions of ozone-depleting substances by weight. | Not | Not tracked |
| EN20 | NO _x , SO _x , and other significant air emissions by type and weight. | Not | Not tracked |
| EN21 | Total water discharge by quality and destination. | Not | Not tracked |
| EN22 | Total weight of waste by type and disposal method. | Not | Not tracked |
| EN23 | Total number and volume of significant spills. | Fully | There were no significant spills in 2013. |
| EN24 | Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally. | Not | Not tracked |
| EN25 | Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff. | Not | All water is discharged into the municipal sewage system. |

| PRODUCTS & SERVICES | | | |
|---------------------|--|-----|----------------|
| EN26 | Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation. | Not | Not tracked |
| EN27 | Percentage of products sold and their packaging materials that are reclaimed by category. | Not | Not applicable |

| COMPLIANCE | | | |
|------------|--|-------|------|
| EN28 | Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations. | Fully | None |

| TRANSPORT | | | |
|-----------|---|-----|-------------|
| EN29 | Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce. | Not | Not tracked |

| OVERALL | | | |
|---------|--|-----|-------------|
| EN30 | Total environmental protection expenditures and investments by type. | Not | Not tracked |

SOCIAL: LABOUR PRACTICES & DECENT WORK

| INDICATOR | DISCLOSURE | LEVEL OF REPORTING | LOCATION OF DISCLOSURE |
|-------------------|--|--------------------|--|
| EMPLOYMENT | | | |
| EU14 | Programs and processes to ensure the availability of a skilled workforce. | Fully | The company hires apprentices into industry specific trades, such as power line workers, meterpersons and system control operators, to ensure sustainability of continued resources. The company also hires Engineers in Training to ensure a supply of qualified engineers and regularly participates in post-secondary co-operative education programs for students looking to gain experience and exposure to various business units within the electricity industry. |
| EU15 | Percentage of employees eligible to retire in the next 5 and 10 years broken down by job category and by region. | Partially | 5 Years – Guelph Hydro Electric Systems Inc. = 23% 10 Years – Guelph Hydro Inc. = 20%; Guelph Hydro Electric Systems Inc. = 48% |
| EU16 | Policies and requirements regarding health and safety of employees and employees of contractors and subcontractors. | Fully | Guelph Hydro adheres to the Ontario Occupational Health and Safety Act. All employees are required to abide by the company's 27 Health, Safety and Loss Control policies and 31 Operations Safe Work Practices. Contractors are governed by two policies: FAC-1, Employee, Contractor and Visitor Access and HSL-23, Contractor Management. |
| LA1 | Total workforce by employment type, employment contract, and region, broken down by gender. | Partially | Total Management = 46 Total Unionized = 77 Total = 123 All located in Guelph, Ontario, Canada Gender statistics not reported. |
| LA2 | Total number and rate of new employee hires and employee turnover by age group, gender, and region. | Not | |
| EU17 | Days worked by contractor and subcontractor employees involved in construction, operation and maintenance activities. | Not | |
| EU18 | Percentage of contractor and subcontractor employees that have undergone relevant health and safety training. | Fully | 100% |
| LA3 | Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations. | Fully | Extended health care, dental, life insurance, long-term disability, employee assistance program, OMERS pension plan, computer purchase plan, educational assistance, wellness program. |
| LA15 | Return to work and retention rates after parental leave, by gender. | Not | |

LABOUR/MANAGEMENT RELATIONS

| | | | |
|-----|---|-------|---|
| LA4 | Percentage of employees covered by collective bargaining agreements. | Fully | 68% |
| LA5 | Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements. | Fully | Guelph Hydro does not specify minimum notice periods. However, the company complies with all legal obligations. |

OCCUPATIONAL HEALTH AND SAFETY

| | | | |
|-----|---|-----------|---|
| LA6 | Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs. | Fully | 100% of the workforce is represented in formal joint management-worker health and safety committees. |
| LA7 | Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region and by gender. | Partially | Guelph Hydro tracks all incidents, including first aid level, and also tracks the potential for injury and/or loss. There were no lost time injuries or fatalities reported in 2013. Information related to short-term absences (<5 days) in 2013 is not reported as it was not tracked. |
| LA8 | Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases. | Not | |
| LA9 | Health and safety topics covered in formal agreements with trade unions. | Fully | Guelph Hydro's collective agreement with its trade union, the International Brotherhood of Electrical Workers (IBEW), is comprehensive and covers all relevant health and safety topics. All health and safety policies and procedures are reviewed by the Joint Health and Safety Committee. |

TRAINING AND EDUCATION

| | | | |
|------|--|-----------|--|
| LA10 | Average hours of training per year per employee by gender, and by employee category. | Partially | Average hours of training: Senior Management = 73 hours Management/Supervisors/Professionals = 40 hours Trades/Technicians/Technologists = 68 hours Union Clerical/Administration = 23 hours Gender statistics not tracked. |
| LA11 | Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings. | Partially | 2013 Sustainability Report - Social Responsibility - p.34 |
| LA12 | Percentage of employees receiving regular performance and career development reviews, by gender. | Fully | 100% of non-unionized employees receive annual formal performance and career development reviews. 100% of unionized employees receive formal reviews when progressing through job rate steps. |

DIVERSITY AND EQUAL OPPORTUNITY

| | | | |
|------|---|-----|--|
| LA13 | Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity. | Not | |
|------|---|-----|--|

EQUAL REMUNERATION FOR WOMEN & MEN

| | | | |
|------|---|-----|---|
| LA14 | Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation. | Not | Guelph Hydro complies with the Pay Equity Act |
|------|---|-----|---|

SOCIAL: HUMAN RIGHTS

| INDICATOR | DISCLOSURE | LEVEL OF REPORTING | LOCATION OF DISCLOSURE |
|-----------|------------|--------------------|------------------------|
|-----------|------------|--------------------|------------------------|

INVESTMENT & PROCUREMENT PRACTICES

| | | | |
|-----|---|-----------|---|
| HR1 | Percentage and total number of significant investment agreements and contracts that include clauses incorporating human rights concerns, or that have undergone human rights screening. | Not | Not applicable |
| HR2 | Percentage of significant suppliers, contractors and other business partners that have undergone human rights screening, and actions taken. | Not | Not material |
| HR3 | Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained. | Partially | 100% of employees trained on Bill 168 and Accessibility for Ontarians with Disabilities. Information relating to total hours of training on policies related to Human Rights is not available as it is not recorded separately from other types of training such as safety or skills development, however training on Human Rights occurs every year at various meetings. |

NON-DISCRIMINATION

| | | | |
|-----|---|-------|------|
| HR4 | Total number of incidents of discrimination and corrective actions taken. | Fully | None |
|-----|---|-------|------|

FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING

| | | | |
|-----|--|-------|------|
| HR5 | Operations and significant suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and actions taken to support these rights. | Fully | None |
|-----|--|-------|------|

CHILD LABOUR

| | | | |
|-----|--|-------|------|
| HR6 | Operations and significant suppliers identified as having significant risk for incidents of child labour, and measures taken to contribute to the effective abolition of child labour. | Fully | None |
|-----|--|-------|------|

PREVENTION OF FORCED AND COMPULSORY LABOUR

| | | | |
|-----|---|-------|------|
| HR7 | Operations and significant suppliers identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of all forms of forced or compulsory labour. | Fully | None |
|-----|---|-------|------|

SECURITY PRACTICES

| | | | |
|-----|---|-------|--|
| HR8 | Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations. | Fully | Not applicable. No security personnel. |
|-----|---|-------|--|

INDIGENOUS RIGHTS

| | | | |
|-----|--|-------|------|
| HR9 | Total number of incidents of violations involving rights of indigenous people and actions taken. | Fully | None |
|-----|--|-------|------|

ASSESSMENT

| | | | |
|------|---|-------|------|
| HR10 | Percentage and total number of operations that have been subject to human rights reviews and/or impact assessments. | Fully | None |
|------|---|-------|------|

REMEDATION

| | | | |
|------|---|-------|------|
| HR11 | Number of grievances related to human rights filed, addressed and resolved through formal grievance mechanisms. | Fully | None |
|------|---|-------|------|

SOCIAL: SOCIETY

| INDICATOR | DISCLOSURE | LEVEL OF REPORTING | LOCATION OF DISCLOSURE |
|-----------|------------|--------------------|------------------------|
|-----------|------------|--------------------|------------------------|

LOCAL COMMUNITIES

| | | | |
|------|---|-----|----------------|
| EU19 | Stakeholder participation in the decision making process related to energy planning and infrastructure development. | Not | |
| EU20 | Approach to managing the impacts of displacement. | Not | Not applicable |
| SO1 | Nature, scope, and effectiveness of any programs and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting. | Not | Not applicable |
| SO1 | Percentage of operations with implemented local community engagement, impact assessments, and development programs. | Not | |
| EU22 | Number of people physically or economically displaced and compensation, broken down by type of project. | Not | Not applicable |
| SO9 | Operations with significant potential or actual negative impacts on local communities. | Not | |
| SO10 | Prevention and mitigation measures implemented in operations with significant potential or actual negative impacts on local communities. | Not | |

CORRUPTION

| | | | |
|-----|--|-------|---|
| SO2 | Percentage and total number of business units analyzed for risks related to corruption. | Fully | 100% - three companies |
| SO3 | Percentage of employees trained in organization's anti-corruption policies and procedures. | Fully | 100% of employees are trained in policies and procedures that relate to anti-corruption including the Code of Ethics and Purchasing Policy. Whistleblower process in place and employees trained. |
| SO4 | Actions taken in response to incidents of corruption. | Fully | No issues |

PUBLIC POLICY

| | | | |
|-----|--|-------|--|
| SO5 | Public policy positions and participation in public policy development and lobbying. | Fully | Company representatives meet regularly with municipal, provincial and federal government officials and government agencies. The company does not participate in formal lobbying. |
| SO6 | Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country. | Fully | None |

ANTI-COMPETITIVE BEHAVIOUR

| | | | |
|-----|---|-------|------|
| SO7 | Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes. | Fully | None |
|-----|---|-------|------|

COMPLIANCE

| | | | |
|-----|--|-------|------|
| SO8 | Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations. | Fully | None |
|-----|--|-------|------|

DISASTER/EMERGENCY PLANNING AND RESPONSE

| | | | |
|------|--|-------|--|
| EU21 | Contingency planning measures, disaster/emergency management plan and training programs, and recovery/restoration plans. | Fully | Emergency Operations Plan, Business Continuity Planning Manual, training of key personnel, participation in emergency planning exercises |
|------|--|-------|--|

SOCIAL: PRODUCT RESPONSIBILITY

CUSTOMER HEALTH & SAFETY

| | | | |
|------|--|-------|--|
| PR1 | Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures. | Fully | Projects undergo an Environmental Assessment process. Guelph Hydro constantly tests and audits the safety and reliability of its assets which deliver electricity (poles, wires, transformers, meters, etc.) to customers. Meters are regularly tested to meet Industry Canada federal revenue metering accuracy requirements. |
| PR2 | Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes. | Fully | None |
| EU25 | Number of injuries and fatalities to the public involving company assets, including legal judgments, settlements and pending legal cases of diseases. | Fully | None |

| PRODUCT & SERVICE LABELING | | | |
|----------------------------|--|-------|--|
| PR3 | Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements. | Not | |
| PR4 | Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes. | Fully | None |
| PR5 | Practices related to customer satisfaction, including results of surveys measuring customer satisfaction. | Fully | 2013 Sustainability Report - Top Ranking in Customer Satisfaction - p. 36 |
| MARKETING COMMUNICATIONS | | | |
| PR6 | Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship. | Fully | The company adheres to all laws, standards and voluntary codes in its marketing, public relations and sponsorship activities. The Director of Corporate Communications is Accredited in Public Relations and is required to adhere to the Code of Ethics of the Canadian Public Relations Society (www.cprs.ca/aboutus/code_ethic.aspx) |
| PR7 | Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes. | Fully | None |
| CUSTOMER PRIVACY | | | |
| PR8 | Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data. | Fully | None |
| COMPLIANCE | | | |
| PR9 | Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services. | Fully | None |
| ACCESS | | | |
| EU23 | Programs, including those in partnership with government, to improve or maintain access to electricity and customer support services. | Fully | 2013 Sustainability Report - Operational Excellence in our Regulated Electrical Utility - p. 22 2013 Sustainability Report - Environmental Stewardship - p. 26 2013 Sustainability Report - Enhancing Customer Service - p. 38 |
| EU26 | Percentage of population unserved in licensed distribution or service areas. | Fully | Zero |
| EU27 | Number of residential disconnections for non-payment, broken down by duration of disconnection and by regulatory regime. | Fully | <48 hours = 142 48 hours to 1 week = 37 1 week to 1 month = 51 1 month to 1 year = 32 >1 year = 0 |
| EU28 | Power outage frequency. | Fully | 2013 Sustainability Report - 2013 Fast Facts - p.11 |
| EU29 | Average power outage duration. | Fully | 2013 Sustainability Report - 2013 Fast Facts - p.11 |
| EU30 | Average plant availability factor by energy source and by regulatory regime. | Fully | 2013 Sustainability Report - 2012 Fast Facts - p.11 |
| PROVISION OF INFORMATION | | | |
| EU24 | Practices to address language, cultural, low literacy and disability related barriers to accessing and safely using electricity and customer support services. | Fully | Guelph Hydro is committed to providing accessible, quality service to all customers. Employees have received training and the company's Accessibility practices are outlined at the company websites at: www.guelphhydroinc.com , www.guelphhydro.com and www.envida.ca |



ABOUT POLLINATORS

Pollinating insects and birds are an indispensable natural resource and their daily work is essential for the production of over a billion dollars of apples, pears, cucumbers, melons, berries and many other kinds of Canadian farm produce. For more information on pollinators, visit: www.pollinationguelph.ca



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- saveONenergySM RETROFIT PROGRAM
- saveONenergySM SMALL BUSINESS LIGHTING PROGRAM

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RELIABILITY INDICATORS

Distribution system reliability indices (SAIFI, SAIDI, CAIDI) include all planned and unplanned interruptions lasting more than one minute. Momentary interruptions (MAIFI) last less than one minute.

Loss of supply refers to customer interruptions caused by an outage that occurs upstream of the Guelph Hydro Electric System Inc. distribution system.

Calculation Formulas:

SAIFI = Total customer interruptions / Total customers served

SAIDI = Total hours of customer interruptions / Total customers served

CAIDI = SAIDI/SAIFI

Average amount of time customers were without power = CAIDI * 60

Index of Reliability = (# of hours in the year - SAIDI) / (# of hours in the year)



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 Guelph Hydro Inc., Guelph Hydro Electric Systems Inc. & Envida Community Energy Inc.

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Consolidated Financial Statements of

GUELPH HYDRO INC.

Year ended December 31, 2013
(Expressed in thousands of dollars)



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Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the shareholder of Guelph Hydro Inc.

We have audited the accompanying consolidated financial statements of Guelph Hydro Inc., which comprise the consolidated balance sheet as at December 31, 2013 and the consolidated statements of comprehensive income, changes in equity 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 International Financial Reporting Standards, 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.



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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Guelph Hydro Inc. as at December 31, 2013 and its consolidated results of operations and its consolidated cash flows for the year ended December 31, 2013 in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

April 16, 2014
Waterloo, Canada

GUELPH HYDRO INC.

Consolidated Balance Sheets

December 31, 2013, with comparative information for 2012
(Expressed in thousands of dollars)

| | 2013 | As restated 2012 |
|--|------------|---------------------|
| Assets | | |
| Current assets: | | |
| Cash | \$ 11,174 | \$ 16,467 |
| Accounts receivable (note 4) | 20,099 | 18,355 |
| Unbilled revenue | 9,983 | 11,645 |
| Income taxes recoverable | 1,468 | 1,027 |
| Inventory (note 5) | 1,504 | 1,876 |
| Other current assets | 631 | 666 |
| Total current assets | 44,859 | 50,036 |
| Property, plant and equipment (note 6) | 139,414 | 130,798 |
| Intangible assets (note 7) | 351 | 314 |
| Deferred income taxes (note 8) | 5,801 | 6,885 |
| Deferred charges | 40 | 40 |
| Total non-current assets | 145,606 | 138,037 |
| Total assets | \$ 190,465 | \$ 188,073 |

GUELPH HYDRO INC.


Consolidated Balance Sheets

December 31, 2013, with comparative information for 2012
(Expressed in thousands of dollars)

| | 2013 | As restated 2012 |
|--|------------|---------------------|
| Liabilities and Shareholder's Equity | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 24,612 | \$ 19,120 |
| Deferred credits - budget billing | 1,059 | 1,983 |
| Customer deposits - current portion (note 9) | 3,442 | 3,689 |
| Current portion of long-term debt (note 12) | - | 138 |
| Total current liabilities | 29,113 | 24,930 |
| FCM loan (note 12) | - | 687 |
| Senior unsecured debentures (note 12) | 64,575 | 64,550 |
| Employee future benefits (note 11) | 8,549 | 8,513 |
| Customer deposits - long-term portion (note 9) | 2,874 | 2,898 |
| Deferred revenue | 13,514 | 10,611 |
| Total non-current liabilities | 89,512 | 87,259 |
| Total liabilities | 118,625 | 112,189 |
| Shareholder's equity: | | |
| Share capital (note 18) | 48,576 | 48,576 |
| Other comprehensive income (loss) | (159) | (465) |
| Retained earnings | 23,423 | 27,773 |
| | 71,840 | 75,884 |
| Commitments and contingencies (note 17) | | |
| Guarantees (note 20) | | |
| Total liabilities and shareholder's equity | \$ 190,465 | \$ 188,073 |

The accompanying notes are an integral part of these consolidated financial statements.

On behalf of the Board:

 Director

 Director

GUELPH HYDRO INC.

Consolidated Statements of Comprehensive Income

Year ended December 31, 2013, with comparative information for 2012
(Expressed in thousands of dollars)

| | 2013 | As restated 2012 |
|---|----------------|---------------------|
| Revenue: | | |
| Electricity sales | \$ 165,568 | \$ 144,441 |
| Other services | 843 | 867 |
| | <u>166,411</u> | <u>145,308</u> |
| Cost of electricity sold | <u>145,253</u> | <u>119,872</u> |
| | 21,158 | 25,436 |
| Other operating revenue (note 13) | <u>2,429</u> | <u>2,140</u> |
| Net operating revenue | <u>23,587</u> | <u>27,576</u> |
| Expenses: | | |
| Operations and maintenance | 12,396 | 11,398 |
| General and administrative | 11,203 | 11,898 |
| | <u>23,599</u> | <u>23,296</u> |
| Earnings (loss) before the undernoted | (12) | 4,280 |
| Financial and other expenses (income): | | |
| Interest on notes payable, less amounts capitalized | 3,319 | 3,469 |
| Interest income | (236) | (248) |
| Other | 54 | 95 |
| | <u>3,137</u> | <u>3,316</u> |
| Earnings (loss) before income taxes | (3,149) | 964 |
| Income tax expense (recovery): (note 8) | | |
| Provision for payments in lieu of corporate taxes | (1,383) | 465 |
| Deferred income taxes | 1,084 | (590) |
| | <u>(299)</u> | <u>(125)</u> |
| Net earnings (loss) from operations for the year | (2,850) | 1,089 |
| Other Comprehensive income (loss): | | |
| Actuarial gains (losses) on employee future benefit plans | 306 | (465) |
| Total Comprehensive income (loss) for the year | \$ (2,544) | \$ 624 |

The accompanying notes are an integral part of these consolidated financial statements.

GUELPH HYDRO INC.

Consolidated Statements of Changes in Equity
(In thousands of Canadian dollars)

Year ended December 31, 2013, with comparative information for 2012

| | Share capital | Other Comprehensive income (loss) | Retained earnings | Total |
|--|------------------|---|----------------------|-----------|
| Balance at December 31, 2011, restated | \$ 48,576 | \$ - | \$ 29,684 | \$ 78,260 |
| Dividends | - | - | (3,000) | (3,000) |
| Total comprehensive income (loss) for the year | - | (465) | 1,089 | 624 |
| Balance at December 31, 2012, restated | 48,576 | (465) | 27,773 | 75,884 |
| Dividends | - | - | (1,500) | (1,500) |
| Total comprehensive income (loss) for the year | - | 306 | (2,850) | (2,544) |
| Balance, December 31, 2013 | \$ 48,576 | \$ (159) | \$ 23,423 | \$ 71,840 |

The accompanying notes are an integral part of these consolidated financial statements.

GUELPH HYDRO INC.

Consolidated Statements of Cash Flows

Year ended December 31, 2013, with comparative information for 2012
(Expressed in thousands of dollars)

| | 2013 | As restated 2012 |
|---|------------|---------------------|
| Cash flows from operating activities: | | |
| Net earnings | \$ (2,544) | \$ 624 |
| Adjustments for: | | |
| Income tax expense | (299) | (125) |
| Depreciation and amortization | 6,366 | 5,913 |
| Amortization of deferred revenue | (367) | (281) |
| Interest income | (236) | (248) |
| Interest expense | 3,373 | 3,564 |
| Gain on disposal of property, plant and equipment | (55) | (8) |
| | 6,238 | 9,439 |
| Change in: | | |
| Receivables | (1,744) | 2,944 |
| Unbilled revenue | 1,622 | (1,381) |
| Inventory | 371 | (195) |
| Other current assets | 35 | (275) |
| Accounts payable and accrued liabilities | 5,492 | (1,277) |
| Deferred credits - budget billing | (924) | (21) |
| Employee future benefits | 36 | 903 |
| | 4,931 | 698 |
| Income taxes refunded | 942 | 1,427 |
| Net cash from operating activities | 12,111 | 11,564 |
| Cash flows from investing activities: | | |
| Purchase of property, plant and equipment | (14,843) | (11,497) |
| Purchase of intangible assets | (116) | (80) |
| Proceeds from disposal of property, plant and equipment | 107 | 21 |
| | (14,852) | (11,556) |
| Cash flows from financing activities: | | |
| Contributions in aid of construction | 3,270 | 2,680 |
| Net change in customer deposits | (271) | (4,895) |
| Dividends paid | (1,500) | (3,000) |
| Interest paid | (3,462) | (3,539) |
| Interest received | 236 | 248 |
| Repayment of long-term debt | (825) | (138) |
| | (2,552) | (8,644) |
| Decrease in cash | (5,293) | (8,636) |
| Cash, beginning of year | 16,467 | 25,103 |
| Cash, end of year | 11,174 | \$ 16,467 |

The accompanying notes are an integral part of these consolidated financial statements.

GUELPH HYDRO INC.

Notes to Consolidated Financial Statements

Year ended December 31, 2013
(Expressed in thousands of dollars)

1. Reporting entity:

The sole shareholder of Guelph Hydro Inc. (the "Corporation" or "GHI") is Guelph Municipal Holdings Inc. ("GMHI"), which in turn is wholly-owned by the City of Guelph. GHI was incorporated on December 31, 2006 under the laws of the Province of Ontario, Canada. The address of the Corporation's registered office is 395 Southgate Drive, Guelph, Ontario.

The principal activity of the Corporation, via its wholly-owned subsidiary, Guelph Hydro Electric Systems Inc. ("GHESI"), is to distribute electricity to the residents and businesses in the City of Guelph, under a licence issued by the Ontario Energy Board ("OEB"). GHESI is regulated by the OEB and adjustments to GHESI's distribution and power rates require OEB approval. The Corporation, via its wholly-owned subsidiary, Envida Community Energy Inc. ("Envida"), also owns generation assets that produce electricity.

These financial statements are presented on a consolidated basis and include the following subsidiaries: Guelph Hydro Electric Systems Inc. and Envida Community Energy Inc. Hereafter, for purposes of these notes, unless specifically referenced, any and all references to rate regulation or regulatory activities of the Corporation imply the activities of the Corporation's regulated subsidiary, GHESI.

2. Basis of presentation:

(a) Statement of compliance:

The Corporation's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the International Accounting Standards Board ("IASB") and interpretations as issued by the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB.

(b) Approval of the financial statements:

The financial statements were approved by the Board of Directors on April 16, 2014.

(c) Change in accounting policy

As a result of amendments to IAS 19 "Employee Benefits", the Company has changed its accounting policy with respect to the basis for determining the income or expense related to its post-employment defined benefit plans. These amendments are to be applied for annual periods beginning January 1, 2013. Under IAS19, actuarial gains and losses must be recognized when they occur in other comprehensive income as the option to defer the recognition of actuarial gains and losses, known as the "corridor method" is no longer available. These amendments are applied retrospectively by the Company, in accordance with IAS 19. See detailed impact of change in accounting policy in Note 11, Employee future benefits.

GUELPH HYDRO INC.

Notes to Consolidated Financial Statements, continued

Year ended December 31, 2013
(Expressed in thousands of dollars)

2. Basis of presentation (continued):

(d) Basis of measurement:

The financial statements have been prepared on the historical cost basis except for the following:

- (i) Where held, financial instruments at fair value through profit or loss, including those held for trading, are measured at fair market value.
- (ii) Contributed assets are initially measured at fair market value.

The methods used to measure fair values are discussed further in note 3 (c) and note 20.

(e) Functional and presentation currency:

These financial statements are presented in Canadian dollars, which is the Corporation's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand.

(f) Use of estimates and judgments:

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and liabilities. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in these financial statements is included in the following notes:

- (i) Note 4 and note 20(a) – Receivables: allowance for impairment
- (ii) Note 6 – Property, plant and equipment: useful lives and the identification of significant components of property, plant and equipment
- (iii) Note 8 – Income taxes: utilization of tax losses
- (iv) Note 11 – Employee future benefits: measurement of the defined benefit obligation
- (v) Note 17 – Commitments and contingencies
- (vi) Note 19 – Financial instruments and risk management: valuation of long-term debt

GUELPH HYDRO INC.

Notes to Consolidated Financial Statements, continued

Year ended December 31, 2013
(Expressed in thousands of dollars)

2. Basis of presentation (continued):

(g) Rate regulation:

Effect of rate-setting regulations on the Corporation's activities and on these financial statements:

GHESI is regulated by the OEB, under the authority granted by the *Ontario Energy Board Act (1988)*. Among other things, the OEB has the power and responsibility to approve or set rates for the transmission and distribution of electricity, to provide continued rate protection for rural and remote electricity consumers, and to ensure that distribution companies fulfill obligations to connect and service customers. 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.

On March 14, 2011, the OEB approved a 0.18% price cap index adjustment to the Company's distribution rates effective May 1, 2011, in accordance with the OEB's 3rd Generation Incentive Rate Mechanism. The adjustment was applied to fixed and variable distribution rates uniformly across all customer classes.

On June 30, 2011, GHESI submitted a rate rebasing application to the OEB for new distribution rates. On February 27, 2012, GHESI received a Decision from the OEB that approved an overall increase of 7.86% to distribution rates effective January 1, 2012. The Decision incorporated GHESI's increase in fixed assets and operating expenses since the last rate rebasing application in 2008 and established rates that allowed for return on invested capital of 6.80% and return on equity of 9.42%.

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.

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.

The continuing restructuring of Ontario's electricity industry and other regulatory developments, including current and possible future consultation between the OEB and interested stakeholders may affect the distribution rates that GHESI may charge and the costs that GHESI may recover, including the balance of its regulatory assets.

Smart Meter Initiative

The Province of Ontario committed to have Smart Meter electricity meters installed in all homes and small businesses throughout Ontario by the end of 2010. Smart Meters permit

GUELPH HYDRO INC.

Notes to Consolidated Financial Statements, continued

Year ended December 31, 2013
(Expressed in thousands of dollars)

2. Basis of presentation (continued):

consumption to be recorded within specific time intervals and specific tariffs to be levied within such intervals. Bill 21, *Energy Conservation and Responsibility Act*, provides the Legislative framework and regulations to support this initiative. The Corporation's Smart Meter installation program was completed in 2012, and despite completing the meter installation program after the Province's 2010 date, substantially all costs associated with the smart meter installation program were approved for recovery by the OEB as part of GHESI's 2012 rate rebasing application.

3. Significant accounting policies:

The accounting policies set out below have been applied consistently in all years presented in these consolidated financial statements.

Cash and cash equivalents:

Cash equivalents include short-term investments with maturities of three months or less when purchased.

(b) Revenue recognition:

Revenue for GHESI is recognized as electricity is delivered to customers and is recorded on the basis of regular meter readings and estimated customer usage since the last meter reading date to the end of the year. The related cost of power is recorded on the basis of power used.

GHESI is licensed by the OEB to distribute electricity. As a licensed distributor, GHESI is responsible for billing customers for electricity generated by third parties and the related costs of providing electricity service, such as transmission services and other services provided by third parties. GHESI is required, pursuant to regulation, to remit such amounts to these third parties, irrespective of whether GHESI ultimately collects these amounts from customers. GHESI has determined that it is acting as a principal for the electricity distribution and, therefore, has presented electricity revenue on a gross basis.

Customer billings for debt retirement charges are recorded on a net basis as GHESI acts as an agent for this revenue stream. GHESI may file to recover uncollected debt retirement charges from Ontario Electricity Financial Corporation ("OEFC") once each year.

Deferred revenue relating to contributions in aid of construction is amortized to income on a straight-line basis over the terms of the agreement with the customer or the economic useful life of the acquired or contributed asset, which represents the period of ongoing service to the customer.

All other revenues are recorded on a gross basis and are recognized when services are rendered.

Revenue for Envida is recorded on the basis of regular meter readings recording electricity production at the generation plant.

GUELPH HYDRO INC.

Notes to Consolidated Financial Statements, continued

Year ended December 31, 2013
(Expressed in thousands of dollars)

3. Significant accounting policies (continued):

(c) Inventory:

Inventory is valued at the lower of cost and net realizable value, with cost being determined on an average cost basis, and items considered major spare parts are recorded as capital assets.

(d) Property, plant and equipment:

Items of property, plant and equipment are measured at cost or deemed cost established on the transition date, or, where the item is transferred from customers, its fair value, less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, and any other costs directly attributable to bringing the asset to a working condition for its intended use.

Borrowing costs on qualifying assets are capitalized as part of the cost of the asset and are based on the Corporation's average cost of borrowing.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Corporation and its cost can be measured reliably. The carrying amount of the replaced part is written off, and the related gain or loss is included in profit or loss. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful life of each part or component of an item of property, plant and equipment. Land is not depreciated. Construction-in-progress assets are not amortized until the project is complete and in service. The estimated useful lives are as follows:

| | |
|----------------------------------|---------------|
| Buildings and fixtures | 15 - 50 years |
| Distribution lines | 50 years |
| Distribution transformers | 40 years |
| Distribution meters | 30 years |
| Smart meters | 15 years |
| Electricity generation equipment | 10 - 15 years |
| General office equipment | 5 - 10 years |
| Computer equipment | 5 years |
| Major tools | 5 - 15 years |
| Data acquisition system | 5 years |
| Trucks and rolling stock | 5 - 10 years |
| Other capital assets | 10 - 25 years |

GUELPH HYDRO INC.

Notes to Consolidated Financial Statements, continued

Year ended December 31, 2013
(Expressed in thousands of dollars)

3. Significant accounting policies (continued):

Depreciation methods, useful lives, and residual values are reviewed at each reporting date.

(e) Intangible assets:

(i) Computer software:

Computer software that is acquired or developed by the Corporation, including software that is not integral to the functionality of equipment purchased which has finite useful lives, is measured at cost less accumulated amortization and accumulated impairment losses.

(ii) Land rights:

Payments to obtain rights to access land ("land rights") are classified as intangible assets. These include payments made for easements, right of access and right of use over land for which the Corporation does not hold title. Land rights are measured at cost less accumulated amortization and accumulated impairment losses.

(iii) Amortization:

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives for the current and comparative years are:

| | |
|-------------------|---------|
| Computer software | 5 years |
|-------------------|---------|

Amortization methods and useful lives of all intangible assets are reviewed at each reporting date.

(f) Impairment:

(i) Financial assets:

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. Interest on the impaired assets continues to be recognized through the unwinding of the discount.

All impairment losses are recognized in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in profit or loss.

GUELPH HYDRO INC.

Notes to Consolidated Financial Statements, continued

Year ended December 31, 2013
(Expressed in thousands of dollars)

3. Significant accounting policies (continued):

(ii) Non-financial assets:

The carrying amounts of the Corporation's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The Corporation has determined that it has two cash-generating units being GHESI and Envida. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

For assets other than goodwill, impairment recognized in prior periods is assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(g) Provisions:

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Decommissioning or dismantling:

When there is a legal or constructive obligation to remove and dispose of property, plant and equipment at the end of their useful life, a provision is recorded to cover such future removal and disposal costs.

GUELPH HYDRO INC.

Notes to Consolidated Financial Statements, continued

Year ended December 31, 2013
(Expressed in thousands of dollars)

3. Significant accounting policies (continued):

(h) Employee future benefits:

i. Pension plan:

The Corporation provides a pension plan for all its full-time employees through the Ontario Municipal Employees Retirement System ("OMERS"). OMERS is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund ("the Fund"), and provides pensions for employees of Ontario municipalities, and public utilities. The Fund is a contributory defined benefit pension plan, which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund.

ii. Post-employment benefits, other than pension:

The Corporation provides some of its retired employees with life insurance and medical benefits beyond those provided by government sponsored plans.

The cost of these benefits is expensed as earned by employees through employment service. The accrued benefit obligations and the current service costs are actuarially determined by applying the projected unit credit method and reflect management's best estimate of certain underlying assumptions. Any actuarial gains (losses) will require a remeasurement of the net defined benefit liability or asset and will be recognized as other comprehensive income or loss in the year that it is known.

(i) Deferred revenue and assets transferred from customers:

Certain customers and developers are required to contribute towards the capital cost of construction in order to provide ongoing service. Cash contributions are initially recorded as current liabilities. Once the distribution system asset is completed or modified as outlined in the terms of the contract, the contribution amount is transferred to contributions in aid of construction.

When an asset is received as a capital contribution, the asset is initially recognized at its fair value, with the corresponding amount recognized as contributions in aid of construction.

The contributions in aid of construction account, which represents GHESI's obligation to continue to provide the customers access to the supply of electricity, is reported as deferred revenue, and is amortized to income on a straight-line basis over the terms of the agreement with the customer or the economic useful life of the acquired or contributed asset, which represents the period of ongoing service to the customer.

GUELPH HYDRO INC.

Notes to Consolidated Financial Statements, continued

Year ended December 31, 2013
(Expressed in thousands of dollars)

3. Significant accounting policies (continued):

(j) Leased assets:

Leases in terms of which the Corporation assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognized on the Corporation's balance sheet. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.

(k) Finance income and finance costs:

Finance income is recognized as it accrues in profit or loss, using the effective interest method. Finance income comprises interest earned on cash and cash equivalents and on regulatory assets.

Finance costs comprise interest expense on borrowings, finance lease obligations, regulatory liabilities and unwinding of the discount on provisions and impairment losses on financial assets.

(l) Income taxes:

The income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case, it is recognized in equity.

Under the *Electricity Act, 1998*, the Corporation makes payments in lieu of corporate taxes to the OEFC. These payments are calculated in accordance with the rules for computing taxable 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. Prior to October 1, 2001, the Corporation was not subject to income or capital taxes. Payments in lieu of taxes are referred to as income taxes.

Current tax is the tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

GUELPH HYDRO INC.

Notes to Consolidated Financial Statements, continued

Year ended December 31, 2013
(Expressed in thousands of dollars)

3. Significant accounting policies (continued):

Deferred tax is recognized using the balance sheet method. Under this method, deferred income taxes reflect the net tax effects of temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes, as well as for tax losses available to be carried forward to future years that are likely to be realized. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates, at the reporting date, expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment.

4. Accounts receivable:

| | 2013 | 2012 |
|--------------------------------------|-----------|-----------|
| Revenue | \$ 18,060 | \$ 16,192 |
| Regulatory | 970 | 1,169 |
| Due from the City of Guelph | 1,300 | 1,319 |
| | 20,330 | 18,680 |
| Less allowance for doubtful accounts | (231) | (325) |
| | \$ 20,099 | \$ 18,355 |

5. Inventory:

The amount of inventories consumed by the Corporation and recognized as an expense during 2013 was \$295 (2012 - \$289).

GUELPH HYDRO INC.

Notes to Consolidated Financial Statements, continued

Year ended December 31, 2013
(Expressed in thousands of dollars)

6. Property, plant and equipment:

(a) Cost or deemed cost:

| | Land and buildings | Distribution equipment | Electricity generation equipment | Other fixed assets | Construction -in- Progress | Total |
|-------------------------------------|--------------------|------------------------|----------------------------------|--------------------|----------------------------|-------------------|
| Balance at January 1, 2012 | \$ 21,353 | \$ 103,466 | \$ 830 | \$ 6,126 | \$ 1,618 | \$ 133,393 |
| Additions | 7 | 9,362 | - | 1,067 | 1,061 | 11,497 |
| Transfers | - | 1,618 | - | - | (1,618) | - |
| Disposals/retirements | - | - | - | (22) | - | (22) |
| Balance at December 31, 2012 | \$ 21,360 | \$ 114,446 | \$ 830 | \$ 7,171 | \$ 1,061 | \$ 144,868 |

| | Land and buildings | Distribution equipment | Electricity generation equipment | Other fixed assets | Construction -in- Progress | Total |
|-------------------------------------|--------------------|------------------------|----------------------------------|--------------------|----------------------------|-------------------|
| Balance at January 1, 2013 | \$ 21,360 | \$ 114,446 | \$ 830 | \$ 7,171 | \$ 1,061 | \$ 144,868 |
| Additions | 98 | 7,125 | - | 1,306 | 6,428 | 14,957 |
| Transfers | - | 1,061 | - | - | (1,061) | - |
| Disposals/retirements | (38) | (1) | - | (219) | - | (258) |
| Balance at December 31, 2013 | \$ 21,420 | \$ 122,631 | \$ 830 | \$ 8,258 | \$ 6,428 | \$ 159,567 |

(b) Accumulated depreciation:

| | Land and buildings | Distribution equipment | Electricity generation equipment | Other fixed assets | Construction -in- Progress | Total |
|-------------------------------------|--------------------|------------------------|----------------------------------|--------------------|----------------------------|------------------|
| Balance at January 1, 2012 | \$ 928 | \$ 5,514 | \$ 166 | \$ 1,600 | \$ - | \$ 8,208 |
| Depreciation charge for the year | 647 | 4,118 | 82 | 1,023 | - | 5,870 |
| Disposals/retirements | - | - | - | (8) | - | (8) |
| Balance at December 31, 2012 | \$ 1,575 | \$ 9,632 | \$ 248 | \$ 2,615 | \$ - | \$ 14,070 |

GUELPH HYDRO INC.

Notes to Consolidated Financial Statements, continued

Year ended December 31, 2013

(Expressed in thousands of dollars)

6. Property, plant and equipment (continued):

(b) Accumulated depreciation (continued):

| | Land and buildings | Distribution equipment | Electricity generation equipment | Other fixed assets | Construction -in- Progress | Total |
|----------------------------------|--------------------------|---------------------------|--|--------------------------|----------------------------------|-----------|
| Balance at January 1, 2013 | \$ 1,575 | \$ 9,632 | \$ 248 | \$ 2,615 | \$ - | \$ 14,070 |
| Depreciation charge for the year | 784 | 4,265 | 83 | 1,156 | - | 6,288 |
| Disposals/retirements | - | - | - | (205) | - | (205) |
| Balance at December 31, 2013 | \$ 2,359 | \$ 13,897 | \$ 331 | \$ 3,566 | \$ - | \$ 20,153 |

(c) Carrying amounts:

| | Land and buildings | Distribution equipment | Electricity generation equipment | Other fixed assets | Construction -in- Progress | Total |
|-------------------|--------------------------|---------------------------|--|--------------------------|----------------------------------|------------|
| December 31, 2012 | \$ 19,785 | \$ 104,814 | \$ 582 | \$ 4,556 | \$ 1,061 | \$ 130,798 |
| December 31, 2013 | \$ 19,061 | \$ 108,734 | \$ 499 | \$ 4,692 | \$ 6,428 | \$ 139,414 |

(d) Borrowing costs:

During the year, borrowing costs of \$114 (2012: \$nil) were capitalized as part of the cost of property, plant and equipment.

GUELPH HYDRO INC.

Notes to Consolidated Financial Statements, continued

Year ended December 31, 2013
(Expressed in thousands of dollars)

6. Property, plant and equipment (continued):

(e) Allocation of depreciation and amortization:

The depreciation of property, plant and equipment and the amortization of intangible assets has been allocated to profit or loss as follows:

| | Cost of electricity sold | Distribution expenses | Administration expenses | Total |
|---|-----------------------------|--------------------------|----------------------------|----------|
| December 31, 2012: | | | | |
| Depreciation of property, plant and equipment | \$ - | \$ 5,623 | \$ 247 | \$ 5,870 |
| Amortization of intangible assets | - | - | 43 | 43 |
| | \$ - | \$ 5,623 | \$ 290 | \$ 5,913 |
| December 31, 2013: | | | | |
| Depreciation of property, plant and equipment | \$ - | \$ 6,018 | \$ 270 | \$ 6,288 |
| Amortization of intangible assets | - | - | 78 | 78 |
| | \$ - | \$ 6,018 | \$ 348 | \$ 6,366 |

GUELPH HYDRO INC.

Notes to Consolidated Financial Statements, continued

Year ended December 31, 2013
(Expressed in thousands of dollars)

7. Intangible assets:

(a) Cost or deemed cost:

| | Computer software | Land rights | Total |
|------------------------------|-------------------|-------------|--------|
| Balance at January 1, 2012 | \$ 251 | \$ 24 | \$ 275 |
| Additions in 2012 | 82 | - | 80 |
| Balance at December 31, 2012 | 333 | 24 | 357 |
| Additions in 2013 | 115 | - | 115 |
| Balance at December 31, 2013 | \$ 448 | \$ 24 | \$ 472 |

(b) Accumulated amortization:

| | Computer software | Land rights | Total |
|------------------------------|-------------------|-------------|--------|
| Balance at January 1, 2012 | \$ - | \$ - | \$ - |
| Amortization charges in 2012 | 43 | - | 43 |
| Balance at December 31, 2012 | 43 | - | 43 |
| Amortization charges in 2013 | 78 | - | 78 |
| Balance at December 31, 2013 | \$ 121 | \$ - | \$ 121 |

(c) Carrying amounts:

| | Computer software | Land rights | Total |
|------------------------------|-------------------|-------------|--------|
| Balance at December 31, 2012 | \$ 290 | \$ 24 | \$ 314 |
| Balance at December 31, 2013 | \$ 327 | \$ 24 | \$ 351 |

GUELPH HYDRO INC.

Notes to Consolidated Financial Statements, continued

Year ended December 31, 2013
(Expressed in thousands of dollars)

8. Income taxes:

The income tax expense varies from amounts which would be computed by applying the Corporation's combined statutory income tax rate as follows:

| | 2013 | 2012 |
|---|----------|----------|
| Basic rate applied to profit before income tax | \$ (834) | \$ 256 |
| Increase (decrease) in income tax resulting from: | | |
| Losses not recognized for tax | 25 | 282 |
| Change in tax rate | (47) | (361) |
| Other | 557 | (302) |
| Income tax expense (recovery) | \$ (299) | \$ (125) |
| Effective rate applied to profit (loss) before income taxes | 9.5% | (48%) |

Significant components of the Corporation's deferred tax balances are as follows:

| | 2013 | 2012 |
|--|------------|------------|
| Deferred tax assets (liabilities): | | |
| Plant and equipment | \$ (3,187) | \$ (1,209) |
| Cumulative eligible capital | 754 | 806 |
| Employee benefits | 2,265 | 2,133 |
| Deferred Revenue – Contributed Capital | 3,581 | 2,812 |
| Non-capital loss carryforwards | 2,388 | 2,343 |
| Net deferred tax asset | \$ 5,801 | \$ 6,885 |

At December 31, 2013, based on substantively enacted income tax rates, future tax assets of \$1,231 (2012 - \$1,140) have not been recorded. These future tax assets relate to tax bases of depreciable capital assets and employee future benefits in excess of amounts recorded for accounting purposes. Such future tax assets have not been recorded in the accounts as there is uncertainty as to whether the Corporation will realize the benefits related to these assets which would be realized as relatively modest reductions of future tax liability over many future years.

At December 31, 2013, a future tax asset of \$5,801 (2012 - \$6,885) has been recorded. The utilization of this tax asset is dependent on future taxable profits in excess of profits arising from the reversal of existing taxable temporary differences. The Corporation believes that this asset should be recognized as it will be recovered through future distribution rates charged by GHESI.

GUELPH HYDRO INC.

Notes to Consolidated Financial Statements, continued

Year ended December 31, 2013
(Expressed in thousands of dollars)

9. Customer deposits:

Customer deposits represent cash deposits from electricity distribution customers and retailers, as well as construction deposits.

Deposits from electricity distribution customers are refundable to customers demonstrating an acceptable level of credit risk as determined by the Corporation in accordance with policies set out by the OEB or upon termination of their electricity distribution service.

Construction deposits represent cash prepayments for the estimated cost of capital projects recoverable from customers and developers. Upon completion of the capital project, these deposits are transferred to contributions in aid of construction.

Customer deposits comprise:

| | 2013 | 2012 |
|--------------------------------|-----------------|-----------------|
| Customer deposits | \$ 4,096 | \$ 4,112 |
| Construction deposits | 2,220 | 2,475 |
| Total customer deposits | \$ 6,316 | \$ 6,587 |

10. Pension agreement:

The Corporation provides a pension plan for its employees through the Ontario Municipal Employees Retirement System ("OMERS"). OMERS is a multi-employer pension plan which operates as the Ontario Municipal Employee Retirement Fund (the "Fund") and provides pensions for employees of Ontario municipalities and public utilities. The Fund is a contributory defined benefit pension plan, which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund. The Corporation uses defined contribution plan accounting as it is only liable for contributions to the Plan. The Corporation's contribution for employees' current service for the year ended December 31, 2013 was \$976 (2012 - \$872).

GUELPH HYDRO INC.

Notes to Consolidated Financial Statements, continued

Year ended December 31, 2013
(Expressed in thousands of dollars)

11. Employee future benefits:

Components of employee future benefits recognized are as follows:

| | 2013 | As restated 2012 |
|--|----------------|---------------------|
| Post-retirement benefits - accrued benefit liability, as previously reported | \$7,929 | \$7,475 |
| <u>Restatement due to change in accounting policy:</u> | | |
| Remeasurement of accrued benefit liability – actuarial (gain) loss | - | 465 |
| Accrued sick leave benefit | 620 | 573 |
| | <u>\$8,549</u> | <u>\$8,513</u> |

The Corporation pays certain medical and life insurance benefits on behalf of some of its retired employees. The Corporation recognizes these post-retirement costs in the period in which employees' services were rendered. The accrued benefit liability at December 31, 2013 of \$7,929 was based on an actuarial valuation completed in 2013 using a discount rate of 4.9%. The restated accrued benefit liability at December 31, 2012 of \$7,940 (previously reported to be \$7,475) and the expense for the year ended December 31, 2012, were based on an actuarial valuation completed in 2013, using a discount rate of 4.5%.

GUELPH HYDRO INC.

Notes to Consolidated Financial Statements, continued

Year ended December 31, 2013
(Expressed in thousands of dollars)

11. Employee future benefits (continued):

Changes in the present value of the defined benefit unfunded obligation and the accrued benefit liability:

| | 2013 | As restated 2012 |
|---|----------|---------------------|
| Defined benefit obligation, beginning of year | \$ 7,940 | \$ 7,106 |
| Current service cost | 229 | 212 |
| Interest cost | 317 | 414 |
| Remeasurement of obligation | (306) | 465 |
| Benefits paid during the year | (251) | (257) |
| Accrued benefit liability, end of year | \$ 7,929 | \$ 7,940 |

Components of net benefit expense recognized are as follows:

| | 2013 | 2012 |
|--------------------------------|--------|--------|
| Current service cost | \$ 229 | \$ 212 |
| Interest cost | 317 | 414 |
| Net benefit expense recognized | \$ 546 | \$ 626 |

The full amount of the Corporation's net benefit expense was charged to operations in 2012 and 2013.

GUELPH HYDRO INC.

Notes to Consolidated Financial Statements, continued

Year ended December 31, 2013
(Expressed in thousands of dollars)

11. Employee future benefits (continued):

The significant actuarial assumptions used in the valuation are as follows (weighted average):

| | 2013 | 2012 |
|--|-------|-------|
| Accrued benefit obligation: | | |
| Discount rate | 4.90% | 4.50% |
| Benefit cost for the year: | | |
| Withdrawal rate | 1% | 1% |
| Assumed health care cost trend rates: | | |
| Initial health care cost trend rate | 5% | 5% |
| Cost trend rate declines to year that rate reaches the rate it is assumed to remain at | | |

The approximate effect on the accrued benefit obligation of the entire plan and the estimated net benefit expense of the entire plan if the health care trend rate assumption was increased or decreased by 1%, and all other assumptions were held constant, is as follows:

| | Defined Benefit Obligation | Periodic Benefit Cost |
|---------------------------------------|-------------------------------|--------------------------|
| 1% increase in health care trend rate | \$ 9,184 | \$ 652 |
| 1% decrease in health care trend rate | 6,957 | 458 |

Historical information

Amounts for the current and previous year, for the entire plan, are as follows:

| | 2013 | 2012 |
|----------------------------|----------|----------|
| Defined benefit obligation | \$ 7,929 | \$ 7,475 |
| Experience adjustments | (1,376) | (1,535) |

GUELPH HYDRO INC.

Notes to Consolidated Financial Statements, continued

Year ended December 31, 2013
(Expressed in thousands of dollars)

11. Employee future benefits (continued):

The main actuarial assumptions utilized for the valuation are as follows:

General inflation - future general inflation levels, as measured by the changes in the Consumer Price Index, were assumed at 2.0% in 2013, and thereafter (2012 - 2.0%).

Discount (interest) rate - the discount rate used to determine the present value of future liabilities and the expense for the year ended December 31, 2013, was 4.9% (2012 - 4.5%).

Historical information

Salary levels - future general salary and wage levels were assumed to increase at 3.3% (2012 - 3.3%) per annum.

Medical costs - medical costs were assumed to increase 5% for 2012, 5% for 2013, 5% for 2013, 5% for 2014, and 5% thereafter.

Dental costs - dental costs were assumed to increase 5% for 2012, 5% for 2013, 5% for 2013, 5% for 2014, 5% for 2015, and 5% thereafter.

Accrued sick leave benefit:

The Corporation allows regular employees the equivalent of one and one-half days per month sick time credit to be applied in case of illnesses or accidents not covered by Workers' Compensation. A maximum of eighteen days sick time credit is accrued to each employee's credit each year and is reduced by the amount of sick time utilized each year. At the end of the year, the remaining credit if any is added to each employee's sick time credit accumulation. Any unused sick time credit is forfeited when employment ceases with the Corporation. As at December 31, 2013 the estimated valued of the expected future payment to be made as a result of the unused sick time credits amounts to \$620 (2012 - \$573).

GUELPH HYDRO INC.

Notes to Consolidated Financial Statements, continued

Year ended December 31, 2013
(Expressed in thousands of dollars)

12. Long-term debt:

(a) Loan payable to the Federation of Canadian Municipalities:

On May 17, 2013, Envida elected to retire its loan payable to the Federation of Canadian Municipalities which had a maturity date of June 30, 2018 and was to bear interest at a rate of 2.37%. In addition to repaying the outstanding principal of \$825.0, Envida also was required to pay an early payment penalty of \$16.5 and the accrued interest since the last interest payment of \$7.4. In order to make this lump sum payment, Envida replaced this loan payable with a promissory note from its parent company Guelph Hydro Inc.

b) Senior unsecured debentures

The senior unsecured debentures issued by GHESI have a maturity date of December 6, 2030 and have an interest rate of 5.264% per annum. Interest is payable in equal semi-annual installments, in arrears, on June 6 and December 6 each year commencing June 6, 2013 until maturity. The debentures were issued on December 6, 2010. The Debentures are represented by a single Global Debenture Certificate registered in the name of CDS & Co. In order to put the debentures in place, GHESI incurred debt issuance costs in the amount of \$500.

| | 2013 | 2012 |
|---|-----------|-----------|
| Senior unsecured debentures | \$ 65,000 | \$ 65,000 |
| Less: cost of debt issuance | (425) | (450) |
| Senior unsecured debentures, net proceeds | \$ 64,575 | \$ 64,550 |

GUELPH HYDRO INC.

Notes to Consolidated Financial Statements, continued

Year ended December 31, 2013
(Expressed in thousands of dollars)

13. Other income:

Other income comprises:

| | 2013 | 2012 |
|--------------------------------------|-----------------|-----------------|
| Late payment charges | \$ 125 | \$ 122 |
| Pole and other rental income | 360 | 333 |
| Collection and other service charges | 236 | 243 |
| Waterworks revenue | 1,156 | 1,045 |
| Customer contributions | 367 | 281 |
| Miscellaneous | 185 | 116 |
| Total other income | \$ 2,429 | \$ 2,140 |

14. Employee benefits:

| | 2013 | 2012 |
|---|------------------|------------------|
| Salaries and wages | \$ 9,644 | \$ 9,292 |
| Contributions to multi-employer plan | 976 | 872 |
| Expenses related to defined benefit plans | 546 | 626 |
| | \$ 11,166 | \$ 10,790 |

15. Finance income and expense:

| | 2013 | 2012 |
|---|-----------------|-----------------|
| Interest income on bank deposits | \$ (236) | \$ (248) |
| Finance income | (236) | (248) |
| Interest expense on long-term debt | 3,433 | 3,469 |
| Interest adjustment re: capitalized borrowing costs | (114) | - |
| Interest expense on deposits | 15 | 61 |
| Other | 39 | 34 |
| | 3,373 | 3,316 |
| Net finance costs recognized in profit or loss | \$ 3,137 | \$ 3,316 |

GUELPH HYDRO INC.

Notes to Consolidated Financial Statements, continued

Year ended December 31, 2013
(Expressed in thousands of dollars)

16. Related party transactions:

(a) Parent and ultimate controlling party:

The sole shareholder of the Corporation is Guelph Municipal Holdings Inc. ("GMHI"), which in turn is wholly-owned by the City of Guelph. The City produces financial statements that are available for public use.

(b) Key management personnel:

The key management personnel of the Corporation has been defined as members of its board of directors and executive management team members and is summarized in the table below.

| | 2013 | 2012 |
|--|-----------------|-----------------|
| Directors' fees | \$ 196 | \$ 196 |
| Salaries and other short-term benefits | 3,098 | 2,445 |
| Post-employment benefits | 19 | 25 |
| | <u>\$ 3,313</u> | <u>\$ 2,666</u> |

(c) Transactions with ultimate parent (the City):

The following summarizes the Corporation's related party transactions, recorded at the exchange amounts and balances with the City for the year ended December 31:

| | 2013 | 2012 |
|--------------------------------------|----------|----------|
| Revenue: | | |
| Energy sales (at commercial rates) | \$ 7,752 | \$ 7,261 |
| Waterworks revenue | 1,156 | 1,045 |
| Street light maintenance | 331 | 263 |
| Expenses: | | |
| Subcontracting | 68 | 32 |
| Rent, percentage rent, land lease | 63 | 65 |
| Property taxes | 332 | 343 |
| Balances: | | |
| Accounts receivable | 1,300 | 1,319 |
| Accounts payable and accrued charges | - | 69 |

GUELPH HYDRO INC.

Notes to Consolidated Financial Statements, continued

Year ended December 31, 2013
(Expressed in thousands of dollars)

16. Related party transactions (continued):

(d) Transactions with subsidiaries of the City:

A listing of the various entities under the control of the City is set out on the City's website.

The Corporation's transactions with subsidiaries of the City consist of sales of electricity at market rates.

17. Commitments and contingencies:

In November 2004, Envida entered into a renewable energy supply contract with the OEFC. In November 2005, the agreement was assigned by the OEFC to the Ontario Power Authority ("OPA"). Under this agreement, Envida has agreed to supply contract energy up to a maximum amount for twenty years at a price fixed by the contract.

In 2012, the renewable supply agreement with the OPA was amended by re-setting the capacity to be delivered under the contract. The amended agreement sets the contract capacity of the landfill generator to 2.5 MW for the seven contract-years, and 1.7 MW for each contract-year thereafter.

In September 2004, Envida entered into a land lease and gas utilization agreement with the City. Under the agreement, on an annual basis, Envida agrees to pay the City:

- (a) \$5 in advance of each fiscal year, for the use of the lands and access lands; and
- (b) An amount for the cubic feet of landfill gas used by Envida for the preceding fiscal year based on a rate agreed upon at the time of signing the agreement adjusted annually by the Consumer Price Index – Ontario.
- (c) A percentage rent based on 10% (2012 – 10%) of the difference between gross revenues arising from the sale of electricity and the value of electricity generated at a rate of \$57/MWh. In 2013, the amount incurred was \$15 (2012 - \$14).

In June 2011, Envida commenced supplying the OPA with electrical energy under a twenty year Feed-in-Tariff power purchase agreement. The electrical energy is produced by a roof-top mounted array of photo-voltaic solar panels. The OPA will purchase all energy produced by photo-voltaic array. The price that the OPA pays for the electrical energy is fixed by the contract.

From time to time, the Corporation is involved in various litigation matters arising in the ordinary course of its business. The Corporation has no reason to believe that the disposition of any such current matter could reasonably be expected to have a materially adverse impact on the Corporation's financial position, results of operations or its ability to carry on any of its business activities.

An action was commenced against GHESI in November, 2013 in the Ontario Superior Court of Justice with the plaintiff seeking damages in the amount of \$2.0 million as compensation for damages allegedly suffered to the plaintiff's business and reputation in relation to the supply and installation of energy efficient lighting equipment, plus \$1.0 million punitive damages as a result of interference in economic relations or slander of goods. This action is at a preliminary stage. The

GUELPH HYDRO INC.

Notes to Consolidated Financial Statements, continued

Year ended December 31, 2013
(Expressed in thousands of dollars)

17. Commitments and contingencies (continued):

statement of claim has been served on GHESI, parent company Guelph Hydro Inc. (and a specific GHESI employee). A Statement of Defense was filed on behalf of GHESI in mid-February, 2014. Given the preliminary status of this action, it is not possible to reasonably quantify the effect, if any, of this action on the financial performance of the Corporation. If damages are awarded, GHESI would be liable to pay the amounts awarded by the Court.

The Corporation is a member of the Municipal Electric Association Reciprocal Insurance Exchange (MEARIE). MEARIE is a pooling of property, casualty, and vehicle risks of many of the electrical utilities in Ontario. All members of the pool could potentially be subjected to an assessment for losses experienced by the pool for the years in which they were members on a pro-rata basis based on the total of their respective service revenues. It is anticipated that should such an assessment occur it would be funded over a period of up to 5 years. As at December 31, 2013, no assessments have been made.

18. Share capital:

| | 2013 | 2012 |
|-----------------------------------|-----------|-----------|
| Authorized: | | |
| Unlimited number of common shares | | |
| Issued: | | |
| 2,000 common shares | \$ 48,576 | \$ 48,576 |

19. Financial instruments and risk management:

Cash and cash equivalents are measured at fair value. The carrying values of receivables, and accounts payable and accrued charges approximate fair value because of the short maturity of these instruments. The carrying value of the customer deposits approximates fair value because the amounts are payable on demand.

The fair value of the senior unsecured debentures at December 31, 2013 is \$68,431 (2012 - \$74,654). The fair value is calculated based on the present value of future principal and interest cash flows, discounted at the current rate of interest at the reporting date. The interest rate used to calculate fair value at December 31, 2013 was 4.84% (2012 - 4.12%).

The Corporation's activities provide for a variety of financial risks, particularly credit risk, market risk and liquidity risk.

(a) Credit risk:

Financial assets carry credit risk that a counterparty will fail to discharge an obligation which could result in a financial loss. Financial assets held by the Corporation, such as accounts receivable, expose it to credit risk. The Corporation earns its revenue from a broad base of customers located in the City. No single customer accounts for revenue in excess of 10% of total revenue.

GUELPH HYDRO INC.

Notes to Consolidated Financial Statements, continued

Year ended December 31, 2013
(Expressed in thousands of dollars)

19. Financial instruments and risk management (continued):

The carrying amount of accounts receivable is reduced through the use of an allowance for impairment and the amount of the related impairment loss is recognized in the income statement. Subsequent recoveries of receivables previously provisioned are credited to the income statement. The balance of the allowance for impairment at December 31, 2013 is \$231 (2012 - \$325). An impairment loss of \$226 (2012 - \$61) was recognized during the year. The Corporation's credit risk associated with accounts receivable is primarily related to payments from distribution customers. At December 31, 2013, approximately \$310 (2012 - \$425) is considered 60 days past due. The Corporation has approximately 51 thousand customers, the majority of which are residential. Credit risk is managed through collection of security deposits from customers in accordance with directions provided by the OEB. As at December 31, 2013, the Corporation held security deposits in the amount of \$4,096 (2012 - \$4,112).

(b) Market risk:

Market risks primarily refer to the risk of loss resulting from changes in commodity prices, foreign exchange rates, and interest rates. The Corporation currently does not have material commodity or foreign exchange risk. The Corporation is exposed to fluctuations in interest rates as the regulated rate of return for the Corporation's distribution business is derived using a complex formulaic approach which is in part based on the forecast for long-term Government of Canada bond yields and the credit spread of A-rated utility bonds. This rate of return is approved by the OEB as part of the approval of distribution rates.

A 1% increase in the interest rate at December 31, 2013 would have increased interest expense on the long-term debt by \$650 (2012 - \$650), assuming all other variables remain constant. A 1% decrease in the interest rate would have an equal but opposite effect.

(c) Liquidity risk:

The Corporation monitors its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The Corporation's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest exposure. The Corporation has access to a \$10,000 credit facility and monitors cash balances daily to ensure that sufficient levels of liquidity are on hand to meet financial commitments as they come due. As at December 31, 2013, no amounts had been drawn under GHESI's \$10.0 million credit facility (2012, \$nil).

The Corporation also has a bilateral facility for \$5.0 million (the "LC" facility) for the purpose of issuing letters of credit mainly to support the prudential requirements of the IESO, of which \$4.0 million has been drawn and posted with the IESO (2012 - \$nil).

The majority of accounts payable, as reported on the balance sheet, are due within 30 days.

GUELPH HYDRO INC.

Notes to Consolidated Financial Statements, continued

Year ended December 31, 2013
(Expressed in thousands of dollars)

19. Financial instruments and risk management (continued):

(d) Capital disclosures:

The main objectives of the Corporation, when managing capital, are to ensure ongoing access to funding to maintain and improve the electricity distribution system, compliance with covenants related to its credit facilities, prudent management of its capital structure with regard for recoveries of financing charges permitted by the OEB on its regulated electricity distribution business, and to deliver the appropriate financial returns.

The Corporation's definition of capital includes shareholder's equity and long-term debt. As at December 31, 2013, shareholder's equity amounts to \$ 71,840 (2012 - \$75,884) and long-term debt amounts to \$ 64,575 (2012 - \$65,237).

20. Guarantees:

GHEI has a Connection and Cost Recovery Agreement with Hydro One Networks Inc. (Networks) for the supply of two additional breaker positions at the Campbell transformer station (cost \$599), and the installation of a new metal clad switchgear to the two existing idle windings at Cedar TS (transformer station) with eight new feeder positions (cost \$5,582). The cost of the connections are debts owed to Networks that will be forgiven provided that GHEI meets or exceeds the specific load requirement and the incremental transformation connection revenue received by Networks. GHEI expects to meet the conditions of the guarantee and does not anticipate any payments to Networks.

GHEI has another Connection and Cost Recovery Agreement with Networks for the line connection of the Arlen municipal transformer station. The \$1,688 cost of the connection is a debt owed to Networks that will be forgiven provided that GHEI meets or exceeds the specific load requirement and the incremental transformer connection revenue received by Networks. GHEI expects to meet the conditions of the guarantee and does not anticipate any payment to Networks.



MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013

GUELPH HYDRO INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2013

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Introduction

The following Management's Discussion and Analysis ("MD&A") should be read in conjunction with Guelph Hydro Inc.'s ("GHI" or the "Corporation" or the "Company") consolidated audited financial statements and accompanying notes as at and for the year ended December 31, 2013 (the "Financial Statements"). The consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), and are presented in Canadian dollars (see "Significant Accounting Policies" below). Unless otherwise noted, all financial information is presented in thousands of dollars and rounded to the nearest thousand.

Forward Looking Statements and Information

GHI includes forward-looking information in its MD&A within the meaning of applicable securities laws in Canada ("forward-looking information"). The purpose of the forward-looking information is to provide management's expectations regarding GHI's future results of operations, performance, business prospects and opportunities and may not be appropriate for other purposes. The words "anticipates," "believes," "budgets," "could," "estimates," "expects," "forecasts," "intends," "may," "might," "plans," "projects," "schedule," "should," "will," "would," and similar expressions are often intended to identify forward-looking information, although not all forward-looking information contains these identifying words. The forward-looking information reflects management's current beliefs and is based on information currently available to GHI's management.

The statements that make up the forward-looking information are based on assumptions that include, but are not limited to, the future course of the economy and financial markets, the receipt of applicable regulatory approvals and requested rate orders, the receipt of favourable judgments, the level of interest rates, and on GHI's ability to borrow.

Although GHI believes that it has a reasonable basis for the forward-looking information included herein, such information is subject to a number of risks, uncertainties and other factors that may cause actual events, conditions or results to differ materially from historical results or those contemplated by the forward-looking information. Some of the factors that could cause such differences include legislative or regulatory developments, financial market conditions, general economic conditions and the weather.

GHI does not undertake any obligation to update publicly or to revise any of the forward-looking information included herein after the date hereof, whether as a result of new information, future events, or otherwise.

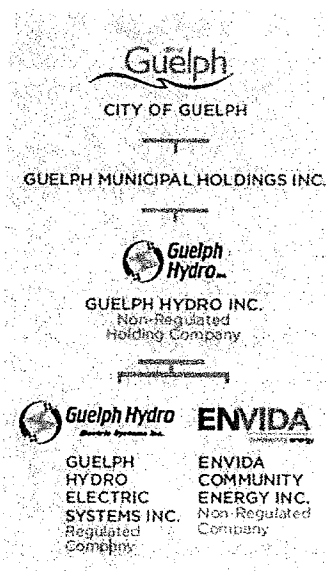
Overview

Guelph Hydro Inc. owns 100 per cent of the shares of two operating subsidiaries: Guelph Hydro Electric Systems Inc. and Envida Community Energy Inc.

Guelph Hydro Inc. (“GHI”) is a holding company, 100 per cent owned by Guelph Municipal Holdings Inc. (“GMHI”) which is, in turn, 100 per cent owned by the City of Guelph. GMHI is guided by the community vision and strategic priorities of Guelph City Council and its Board reports directly to Council and, thus, to Guelph citizens. It operates as an independent and self-funding corporation governed by a Board comprised of municipal officials and private citizens who contribute their broad experience, expertise and oversight. Guelph Municipal Holdings Inc. was set up by Guelph City Council to manage select City of Guelph assets, including Guelph Hydro Inc., for the purpose of maximizing their revenue potential and strengthening community prosperity.

Guelph Hydro Inc. owns 100 per cent of the shares of two operating subsidiaries: Guelph Hydro Electric Systems Inc. and Envida Community Energy Inc. As of January 1, 2014, the Corporation employed 120 staff in its two wholly-owned subsidiary operating companies:

- Guelph Hydro Electric Systems Inc. (“GHESI”) — a regulated electricity distribution company whose principal activity is delivering electricity to over 52,000 residential, commercial, and industrial customers in the City of Guelph and the Village of Rockwood, Ontario.
- Envida Community Energy Inc. (“Envida”) — is a diversified energy infrastructure company that owns and develops assets within three business segments — generation, thermal distribution systems and energy management.



Company Mission and Vision

Provide superior customer service while investing in energy-related initiatives that benefit the communities in which we operate and align with the energy-related objectives of the Province of Ontario, the City of Guelph, and our shareholder, Guelph Municipal Holdings Inc.; thus, enabling the Guelph Hydro group of companies to grow and enhance our position as an industry leader. The company's vision is to be an energy company that powers sustainable communities.

Company Goals (in order of priority)

1. Keeping the "lights on" in the communities we serve
2. Benefiting our communities by realizing the goals of the Guelph Community Energy Initiative
3. Implementing a sustainable growth strategy in appropriate platforms
4. Earning a fair and reasonable return for our shareholder

Strategic Imperatives

The focus of Guelph Hydro's business strategy is as follows:

1. Deliver balanced financial, social and environmental returns by investing in sustainable energy management, technology, production, and distribution infrastructure
2. Be a leader in providing and implementing energy conservation and driving a sustainable energy culture
3. Be a leader in the safe, reliable, efficient, and economic generation and distribution of energy, while ensuring adequacy of supply to all current and future customers
4. Be a great place to work and communicate it to attract, inspire and retain employees to meet current and future business opportunities
5. Enhance the Company's position as an asset to the shareholder, stakeholders and the communities served by facilitating local socio-economic development and environmental stewardship

One of the measurements of the Company's performance is economic value, which is evaluated by the Company's success in maintaining a strong balance sheet and credit rating, meeting or exceeding all local, provincial and federal regulatory and legislative requirements, and creating value for stakeholders while facilitating the growth, economic prosperity, and vitality of the communities served.

Our corporate involvement in the community means that economic and social benefits are shared by the people of Guelph and Rockwood. We create prosperity in communities through our operations and projects, including:

- Direct and indirect job creation, which results in increased income and leads to local prosperity and development
- Increased tax revenue and infrastructure that enhances community life and sustainability
- Community development

In 2013, Guelph Hydro Inc. is estimated to have generated over \$40 million in direct economic value for the communities it serves and the province generally. The value generated and distributed by GHI includes: dividends paid to GMHI, support for the City's Community Energy Initiative ("CEI"), employee compensation, operating expenses (such as local purchasing, property taxes, water costs, facility costs, professional fees, etc.), capital investments, corporate giving, energy incentives and rebates, and payments to capital providers and government.

Guelph Hydro Electric Systems Inc.

The Corporation's principal operating subsidiary, Guelph Hydro Electric Systems Inc., ("GHESI") is an electricity distributor serving over 52,000 residential, commercial, and industrial customers in the City of Guelph and the Village of Rockwood, Ontario. GHESI accounts for 99 percent of the revenues of GHI. The activities of GHESI are regulated by the Ontario Energy Board, a Crown Corporation of the Province of Ontario, under the *Ontario Energy Board Act, 1998 (Ontario)* ("OEB Act"). The OEB has broad powers relating to licensing, rules of conduct and services, compliance, performance, as well as to the regulation of rates charged by Guelph Hydro Electric Systems Inc. and about 76 other local electricity distribution companies in Ontario. GHESI also provides certain non-regulated water billing and customer care services to the City of Guelph and other services to the Village of Rockwood.

GHESI receives power from the provincial electricity grid and transports it safely and reliably across an electricity distribution network covering a service territory of 93 square kilometers and comprising one municipal transformer station, two municipal substations, 427 kilometers of overhead lines, 672 kilometers of underground cable, 6,015 transformers and 10,715 hydro poles.

GHESI earns revenue from this business by charging its customers for the use of the distribution system. Such electricity distribution service charges, or distribution charges, comprise a fixed periodic service charge combined with a volumetric charge based on electricity consumption. The distribution charges are subject to the approval of the OEB. As a condition of its distribution licence, GHESI is required to meet energy conservation and demand management ("CDM") targets established by the OEB.

Pursuant to industry regulation, GHESI is required to bill and collect all electricity related charges for electricity industry participants. These additional charges include transmission charges accruing to the provincially-owned Hydro One Networks Inc., commodity costs for electricity payable to the Independent Electricity System Operator ("IESO") and accruing to generators such as the provincially-owned Ontario Power Generation Inc. ("OPGI"), and service charges for market participants such as the IESO, and the "Debt Retirement Charge," which is a provincial charge directed to the repayment of certain stranded debt obligations of the former Ontario Hydro, which continue in the provincially-owned Ontario Electricity Financial Corporation ("OEFC").

These other non-distribution charges represent "pass-through" charges accruing to these and other electricity industry participants and amounted to approximately 77 per cent of gross service revenue billed by GHESI. With the exception of the Debt Retirement Charge, GHESI must remit these non-distribution charges to other industry participants, irrespective of whether or not such charges are ultimately collected from customers, thus exposing the corporation to credit risk well in excess of its own capacity to generate revenue. GHESI has instituted credit policies to mitigate such risk.

Electricity Regulation

In April 1999, the Government of Ontario began restructuring Ontario's electricity industry. Under regulations passed pursuant to the restructuring, GHESI and other electricity distributors have been purchasing their electricity from the wholesale market administered by the IESO and recovering the costs of electricity and certain other costs at a later date in accordance with procedures mandated by the OEB.

The OEB has regulatory oversight of electricity and other energy-related matters in Ontario. The *OEB Act* sets out the OEB's authority to issue a distribution licence which must be obtained by owners or operators of an electricity distribution system in Ontario. The OEB prescribes licence requirements and conditions including, among other things, specified accounting records, regulatory accounting principles, separation of accounts for separate businesses and filing process requirements for rate-setting purposes.

Among other things, the OEB's authority and responsibilities include the power to approve and fix rates for the transmission and distribution of electricity, the power to provide continued rate protection for rural and remote electricity customers and the responsibility for ensuring that electricity distribution companies fulfill their obligations to connect and service customers.

GHESI is required to charge its customers for the following amounts (all of which, other than distribution charges, represent a pass through of amounts payable to third parties):

Distribution Charges

Distribution charges are designed to recover the costs incurred by the Corporation in delivering electricity to customers and the OEB-allowed rate of return. Distribution charges are regulated by the OEB and are comprised of a fixed charge and a usage-based (consumption) charge. The volume of electricity consumed by the Corporation's customers during any period is governed by events largely outside the Corporation's control (principally, sustained periods of hot or cold weather which increase the consumption of electricity, and sustained periods of moderate weather which decrease the consumption of electricity).

Electricity Price and Related Regulated Adjustments

The electricity price and related regulated adjustments represent a pass through of the commodity cost of electricity. Additionally, GHESI, as with all distributors, is required to apply a credit of 10 per cent to all residential and small commercial electricity charges. The Ontario Clean Energy Benefit ("OCEB") credit is recovered monthly from the IESO as a credit in the wholesale power invoice. The OCEB amount is reconciled monthly with the Ministry of Energy and it is subject to external audit.

Retail Transmission Rate

The retail transmission rate represents a pass through of wholesale costs incurred by distributors in respect of the transmission of electricity from generating stations to local areas. Retail transmission rates are regulated by the OEB.

Wholesale Market Service Charge

The wholesale market service charge represents a pass through of various wholesale market support costs. Retail rates for the recovery of wholesale market service charges are regulated by the OEB.

To ensure that GHESI meets its payment obligations to the IESO for wholesale market service charges, GHESI (and all other local electricity distribution companies) is required to satisfy and maintain prudential requirements with the IESO, which include credit support with respect to outstanding market obligations in the form of letters of credit, cash deposits or guarantees from third parties with prescribed credit ratings.

GHESI is exempt from tax under the *Income Tax Act (Canada)* ("ITA") if no less than 90 per cent of the capital of the Corporation is owned by Guelph Hydro Inc. and no more than 10 per cent of the income of the Corporation is derived from activities carried on outside the municipal geographical boundaries of the City. A corporation that is exempt from tax under the ITA is also exempt from tax under the *Taxation Act, 2007 (Ontario)* ("TA") and the *Corporations Tax Act (Ontario)* ("CTA").

GHESI and its affiliates are Municipal Electricity Utilities ("MEUs") for purposes of the Payment In Lieu of Corporate Taxes ("PILs") regime contained in the *Electricity Act, 1998 (Ontario)* ("Electricity Act"). The *Electricity Act* provides that an MEU that is exempt from tax under the ITA, the CTA and the TA is required to make, for each taxation year, a PILs payment to the Ontario Electricity Financial Corporation in an amount equal to the tax that it would be liable to pay under the ITA and the TA (for years ending after 2008) or the CTA (for years ending prior to 2009) if it were not exempt from tax. The PILs regime came into effect on October 1, 2001, at which time GHESI and each of its affiliates were deemed to have commenced a new taxation year for purposes of determining their respective liabilities for PILs payments.

Ontario Distribution Sector Review Panel

In April 2012, the Ontario Minister of Energy established the Ontario Distribution Sector Review Panel to provide expert advice to the Government of Ontario (the "Province") on how to improve efficiencies in the distribution sector with the aim of reducing the financial cost of electricity distribution for electricity consumers. In its report, released in December, 2012 and titled, *Renewing Ontario's Electricity Distribution Sector: Putting the Consumer First*, the Panel produced a thorough review of the sector and recommended distribution sector consolidation on a province-wide scale to be carried out initially on a voluntary basis, but followed by mandatory consolidation via

legislation should voluntary consolidation not take place. The Province has not formally accepted the Panel's recommendations and has further stated its preference that consolidation in the sector should occur on a voluntary basis. GHI and its subsidiaries continue to assess strategic opportunities that could improve efficiencies in its businesses, including mergers and acquisitions.

Green Energy and Economy Act

The *Green Energy and Green Economy Act, 2009* (Ontario) (the "Green Energy Act") was passed on May 14, 2009. The Green Energy Act, among other things, permits electricity distribution companies to own renewable energy generation facilities, obligates electricity distribution companies to provide priority connection access for renewable energy generation facilities, empowers the OEB to set CDM targets for electricity distribution companies as a condition of licence and requires electricity distribution companies to accommodate the development and implementation of a smart grid in relation to their systems.

Renewable Energy

As Ontario's electricity system becomes greener, it is also becoming more diverse, with smaller-scale generation being built within communities. Through the OPA's Feed-in-Tariff (FIT) and microFIT programs, homeowners, community groups, faith communities and businesses are installing solar panels and other forms of renewable generation which supply electricity to the Ontario grid.

To date, GHESI has connected 263 customer-owned rooftop and ground-mounted solar facilities that have the potential to feed more than 7,941 kilowatts of power into the Ontario grid.

Conservation and Demand Management Activities

On March 31, 2010, the Minister of Energy and Infrastructure of Ontario, under the guidance of Sections 27.1 and 27.2 of the *OEB Act*, directed the OEB to establish CDM targets to be met by local electricity distribution companies ("LDCs"). Accordingly, on November 12, 2010, the OEB amended GHESI's distribution licence to require GHESI, as a condition of its licence, to achieve 79.53 gigawatt-hours of energy savings and 16.71 megawatts of summer peak demand savings, over the period beginning January 1, 2011 through December 31, 2014.

On September 16, 2010, the OEB issued its Conservation and Demand Management Code for Electricity Distributors, which set out the obligations and requirements that LDCs must comply with in relation to the CDM targets set out in their licences. This includes the development and delivery of LDC-specific CDM strategies to achieve CDM targets, as well as the eligibility criteria for LDC performance incentive payments. The Corporation filed its CDM Strategy with the OEB on November 1, 2010, and filed its first CDM Annual Report for 2011 with the OEB on October 1, 2012.

Effective January 1, 2011, GHESI entered into an agreement with the Ontario Power Authority (“OPA”) to deliver CDM programs in the amount of approximately \$3.1 million extending from January 1, 2011 to December 31, 2014 (the “Master CDM Program Agreement”). As at December 31, 2013, GHESI had received approximately \$2.6 million from the OPA for the delivery of CDM programs under the Master CDM Program Agreement. All programs to be delivered under the Master CDM Program Agreement are fully funded and paid in advance by the OPA. These programs are expected to support the achievement of the mandatory CDM targets described above.

On December 21, 2012, the OPA received direction from the Minister of Energy to proceed with a one year extension of LDCs’ CDM programs to December 31, 2015. This directive also included the requirement for OPA provision of funding for the delivery of CDM programs in 2015, but details regarding the funding and CDM targets have yet to be disclosed to Distribution Utilities.

| Reductions in Electricity – 2014 Targets | |
|---|-------------------------|
| 2014 Target | Achieved to Date **** |
| 79.53 gigawatt hours*** | 92.33 gigawatt hours*** |
| Reductions in Peak Demand – 2014 Targets | |
| 2014 Target* | Achieved to Date**** |
| 16.71 megawatts** | 12.00 megawatts* |

*Equivalent to removing the demand load of one of our largest customers
 **2014 net annual peak demand savings
 *** Net cumulative energy savings
 ****Estimated unverified results

Smart Grid

Across North America, traditional electricity distribution networks are being enhanced with sensors, automation, digital communications and monitoring systems to facilitate the two-way flow of electricity and information and increase system reliability, with the upgraded network commonly known as “smart grid”.

GHESI has been proactively upgrading its electricity distribution network for many years. Today we operate a sophisticated, modern, electricity network that features many of the advanced technologies that are the hallmark of a smart grid. These include a remotely controlled, smart grid-enabled transformer station, over 52,000 smart meters equipped with ZigBee® chip functionality and a network equipped with approximately 110 remotely-operable switches and 30 intelligent monitoring systems. The ZigBee® chip deployed in the smart meters will be used to provide a real-time wireless connection to an in-home display (“IHD”) so that customers can instantaneously see the cost of electricity used within their homes, with a goal to help them better understand and manage their electricity use.

Distribution Rates

Regulatory developments in Ontario's electricity industry, including current and possible future consultations between the OEB and interested stakeholders, may affect GHESI's electricity distribution rates and other permitted recoveries in the future.

On June 30, 2011, GHESI submitted a rate rebasing application to the OEB for new distribution rates. On March 1, 2012, GHESI received its final Rate Order from the OEB, which approved an overall increase of 7.86 per cent to distribution rates effective January 1, 2012. The decision incorporated GHESI's increase in fixed assets and operating expenses since the last rate rebasing application in 2008 and established rates that allow for return on invested capital of 6.80 per cent and return on equity of 9.42 per cent. Additionally, on July 24, 2012, GHESI filed its 2013 electricity distribution rates application using the OEB's 3rd Generation Incentive Regulation Mechanism as the basis for its application. The OEB rendered its Decision on December 6, 2012, which approved a rate increase of 1.08 per cent for all customers, effective on 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 with Reasons on December 5, 2013 which approved a distribution rate increase of 1.4 per cent for all customers effective January 1, 2014.

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 OEB has the general power to include or exclude costs, revenues, losses or gains in the rates of a specific period, resulting in a change in the timing of accounting recognition from that which would have applied in an unregulated company. Such change in timing involves the application of rate regulated accounting, giving rise to the recognition of regulatory assets and liabilities that are not recognized under IFRS, known as Modified IFRS or MIFRS.

Investing in Reliability

The duration and frequency of power outages are basic reliability measures that are tracked continuously. In 2013, GHESI's reliability performance, excluding loss of supply was 99.975 per cent (2012, 99.9964 per cent). GHESI's reliability performance including loss of supply in 2013 was 99.9614 (2012, 99.9840 per cent). In 2013, the average amount of time that customers were without power, in the event of a power outage, was 40 minutes when upstream loss of supply is excluded (2012, 12 minutes), and the average amount of time that customers were without power, in the event of a power outage, including upstream loss of supply was 51 minutes (2012, 33 minutes).

Customer interruption hours were higher in 2013 compared to 2012 due mainly to three major storm events: an ice storm in April, 2013, a major wind storm in July, 2013, and a major ice storm in December, 2013.

In 2013, GHESI spent \$2.9 million to replace aged distribution system assets. GHESI also trimmed trees encroaching on overhead lines in about 33 percent of its service area, conducted maintenance of switches, transformers and underground equipment, and performed infra-red scans to enable the early detection of degrading equipment with a view to preventing power outages caused by equipment failure and prolonged service life.

Envida Community Energy Inc.

Envida is a diversified energy infrastructure company that owns and develops assets within three business segments — generation, thermal distribution systems and energy management. Envida is the primary implementer and key developer of high-efficiency, low-carbon, energy projects that are assisting the City of Guelph in achieving targets set out in the CEI and facilitating economic development in the community.

Currently, Envida operates two generation projects — a one megawatt (“MW”) landfill gas generator and a 100 kilowatt (“kW”) rooftop solar project at GHI’s head office complex. Both projects have long-term OPA contracts.

Envida sees its role as an energy project “enabler,” either owning assets where it is prudent to do so or working with partners to help them develop and/or operate their own sustainable energy projects, first within Guelph and then extending beyond the City of Guelph’s borders.

In addition to supporting the CEI, these projects will act as a driver for economic growth. They will also increase the reliability and security of the electricity supply by reducing the community’s dependence on power transmitted over long distances from larger, centralized power plants.

Summary of Results

- 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.

Selected Consolidated Financial Data

The selected financial data presented below should be read in conjunction with the Corporation's Financial Statements.

| | 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) |

| Balance Sheet Summary | | | | |
|---|----------------|---------|--------------|---------------|
| | (\$000) | | | |
| | 2013 | 2012 | Change \$ | Change (%) |
| Assets | 190,465 | 188,073 | 2,392 | 1.27 |
| Current liabilities | 29,113 | 24,930 | 4,183 | 16.78 |
| Non-current liabilities | 89,512 | 87,259 | 2,253 | 2.58 |
| Total liabilities | 118,625 | 112,189 | 6,436 | 5.74 |
| Shareholder's Equity | 71,840 | 75,884 | (4,044) | (5.33) |
| Liabilities and Shareholder's Equity | 190,465 | 188,073 | 2,392 | 1.27 |

Results of Operations — 2013 compared to 2012

Net Income

Net loss for year ended December 31, 2013 was \$2.5 million compared to net income of \$0.6 million for the year ended December 31, 2012. The decrease in net income was primarily due to cost of power expenses exceeding regulatory charges and billings by \$6.1 million in the current period.

Under Rate Regulated Accounting ("RRA"), the timing and recognition of certain regulatory costs and billings may differ from those otherwise expected under IFRS. IFRS records these regulatory costs as expenses and revenues respectively. Under RRA, these items are recognized as assets and liabilities which represent current rights and obligations regarding cash flows expected to be recovered from or refunded to customers, based on decisions and approvals by the OEB. For the year ended December 31, 2013, under RRA, the excess of cost of power expenses over regulatory charges and billings caused regulatory assets to increase by \$6.1 million. Under IFRS, this amount was recognized as an expense in the Corporation's Statements of Comprehensive Income.

Net Revenues

Net revenue is defined as revenues minus the cost of purchased power and other non-distribution cost of sales. Net revenue for the year ended December 31, 2013 was \$21.2 million compared to \$25.4 million for the comparable period in 2012. The lower net revenue in 2013 was mainly due to cost of power expenses exceeding regulatory charges and billings by \$6.1 million.

Other income from operations comprises income from regulated electricity distribution activities and income from non-regulated activities. Other income from regulated activities includes charges to customers for connection, reconnection, late payments and ancillary services such as pole attachment fees which are charges to other utility service providers for attaching their infrastructure to poles owned by GHESI. Income from non-regulated activities primarily includes billings to the City of Guelph for

water meter reading and billing carried out by GHESI on the City's behalf. In 2013, Other income from operations was \$2.4 million compared to \$2.1 million in 2012.

Expenses

Operating, Maintenance and Administration expenses for the year ended December 31, 2013 were \$23.6 million compared to \$23.3 million for the comparable period in 2012. The higher operating costs were substantially due to higher operating and maintenance costs (\$0.98 million) partially offset by lower administration costs (\$0.7 million).

Net Financing Charges

Net financing charges for the year ended December 31, 2013 were \$3.1 million compared to \$3.3 million for the year ended December 31, 2012. The favourable variance was largely due to lower overall interest on notes payable, and slightly higher interest income.

Income Tax Expense (Recovery)

The income tax recovery for the year ended December 31, 2013 was \$0.299 million compared to a recovery of \$0.125 million for the year ended December 31, 2012.

| Liquidity and Capital Resources | | |
|--|-------------|-------------|
| Year ended December 31, | | |
| (In thousands of dollars) | | |
| | 2013 | 2012 |
| | \$ | \$ |
| Cash and cash equivalents, beginning of year | 16,467 | 25,103 |
| Net cash provided by operating activities | 12,111 | 11,564 |
| Net cash used in investing activities | (14,852) | (11,556) |
| Net cash used by financing activities | (2,552) | (8,644) |
| Cash and cash equivalents, end of year | 11,174 | 16,467 |

Sources of Liquidity and Capital Resources

The Corporation's primary sources of liquidity and capital resources are cash provided by operating activities, bank financing, interest income, and dividend payments from its subsidiaries. The Corporation's liquidity and capital resource requirements are mainly for payments of dividends to its shareholder, GMHI, to pay on-going expenses for Corporate staff, and to fund projects in support of the City of Guelph's Community Energy Initiative.

It is unlikely that equity contributions from GHI's sole shareholder, GMHI, will constitute a source of capital.

Net Cash Provided by Operating Activities

Net cash provided by operating activities was \$12.11 million in 2013 compared to \$11.56 million in 2012. The increase in net cash provided by operating activities was primarily due to higher accounts payable and other liabilities.

Net Cash Used in Investing Activities

Net cash used in investing activities was \$14.85 million in 2013 compared to \$11.6 million in 2012. The increase in investing activities was associated with capital expenditures relating to district energy projects in support of the City of Guelph's CEI.

The following table summarizes the Corporation's capital expenditures for the years indicated.

| Capital Expenditures Year Ended December 31, (in thousands of dollars) | | |
|---|-------------|-------------|
| | 2013 | 2012 |
| GHESI | | |
| Distribution System | 10,389 | 10,694 |
| District Energy Projects | 3,447 | 0 |
| Technology assets | 416 | 155 |
| Other | 591 | 648 |

The increase in capital expenditures was primarily related to new spending on district energy projects in support of the City of Guelph's CEI.

Net Cash Provided by Financing Activities

Net cash provided by financing activities was \$2.55 million in 2013 compared to net cash used by financing activities of \$8.64 million in 2012. The increase in net cash provided by financing activities was primarily due to lower dividend payments to GHI's shareholder, GMHI (\$1.5 million), and due to a reduction (\$4.62 million) in customer deposits refunded or utilized in 2012.

Revolving Credit Facility

GHESI has a credit facility pursuant to which it may borrow up to \$10.0 million. GHESI also has a credit facility for \$5.0 million (the "LC" facility) for the purpose of issuing letters of credit mainly to support prudential requirements with the IESO.

As at December 31, 2013, no amounts had been drawn under GHESI's \$10.0 million credit facility (2012, \$nil) and a \$4.0 million letter of credit had been issued by GHESI against the \$5.0 million LC facility (2012, \$nil).

Credit Rating

The Corporation's wholly-owned subsidiary, GHESI, has an "A" credit rating with a stable trend from Standard & Poor's.

Dividends

The shareholder direction adopted by GMHI with respect to GHI provides that the Board of Directors of the Corporation will use its best efforts to ensure that the Corporation meets certain financial performance standards, including those relating to the credit rating and dividends. Subject to applicable law, the shareholder direction provides that the Corporation will pay dividends to the City each year amounting to the greater of \$1.5 million or 50 per cent of consolidated net income.

In 2012, there was a transfer of shares held in respect of the ownership of GHI by the City of Guelph to Guelph Municipal Holdings Inc. ("GMHI"). The share transfer necessitated a new shareholder declaration from GMHI to GHI which also set out a new dividend policy whereby GHI began paying quarterly dividends in advance of each quarter to GMHI. Prior to this change, GHI had been paying an annual dividend in arrears after the consolidated results of its operations had been audited. The share transfer at GHI triggered a commensurate change in the pattern of dividends paid between GHESI and GHI. The dividends are not cumulative and are payable as follows:

- \$375,000 on the first day of each fiscal quarter during the year, except for the first quarterly dividend payment which is due and payable as soon as the audited financials are approved by the Board of Directors of GHI;

The Board of Directors of the Corporation declared and paid dividends totaling \$1.5 million in 2013 and \$3.0 million in 2012 to GMHI.

Share Capital

The authorized share capital of the Corporation consists of an unlimited number of common shares of which 2,000 common shares are issued and outstanding as at the date hereof.

Legal Proceedings

In the ordinary course of business, GHI and its subsidiaries are subject to various litigation and claims with customers, suppliers, former employees and other parties. On an ongoing basis, GHI assesses the likelihood of any adverse judgments or outcomes as well as potential ranges of probable costs and losses. A determination of the provision required, if any, for these contingencies is made after analysis of each individual issue. The provision may change in the future due to new developments in each matter or changes in approach, such as a change in settlement strategy.

An action was commenced against GHI and GHESI in November, 2013 in the Ontario Superior Court of Justice with the plaintiff seeking damages in the amount of \$2.0 million as compensation for damages allegedly suffered to the plaintiff's business and reputation in relation to the supply and installation of energy efficient lighting equipment, plus \$1.0 million punitive damages as a result of interference in economic relations or slander of goods. This

action is at a preliminary stage. The statement of claim has been served on GHI and GHESI, (and a specific GHESI employee). Given the preliminary status of this action, it is not possible to reasonably quantify the effect, if any, of this action on the financial performance of the Corporation.

Transactions with Related Parties

The Corporation provides certain services to the City at commercial and regulated rates, including electricity, street lighting and energy management services. All transactions with the City are conducted at prevailing market prices and normal trade terms. Additional information with respect to related party transactions between the Corporation and its subsidiaries, as applicable, and the City is set out below.

| Transactions with Related Parties Summary Year Ended December 31, (in thousands of dollars) | | |
|--|-------------|-------------|
| | 2013 | 2012 |
| Revenues | 9,239 | 8,569 |
| Expenses | 463 | 440 |
| Dividends | 1,500 | 3,000 |
| Accounts receivable, net of allowance for doubtful accounts | 1,300 | 1,319 |
| Accounts payable and accrued | 0 | 69 |

Revenues represent amounts charged to the City primarily for electricity, water billing, subcontracting work and street lighting services. Operating expenses represent amounts charged by the City for property taxes, and subcontracting work. Dividends represent dividends paid to the City.

Accounts receivable, net of allowance for doubtful accounts, represent receivables from the City primarily for the sale of electricity, water billing and street lighting services. Accounts payable and accrued liabilities represent amounts payable to the City relating to property taxes, and subcontracting work. See Note 17c to the Financial Statements.

The Corporation's transactions with subsidiaries of the City consist of sales of electricity at market rates.

Risk Factors

The Finance and Audit Committee of the Board of Directors has adopted a mandate to identify the principal control risks in the business of GHI and to verify that effective control systems are in place to manage and mitigate these risks. The Chief Executive Officer has ultimate accountability for risk management and the Chief Financial Officer and the Chief Operating Officer have joint responsibility to the Chief Executive Officer for the ongoing monitoring and review of the risk profile, policies and practices of the Corporation and ensuring

that the risk management program is an integral part of business strategy and planning. The financial performance of the Corporation is subject to a variety of risks including those described below.

In 2012, the company initiated an internal audit program to provide independent, objective assurance over the adequacy of processes and controls to manage business risk.

Regulatory risk related to the electricity distribution business

The evolving method in which the OEB incorporates its next generation of Incentive Regulation Mechanism (“IRM”) rate applications (termed “RRFE”) into its rate-making policies can present regulatory risk to the Corporation. The pending changes to the regulatory framework and rate-making policies could adversely impact distribution earnings, cash flow and valuation.

Regulatory risk could also arise from distribution consolidation. Should consolidation take place such that GHESI is sold or acquired by another distributor, or should GHESI acquire another distributor, there can be no assurance that the OEB will allow the costs of such consolidation to be recovered from ratepayers.

Regulatory risk also encompasses the risk that the Province or the OEB could establish a regulatory regime that imposes conditions that restrict the electricity distribution business from achieving a reasonable rate of return that permits financial sustainability of its operations including the recovery of expenses incurred for the benefit of other market participants in the electricity industry such as transition costs and other regulatory assets. All requests for changes in electricity distribution charges require the approval of the OEB.

In particular, there can be no assurance that:

- the OEB will approve GHESI’s electricity distribution rates under the incentive regulation mechanism framework, including the incremental capital module, at levels that will permit planned capital work programs to be carried out such that reliable service to its customers is maintained and the allowed rate of return on the investment in the business can be earned;
- the full cost of providing service to distribution customers will be permitted to be recovered through GHESI’s electricity distribution rates;
- the OEB will not permit competitors to provide distribution services in GHESI’s licensed area, or permit loads within GHESI’s service area to become electrically served by a means other than through GHESI’s electricity distribution system;
- the OEB will allow recovery for revenue lost as a consequence of unanticipated effects of CDM;
- parts of GHESI’s services will not be separated and opened to competition; or
- regulatory or other changes will not be made to the PILs regime.

Changes to any of the laws, rules, regulations and policies applicable to the businesses carried on by the Corporation could also have a significant impact on the Corporation. There can be no assurance that the Corporation will be able to comply with applicable future laws, rules, regulations and policies. Failure by the Corporation to comply with applicable laws, rules, regulations and policies may subject the Corporation to civil or regulatory proceedings that may have a material adverse effect on the Corporation.

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The principal source of credit risk for the Corporation relates to the realization of GHESI's customer receivables. The legislation governing the operation of Ontario's electricity industry exposes the Corporation, through its electricity distribution operations, to credit risk of several multiples of its means to generate revenue. Pursuant to Provincial regulation, electricity distribution companies in Ontario are required to act as the billing entities for all industry participants and must remit billed amounts accruing to these participants irrespective of whether such amounts are ultimately collected. With the exception of the debt retirement charge, electricity distribution companies are exposed to losses for entire amounts billed to customers. Electricity distribution companies are not directly compensated for assuming this level of risk nor is there a clear and mechanistic regulatory means to recover losses for non-distribution charges.

As of December 31, 2013, five customers accounted for approximately 12 per cent of accounts receivable (including all pass through charges). All of these customers have a good payment history with the Corporation.

Labour Relations Risk

As of January 2014, GHESI employed 112 regular employees and 6 temporary employees including students. Approximately 68 per cent of GHESI's employees are represented by the International Brotherhood of Electrical Workers Union ("IBEW"). The existing collective agreement with the IBEW expires March 31, 2017. GHESI bears financial risk related to the ability to negotiate a collective agreement consistent with its rate orders. In the event of a labour dispute, the Corporation could face some degree of operational risk related to continued compliance with its licence requirements of providing service to customers.

Condition of Distribution Assets

GHESI's ability to continue to provide a safe work environment for its employees and reliable and safe distribution service to its customers and the general public will depend on, among other things, the OEB allowing recovery of costs in respect of the Corporation's maintenance program and capital expenditure requirements for distribution plant refurbishment and replacement. GHESI's annual capital program

includes an amount of \$2.9 million in 2013 for this work. This is derived from its comprehensive asset management plan on distribution assets. The plan is levelized over the next 25 years that factors in age of plant, normal maintenance and history of component failures.

Bulk Supply

The high-voltage electricity transmission infrastructure serving Guelph is aging and represents a risk to ensuring a safe and continuous supply for Guelph. Hydro One has embarked on a transmission reinforcement project called the "Guelph Area Transmission Refurbishment Project" ("GATR") and has received approval by the OEB to proceed with construction of a reinforcement plan for improved system reliability and additional capacity to the area. The in-service date is targeted for Spring, 2016 and until the project is complete, GHESI will employ load shifting, conservation and split grid operations to ensure continuous supply.

Environmental Regulation

The Corporation is subject to Canadian federal, provincial and municipal environmental regulation. Failure to comply with environmental regulation could subject the Corporation to fines and other penalties. In addition, releases of hazardous substances now or in the past on or from properties owned, leased, occupied or used by the Corporation, or as a result of Corporation's operations could lead to governmental orders requiring investigation, control and/or remediation of releases. The presence or release of hazardous substances could also lead to claims by third parties for harm as a result of the existence of these substances. In addition, new approvals or permits or renewals of existing approvals and permits may require environmental assessment and/or result in the imposition of conditions which may result in compliance costs.

Information Technology Infrastructure

The Corporation's ability to operate effectively is in part dependent on the development, maintenance and management of complex information technology systems. Computer systems are employed to operate the Corporation's electricity distribution system, financial and billing systems and business systems to capture data and to produce timely and accurate information. Failures of the Corporation's financial, business and operating systems could have a material adverse effect on the Corporation's business, operating results, financial condition and prospects.

The Corporation's electricity distribution infrastructure and technology systems are also potentially vulnerable to damage or interruption from cyber-attacks, which could have an adverse impact on its operations, financial conditions, brand and reputation. While the Corporation has implemented protective measures to monitor the risk of a cyber-attack and mitigate its effects, there can be no assurance that such protective measures will be completely effective in protecting the Corporation's electricity distribution infrastructure or assets from a cyber-attack or the effects thereof.

Natural and Other Unexpected Occurrences

The Corporation's operations are exposed to the effects of natural and other unexpected occurrences such as severe or unexpected weather conditions, terrorism and pandemics. Although the Corporation's facilities and operations are constructed, operated and maintained to withstand such occurrences, there can be no assurance that they will successfully do so in all circumstances. Any major damage to the Corporation's facilities or interruption of the Corporation's operations arising from these occurrences could result in lost revenues and repair costs that can be substantial. Although the Corporation has insurance, if it sustained a large uninsured loss caused by natural or other unexpected occurrences, the Corporation would apply to the OEB for the recovery of the loss. There can be no assurance that the OEB would approve, in whole or in part, such an application.

Electricity Consumption

The Corporation's electricity distribution rates are comprised of a fixed charge and a usage-based (consumption) charge. The volume of electricity consumed by the Corporation's customers during any period is governed by events largely outside the Corporation's control (e.g., principally sustained periods of hot or cold weather could increase the consumption of electricity, sustained periods of mild weather could decrease the consumption of electricity, and general economic conditions could affect overall electricity consumption). Accordingly, there can be no assurance that the Corporation will earn the revenue requirement approved by the OEB.

Economic conditions could also lead to lower overall electricity consumption, particularly in the commercial customer segment, which is estimated to be the most sensitive to economic changes. Lower electricity consumption from commercial customers could negatively impact the Corporation's revenue. On an annual basis, a decrease of one per cent in electricity consumption would reduce net revenue by approximately \$0.163 million.

Market and Credit Risk

The Corporation is subject to credit risk with respect to customer non-payment of electricity bills. The Corporation is permitted to mitigate the risk of customer non-payment using any means permitted by law, including security deposits (including letters of credit, surety bonds, and cash deposits under terms prescribed by the OEB), late payment penalties, pre-payment, pre-authorized payment, load limiters or disconnection. In the event of an actual payment default and a corresponding bad debt expense incurred by the Corporation, roughly 77 per cent of the expense would be related to commodity and transmission costs and the remainder to the Corporation's distribution revenue. While the Corporation would be liable for the full amount of the default, there can be no assurance that the OEB would allow recovery of the bad debt expense from remaining customers. Established practice in such cases is that the OEB would examine any electricity distributor's application for recovery of extraordinary bad

debt expenses on a case-by-case basis.

In a rebasing year, the Corporation is also exposed to fluctuations in interest rates as its regulated rate of return is derived using a formulaic approach, which is based in part on a forecast of long-term Government of Canada bond yields and A-rated Canadian utility bond spreads. The Corporation estimates that, in a rebasing year, a one per cent reduction in long-term Government of Canada bond yields used to determine its regulated rate of return would reduce the Corporation's return on equity, as at December 31, 2013, by approximately 0.5 per cent.

Work Force Renewal

Over the next decade, a significant portion of the Corporation's employees will become eligible for retirement, including potential retirements occurring in supervisory, trades and technical positions. Accordingly, the Corporation will be required to attract, train and retain skilled employees. There can be no assurance that the Corporation will be able to attract and retain the required workforce.

Insurance

Although the Corporation maintains insurance, there can be no assurance that the Corporation will be able to obtain or maintain adequate insurance in the future at rates it considers reasonable or that insurance will continue to be available. Further, there can be no assurance that available insurance will cover all losses or liabilities that might arise in the conduct of the Corporation's business. The occurrence of a significant uninsured claim or a claim in excess of the insurance coverage limits maintained by the Corporation could have a material adverse effect on the Corporation's results of operations and financial position.

Conflicts of Interest

The City of Guelph through its wholly-owned subsidiary, Guelph Municipal Holdings Inc., owns all of the outstanding shares of Guelph Hydro Inc. and has the power to determine the composition of the Board of Directors of Guelph Hydro Inc. and influence the Corporation's major business and corporate decisions, including its financing programs and dividend payments. A conflict may arise between the Corporation and the City in its role as the sole shareholder of GMHI and its role as the administrator of the City's budget and other matters for the residents of the City.

IFRS Financial Measures

The Corporation's financial statements include "net operating revenue", which is defined as electricity sales minus the cost of electricity sold and other operating revenue. This measure does not have any standard meaning prescribed by IFRS and is not necessarily comparable to similarly titled measures of other companies. GHI uses this measure to assess its performance and to further make operating decisions.

Critical Accounting Estimates

The preparation of the Corporation's Financial Statements in accordance with IFRS requires management to make estimates and assumptions which affect the reported amounts of assets, liabilities, revenues and costs, and related disclosures of commitments and contingencies. The estimates are based on historical experience, current conditions and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities as well as identifying and assessing the accounting treatment with respect to commitments and contingencies. Actual results may differ from these estimates and judgments under different assumptions or conditions.

The following critical accounting estimates involve the more significant estimates and judgments used in the preparation of the Consolidated Financial Statements:

Employee Benefits

Employee benefits, other than pension, applicable to employees during active service and retirement include medical, dental and life insurance benefits. During active service, employees also receive the benefit of accumulated sick leave credits. For the post-retirement non-pension benefits, the present value of the defined benefit obligation and current service cost are calculated by independent actuaries using the projected benefit method prorated on service and based on assumptions that reflect management's best estimates. For the accumulated sick leave credits, the calculations have been performed on a present value basis and represent an estimate of the additional amount that the Corporation expects to pay as a result of the unused sick leave bank hours accrued by its employees at December 31, 2013. There is no assurance that actual employees' future benefits costs will not differ significantly from the estimates calculated using management's best estimate assumptions.

Revenue Recognition

Revenues from the sale of electricity are recorded on a basis of cyclical billings and also include unbilled revenues accrued in respect of electricity delivered but not yet billed. The unbilled revenue accrual at the end of each period is based on estimated customer usage since the last meter reading date in the previous period. The development of the revenue forecast requires estimates of customer growth, economic activity, and weather conditions. There is no assurance that actual unbilled revenue estimates will not differ materially from actual revenue for the period.

Significant Accounting Policies

The Financial Statements of GHI have been prepared in accordance with IFRS. See Note 2(a) in the Financial Statements.

Future Accounting Pronouncements

Rate-Regulated Accounting (“RRA”)

Under RRA, the timing and recognition of certain regulatory costs and billings may differ from those otherwise expected under IFRS. Unlike IFRS which records these costs and billings as expenses and revenues respectively, RRA recognizes these items as assets and liabilities which represent current rights and obligations regarding cash flows expected to be recovered from or refunded to customers, based on decisions and approvals by the OEB. For the year ended December 31, 2013 under RRA, regulatory assets increased by \$6.1 million. This amount was recognized as an expense in the Corporation’s Statements of Comprehensive Income prepared under IFRS.

Outlook

The principal focus of the Corporation continues to be the delivery of safe, reliable and cost-effective electricity distribution services, providing value for all stakeholders and helping to create a culture of energy conservation in Ontario.

The Corporation remains committed to fulfilling its mission of providing superior customer service while investing in energy-related initiatives that benefit the communities in which it operates and while aligning with the energy-related objectives of the Province of Ontario, the City of Guelph, and the shareholder, Guelph Municipal Holdings Inc. The Corporation believes that this strategy will enable the Guelph Hydro group of companies to grow and enhance its position as an industry leader. Additionally, in light of the *Renewing Ontario’s Electricity Distribution Sector: Putting the Consumer First* report, the Corporation continues to assess strategic opportunities that could improve efficiencies in its businesses, including mergers and acquisitions.

Key objectives set for 2014 that will help the Corporation meet its objectives include: continued investment in capital infrastructure, the achievement of provincially mandated CDM targets and new investments in district energy and combined heat and power.

In summary, management believes the Corporation is well positioned to continue to meet its obligations to stakeholders while capitalizing on new opportunities as they arise to enable growth, enhance shareholder value and meet our customers’ evolving needs.

Guelph, Ontario, Canada
April 17, 2014

Report to Shareholder (Open)

Date of Meeting: June 16, 2014

RE: Compensation**Action Required:***RESOLVED THAT:*

The Compensation Report from the Board of Directors of GMHI regarding the activities of GMHI in 2013 be received.

REPORT:

On November 26, 2012, the City approved the appointment of two Community Representative Directors to the GMHI Board. Following these appointments, the Governance Committee of the GMHI Board considered the issue of compensation of Board members. The Committee considered the following:

- (a) The Shareholder Declaration provides that the directors of Guelph Hydro Inc. (GHI) and its subsidiaries shall receive compensation in amounts sufficient to attract candidates with necessary qualifications and consistent with industry norms and standards for comparable businesses. In determining compensation for GMHI directors, the foregoing general rule seem equally applicable although the question of "comparable businesses" is more difficult to assess than in the case of GHESI.
- (b) Board compensation should as a matter of principle be related to the accountability of directors in respect of the business or businesses that are being overseen.
- (c) Survey done by GHI regarding Board compensation and additional research by GMHI regarding Council approved comparators within Ontario as well as those in other provinces. Taken together as one data set, the



average meeting fees and average annual stipends of comparable entities are \$505 and \$21,494 respectively.

At the September 26, 2013 GMHI Board meeting, the Governance Committee presented its report. Following deliberations, the GMHI Board passed the following resolution:

- (a) THAT a phased approach to GMHI Board compensation be adopted, subject to approval by the City, to ensure that GMHI is able to attract and retain Board of Director candidates with necessary qualifications, consistent with industry norms and standards for comparable businesses;
- (b) THAT in the first phase only Community Representative Directors be compensated, with subsequent phases focused on developing a Board compensation policy with options for all other Directors, including elected officials;
- (c) THAT the GMHI Community Representative Directors' compensation include the provision of meeting fees in the amounts of \$500 per Board Meeting, \$250 per Committee Meeting and an annual stipend in the amount of \$5000 to be paid out in monthly increments effective following Council approval;
- (d) THAT the compensation costs for the Community Representative Directors be resourced in the GMHI business plan;
- (e) THAT the GMHI Community Representative Director compensation be revisited every second year to ensure alignment with evolution of GMHI; and
- (f) THAT the GMHI Board request that the City amend the Shareholder Declaration to provide for Community Representative Director compensation.

Report Prepared By:

Donna Jaques, Corporate Secretary, GMHI

Attach – Report of Community Representative Directors

**REPORT OF COMMUNITY REPRESENTATIVE DIRECTORS
GUELPH MUNICIPAL HOLDINGS INC. - CALENDAR YEAR 2013****

| | Mark Goldberg Jan-Dec 2013 | Ted Sehl Jan-Dec 2013 |
|-------------------------------------|-------------------------------|--------------------------|
| Total Stipend * | \$ 417.00 | \$ 417.00 |
| Total Board Meeting | \$ 1,000.00 | \$ 1,000.00 |
| Governance | \$ - | \$ - |
| Nominating | \$ - | \$ - |
| CEO Search Committee | \$ - | \$ - |
| Thermal Utility Task Force | \$ - | \$ - |
| Mergers and Acquisitions Task Force | \$ - | \$ - |
| Committee Meeting Subtotals | \$ - | \$ - |
| Total | \$ 1,417.00 | \$ 1,417.00 |
| Total Compensable Meetings in 2013 | 2 | 2 |

*Annual Stipend \$5000

** Effective November 1, 2013

Report to Shareholder (Open)

Date of Meeting: June 16, 2014

RE: Compliance Report**Action Required:***RESOLVED THAT:*

The Compliance Report from the Board of Directors of GMHI dated May 29, 2014 regarding the activities of GMHI in 2013 be received.

REPORT:

Section 10.4 of the Shareholder Declaration requires the Board of GMHI to provide a compliance report to the City annually. Section 11.4 of the Shareholder Declaration requires the Board of GHI and its subsidiaries to provide a compliance report to GMHI annually. That report has been received by GMHI. Both the compliance reports are attached.

The purpose of the reports is to provide assurance to the shareholder that the corporations are complying with all applicable laws and the Shareholder Declaration. Any areas of non-compliance are identified in the report along with the strategy to reach compliance.

Report Prepared By:

Donna Jaques, Corporate Secretary, GMHI

TO: Guelph City Council
FROM: Guelph Municipal Holdings Inc. Board of Directors
MEMO DATE: May 29, 2014
MEETING DATE: June 16, 2014
RE: Compliance Report (Section 10.4 Shareholder Declaration)

INTRODUCTION

This is a report by GMHI in respect of compliance by GMHI with the Shareholder Declaration and all applicable laws.

Section 10.4 of the Shareholder Declaration provides as follows:

Confirmation of Compliance – The Holdco Board shall, in a confidential report to Council, annually confirm within six months of the end of each financial year of Holdco that it has complied with the requirements of this Shareholder Declaration and is in compliance with the applicable Laws and that it has received a similar confirmation of compliance from the Board of GHI.

During 2013 the parties to the Shareholder Declaration agreed on a revised schedule of reporting.

The Board of GMHI has made comprehensive inquiry of GMHI Management **who have confirmed compliance with all provisions of the Shareholder Declaration and with all applicable laws.**

SHAREHOLDER REQUIREMENT WAIVERS TO DATE

None.

OTHER LEGISLATION AND INSTRUMENTS

In addition to the foregoing, to the best of our knowledge, GMHI is in full compliance with all other laws, regulations and other legal requirements including the Municipal Act and the Ontario Business Corporations Act.



TO: Guelph Municipal Holdings Inc. Board of Directors
FROM: Guelph Hydro Inc. Board of Directors
BOARD MEETING DATE: May 15, 2014
AGM DATE: June 5, 2014
RE: Compliance Report (Section 11.4 Shareholder Declaration)

INTRODUCTION

This is a report by GHI Board for GHI and its subsidiaries, GHESI and Envida Community Energy, collectively referred to herein as "GHI", in respect of compliance by GHI with the Shareholder Declaration and all applicable laws.

Section 11.4 of the Shareholder Declaration provides as follows:

Confirmation of Compliance – Within five months of the end of each financial year, the GHI Board shall confirm to Holdco in writing that GHI and its Subsidiaries have complied with the requirements of this Shareholder Declaration, that GHI is in compliance with all applicable Laws, and that GHI has received a similar confirmation of compliance from the Board of each GHI Subsidiary.

During 2013 the parties to the Shareholder Declaration agreed on a revised schedule of reporting, in effect overriding the five month requirement. Compliance Report is now one of the deliverables required for the GHI Annual Shareholders meeting.

The Board has made inquiry of GHI Management who have confirmed compliance with all provisions of the Shareholder Declaration and with all applicable laws subject to minor deviations, as discussed below, which have been disclosed to governmental regulators having jurisdiction. One issue, continuing to be unresolved but of no immediate concern, involves the Affiliate Relationships Code ("ARC").

DISCUSSION

There is some question under section 73 of the Ontario Energy Board Act and ARC as to whether affiliates of an LDC which are "energy service providers" are permitted to provide street lighting services. This is a province wide issue affecting many LDCs and the opinions are varied. Suffice to say that the Ontario Energy Board has recognized the difficulties of interpretation and the practical difficulties involved and has never taken enforcement action against any LDC for violation of this provision.

REPORTING OBLIGATIONS

Pursuant to a number of regulations GHI is required to file a variety of reports in the course of any year as follows:

Specifically noteworthy is Regulation 22/04 under the Electricity Act. Section 13(1) provides as follows:

It is a condition of an approval issued to a distributor for the use of a distribution system that the distributor engage an auditor to audit on an annual basis the distributor's compliance with sections 4, 5, 6, 7 and 8 and to prepare an audit report. O. Reg. 22/04, s. 13 (1).

As well, section 14 provides as follows:

It is a condition of an approval issued to a distributor for the use of a distribution system that the distributor submit to the Authority an annual statement of compliance with sections 3, 9, 10, 11 and 12 signed by a professional engineer or an officer or director of the distributor. O. Reg. 22/04, s. 14.

GHI is in compliance with both of the foregoing provisions of Reg. 22/04.

Beyond the above noted reports, GHI regularly files with the authorities a number of routine operating reports. GHI is fully compliant in filing such reports within mandated time periods.

OTHER LEGISLATION AND INSTRUMENTS

In addition to the foregoing to the best of our knowledge, GHI is in full compliance with other legislation and instruments such as the Trust Indenture governing the issue of debentures.

With the theoretical exception of street lighting as discussed above, GHI is in full compliance with all other laws, regulations and other legal requirements including in particular Regulation 22/04 under the Electricity Act (Electrical Utility Safety), Affiliate Relationships Code other than as discussed above, the applicable employment and labour relations legislation.

Report to Shareholder (Open)

Date of Meeting: June 16, 2014

RE: 2013 Unconsolidated Audit of Guelph Municipal Holdings Inc.

Action Required:

RESOLVED that:

In lieu of an audit of the consolidated 2013 financial statements of GMHI as required by IFRS 10, the 2013 unconsolidated, audited financial statements shall be presented to the Shareholder with an accompanying special report on the audit of the GMHI financial statements by Deloitte.

Background:

On February 20, 2013 the Board of Director's appointed Deloitte to perform the 2013 audit of the unconsolidated financial statements of Guelph Municipal Holdings Inc. ("GMHI"). The objective of providing audited financial statements was to increase accountability and transparency to the tax payers.

Accounting treatment:

Historically GMHI has prepared unaudited, unconsolidated financial statements using International Financial Reporting Standards ("IFRS"). *IFRS 10 Consolidated Financial Statements* outlines the requirements for the presentation of consolidated financial statements, which **requires that organizations consolidate entities that it controls**. Given that GMHI owns 100% of Guelph Hydro Inc. ("GHI"), GMHI's financial statement would get captured by this standard and an audit report would **not** be able to be provided on the unconsolidated results.

This standard is in place to ensure that parent companies prepare consolidated financial statements. If the City prepared its financial statements in accordance to IFRS, we would be onside as the ultimate parent consolidates, however the City's financial statements are prepared in accordance to Public Sector Accounting Standards. The reason GMHI reports under IFRS are due to GHI, and Guelph Junction Railway also reporting under IFRS.

Deloitte is able to provide a special report on the audit of the GMHI which outlines that an audit was performed with the exception of IFRS 10 which requires consolidated financial statements.

Given the costs associated with preparing audited consolidated statements for GMHI, Management recommends this special report will meet the needs of the Shareholder. This special report would provide assurance on the financial statements for the 2013 year end, and going forward we will look into other options for reporting on the amalgamated entity.

Report Prepared by:

Donna Jaques, Corporate Secretary

Non-consolidated financial statements of

Guelph Municipal Holdings Inc.

December 31, 2013 and December 31, 2012

Guelph Municipal Holdings Inc.

December 31, 2013 and December 31, 2012

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Independent Auditor's Report

To the Management Committee of
Guelph Municipal Holdings Inc.

We have audited the accompanying non-consolidated financial statements of Guelph Municipal Holdings Inc., which comprise the non-consolidated balance sheets as at December 31, 2013 and December 31, 2012, and the non-consolidated statements of comprehensive income and accumulated deficit and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information. The non-consolidated financial statements have been prepared by management based on the disclosed basis of accounting in Note 1 of the non-consolidated financial statements.

Management's Responsibility for the Non-consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these non-consolidated financial statements in accordance with the disclosed basis of accounting in Note 1 of the non-consolidated financial statements, and for such internal control as management determines is necessary to enable the preparation of non-consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these non-consolidated financial statements based on our audits. We conducted our audits 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 non-consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the non-consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the non-consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the non-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 non-consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the non-consolidated financial statements present fairly, in all material respects, the financial position of Guelph Municipal Holdings Inc. as at December 31, 2013 and December 31, 2012, and the results of its operations and its cash flows for the years then ended in accordance with the disclosed basis of accounting in Note 1 of the non-consolidated financial statements.

Basis of Accounting and Restriction on Distribution and Use

Without modifying our opinion, we draw attention to Note 1 to the non-consolidated financial statements, which describes the basis of accounting. The non-consolidated financial statements are prepared for the Management Committee of Guelph Municipal Holdings Inc. As a result, the non-consolidated financial statements may not be suitable for another purpose. Our report is intended solely for the Management Committee of Guelph Municipal Holdings Inc. and should not be distributed to or used by parties other than the Management Committee of Guelph Municipal Holdings Inc.



Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants
June 11, 2014

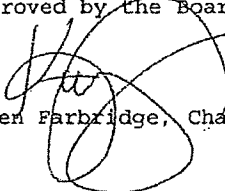
Guelph Municipal Holdings Inc.

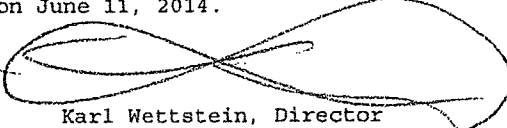
Non-consolidated balance sheets

as at December 31, 2013 and December 31, 2012

| | 2013 | 2012 |
|--|-------------------|-------------------|
| | \$ | \$ |
| Assets | | |
| Current assets | | |
| Cash | 776,844 | - |
| Accounts receivable | 651 | 2,516 |
| Due from City of Guelph | - | 18,931 |
| | <u>777,495</u> | <u>21,447</u> |
| Investment in Guelph Hydro Inc. | 66,753,000 | 66,753,000 |
| | <u>67,530,495</u> | <u>66,774,447</u> |
| Liabilities | | |
| Current liabilities | | |
| Due to City of Guelph | 185,996 | - |
| Accounts payable and accrued liabilities | 2,666 | 3,337 |
| | <u>188,662</u> | <u>3,337</u> |
| Shareholder's equity | | |
| Share capital | | |
| Authorized: Unlimited common shares | | |
| Issued: 67,530 common shares (2012 - 66,753) | 67,530,000 | 66,753,000 |
| Accumulated (deficit) earnings | (188,167) | 18,110 |
| | <u>67,341,833</u> | <u>66,771,110</u> |
| | <u>67,530,495</u> | <u>66,774,447</u> |

Approved by the Board of Directors on June 11, 2014.


Karen Farbridge, Chair


Karl Wettstein, Director

The accompanying notes to the non-consolidated financial statements are an integral part of this non-consolidated financial statement.

Guelph Municipal Holdings Inc.

Non-consolidated statements of comprehensive income
and accumulated deficit
years ended December 31, 2013 and December 31, 2012

| | 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 | (1,518,110) | (2,950,000) |
| Accumulated earnings, beginning of year | 18,110 | - |
| Accumulated (deficit) earnings, end of year | <u>(188,167)</u> | <u>18,110</u> |

The accompanying notes to the non-consolidated financial statements are an integral part of this non-consolidated financial statement.

Guelph Municipal Holdings Inc.

Non-consolidated statements of cash flows years ended December 31, 2013 and December 31, 2012

| | 2013 | 2012 |
|---|----------------|-------------|
| | \$ | \$ |
| Cash flows from operating activities | | |
| Net earnings | 1,311,833 | 2,968,110 |
| Adjustments for: | | |
| Decrease (increase) in accounts receivables | 1,865 | (2,516) |
| Increase (decrease) in due to/from City of Guelph | 204,927 | (18,931) |
| (Decrease) increase in accounts payable and accrued liabilities | (671) | 3,337 |
| Net cash from operations | 1,517,954 | 2,950,000 |
| Cash flows from financing activities | | |
| Issuance of share capital | 777,000 | - |
| Dividends paid | (1,518,110) | (2,950,000) |
| Net cash from financing | (741,110) | (2,950,000) |
| Change in cash during the year | 776,844 | - |
| Cash, beginning of year | - | - |
| Cash, end of year | 776,844 | - |

The accompanying notes to the non-consolidated financial statements are an integral part of this non-consolidated financial statement.

Guelph Municipal Holdings Inc.

Notes to the non-consolidated financial statements

December 31, 2013 and December 31, 2012

1. Reporting Entity and Basis of Presentation

Guelph Municipal Holdings Inc. (the "Corporation") is a wholly-owned subsidiary of The Corporation of the City of Guelph (the "City") and was incorporated on August 16, 2011 under the laws of the Province of Ontario, Canada. The address of the Corporation's registered office is 1 Carden Street, Guelph, Ontario.

The Corporation provides governance over current and future City owned assets and is designed to realize the full potential of these corporate assets. The Corporation's sole activity is holding shares in other corporations which are established by the City.

The Corporation owns 100% of the shares of Guelph Hydro Inc. ("GHI"), which in turn owns 100% of Guelph Hydro Electric Systems Inc. and Envida Community Energy Inc.

These non-consolidated financial statements have been prepared in accordance with the significant accounting policies set out below. The basis of accounting used in these non-consolidated financial statements materially differs from International Financial Reporting Standards because they are issued on a non-consolidated basis and the investment in GHI is recorded at cost.

The non-consolidated financial statements have been approved by the Board of Directors and authorized for issue on June 11, 2014.

2. Significant accounting policies

Accounting framework

With the exception noted above with respect to the non-consolidation of the Corporation's investment in GHI, the Corporation is accounted for in accordance with IFRS as set out in the CPA Canada Handbook.

The non-consolidated financial statements have been prepared on a historical cost basis. The non-consolidated financial statements are presented in Canadian dollars which is also the functional currency of the Corporation.

Investment in GHI

The investment in GHI is recorded at cost.

Revenue recognition

The Corporation recognizes revenue from dividends and interest when it is probable that the economic benefits will flow to the Corporation and the amount of income can be measured reliably, and when specific criteria have been met usually through a written contract.

Financial instruments

Financial assets and financial liabilities

Financial assets and financial liabilities are initially recognized at fair value and are subsequently accounted for based on their classification as described below. Transaction costs that are directly attributable to the acquisition or issue of financial assets or liabilities not classified as fair value through profit and loss are added to or deducted from the fair value of the financial assets or liabilities, as appropriate, on initial recognition. The classification depends on the purpose for which the financial instruments were acquired and their characteristics. Except in very limited circumstances, the classification is not changed subsequent to initial recognition.

Guelph Municipal Holdings Inc.

Notes to the non-consolidated financial statements

December 31, 2013 and December 31, 2012

2. Significant accounting policies (continued)

Financial instruments (continued)

Financial assets and financial liabilities (continued)

All financial instruments are classified into one of the following five categories:

- Fair value through profit or loss ("FVTPL"). Financial assets are classified as FVTPL when the financial asset is held for trading or it is designated as FVTPL;
- Held to maturity investments;
- Loans and receivables;
- Available for sale financial assets; and
- Other financial liabilities.

Loans and receivables, held to maturity investments and other financial liabilities are measured at amortized cost. Financial instruments classified as FVTPL, including derivatives, are measured at fair value each period and all gains and losses are included in earnings in the period in which they arise. Available for sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income until the asset is removed from the balance sheet. The Corporation has classified its cash and accounts receivable as loans and receivables.

Financial assets that are measured at amortized cost are assessed for indicators of impairment at the end of each reporting period.

Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the asset have been affected. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. If in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss.

Accounts payable and accrued liabilities and due to City of Guelph have been classified as other financial liabilities, all of which are measured at amortized cost.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit or loss.

Significant accounting estimates and judgments

The preparation of non-consolidated financial statements requires management to make estimates, assumptions and judgments that affect the application of accounting policies and the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the non-consolidated financial statements, and reported revenues and expenses during the reporting period. Due to the inherent uncertainty involved in making such estimates and judgments, actual results reported could differ from those estimates and judgments.

Recent accounting pronouncements

The new and revised IFRSs that have been issued but are not yet effective that may have an impact on the Corporation are set out below.

In November 2009, the IASB issued IFRS 9, "Financial Instruments", which replaces IAS 39, "Financial Instruments: Recognition and Measurement". In October 2010, the IASB issued a revised version of IFRS 9 in which the IASB added requirements for classification and measurement of financial liabilities. IFRS 9 establishes principles for the financial reporting of financial assets and financial liabilities. In November 2013, the IASB issued a new general hedging standard which forms part of IFRS 9. This new standard will become effective for the Corporation in fiscal 2018. The Corporation is assessing the impact of this new standard on its non-consolidated financial statements.

Guelph Municipal Holdings Inc.

Notes to the non-consolidated financial statements

December 31, 2013 and December 31, 2012

3. Share capital

Authorized, unlimited number

Common shares

Issued and outstanding

| | December 31, 2013 | December 31, 2012 |
|--------------------------------------|----------------------|----------------------|
| | \$ | \$ |
| 67,530 (2012 - 66,753) Common shares | 67,530,000 | 66,753,000 |

On February 20, 2013, the Corporation issued 777 common shares for \$777,000 in consideration.

4. Related party transactions

The Corporation is wholly owned by The City of Guelph. The City pays certain expenses on behalf of the Corporation for which the Corporation reimburses the City. During the year, these net expenses for which the Corporation reimbursed the City amounted to \$185,996 (2012 - \$(18,931)). The Corporation also paid the City \$74,000 (2012 - \$nil) in administration fees for the year. These transactions were made in the normal course of business and have been recorded at the exchange amounts.

The remuneration of key management personnel during the year was \$16,377 (2012 - \$nil).

5. Capital management

The Corporation's manages its capital to ensure sufficient liquidity to protect the Corporation's long-term viability as a going concern.

The Corporation's total capital is defined as shareholders' equity. Shareholders' equity at December 31, 2013 is \$67,341,833 (December 31, 2012 - \$66,771,110). There have been no changes to the Corporation's approach on capital management.

6. Financial risk management

Financial assets and liabilities

The following table analyzes financial assets and liabilities by the categories defined in IAS 39. In addition, IFRS 7 requires that financial instruments held at fair value be categorized into one of the following three levels to reflect the degree to which observable inputs are used in determining the fair values:

'Level 1' fair value measurements are those derived without adjustment from quoted prices in active markets for identical assets or liabilities.

'Level 2' fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

'Level 3' fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Corporation has no financial assets or financial liabilities held at fair value.

Guelph Municipal Holdings Inc.

Notes to the non-consolidated financial statements

December 31, 2013 and December 31, 2012

6. Financial risk management (continued)

Financial assets and liabilities (continued)

| | Loans and receivables | Available for sale | Liabilities at amortized cost | Fair value through profit or loss | Total carrying value | Fair value |
|---|--------------------------|-----------------------|-------------------------------------|---|----------------------------|----------------|
| | \$ | \$ | \$ | \$ | \$ | \$ |
| As at December 31, 2013 | | | | | | |
| Financial assets not held at fair value | | | | | | |
| Cash | 776,844 | - | - | - | 776,844 | 776,844 |
| Trade and other receivables | 651 | - | - | - | 651 | 651 |
| Financial assets held at fair value | - | - | - | - | - | - |
| Total financial assets | 777,495 | - | - | - | 777,495 | 777,495 |
| Financial liabilities not held at fair value | | | | | | |
| Trade and other payables | - | - | 2,666 | - | 2,666 | 2,666 |
| Due to City of Guelph | - | - | 185,996 | - | 185,996 | 185,996 |
| Financial liabilities held at fair value | - | - | - | - | - | - |
| Total financial liabilities | - | - | 188,662 | - | 188,662 | 188,662 |

| | Loans and receivables | Available for sale | Liabilities at amortized cost | Fair value through profit or loss | Total carrying value | Fair value |
|---|--------------------------|-----------------------|-------------------------------------|---|----------------------------|---------------|
| | \$ | \$ | \$ | \$ | \$ | \$ |
| As at December 31, 2012 | | | | | | |
| Financial assets not held at fair value | | | | | | |
| Trade and other receivables | 21,447 | - | - | - | 21,447 | 21,447 |
| Financial assets held at fair value | - | - | - | - | - | - |
| Total financial assets | 21,447 | - | - | - | 21,447 | 21,447 |
| Financial liabilities not held at fair value | | | | | | |
| Trade and other payables | - | - | 3,337 | - | 3,337 | 3,337 |
| Financial liabilities held at fair value | - | - | - | - | - | - |
| Total financial liabilities | - | - | 3,337 | - | 3,337 | 3,337 |

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

All contractual cash flows related to the Corporation's financial liabilities are expected to be settled within one year.