

# **CITY COUNCIL MEETING AS SHAREHOLDER OF GUELPH MUNICIPAL HOLDINGS INC. AGENDA**

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**Meeting Room C, Guelph City Hall, 1 Carden Street**

**DATE Wednesday July 10, 2013 – 5:15 p.m.**

Please turn off or place on non-audible all cell phones, PDAs, Blackberrys and pagers during the meeting.

Agenda Approval

Disclosure of Pecuniary Interest and General Nature Thereof

5:25 p.m. Closed Meeting:

THAT the Council of the City of Guelph meeting as the Shareholder of Guelph Municipal Holdings Inc. now hold a meeting that is closed to the public, pursuant to Section 239 (2) (a) and (g) of The Municipal Act, with respect to the security of the property and a matter which a council, board, committee or other body may hold a closed meeting under another Act.

6:00 p.m. Open Meeting – Annual General Meeting of the Shareholder of Guelph Municipal Holdings Inc.

- a) Confirmation of Minutes of June 25, 2012
- b) 2012 Chair's Report
- c) 2012 Annual Report including 2013 Major Business Developments – GMHI
- d) 2012 Financial Statements GMHI (unaudited) and 2012 Financial Statements GHI
- e) Compliance Report
- f) Report from Closed Session

7:00 p.m. Adjournment

July 02, 2013

Council Members,

Please find attached the meeting materials for the upcoming Annual General Meeting of the Shareholder scheduled for July 10, 2013. Included at the front of your package is a list of frequently asked questions and answers to support your understanding and participation in the meeting. The content will be included on the new website which will be operational by July 5, 2013.

It is important to note that during this session, Council will be acting as Shareholder.

**Role of the Shareholder**

The shareholder of a corporation has certain rights under the Ontario Business Corporations Act, including appointing directors to the Board and appointing the auditors for the corporation. In the case of GMHI, the Shareholder Declaration executed by the City, Guelph Hydro Inc. and its Subsidiaries and GMHI requires greater involvement by the City as shareholder in approval of operational and business decisions for GMHI and GHI and its Subsidiaries.

The Shareholder is the Corporation of the City of Guelph. The CAO of the City is, by the Shareholder Declaration, designated as the Shareholder's Representative, who provides confirmation to GMHI of all decisions of the Shareholder relating to GMHI. The Shareholder Declaration provides that all decisions of the City as Shareholder of GMHI must be made by a by-law or resolution of Council.

When Council sits as Shareholder, decisions are made based on the vote of Council as a whole, as there is only one vote per Shareholder.

I thank you in advance for your attendance and participation.

Karen Farbridge  
Chair, GMHI

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## Frequently Asked Questions & Answers

### What is GMHI?

Guelph Municipal Holdings Inc. is a company set up by Guelph City Council to manage select City of Guelph assets for the purpose of maximizing their revenue potential and strengthening community prosperity.

### Why did Guelph City Council set up GMHI?

Functioning distinctively from the municipal government process, GMHI is able to respond to the conditions of a business investment environment to manage assets in a way that will bring greater benefit to our community.

### Why is City Hall/Council not overseeing these specific City assets?

Companies under GMHI oversight operate in a business environment, however Council approves what GMHI can do and states when Council approval is required. Members of City Council will continue to chair and sit on the GMHI Board.

### Who benefits from the activities of GMHI?

By strengthening the individual and collective position of City-owned assets and investments, GMHI provides the City and its residents with increased revenue potential. Through GMHI the City can invest in additional local business opportunities that will create jobs and contribute to community prosperity.

### What profits/benefits have been realized under GMHI's oversight?

At this time, Guelph Hydro Inc. provides an annual \$1.5 million dividend to the City to help offset taxes. The GMHI Board is examining new opportunities, including building on the success of the Community Energy Initiative in attracting jobs and national attention.

### What assets does GMHI currently oversee? What is in the works?

GMHI currently oversees Guelph Hydro Inc. and its subsidiaries (Guelph Hydro Electric Systems Inc. and Envida). Guelph's Enterprise Services team is also leading a number of fruitful conversations with potential investors in the community. Thermal energy and parking projects, as well as the Guelph Junction Railway, are also being evaluated.

### Who reports to whom amongst GMHI, the asset companies and Council?

Each asset company is overseen by its own skills-based Board, and the Chair of each company's Board also sits on GMHI's Board in order to update and report on operations. The GMHI Board then reports directly to Council, and thus to Guelph citizens.

**In what capacity does GMHI operate independently from the City?**

GMHI operates within a business environment while being accountable to Council. GMHI evaluates and researches potential opportunities more freely and enters into frank and open discussions with potential business partners with the understanding that select proprietary information will remain confidential.

**Who makes decisions regarding assets?**

Council will continue to retain full and final approval on decisions regarding City assets. Council takes into consideration information and recommendations provided by GMHI.

**Does GMHI independently buy and sell City assets?**

No. GMHI is only responsible for brokering and managing transactions on behalf of Council.

**What is the type and frequency of reporting to Council and the public?**

GMHI will provide reporting, at least annually, on major business developments or significant results of its operations or that of its assets. GMHI must present its business plan and the business plans of its assets to Council on an annual basis, prior to the end of each financial year, and present an annual report at a public meeting of Council within six months after the end of each financial year.

**What information will not be available to the general public and why?**

GMHI will be engaged in discussions with privately-held companies. In some cases this will involve analysis of a company's confidential financial and operating information that will not be made available to the general public to protect the business interests of the parties involved.

**Why are there closed sessions at GMHI Annual General Meetings?**

At the 2013 Annual General Meeting of the Shareholder, GHI business interests will be discussed in the closed session. GHI is a private-sector business and discussion items will include competitive and confidential information, as well as matters about private individuals connected to GHI. The City of Guelph has always endeavoured to protect the interests of private business or individuals in the best interests of the city.

**What is a holding company?**

A holding company is created to buy and oversee the business functions of other companies, which it manages in order to increase holdings or profit. Companies continue to operate independently with their own skills-based boards, but come together with the holding company to take advantage of opportunities.

**Why bother?**

City Council and staff are committed to exploring opportunities to operate in different and innovative ways to achieve better results for taxpayers. The creation of GMHI has resulted in improved



communications between the City and the individual asset companies, quick and effective action when exploring potential opportunities, and the potential for maximized profits for community building.

**Should I be concerned that this is privatizing public assets?**

City assets are not privatized when they are moved under the oversight of GMHI. They continue to remain assets of the City of Guelph and final decisions on their ownership continue to reside with Guelph City Council.

**Is Council losing control?**

Council will continue to have final approval on decisions regarding all City assets. GMHI manages the operation of assets to ensure time or information sensitive opportunities are capitalized on.

**How is the Board make-up determined?**

The GMHI Board is comprised of directors who can and are willing to contribute their professional experience, expertise and oversight. Consistent with the experiences and practices of similar Ontario municipal holding companies, the Board of Directors currently includes the Mayor, City Councillors, the subsidiary company Chair and two independent community members. City officials function as officers of the company - the Chief Administrative Officer is the Chief Executive Officer, the City Solicitor is the General Counsel and Corporate Secretary and the City Treasurer acts as the Treasurer. City staff supports the administrative needs of the entity as requirements emerge.

**How is GMHI funded?**

GMHI is self-financing with operating costs coming from the regular dividend payment stream of subsidiary companies. It is expected that specific external expertise may be required on occasion to assist with special projects. These additional resources could be cost-shared, if necessary, between GMHI and the City with approval of Council. An operating budget detailing anticipated cost and revenue sources is prepared annually for Shareholder review and approval.

**Does GMHI have say in day-to-day operations of the corporations under its purview?**

No. GMHI does not have a direct hand in the operation of City assets. Each asset has its own board that reports to GMHI (only GHI at this time), but operates independently. GMHI is restricted to providing input that ensures assets continue to operate in a way that maintains them as a viable and competitive business.

**Why are some City assets being treated and operated as “businesses” in the first place?**

GHI is required under provincial legislation to operate in a business environment. One part of its business (GHESI) is regulated by the Ontario Energy Board while the other part (Envida) is unregulated. Other assets, by their very nature, may be better suited to operate competitively in a business environment and with a focus on a long-term vision, business strategy, responsiveness, flexibility and

timely communications. There is opportunity through GMHI to maximize the potential of these assets on behalf of taxpayers.

**Who monitors the activities of GMHI?**

GMHI regularly reports to Council. Asset management decisions are subject to Council review and approval as set out in the existing Shareholder Agreement.

**Who carries legal risk with regard to investments? The City or GMHI?**

GMHI is entirely liable for any matters related to its activities. Suitable and comprehensive liability insurance policies are in place.

**What is the process in place to develop leads?**

A specific process will be applied to leads relating to current, city-owned assets that allow the GMHI Board of Directors, and Council as the Shareholder, to assess recommendations for value and viability. .

**If I have an investment opportunity for GMHI, who do I talk to?**

Opportunities should be presented in writing to GMHI at [info@guelphholdings.com](mailto:info@guelphholdings.com).

**To whom do I express concerns or input on GMHI?**

Questions or concerns on GMHI and its operations should be presented to GMHI Board Chair.

**Is thermal energy more expensive because it delivers energy for heating and cooling?**

A city-wide distribution heating and cooling network is not feasible. However, there are areas of city where it may be possible to provide cooling services when the demand is above a certain level. For example, the Galt Energy District System, which includes the Sleeman Centre (see 2012 Annual Report pg.10), has a significant collective cooling load, so a cooling distribution loop is part of the proposed design.

Annual General Meeting of the Shareholder – AGENDA  
 Open Session  
 City of Guelph – Meeting Room C  
 Wednesday, July 10, 2013  
 5:15 p.m. to 7:00 p.m. (Dinner: Council Caucus Room at 4:45 p.m.)

| #  | ITEM  | TIME | ACTION   | LEAD      | Attmt(s) |
|----|---|------|----------|-----------|----------|
| 1. | <b>Agenda Approval</b>  | 5:15 | Standing | Chair     | ✓ A.     |
| 2. | <b>Declaration of Pecuniary Interest or Conflict of Interest</b>                | 5:20 | Standing | Chair     |          |
| 3. | <b>Motion to move into Closed Session</b><br>Separate Agenda attached           | 5:25 | Standing | Chair     |          |
| 4. | <b>Resumption of Open Session</b>   | 6:00 | Standing | Chair     |          |
|    | a) Annual General Meeting of the Shareholder Minutes (June 25, 2012)            |      | Approve  | Chair     | ✓ B.     |
|    | b) 2012 Chair's Report  |      | Receive  | Chair     | ✓ C.     |
|    | c) 2012 Annual Report including 2013 Major Business Developments – GMHI         |      | Receive  | CEO       | ✓ D.     |
|    | d) 2012 Financial Statements GMHI (unaudited) and 2012 Financial Statements GHI |      | Receive  | Treasurer | ✓ E.     |
|    | e) 2012 Compliance Report   |      | Receive  | CEO       | ✓ F.     |
|    | f) Report from Closed Session   |      | Approve  | Chair     |          |
| 5. | <b>Adjourn</b>  | 7:00 | Standing | Chair     |          |

**Attachments:**

- A. List of Resolutions
- B. Annual General Meeting of the Shareholder Minutes (June 25, 2012)
- C. 2012 Chair's Report
- D. 2012 Annual Report including 2013 Major Business Developments – GMHI; Partnering with the City of Guelph to create a sustainable energy future
- E. 2012 Financial Statements GMHI (unaudited) and 2012 Financial Statements GHI
- F. 2012 Compliance Report



Report to Shareholder (Open)

Date of Meeting: July 10, 2013

**RE: List of Resolutions**

**Action Required:**

*RESOLVED THAT:*

*1. The GMHI Annual General Meeting of the Shareholder agenda be approved.*

*4a). The Minutes of the GMHI Annual General Meeting (Open Session) of the Shareholder held June 25, 2012 be approved.*

*4b) The 2012 Chair's Report is received.*

*4c) The 2012 Annual Report including 2013 Major Business Developments – GMHI is received*

*AND THAT:*

*The Guelph Hydro Inc. publication entitled "Partnership with the City of Guelph to create a sustainable energy future" be received.*

*4d) The 2012 GMHI Financial Statements (unaudited) are received*



*AND THAT:*

*The 2012 Guelph Hydro Inc. Statements are received.*

*4e) The Compliance Report from the Board of Directors of GMHI dated June 20, 2013 regarding the activities of GMHI in 2012 be received.*

*4f) The Report from Closed session is approved*

*AND THAT:*

\_\_\_\_\_ *are appointed as auditors for Guelph Municipal Holdings Inc.*

*AND THAT:*

\_\_\_\_\_ *are appointed as auditors for Guelph Hydro inc. and its Subsidiaries for its 2013 fiscal year.*

5. That the GMHI Annual General Meeting of the Shareholder be adjourned.

**REPORT:**

A summary list of all required resolutions has been prepared to facilitate improved meeting information flow and access.

Report Prepared By:

Donna Jaques, Corporate Secretary, GMHI



**Report to Shareholder (Open)**

**Date of Meeting: July 10, 2013**

**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 June 25, 2012 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

**GUELPH MUNICIPAL HOLDINGS INC. (GMHI)  
MINUTES OF SHAREHOLDER MEETING (OPEN)  
MONDAY, JUNE 25, 2012 AT 7:00 P.M.  
COUNCIL CHAMBERS, 1 Carden Street, Guelph Ontario**

| PRESENT                                       | <p>K. Farbridge; B. Bell; L. Burcher; J. Furfaro; J. Hofland; T. Dennis; C. Guthrie; G. Kovach; M. Laidlaw; L. Piper; A. VanHellemond; K. Wettstein</p> <p>(I. Findlay arrived at 8:19 p.m.)</p> <p><u>GMHI Directors and Officers:</u><br/>A. Pappert (CEO), D. Jaques (Corporate Secretary), B. Aumell (Director)</p> <p><u>City Staff:</u><br/>M. Amorosi, C. Bell, B. Labelle, R. Kerr, Brenda Boisvert</p> <p><u>GHI Staff:</u><br/>B.Chuddy (CEO), I. Miles (CFO), J. Urisk (GHI Board Chair)</p> |                            |
|---|---|----------------------------|
| ITEM  | COMMENTS  | RESPONSIBILITY & FOLLOW-UP |
| 1. AGENDA                                     | <p>Motion to Approve the Agenda</p> <p>Moved, Seconded and Carried</p>  |                            |
| 2. DECLARATION OF PECUNIARY INTEREST          | None declared.  |                            |
| 3. MOTION TO MOVE INTO CLOSED SESSION         | <p>Motion to Moved into Closed Session</p> <p>Moved, Seconded and Carried</p>   |                            |
| 4. ANNUAL REPORT FROM GMHI TO THE SHAREHOLDER | <p>GMHI CEO, Ann Pappert presented the Annual report from GMHI to the Shareholder.</p> <p>Motion to Receive the 2011 Annual Report</p> <p>Moved, Seconded and Carried</p>   |                            |
| 5. CLOSING REMARKS AND ADJOURNMENT            | <p>The Chair provided closing remarks and adjourned the Shareholder meeting.</p> <p>Motion to Adjourn</p> <p>Moved, Seconded, Carried</p>   |                            |

**Report to Shareholder (Open)****Date of Meeting: July 10, 2013****RE: 2012 GMHI Chair's Report****Action Required:***RESOLVED THAT:**The 2012 Chair's Report is received.***REPORT:**

Section 10.3 of the Shareholder declaration states that within six months after the end of each financial year, that Guelph Municipal Holdings Inc. shall report to a public meeting and the Chair shall attend such meeting and provide information with respect to the holding company and GHI. The Chair's report responds to this requirement. It provides an overview of the operating year (2012).

Report Prepared By:

Karen Farbridge, Chair, GMHI



**Report to Shareholder (Open)****Date of Meeting: July 10, 2013****RE: 2012 Annual Report****Action Required:***RESOLVED THAT:*

*The 2012 Annual Report including 2013 Major Business Developments  
– GMHI is received*

*AND THAT:*

*THE Guelph Hydro Inc. publication entitled "Partnership with the City  
of Guelph to create a sustainable energy future" be received.*

**REPORT:**

Section 10.3 of the Shareholder declaration states that within six months after the end of each financial year, that Guelph Municipal Holdings Inc. shall report to a public meeting and the Chair shall attend such meeting and provide information with respect to the holding company and GHI. The 2012 Annual Report responds to this requirement. It provides an overview of the 2012 business and future directions.

Report Prepared By:

Ann Pappert, CEO, GMHI



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## GMHI CHAIR'S REPORT FOR 2012

Good evening Shareholder Members;

As the Chair of Guelph Municipal Holdings Inc., it is with pleasure that I present the Chair's Report.

### Recognition

The primary purpose of the Chair's Report is to highlight 2012 accomplishments but it's also a terrific opportunity to shine a spotlight on the efforts of GMHI Directors, Officers, supporting staff and partners.

Guelph Municipal Holdings has the good fortune to be guided by an experienced and committed Board of Directors that is responsible for overseeing the corporation. I would like to begin by introducing your GMHI Directors.

Four Directors are well known to you as your Council representatives on the Board:

- Lise Burcher
- Todd Dennis
- June Hofland
- Karl Wettstein

One Director is also well known to you in her role as the Chair of Guelph Hydro Inc.:

- Jasmine Urisk

Two members may be new to you so I will ask them to stand as I introduce them. They were recently appointed as Independent Directors to the Board from our community:

- Mark Goldberg
- Ted Sehl

The Officers of the GMHI are also well known to you:

- Ann Pappert, Chief Executive Officer
- Donna Jacques, General Counsel and Secretary



- Al Horsman, Treasurer

I would like to thank our Directors and Officers for their hard work and commitment in 2012.

There are several other individuals who have also played an important role in building the corporation:

- Brenda Boisvert and Suzanne Holder from the CAO's office
- Sara Temple from Legal and Realty Services
- Tara Baker from Finance

As well, I would like to recognize the extraordinary support GMHI has received from the City of Guelph's Enterprise Division who are redefining and repositioning the City's role in local economic development:

- Peter Cartwright
- Rob Kerr
- Ian Panabaker

And finally many thanks to our partners at Guelph Hydro Inc. Their recently published brochure – *Partnering with the City of Guelph to create a sustainable energy future* – is an excellent expression of their unwavering commitment to our community, the GMHI vision, and the Community Energy Initiative. You will find a copy in your package.

## **2012 Accomplishments**

Our busy year in 2012 has seen a number of accomplishments.

In 2012, the GMHI Board held 7 meetings and we focused on the core responsibility of providing for the effective governance of the corporation including ensuring the strategic direction. In 2012, we created two committees – a Nominating Committee and a Governance Committee. We also welcomed two new Independent Directors and immediately benefited from the value of their private sector experience and perspective.

Board development was a key focus in 2012. A training workshop early in 2012 addressed issues of liability, confidentiality, privacy and security. We also educated ourselves on the regulatory environment of Guelph Hydro Inc.

We addressed several administrative and policy obligations under the Municipal Act (as a Municipal Corporation) and the Ontario Business Corporations Act. As well, we also ensured our ongoing compliance



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with the requirements of the Shareholder Declaration, the Municipal Act and the Ontario Business Corporations Act, with the exception noted in our Compliance Letter to the Shareholder. We established our strategic direction through the adoption of a vision, mission and mandate. We spent time as a board exploring the possibilities for GMHI. We included some members of the business community in these discussions to broaden our thinking on potential business opportunities.

The GMHI management team developed a framework to support evaluation of business opportunities that are identified for priority review. We recognize there must be a compelling business case for including other municipal assets under GMHI - one that can clearly demonstrate a community benefit. Finally, regular updates were provided to the Shareholder throughout the year and included a report on GHI Director Compensation as a best practice in corporate disclosure.

### **Looking forward**

I would like express to Shareholder Members the energy and excitement around the board room table.

While the transfer of GHI assets to GMHI was anticipated from the outset, it was a fortuitous choice as our first business opportunity. These assets present remarkable opportunities to support municipal innovation, revenue generation and community prosperity – opportunities the Board is eager to realize with our partners at Guelph Hydro Inc.

The ongoing work of GHI to leverage not only tangible assets but expertise, reputation, networks, and relationships, to implement the Community Energy Initiative reflects our mandate in action. The Board of Directors is excited about the vision for thermal energy infrastructure that will provide value to thermal energy customers while offering the City a competitive edge to attract investment to the City.

Our delegation to the Minister of Municipal Affairs and Housing at the 2012 Annual Meeting of the Association of Municipalities of Ontario confirmed we are advancing a new innovation in municipal service delivery. Our management team continues to initiate and respond to interest provincially regarding our model and the sharing of best practice.

In closing, Shareholder Members, we appreciate the opportunity to shepherd this new approach to the management of municipal assets.

Thank you for your leadership and vision in making this possible for our community.

Karen Farbridge, GMHI Board Chair

# GUELPH MUNICIPAL HOLDINGS INC.

## 2012 ANNUAL REPORT

ADVANCING INNOVATION  
AND PROSPERITY





# MESSAGE TO THE SHAREHOLDER

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*GUIDED BY THE VISION OF  
GUELPH COUNCIL AND CITIZENS,  
GMHI STRATEGICALLY MANAGES  
CITY OF GUELPH ASSETS TO  
MAXIMIZE THEIR REVENUE  
POTENTIAL AND STRENGTHEN  
COMMUNITY PROSPERITY*

The Board of Directors is pleased to present the 2012 Annual Report for Guelph Municipal Holdings Inc. (GMHI).

This important year effectively positioned the holding company to begin exploring options for service innovation to strengthen our Guelph community.

Internally, we invested in our leadership capacity as a Board through targeted learning and development, further developed our governance structure to ensure continued success and set a strong strategic direction for our future.

Externally, we remained focused and responsive to the economic, environmental, social and political forces shaping local government and communities across the province.

Achievements in 2012 position us well for the opportunities ahead.

Respectfully,



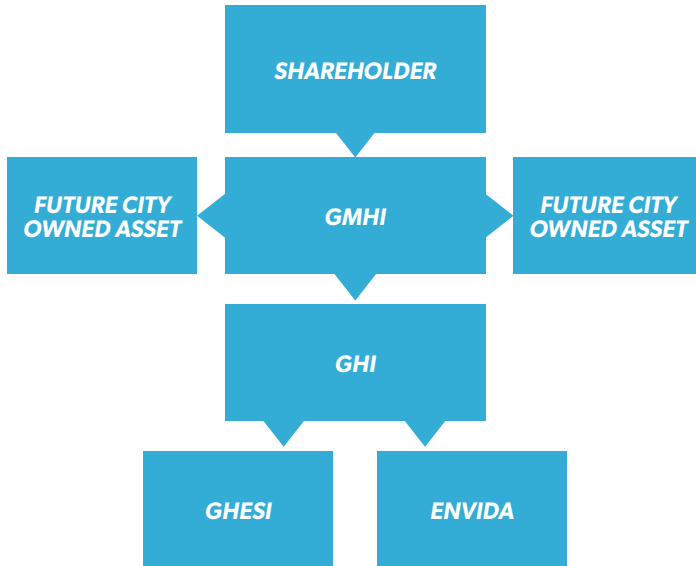
Karen Farbridge  
Chair  
Guelph Municipal Holdings Inc.

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# BUSINESS PROFILE

Guelph Municipal Holdings Inc. strategically manages City of Guelph assets to maximize their revenue potential and strengthen community prosperity.



## Guelph Municipal Holding Company

- \$66.8 million in assets
- 8 Directors (Mayor, 4 Councillors, 2 Community Members, 1 Subsidiary Board Chair)
- 3 Officers
- 2 Board Committees (Nomination & Governance)

Functioning distinctly from the municipal government process, but accountable to Guelph City Council as the sole shareholder, GMHI is able to respond to the conditions of a business investment environment. The activities of GMHI ensure assets established under any Act by the Corporation of the City of Guelph continue to operate in a way that maintains them as viable and competitive businesses. By strengthening the individual and collective position of city-owned assets and investments, GMHI provides the city and its residents with

increased revenue potential and builds a strong community in support of Guelph City Council’s vision and strategic priorities. Through GMHI the City of Guelph can invest in additional local business opportunities that will create jobs and contribute to a healthy, resilient community.

GMHI was incorporated in August 2011. At the present time, GMHI provides oversight to Guelph Hydro Inc. (GHI) and its subsidiaries.

# VISION, MISSION AND MANDATE

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## Vision

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

## Mission

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

## Mandate

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

*GMHI IS ABLE TO RESPOND TO  
THE CONDITIONS OF A BUSINESS  
INVESTMENT ENVIRONMENT TO  
MANAGE ASSETS IN A WAY THAT  
WILL BRING GREATER BENEFIT  
TO OUR COMMUNITY*

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# COMPANIES

GMHI is a holding company that manages select City of Guelph assets to maximize their revenue potential and strengthen community prosperity. In 2011, Guelph Hydro Inc., a wholly-owned asset of the City of Guelph, was moved into the structure of GMHI through a motion of Guelph City Council on September 6, 2011.

Listed below are the organizations that comprise Guelph Municipal Holdings Inc. and the services offered through each:



Guelph Hydro Inc. is a holding company owned by Guelph Municipal Holdings Inc. which is in turn fully owned by the City of Guelph. The organization has two wholly-owned subsidiary operating companies – Guelph Hydro Electric Systems Inc. and Envida Community Energy Inc. GHI is actively developing sustainable energy projects as a key implementer of the City of Guelph's Community Energy Initiative.

*GHI WAS NAMED LARGE COMPANY  
OF THE YEAR FOR 2011 BY THE  
ONTARIO ENERGY ASSOCIATION*



Guelph Hydro Electric Systems Inc. delivers a safe and reliable supply of electricity to approximately 50,000 residential, commercial and industrial customers in Guelph and Rockwood. It is the regulated arm of Guelph Hydro Inc.



Envida is a diversified energy infrastructure company that owns and develops assets within three business segments – generation, thermal distribution systems and energy management. It is the unregulated arm of GHI. 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 Guelph Community Energy Initiative and facilitating economic development in the community.

# BOARD OF DIRECTORS AND OFFICERS

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GMHI is guided by an experienced and committed Board of Directors responsible for overseeing the operations of the corporation and accountable to Guelph City Council.

In 2012, the Board of Directors included the Mayor, four City Councillors, the subsidiary company Chair and two independent community members. Guelph City officials continued to function as officers of the company – the Chief Administrative Officer continued to be the Chief Executive Officer, the City Solicitor acted as general Counsel and Corporate Secretary, and the City's Chief Financial Officer functioned as GMHI Treasurer. City staff supported the strategic and administrative needs of the corporation.

## Directors

**Karen Farbridge**, PhD, C.Dir  
GMHI Board Chair and Director

**Lise Burcher**, BLA, MLA  
GMHI Director

**Todd J Dennis**, BSc, CALE  
GMHI Director

**Mark Goldberg**, PhD, DABT, C.Dir  
GMHI Independent Director

**June Hofland**  
GMHI Director

**Edward Sehl**, CPA, MBA, C.Dir  
GMHI Independent Director

**Jasmine Urisk**, MSc, C.Dir  
GMHI Director, GHI Board Chair

**Karl Wettstein**, BA  
GMHI Director

## Officers

**Ann Pappert**, BA, MPA  
GMHI Chief Executive Officer

**Donna Jaques**, LLB, BComm  
GMHI General Counsel and  
Corporate Secretary

**Albert Horsman**, BA, MA, MES  
GMHI Treasurer

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## 2012 Results of Operations

**FINANCIAL IMPACT**

**2012 was GMHI's first full year of operations and its activities during the year were mainly focused on learning and development initiatives.**

The following summarizes GMHI's net income for the year:

**Revenue**

|                      |             |
|----------------------|-------------|
| Dividend income      | 3,000,000   |
| Less: Dividends paid | (2,950,000) |
|                      | 50,000      |

**Expenses**

|                            |        |
|----------------------------|--------|
| Administrative and general | 1,900  |
| Training and development   | 1,594  |
| Consulting and legal       | 4,482  |
| Insurance                  | 23,914 |
|                            | 31,890 |

**Net income**

18,110

*Note: During 2012, GMHI received the income from two dividend payments arising from a change in the timing of the declaration and payment of these funds.*

GMHI dividend revenues were received from its wholly-owned subsidiary Guelph Hydro Inc. Expenditures were under-budget for 2012 due to lower-than-expected consulting and insurance expenses resulting in a net income of \$18,110. This amount was declared as a dividend to be paid to the City of Guelph in April 2013.

## 2012 Results of Operations

# EVOLVING COMMUNITY IMPACT

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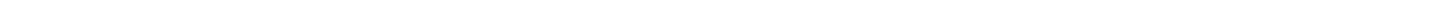
### **GMHI is guided by the strategic vision and priorities of Guelph City Council.**

Still in the early stages of development, 2012 focused on positioning the corporation to realize its full potential although to date GMHI's operations have already resulted in increased business investment in Guelph through quality jobs and national reputation. Strategic asset management will allow for new revenue generation options and greater investment in city building.

In the fall of 2012, the Board held a strategic session at which future potential prospects were identified for further discussion. These include energy, transportation, expertise, asset management, procurement and development corporations. In order to evaluate options in a consistent and thorough manner, a process was identified that will ensure excellence in decision making and transparency.

Also in 2012, the concept of a long-term thermal energy strategy was introduced to the GMHI Board of Directors. Thermal energy is a cornerstone in achieving the energy and greenhouse gas targets identified in Guelph's internationally-recognized 2007 Community Energy Initiative.

*GMHI CAN HELP TO CREATE REVENUE AND JOBS BY EFFECTIVELY LEVERAGING CITY ASSETS WHICH ALLOWS FOR GREATER INVESTMENT IN CITY-BUILDING*



# 2013-2014 BUSINESS DEVELOPMENT PLAN



Looking forward, three strategic directions were developed to guide GMHI's development: **Readiness, Capability and Identity.**

## Readiness

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

In 2012, capacity building was identified as important to the success of GMHI. It is imperative that the corporation, its board and staff are well positioned to seize business opportunities.

In order for GMHI to become a leader in innovation, the company will need to be proactive in preparation to do business. Through its 2013-2014 Business Development Plan GMHI will gain flexibility, agility and the ability to respond quickly to changes in the environment in which it operates. Being ready to do business will involve continued internal capacity building including Board training, evolving financial policies, undertaking best practice research and an environmental scan. GMHI will also need to be structurally ready to receive assets transferred from the City and will need to take the necessary steps to ensure the corporate structure is continually aligned with projects as they progress.

## Capability

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

GMHI is the vehicle that will provide an alternative and more innovative oversight of City assets and create value for the community. In order to achieve this vision, a business development process will be developed that identifies potential opportunities and then takes these ideas through a collaborative, analytical, risk assessment process. This process will also outline communication paths for ideas to be fostered at the City and passed over to GMHI for analysis and a recommendation. It should be clarified that although GMHI will provide the mechanism to analyse and sort through these opportunities, only those initiatives that meet the mandate of GMHI will be pursued.

In 2012, GMHI implemented a reporting structure that delivers accountability and transparency with its shareholder. Further, governance was identified as a key aspect of its complex business development process and therefore, GMHI continued to evolve topics for further consideration by its Board in 2013-2014.

## Identity

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

Over the past year, GMHI has built capacity internally to excel in governance, to understand the business of its current asset holdings and to brainstorm what it can be in the future. It is now time to crystallize this learning and build an internal and external communication campaign so that all stakeholders can understand the linkage between the City and GMHI and how GMHI will be used to create community value through innovation.

Attention was focused on building GMHI's identity to enable City staff and Council to identify business opportunities and communicate clearly with the public.

*GMHI'S BUSINESS PLAN HAS THE POTENTIAL TO DELIVER NEW PROJECTS, OPPORTUNITIES AND A STRONG GUELPH BRAND*

# 2012 MANAGEMENT DISCUSSION AND ANALYSIS

The following information has been prepared in conjunction with the unaudited financial statements of GMHI and the audited consolidated financial statements of Guelph Hydro Inc. for the period ended December 31, 2012.

For GMHI, 2012 was a development year. The Board continued to pursue learning and training; a strategic direction was set and two new committees (nomination and governance) were struck to address related matters. Two major business developments arose that may impact 2013 and subsequent years of operation. Both hold promise for continued success and delivering community value if managed strategically.

The two areas of major business developments include:

1. Provincial Assessment of the Local Distribution Network and GMHI Endorsement of Action
2. Thermal Energy Strategy Development

## Provincial Assessment of the Local Distribution Network and GMHI Endorsement of Action

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

The Panel recommended that the current 73 Local Distribution Companies (LDCs) be consolidated into eight to 12 larger regional distributors with a minimum of 400,000 customers each. The Panel advocates that this should be ‘compelled’ by legislation. While the Association of Municipalities of Ontario (AMO) has expressed a number of concerns with the Panel’s recommendations, including that they are not focused on incenting innovation and efficiency, what the Provincial government may do with these recommendations is unknown. It is clear, however, that the Province is exploring whether or not to pursue such possibilities. As such, GMHI is obliged to

complete a thorough analysis of all options in order to be fully prepared to react swiftly to pending direction from the Province.

In response, and with the full endorsement of the GMHI Board of Directors, GHI staff proactively continue to investigate and risk-assess all available options including status quo, merger, acquisition and disposition to ensure that the best interests of all stakeholders and the community at large are well met – with a specific focus on maintaining GHI’s fundamental implementation role in the Community Energy Initiative.

## Thermal Energy Strategy Development

The 2007 Community Energy Initiative (CEI) called for the following:

**‘Incrementally create energy distribution architecture in Guelph that will allow the majority of the city to be served with fuel choices that optimize cost, availability, and environmental impact long into the future.’**

In 2010, Guelph City Council endorsed a Memorandum of Intention with Guelph Hydro Inc., mandating Envida Community Energy to develop activities that support the goals of the CEI.

Subsequently Envida has focused its energies on identifying and developing projects that take advantage of provincial policy and programming in the following categories:

- Solar photovoltaic projects submitted for approval to the Ontario Power Authority’s Feed-In-Tariff program
- Combined Heat and Power projects submitted to the Ontario Power Authority’s Combined Heat and Power Standard Offer Program

In the latter category, it was recognized that Combined Heat and Power Projects, known as CHP projects, in addition to generating electricity, provide the thermal output that supports the Community Energy Initiative goal cited above.



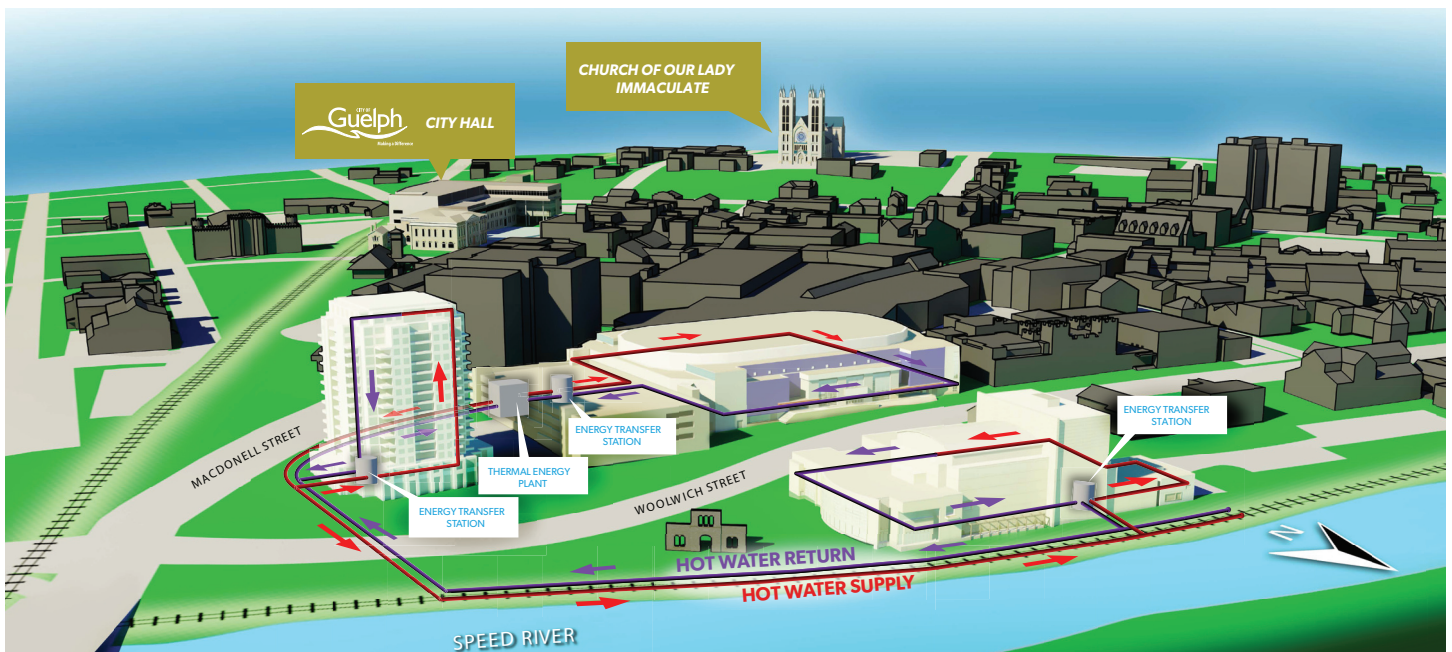
Approximately 50% of the total energy demand in the City of Guelph is for heat (thermal). The creation of a thermal distribution network (often referred to as District Energy) will not only allow for the efficient, competitive and secure delivery of the city's thermal energy requirements, but provide the critical flexibility in identifying and developing various thermal heat source inputs. In fact, it is understood that the energy and greenhouse gas emissions targets of the CEI will not be met without a comprehensive thermal energy strategy.

**Thermal energy infrastructure will provide value to thermal energy customers while offering the City a competitive edge to attract investment to the City.**

Recognizing that the success of a long-term thermal energy strategy was contingent on thorough planning, staff began development in 2012 of a local long-term (2013/2014) thermal energy concept for consideration by GMHI. The Thermal Energy Strategic Plan will address the technical, financial, partnership and governance considerations necessary to achieve the long-term goals of the Community Energy Initiative.

**In summary, 2012 can be characterized as a successful year of development and positioning the corporation to effectively leverage existing and emerging opportunities. The dedicated contributions of Board Directors, Officers and staff will continue to work towards achieving the long-term goal of value-added public asset management in support of municipal innovation, revenue generation and community prosperity.**

## Benefits of District Energy



A district energy system delivers thermal energy for heating and cooling in the form of hot or chilled water. The Galt District Energy System thermal plant, centrally located in the Sleeman Centre in Guelph, will supply reliable, economical and highly-efficient heating and cooling for a nearby sports and entertainment centre and other surrounding buildings. The buildings that are part of the district energy system do not need to own or operate their own furnaces, boilers, air conditioning systems or cooling towers.

### Benefits include:

- Dependable, high-quality thermal energy
- Higher reliability than conventional heating and cooling systems
- Reduced fuel costs and predictable long-term energy costs
- Reduced building operations and maintenance costs
- Avoidance of capital costs
- Reduced space requirements
- Reduced greenhouse gas emissions



# GUELPH MUNICIPAL HOLDINGS INC.

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**Report to Shareholder (Open)****Date of Meeting: July 10, 2013****RE: 2012 Financial Statements****Action Required:***RESOLVED THAT:**The 2012 GMHI Financial Statements (unaudited) are received.**AND THAT:**The 2012 Guelph Hydro Inc. Statements are received.***REPORT:**

Section 10.3 of the Shareholder declaration states that within six months after the end of each financial year, that Guelph Municipal Holdings Inc. shall report to a public meeting and the Chair shall attend such meeting and provide information with respect to the holding company and GHI. The 2012 GMHI Financial Statements (unaudited) and the 2012 Guelph Hydro Inc. Financial Statements respond to this requirement.

Additionally, the OBCA requirement regarding 2012 GMHI Financial Statements necessitated a resolution by Council on June 24, 2013 for a deferral to the July 10 meeting of the Shareholder. In accordance with the OBCA, the annual financial statements must be presented to the shareholder within 6 months of the fiscal year end; meaning June 30, 2013 for GMHI.

On June 25, 2012, the City (shareholder) approved through resolution that the requirement of GMHI to provide audited financial statements be waived until such time that the revenues / expenditures became material to the City of Guelph's financial statements. This waiver was requested due to the limited financial activity within GMHI during 2011 and 2012. For this reason,



the 2012 GMHI financial statements as presented are unaudited. It is expected that this waiver will be removed for the 2013 GMHI financial statements.

Report Prepared By:

Donna Jaques, Corporate Secretary GMHI

Consolidated Financial Statements of

**GUELPH HYDRO INC.**

Year ended December 31, 2012  
(Expressed in thousands of dollars)



**KPMG LLP**  
**Chartered Accountants**  
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Waterloo ON N2J 5A3

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## 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, 2012 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, 2012 and its consolidated results of operations and its consolidated cash flows for the year ended December 31, 2012 in accordance with International Financial Reporting Standards.

*KPMG LLP*

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Chartered Accountants, Licensed Public Accountants

April 18, 2013  
Waterloo, Canada

# GUELPH HYDRO INC.

## Consolidated Balance Sheets

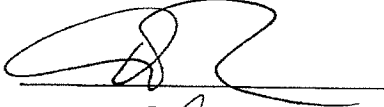
December 31, 2012, with comparative information for 2011  
(Expressed in thousands of dollars)


|  | 2012       | 2011       |
|--|------------|------------|
| <b>Assets</b>                          |            |            |
| Current assets:                        |            |            |
| Cash                                   | \$ 16,467  | \$ 25,103  |
| Accounts receivable (note 4)           | 18,355     | 21,299     |
| Unbilled revenue                       | 11,645     | 10,264     |
| Income taxes recoverable               | 1,027      | 3,227      |
| Inventory (note 5)                     | 1,876      | 1,681      |
| Other current assets                   | 666        | 392        |
| Total current assets                   | 50,036     | 61,966     |
| Property, plant and equipment (note 6) | 130,798    | 125,185    |
| Intangible assets (note 7)             | 314        | 275        |
| Deferred income taxes (note 9)         | 6,885      | 5,993      |
| Deferred charges                       | 40         | 40         |
| Total non-current assets               | 138,037    | 131,493    |
| Total Assets                           | \$ 188,073 | \$ 193,459 |

|   | 2012              | 2011              |
|---|-------------------|-------------------|
| <b>Liabilities and Shareholder's Equity</b>     |                   |                   |
| Current liabilities:                            |                   |                   |
| Accounts payable and accrued liabilities        | \$ 19,120         | \$ 20,403         |
| Income taxes payable (note 9)                   |                   | -                 |
| Notes payable (note 8)                          |                   | -                 |
| Deferred credits - budget billing               | 1,983             | 2,004             |
| Customer deposits - current portion (note 10)   | 3,689             | 5,971             |
| Current portion of long-term debt (note 13)     | 138               | 138               |
| <u>Total current liabilities</u>                | <u>24,930</u>     | <u>28,516</u>     |
| FCM loan (note 13)                              | 687               | 825               |
| Senior unsecured debentures (note 13)           | 64,550            | 64,525            |
| Employee future benefits (note 12)              | 8,048             | 7,610             |
| Customer deposits - long-term portion (note 10) | 2,898             | 5,511             |
| Deferred revenue                                | 10,611            | 8,212             |
| <u>Total non-current liabilities</u>            | <u>86,794</u>     | <u>86,683</u>     |
| <u>Total liabilities</u>                        | <u>111,724</u>    | <u>115,199</u>    |
| Shareholder's equity:                           |                   |                   |
| Share capital (note 19)                         | 48,576            | 48,576            |
| Retained earnings                               | 27,773            | 29,684            |
|   | <u>76,349</u>     | <u>78,260</u>     |
| Commitments and contingencies (note 18)         |                   |                   |
| Guarantees (note 21)                            |                   |                   |
| <u>Total assets</u>                             | <u>\$ 188,073</u> | <u>\$ 193,459</u> |

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, 2012, with comparative information for 2011  
(Expressed in thousands of dollars)

|   | 2012            | 2011            |
|---|-----------------|-----------------|
| Revenue:  |                 |                 |
| Electricity sales                                 | \$ 144,441      | \$ 152,195      |
| Other services                                    | 867             | 987             |
|   | <u>145,308</u>  | <u>153,182</u>  |
| Cost of electricity sold                          | 119,872         | 127,385         |
|   | <u>25,436</u>   | <u>25,797</u>   |
| Other operating revenue (note 14)                 | 2,234           | 2,268           |
| Net operating revenue                             | <u>27,670</u>   | <u>28,065</u>   |
| Expenses:   |                 |                 |
| Operations and maintenance                        | 11,398          | 10,741          |
| General and administrative                        | 11,898          | 11,382          |
|   | <u>23,296</u>   | <u>22,123</u>   |
| Earnings before the undernoted                    | <u>4,374</u>    | <u>5,942</u>    |
| Financial and other expenses (income):            |                 |                 |
| Interest on notes payable                         | 3,469           | 3,456           |
| Interest income                                   | (154)           | (467)           |
| Other   | 95              | 52              |
|   | <u>3,410</u>    | <u>3,041</u>    |
| Earnings before income taxes                      | <u>964</u>      | <u>2,901</u>    |
| Income tax expense (recovery): (note 9)           |                 |                 |
| Provision for payments in lieu of corporate taxes | 465             | 170             |
| Deferred income taxes                             | (590)           | 842             |
|   | <u>(125)</u>    | <u>1,012</u>    |
| Net earnings and comprehensive income             | <u>\$ 1,089</u> | <u>\$ 1,889</u> |

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, 2012, with comparative information for 2011

|   | Share<br>capital | Retained<br>earnings | Total     |
|---|------------------|----------------------|-----------|
| Balance at December 31, 2010            | \$ 48,576        | \$ 29,295            | \$ 77,871 |
| Dividends                               | -                | (1,500)              | (1,500)   |
| Total comprehensive income for the year | -                | 1,889                | 1,889     |
| Balance at December 31, 2011            | 48,576           | 29,684               | 78,260    |
| Dividends                               | -                | (3,000)              | (3,000)   |
| Total comprehensive income for the year | -                | 1,089                | 1,089     |
| Balance, December 31, 2012              | \$ 48,576        | \$ 27,773            | \$ 76,349 |

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

# GUELPH HYDRO INC.

## Consolidated Statements of Cash Flows

Year ended December 31, 2012, with comparative information for 2011  
(Expressed in thousands of dollars)

|  | 2012      | 2011      |
|--|-----------|-----------|
| Cash flows from operating activities:                    |           |           |
| Net earnings   | \$ 1,089  | \$ 1,889  |
| Adjustments for:   |           |           |
| Income tax expense                                       | (125)     | 1,012     |
| Depreciation and amortization                            | 5,913     | 5,694     |
| Amortization of deferred revenue                         | (281)     | (212)     |
| Interest income  | (94)      | (467)     |
| Interest expense   | 3,564     | 3,508     |
| (Gain) loss on disposal of property, plant and equipment | (8)       | 44        |
| Amortization of deferred charges                         | -         | (9)       |
|  | 10,058    | 11,459    |
| Change in:   |           |           |
| Receivables  | 2,944     | (3,972)   |
| Unbilled revenue   | (1,381)   | (77)      |
| Inventory  | (195)     | (144)     |
| Other current assets                                     | (275)     | 91        |
| Accounts payable and accrued liabilities                 | (1,277)   | 807       |
| Deferred credits - budget billing                        | (21)      | 670       |
| Employee future benefits                                 | 438       | 383       |
|  | 233       | (2,242)   |
| Income taxes refunded/(paid)                             | 1,427     | (2,908)   |
| Net cash from operating activities                       | 11,718    | 6,309     |
| Cash flows from investing activities:                    |           |           |
| Purchase of property, plant and equipment                | (11,497)  | (26,197)  |
| Purchase of intangible assets                            | (80)      | (276)     |
| Proceeds from disposal of property, plant and equipment  | 21        | -         |
|  | (11,556)  | (26,473)  |
| Cash flows from financing activities:                    |           |           |
| Contributions in aid of construction                     | 2,680     | 5,069     |
| Net change in customer deposits                          | (4,895)   | 5,041     |
| Dividends paid   | (3,000)   | (1,500)   |
| Interest paid  | (3,539)   | (3,483)   |
| Interest received  | 94        | 467       |
| Repayment of long-term debt                              | (138)     | (137)     |
|  | (8,798)   | 5,457     |
| Increase (decrease) in cash                              | (8,636)   | (14,707)  |
| Cash, beginning of year                                  | 25,103    | 39,810    |
| Cash, end of year  | \$ 16,467 | \$ 25,103 |

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

# GUELPH HYDRO INC.

Notes to Consolidated Financial Statements

Year ended December 31, 2012

(Expressed in thousands of dollars)

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## 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 license 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. ("ECEI") 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 18, 2013.

# GUELPH HYDRO INC.

Notes to Consolidated Financial Statements, continued

Year ended December 31, 2012  
(Expressed in thousands of dollars)

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## 2. Basis of presentation (continued):

### (c) 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 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.

### (d) 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.

### (e) 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 9 – Income taxes: utilization of tax losses
- (iv) Note 12 – Employee future benefits: measurement of the defined benefit obligation
- (v) Note 18 – Commitments and contingencies
- (vi) Note 20 – Financial instruments and risk management: valuation of long-term debt

# GUELPH HYDRO INC.

Notes to Consolidated Financial Statements, continued

Year ended December 31, 2012  
(Expressed in thousands of dollars)

---

## 2. Basis of preparation (continued):

### (f) 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 3<sup>rd</sup> 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%.

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 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, 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.

# GUELPH HYDRO INC.

Notes to Consolidated Financial Statements, continued

Year ended December 31, 2012  
(Expressed in thousands of dollars)

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### 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 ECEI is recorded on the basis of regular meter readings recording electricity production at the generation plant.

(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.

# GUELPH HYDRO INC.

Notes to Consolidated Financial Statements, continued

Year ended December 31, 2012  
(Expressed in thousands of dollars)

### 3. Significant accounting policies (continued):

#### (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, 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 |

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

# GUELPH HYDRO INC.

Notes to Consolidated Financial Statements, continued

Year ended December 31, 2012  
(Expressed in thousands of dollars)

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### 3. Significant accounting policies (continued):

(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:

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

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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, 2012  
(Expressed in thousands of dollars)

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### 3. Significant accounting policies (continued):

(f) Impairment (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 ECEI. 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 are 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, 2012  
(Expressed in thousands of dollars)

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### 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 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. The excess of the net accumulated actuarial gains (losses) over 10% of the accrued benefit obligation is amortized over the average remaining service period of active employees.

(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, 2012  
(Expressed in thousands of dollars)

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### 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, 2012  
(Expressed in thousands of dollars)

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### 3. Significant accounting policies (continued):

(l) Income taxes (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:

|                                      | 2012      | 2011      |
|--------------------------------------|-----------|-----------|
| Revenue                              | \$ 16,192 | \$ 19,479 |
| Regulatory                           | 1,169     | 1,202     |
| Due from the City of Guelph          | 1,319     | 953       |
|                                      | 18,680    | 21,634    |
| Less allowance for doubtful accounts | 325       | 335       |
|                                      | \$ 18,355 | \$ 21,299 |

### 5. Inventory:

The amount of inventories consumed by the Corporation and recognized as an expense during 2012 was \$289 (2011 - \$259).

# GUELPH HYDRO INC.

Notes to Consolidated Financial Statements, continued

Year ended December 31, 2012  
(Expressed in thousands of dollars)

## 6. Property, plant and equipment:

(a) Cost or deemed cost:

|                              | Land<br>and<br>buildings | Distribution<br>equipment | Electricity<br>generation<br>equipment | Other<br>fixed<br>assets | Construction<br>-in-<br>Progress | Total      |
|------------------------------|--------------------------|---------------------------|--|--------------------------|----------------------------------|------------|
| Balance at January 1, 2011   | \$ 19,545                | \$ 82,128                 | \$ 830                                 | \$ 4,393                 | \$ 429                           | \$ 107,325 |
| Additions                    | 1,808                    | 21,431                    | -                                      | 1,345                    | 1,618                            | 26,202     |
| Transfers                    | -                        | -                         | -                                      | 429                      | (429)                            | -          |
| Disposals/retirements        | -                        | (93)                      | -                                      | (41)                     | -                                | (134)      |
| Balance at December 31, 2011 | \$ 21,353                | \$ 103,466                | \$ 830                                 | \$ 6,126                 | \$ 1,618                         | \$ 133,393 |

|                              | Land<br>and<br>buildings | Distribution<br>equipment | Electricity<br>generation<br>equipment | Other<br>fixed<br>assets | Construction<br>-in-<br>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 |

(b) Accumulated depreciation:

|                                  | Land<br>and<br>buildings | Distribution<br>equipment | Electricity<br>generation<br>equipment | Other<br>fixed<br>assets | Construction<br>-in-<br>Progress | Total    |
|----------------------------------|--------------------------|---------------------------|--|--------------------------|----------------------------------|----------|
| Balance at January 1, 2011       | \$ 464                   | \$ 1,487                  | \$ 83                                  | \$ 566                   | \$ -                             | \$ 2,600 |
| Depreciation charge for the year | 464                      | 4,113                     | 83                                     | 1,034                    | -                                | 5,694    |
| Impairment loss                  | -                        | -                         | -                                      | -                        | -                                | -        |
| Disposals/retirements            | -                        | (86)                      | -                                      | -                        | -                                | (86)     |
| Balance at December 31, 2011     | \$ 928                   | \$ 5,514                  | \$ 166                                 | \$ 1,600                 | \$ -                             | \$ 8,208 |

# GUELPH HYDRO INC.

Notes to Consolidated Financial Statements, continued

Year ended December 31, 2012  
(Expressed in thousands of dollars)

## 6. Property, plant and equipment (continued):

(b) Accumulated depreciation (continued):

|                                  | Land<br>and<br>buildings | Distribution<br>equipment | Electricity<br>generation<br>equipment | Other<br>fixed<br>assets | Construction<br>-in-<br>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     |
| Impairment loss                  | -                        | -                         | -                                      | -                        | -                                | -         |
| Disposals/retirements            | -                        | -                         | -                                      | (8)                      | -                                | (8)       |
| Balance at December 31, 2012     | \$ 1,575                 | \$ 9,632                  | \$ 248                                 | \$ 2,615                 | \$ -                             | \$ 14,070 |

(c) Carrying amounts:

|                   | Land<br>and<br>buildings | Distribution<br>equipment | Electricity<br>generation<br>equipment | Other<br>fixed<br>assets | Construction<br>-in-<br>Progress | Total      |
|-------------------|--------------------------|---------------------------|--|--------------------------|----------------------------------|------------|
| December 31, 2011 | \$ 20,425                | \$ 97,952                 | \$ 664                                 | \$ 4,526                 | \$ 1,618                         | \$ 125,185 |
| December 31, 2012 | \$ 19,785                | \$ 104,814                | \$ 582                                 | \$ 4,556                 | \$ 1,061                         | \$ 130,798 |

(d) Borrowing costs:

During the year, borrowing costs of \$nil (2011: \$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, 2012  
(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<br>electricity sold | Distribution<br>expenses | Administration<br>expenses | Total    |
|---|-----------------------------|--------------------------|----------------------------|----------|
| December 31, 2011:                                  |                             |                          |                            |          |
| Depreciation of<br>property, plant<br>and equipment | \$ -                        | \$ 5,420                 | \$ 274                     | \$ 5,694 |
| Amortization of<br>intangible assets                | -                           | -                        | -                          | -        |
|   | \$ -                        | \$ 5,420                 | \$ 274                     | \$ 5,694 |
| December 31, 2012:                                  |                             |                          |                            |          |
| Depreciation of<br>property, plant<br>and equipment | \$ -                        | \$ 5,623                 | \$ 247                     | \$ 5,870 |
| Amortization of<br>intangible assets                | -                           | -                        | 43                         | 43       |
|   | \$ -                        | \$ 5,623                 | \$ 290                     | \$ 5,913 |

# GUELPH HYDRO INC.

Notes to Consolidated Financial Statements, continued

Year ended December 31, 2012  
(Expressed in thousands of dollars)

## 7. Intangible assets:

(a) Cost or deemed cost:

|                                  | Computer software | Land rights | Total  |
|----------------------------------|-------------------|-------------|--------|
| Balance at January 1, 2011       | \$ -              | \$ -        | \$ -   |
| Additions – internally developed |                   |             |        |
| Other additions                  | 251               | 24          | 275    |
| Balance at December 31, 2011     | 251               | 24          | 275    |
| Additions – internally developed | -                 | -           | -      |
| Other additions                  | 82                | -           | 82     |
| Balance at December 31, 2012     | \$ 333            | \$ 24       | \$ 357 |

(b) Accumulated amortization:

|                                  | Computer software | Land rights | Total |
|----------------------------------|-------------------|-------------|-------|
| Balance at January 1, 2011       | \$ -              | \$ -        | \$ -  |
| Amortization charge for the year | -                 | -           | -     |
| Balance at December 31, 2011     | -                 | -           | -     |
| Amortization charge for the year | 43                | -           | 43    |
| Balance at December 31, 2012     | \$ 43             | \$ -        | \$ 43 |

(c) Carrying amounts:

|                              | Computer software | Land rights | Total  |
|------------------------------|-------------------|-------------|--------|
| Balance at December 31, 2011 | \$ 251            | \$ 24       | \$ 275 |
| Balance at December 31, 2012 | \$ 290            | \$ 24       | \$ 314 |



# GUELPH HYDRO INC.

Notes to Consolidated Financial Statements, continued

Year ended December 31, 2012  
(Expressed in thousands of dollars)

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## 8. Notes payable:

GHEI re-financed its debt on December 6, 2010 with Series A 5.264% Senior Unsecured Debentures in the amount of \$65,000. Part of the new financing was used to repay the City's \$30,000 note payable as well as a \$12,000 intercompany note payable to GHI.

## 9. 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:

|  | 2012     | 2011     |
|--|----------|----------|
| Basic rate applied to profit before income tax       | \$ 256   | \$ 820   |
| Increase (decrease) in income tax resulting from:    |          |          |
| Losses not recognized for tax                        | 282      | 238      |
| Change in tax rate                                   | (361)    | 5        |
| Other  | (302)    | (51)     |
| Income tax expense                                   | \$ (125) | \$ 1,012 |
| Effective rate applied to profit before income taxes | (48%)    | 34.8%    |

# GUELPH HYDRO INC.

Notes to Consolidated Financial Statements, continued

Year ended December 31, 2012  
(Expressed in thousands of dollars)

## 9. Income taxes (continued):

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

|  | 2012       | 2011     |
|--|------------|----------|
| Deferred tax assets:                   |            |          |
| Plant and equipment                    | \$ (1,209) | \$ 1,442 |
| Cumulative eligible capital            | 806        | 760      |
| Employee benefits                      | 2,133      | 1,902    |
| Deferred Revenue – Contributed Capital | 2,812      | -        |
| Non-capital loss carryforwards         | 2,343      | 1,889    |
| Net deferred tax asset                 | \$ 6,885   | \$ 5,993 |

At December 31, 2012, based on substantively enacted income tax rates, future tax assets of \$1,140 (2011 - \$751) 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, 2012, a future tax asset of \$6,885 (2011 - \$5,993) 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.

## 10. 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.

# GUELPH HYDRO INC.

Notes to Consolidated Financial Statements, continued

Year ended December 31, 2012  
(Expressed in thousands of dollars)

## 10. Customer deposits (continued):

Customer deposits comprise:

|                         | 2012     | 2011      |
|-------------------------|----------|-----------|
| Customer deposits       | \$ 4,112 | \$ 4,257  |
| Construction deposits   | 2,475    | 7,225     |
| Total customer deposits | \$ 6,587 | \$ 11,482 |

## 11. 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, 2012 was \$872 (2011 - \$722)

## 12. Employee future benefits:

Components of employee future benefits recognized are as follows:

|  | 2012     | 2011     | 2010     |
|--|----------|----------|----------|
| Post retirement benefits - accrued benefit liability | \$ 7,475 | \$ 7,106 | \$ 6,791 |
| Accrued sick leave benefit                           | 573      | 504      | 436      |
|  | \$ 8,048 | \$ 7,610 | \$ 7,227 |

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, 2012 of \$7,475 was based on an actuarial valuation completed in 2012 using a discount rate of 4.5%. The accrued benefit liability at December 31, 2011 of \$7,106 and the expense for the year ended December 31, 2011, was based on an actuarial valuation completed in 2011, using a discount rate of 4.5%.

# GUELPH HYDRO INC.

Notes to Consolidated Financial Statements, continued

Year ended December 31, 2012

(Expressed in thousands of dollars)

## 12. Employee future benefits (continued):

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

|   | 2012     | 2011     | 2010     |
|---|----------|----------|----------|
| Defined benefit obligation, beginning of year | \$ 7,106 | \$ 6,791 | \$ 6,479 |
| Current service cost                          | 212      | 201      | 186      |
| Interest cost                                 | 414      | 394      | 376      |
| Amortization of net actuarial gains/losses    |          |          | -        |
| Benefits paid during the year                 | (257)    | (280)    | (250)    |
| Accrued benefit liability, end of year        | \$ 7,475 | \$ 7,106 | \$ 6,791 |

Components of net benefit expense recognized are as follows:

|                                | 2012   | 2011   | 2010   |
|--------------------------------|--------|--------|--------|
| Current service cost           | \$ 212 | \$ 201 | \$ 186 |
| Interest cost                  | 414    | 394    | 376    |
| Net benefit expense recognized | \$ 626 | \$ 595 | \$ 562 |

The full amount of the Corporation's net benefit expense was charged to operations in 2011 and 2012.

# GUELPH HYDRO INC.

Notes to Consolidated Financial Statements, continued

Year ended December 31, 2012  
(Expressed in thousands of dollars)

## 12. Employee future benefits (continued):

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

|  | 2012  | 2011  | 2010  |
|--|-------|-------|-------|
| Accrued benefit obligation:  |       |       |       |
| Discount rate  | 4.50% | 4.50% | 5.75% |
| Benefit cost for the year:   |       |       |       |
| Withdrawal rate  | 1%    | 1%    | 1%    |
| Assumed health care cost trend rates:  |       |       |       |
| Initial health care cost trend rate  | 5%    | 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<br>Obligation | Periodic<br>Benefit Cost |
|---------------------------------------|-------------------------------|--------------------------|
| 1% increase in health care trend rate | \$ 8,870                      | \$ 366                   |
| 1% decrease in health care trend rate | 6,524                         | 226                      |

### Historical information

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

|                            | 2012     | 2011     | 2010     |
|----------------------------|----------|----------|----------|
| Defined benefit obligation | \$ 7,475 | \$ 7,106 | \$ 6,791 |
| Experience adjustments     | (1,535)  | (1,601)  | 106      |

# GUELPH HYDRO INC.

Notes to Consolidated Financial Statements, continued

Year ended December 31, 2012  
(Expressed in thousands of dollars)

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## 12. 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 2012, and thereafter (2011 - 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, 2012, was 4.5% (2011 - 4.5%).

### Historical information

Salary levels - future general salary and wage levels were assumed to increase at 3.3% (2011 - 3.3%) per annum.

Medical costs - medical costs were assumed to increase 5% for 2011, 5% for 2012, 5% for 2013, 5% for 2014, and 5% thereafter.

Dental costs - dental costs were assumed to increase 5% for 2011, 5% for 2012, 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, 2012 the estimated valued of the expected future payment to be made as a result of the unused sick time credits amounts to \$573 (2011 - \$504).

# GUELPH HYDRO INC.

Notes to Consolidated Financial Statements, continued

Year ended December 31, 2012  
(Expressed in thousands of dollars)

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## 13. Long-term debt:

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

The loan payable to the Federation of Canadian Municipalities has a maturity date of June 30, 2018 and bears interest at a rate of 2.37%. ECEI is required to pay the outstanding principal amount in 10 annual installments of \$138 commencing June 2009. Interest is payable semi-annually in arrears on June 30 and Dec 30 each year.

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, 2012 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.

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|   | 2012      | 2011      |
|---|-----------|-----------|
| Senior unsecured debentures               | \$ 65,000 | \$ 65,000 |
| Less: cost of debt issuance               | (450)     | (475)     |
| Senior unsecured debentures, net proceeds | \$ 64,550 | \$ 64,525 |

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# GUELPH HYDRO INC.

Notes to Consolidated Financial Statements, continued

Year ended December 31, 2012  
(Expressed in thousands of dollars)

## 14. Other income:

Other income comprises:

|  | 2012            | 2011            |
|--|-----------------|-----------------|
| Late payment charges                                       | \$ 122          | \$ 120          |
| Pole and other rental income                               | 333             | 340             |
| Collection and other service charges                       | 243             | 246             |
| Waterworks revenue   | 1,045           | 1,114           |
| Scrap sales  | 60              | 42              |
| Customer contributions                                     | 281             | 213             |
| Utility solutions-map conversion                           | 40              | 134             |
| Gain / (loss) on disposal of property, plant and equipment | 8               | (44)            |
| Miscellaneous  | 102             | 103             |
| <b>Total other income</b>                                  | <b>\$ 2,234</b> | <b>\$ 2,268</b> |

## 15. Employee benefits:

|   | 2012             | 2011            |
|---|------------------|-----------------|
| Salaries and wages                        | \$ 9,058         | \$ 8,577        |
| Contributions to multi-employer plan      | 872              | 722             |
| Expenses related to defined benefit plans | 626              | 595             |
|   | <b>\$ 10,556</b> | <b>\$ 9,894</b> |

## 16. Finance income and expense:

|  | 2012            | 2011            |
|--|-----------------|-----------------|
| Interest income on bank deposits                             | \$ (154)        | \$ (467)        |
| Finance income   | (154)           | 467             |
| Interest expense on long-term debt, less amounts capitalized | 3,469           | 3,456           |
| Interest expense on deposits                                 | 61              | 40              |
| Other  | 34              | 12              |
|  | <b>3,564</b>    | <b>3,508</b>    |
| <b>Net finance costs recognized in profit or loss</b>        | <b>\$ 3,410</b> | <b>\$ 3,041</b> |



# GUELPH HYDRO INC.

Notes to Consolidated Financial Statements, continued

Year ended December 31, 2012  
(Expressed in thousands of dollars)

## 17. 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.

|  | 2012     | 2011     |
|--|----------|----------|
| Directors' fees                        | \$ 196   | \$ 166   |
| Salaries and other short-term benefits | 2,445    | 2,585    |
| Post-employment benefits               | 3        | 3        |
|  | \$ 2,644 | \$ 2,754 |

(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:

|                                      | 2012     | 2011     |
|--------------------------------------|----------|----------|
| Revenue:                             |          |          |
| Energy sales (at commercial rates)   | \$ 7,261 | \$ 6,692 |
| Waterworks revenue                   | 1,045    | 1,114    |
| Street light maintenance             | 263      | 203      |
| Expenses:                            |          |          |
| Subcontracting                       | 32       | 102      |
| Rent, percentage rent, land lease    | 65       | 72       |
| Property taxes                       | 343      | 343      |
| Balances:                            |          |          |
| Accounts receivable                  | 1,319    | 953      |
| Accounts payable and accrued charges | 69       | 169      |

# GUELPH HYDRO INC.

Notes to Consolidated Financial Statements, continued

Year ended December 31, 2012  
(Expressed in thousands of dollars)

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## 17. 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.

## 18. Commitments and contingencies:

In November 2004, ECEI 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, ECEI 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, ECEI entered into a land lease and gas utilization agreement with the City. Under the agreement, on an annual basis, ECEI 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 ECEI 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% (2011 – 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 2012, the amount incurred was \$14 (2011 - \$16).

In June 2011, ECEI 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.

# GUELPH HYDRO INC.

Notes to Consolidated Financial Statements, continued

Year ended December 31, 2012  
(Expressed in thousands of dollars)

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## 18. Commitments and contingencies (continued):

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, 2012, no assessments have been made.

## 19. Share capital:

|                                   | 2012      | 2011      |
|-----------------------------------|-----------|-----------|
| Authorized:                       |           |           |
| Unlimited number of common shares |           |           |
| Issued:                           |           |           |
| 2,000 common shares               | \$ 48,576 | \$ 48,576 |

## 20. 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, 2012 is \$74,654 (2011 - \$72,644). 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, 2012 was 4.12% (2011 - 4.38%).

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 would 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.

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, 2012 is \$325 (2011 - \$335). An impairment loss of \$90 was recognized during the year. The

# GUELPH HYDRO INC.

Notes to Consolidated Financial Statements, continued

Year ended December 31, 2012

(Expressed in thousands of dollars)

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Corporation's credit risk associated with accounts receivable is primarily related to payments from distribution customers. At December 31, 2012, approximately \$523 (2011 - \$464) 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, 2012, the Corporation held security deposits in the amount of \$4,112 (2011 - \$4,257).

(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, 2012 would have increased interest expense on the long-term debt by \$650 (2011 - \$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 line of credit and monitors cash balances to ensure that sufficient levels of liquidity are on hand to meet financial commitments as they come due.

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 (2011 - \$nil).

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

(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, 2012, shareholder's equity amounts to \$76,349 (2011 - \$78,260) and long-term debt amounts to \$65,237 (2011 - \$65,350).

# GUELPH HYDRO INC.

Notes to Consolidated Financial Statements, continued

Year ended December 31, 2012  
(Expressed in thousands of dollars)

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## 21. Guarantees:

GHESI 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 GHESI meets or exceeds the specific load requirement and the incremental transformation connection revenue received by Networks. GHESI expects to meet the conditions of the guarantee and does not anticipate any payments to Networks.

GHESI 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 GHESI meets or exceeds the specific load requirement and the incremental transformer connection revenue received by Networks. GHESI expects to meet the conditions of the guarantee and does not anticipate any payment to Networks.

In 2010, the Corporation amended ECEI's loan payable to the FCM which matures on June 30, 2018 by removing a times interest earnings ratio covenant subsequent to FCM obtaining an agreement from GHI to guarantee the loan obligation of ECEI.

Unconsolidated Financial Statements

**Guelph Municipal Holdings Inc.**  
(Unaudited)

December 31, 2012

# Guelph Municipal Holdings Inc.

Unconsolidated balance sheet  
as at December 31, 2012

|   | 2012              | 2011              |
|---|-------------------|-------------------|
|   | \$                | \$                |
| <b>Assets</b>                                     |                   |                   |
| <b>Current Assets</b>                             |                   |                   |
| Accounts receivable                               | 2,516             | -                 |
| Due from City of Guelph                           | 18,931            | -                 |
|   | <u>21,447</u>     | <u>-</u>          |
| Investment in Guelph Hydro Inc.                   | 66,573,000        | 66,573,000        |
| <b>Total Assets</b>                               | <b>66,594,447</b> | <b>66,573,000</b> |
| <b>Liabilities and Shareholder's Equity</b>       |                   |                   |
| <b>Current Liabilities</b>                        |                   |                   |
| Accounts payable and accrued liabilities          | 3,337             | -                 |
| <b>Shareholder's Equity</b>                       |                   |                   |
| Share capital                                     |                   |                   |
| Authorized: Unlimited common shares               |                   |                   |
| Issued: 66,573,000 common shares                  | 66,573,000        | 66,573,000        |
| Retained earnings                                 | 18,110            | -                 |
| <b>Total Liabilities and Shareholder's Equity</b> | <b>66,594,447</b> | <b>66,573,000</b> |

# Guelph Municipal Holdings Inc.

## Unconsolidated Statement of Comprehensive Income & Retained Earnings For the year ending December 31

|  | 2012               | 2011 |
|--|--------------------|------|
|  | \$                 | \$   |
| <b>Revenue</b>                               |                    |      |
| Dividend income                              | 3,000,000          | -    |
| <b>Expenses:</b>                             |                    |      |
| Administrative and general                   | 1,900              | -    |
| Training and development                     | 1,594              | -    |
| Consulting and legal                         | 4,482              | -    |
| Insurance                                    | 23,914             | -    |
|  | <b>31,890</b>      | -    |
| <b>Net earnings and comprehensive income</b> | <b>2,968,110</b>   | -    |
| <b>Less: Dividends paid</b>                  | <b>(2,950,000)</b> | -    |
| <b>Retained earnings, end of year</b>        | <b>18,110</b>      | -    |



# Guelph Municipal Holdings Inc.

## Unconsolidated Statement of Cash Flows

For the year ending December 31

|  | 2012             | 2011     |
|--|------------------|----------|
|  | \$               | \$       |
| <b>Cash flows from operating activities</b>          |                  |          |
| Net earnings   | 2,968,110        | -        |
| Adjustments for:                                     |                  |          |
| Increase in accounts receivables                     | (2,516)          | -        |
| Increase in due from City of Guelph                  | (18,931)         | -        |
| Increase in accounts payable and accrued liabilities | 3,337            | -        |
| <b>Net cash from operations</b>                      | <b>2,950,000</b> |          |
| <b>Cash flows from financing activities</b>          |                  |          |
| Dividends paid                                       | (2,950,000)      | -        |
| <b>Change in cash during the year</b>                | <b>-</b>         | <b>-</b> |

# Guelph Municipal Holdings Inc.

## Notes to the unconsolidated financial statements

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 a municipality.

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 financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the International Accounting Standards Board ("IASB") and interpretations as issued by the International Financial Reporting Interpretations Committee of the IASB.

These financial statements are presented on an unconsolidated basis and have not been audited.

**Report to Shareholder (Open)****Date of Meeting: July 10, 2013****RE: Compliance Report****Action Required:***RESOLVED THAT:*

*The Compliance Report from the Board of Directors of GMHI dated June 20, 2013 regarding the activities of GMHI in 2012 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 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

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**TO:** Guelph City Council  
**FROM:** Guelph Municipal Holdings Inc. Board of Directors  
**MEMO DATE:** June 20, 2013  
**MEETING DATE:** July 10, 2013  
**RE:** Compliance Report (Section 10.4 Shareholder Declaration)

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## **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.*

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** subject to some minor compliance issues relating to the Shareholder Declaration set out below. GMHI and GHI are revising the Shareholder Declaration to correct a number of practical difficulties in achieving compliance. These proposed revisions will be presented to Council in October, 2013 following approval by the Boards of the affected corporations.

## **SHAREHOLDER DECLARATION**

The ability of GMHI to attain full compliance with the Shareholder Declaration has been difficult in practice given the existing resources. The following are the specific areas of non-compliance:

### **Services Agreement – Section 15**

Section 15 requires GMHI and the City to enter into a services agreement regarding the use by GMHI of City resources, including City staff. The requirement was to “promptly” finalize this agreement following incorporation. This agreement has not been completed to date, although compensation from GMHI to City for estimated staff time is being received. The agreement will be completed when the exact City resources required for GMHI are determined.

## Reporting Requirements – Section 10

Section 10 sets out the requirements for GMHI to report to Council. In practice, some of the deadlines set out in section 10 are difficult, and in some cases impossible, to comply with. The coordination of the requirements of reporting by GHI to GMHI and then from GMHI to Council is problematic. GMHI and GHI staff are working on revisions to the Shareholder Declaration that will better coordinate the reporting requirements with Board and Council meetings and the internal schedules of the City, GMHI and GHI. It is anticipated that these revisions will be placed before the GHI and GMHI Boards in late August or September and presented to Council for approval in October, 2013. In the meantime, GMHI acknowledges there is a lack of compliance with the Shareholder Declaration by GMHI, however this lack of compliance is non-material and has not affected Council's oversight role.

### SHAREHOLDER REQUIREMENT WAIVERS TO DATE

In three instances to date, GMHI has requested a waiving of Shareholder Declaration requirements and both were granted. The three instances include:

1. **Waiver of Audit Requirement:** June 25, 2012. At the time, section 12(a) of the Shareholder Declaration related to audited financial statements was waived due to the fact that there were few transactions in 2011 and the cost of having an audit outweighed any benefit that it may have provided. On February 20, 2013 the Treasurer of the Corporation recommended that the waiver be rescinded starting for the year ended 2013. The Corporation will be receiving start-up funding in 2013 and 2014 from the City of Guelph through a share purchase agreement as approved through the 2013 budget process. In order to be accountable and transparent to the tax payers of the City of Guelph, it is appropriate for the Corporation to obtain an audit opinion over its unconsolidated financial statements beginning in 2013.
2. **Waiver of 2012 Submission of the 2013 GHI Budget and 2014-2017 Consolidated Financial Plan:** A joint board meeting was held in early April 2013 to receive and review the 2013 GHI budget and 2014-2017 Consolidated Financial Plan. This scheduled 2012 submission had been delayed with approval of the Shareholder due to uncertainty around the Provincial position on the current utilities distribution model in Ontario.
3. **Waiver of the June Annual General Meeting Date:** The 2013 GMHI Annual General Meeting of the Shareholder was moved to July 10, 2013 with the permission of the Shareholder. The date change was requested to accommodate materials production for the meeting. To remain within the requirements of the Ontario Business Corporations Act, required financial information was received by Council in June 2013 and referred to the July 10<sup>th</sup> GMHI Annual Shareholder meeting.

### 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.