

City Council as Shareholder of Guelph Junction Railway



Meeting Agenda

Wednesday, June 28, 2017 – 5:00 p.m.

Council Chambers, Guelph City Hall, 1 Carden Street

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Open Meeting: – 5:00 p.m.

Disclosure of Pecuniary Interest and General Nature Thereof

Confirmation of Minutes: (Councillor Gibson)

That the minutes of the June 27, 2016 Guelph Junction Railway Annual General Meeting be approved.

GJR-2017.1 CFO Report re: 2016 Audited Financial Statements

Recommendation:

1. That the report from the CFO in respect of the 2016 Financial Statements be received.
2. That the Audited Financial Statements of Guelph Junction Railway Limited for the year ended December 31, 2016 be received.

GJR-2017.2 Appointment of Auditors

Recommendation:

1. That the recommendation of the GJR Board of Directors regarding the appointment of auditors for GJR be received.
2. That KPMG LLP are appointed as auditors for Guelph Junction Railway Limited for its 2017 fiscal year.

GJR-2017.3 Re-appointment of Independent Board Member

Recommendation:

1. That the following individual is re-appointed as an independent member of the Board of Directors of GJR for a two year term commencing June 26, 2017 and ending at the 2017 AGM:

Richard Puccini

GJR-2017.4 GJR Annual Report to the City

Presentation:

Ian Brown, Chair, Guelph Junction Railway

Recommendation:

That the 2016 GJR Annual Report be received.

Adjournment



**Minutes of Guelph City Council as
Shareholder of Guelph Junction Railway
Held in the Council Chambers, Guelph City Hall on
June 27, 2016 at 7:10 p.m.**

Attendance

Council: Mayor Guthrie
Councillor P. Allt
Councillor B. Bell
Councillor C. Billings
Councillor C. Downer
Councillor D. Gibson
Councillor J. Gordon

Councillor J. Hofland
Councillor M. MacKinnon (*arrived at 8:30 p.m.*)
Councillor L. Piper
Councillor M. Salisbury
Councillor A. Van Hellemond
Councillor K. Wettstein

Staff: Mr. D. Thomson, CAO
Mr. M. Amorosi, Deputy CAO of Corporate Services
Ms. C. Clack, Deputy CAO of Public Services
Ms. D. Jaques, City Solicitor/General Manager, Legal & Realty Services
Ms. K. Dedman, City Engineer/General Manager, Engineering and Capital Infrastructure Services
Ms. K. Hughes, Associate Solicitor, Realty Services
Mr. P. Meagher, General Manager, Guelph Transit
Mr. S. O'Brien, City Clerk
Ms. D. Black, Council Committee Coordinator

Council as Shareholder of Guelph Junction Railway

Ian Brown, Chair, Guelph Junction Railway Board of Directors, provided a brief synopsis of the 2015 Guelph Junction Railway Limited Annual Report.

GJR-2016.3 Guelph Junction Railway Report to the City of Guelph

1. Moved by Councillor Allt
Seconded by Councillor Bell

That the 2015 Guelph Junction Railway Limited Annual Report be received.

VOTING IN FAVOUR: Mayor Guthrie, Councillors Allt, Bell, Billings, Downer, Gibson, Gordon, Hofland, Piper, Salisbury, Van Hellemond and Wettstein (12)

VOTING AGAINST: (0)

CARRIED

GJR-2016.1 Chief Financial Officer – 2015 Audited Financial Statements

2. Moved by Councillor Bell
Seconded by Councillor Allt

1. That the report from the Chief Financial Officer in respect of the 2015 Guelph Junction Railway Limited Financial Statements, be received.

2. That the Audited Financial Statements of Guelph Junction Railway Limited for the year ended December 31, 2015 be received.

VOTING IN FAVOUR: Mayor Guthrie, Councillors Allt, Bell, Billings, Downer, Gibson, Gordon, Hofland, Piper, Salisbury, Van Hellemond and Wettstein (12)

VOTING AGAINST: (0)

CARRIED

GJR-2016.2 Appointment of Auditors

3. Moved by Councillor Bell
Seconded by Councillor Allt

1. That the recommendation of the Guelph Junction Railway Board of Directors regarding the appointment of auditors for Guelph Junction Railway, be received.
2. That KPMG LLP are appointed as auditors for Guelph Junction Railway Limited for its 2016 fiscal year.

VOTING IN FAVOUR: Mayor Guthrie, Councillors Allt, Bell, Billings, Downer, Gibson, Gordon, Hofland, Piper, Salisbury, Van Hellemond and Wettstein (12)

VOTING AGAINST: (0)

CARRIED

Adjournment

4. Moved by Councillor Bell
Seconded by Councillor Gibson

That the meeting be adjourned.

CARRIED

Minutes to be confirmed at the June 2017
Guelph Junction Railway Annual General Meeting.

Mayor Guthrie

Stephen O'Brien - City Clerk

TO Council as the Shareholder of Guelph Junction Railway Limited

SERVICE AREA GUELPH JUNCTION RAILWAY LTD. ("GJR")

DATE June 28, 2017

**SUBJECT CFO Report - 2016 Audited Financial Statements of
Guelph Junction Railway Limited**

REPORT NUMBER GJR-2017-01

RESOLUTION:

1. That the report from the CFO in respect of the 2016 Financial Statements be received; and
2. That the Audited Financial Statements of Guelph Junction Railway Limited for the year ended December 31, 2016 be received.

REPORT:

Background:

The attached financial statements represent the audited financial statements of GJR for the year ended December 31, 2016. The audit was performed by KPMG LLP.

Accounting treatment:

GJR has prepared its financial statements in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Boards ("IASB"). The financial statements have been prepared on a historical cost basis.

Comment on 2016 Results:

GJR had a very strong financial year in 2016, reporting a net income of \$505 thousand compared to \$646 thousand in 2015, generating a slightly negative variance versus the 2016 Approved Budget of \$549 thousand (\$44 thousand). This variance is offset by the increase in deferred capital contributions (\$38 thousand) which will be brought into income over the life of the asset to match the cost of the depreciation.

The main reason for the decrease in net income compared to 2015 (difference of \$141 thousand) was the costs of servicing the Eramosa bridge that was completed January 2016. The additional costs were interest of \$52 thousand on the loan repayments made to the City, as well as depreciation of \$76 thousand. The bridge reconstruction provides GJR with the required capacity to accept new contracts with heavier car weights and increased speeds, positioning it favourably with its customers by offering increased efficiencies.

The net income generated in 2016 was reinvested back into the company through capital acquisitions of \$680 thousand. GJR operates in a capital intensive industry and we have been reinvesting in our capital infrastructure in order to compete effectively into the future.

The expectations for 2017 are looking to continue with freight revenues exceeding budget due to higher than anticipated car volumes.

Jade Surgeoner
CFO, Guelph Junction Railway Limited

Financial statements of

Guelph Junction Railway Limited

December 31, 2016

Guelph Junction Railway Limited

December 31, 2016

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KPMG LLP
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Waterloo ON N2J 5A3
Canada
Tel 519-747-8800
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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Guelph Junction Railway Company

We have audited the accompanying financial statements of Guelph Junction Railway Company, which comprise the balance sheet as at December 31, 2016, the 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 Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Guelph Junction Railway Company as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a single, horizontal, slightly curved line that underlines the text.

Chartered Professional Accountants, Licensed Public Accountants

June 2, 2017
Waterloo, Canada

Guelph Junction Railway Limited

Balance sheet

as at December 31, 2016

	2016	2015
	\$	\$
Assets		
Current assets		
Cash	62,757	266,331
Accounts receivable	720,274	598,339
Due from City of Guelph	-	124,179
Inventory	45,923	29,553
	828,954	1,018,402
Property, plant and equipment (note 3)	10,723,078	10,365,090
	11,552,032	11,383,492
Liabilities and equity		
Current liabilities		
Accounts payable and accrued liabilities	133,586	614,909
Due to City of Guelph	393,059	-
Current portion of long-term debt (note 5)	504,034	534,089
	1,030,679	1,148,998
Long-term debt (note 5)	1,741,103	1,998,163
Deferred capital contributions (note 4)	969,544	931,118
	3,741,326	4,078,279
Share capital (note 6)	1	1
Retained earnings (note 8)	7,810,705	7,305,212
	7,810,706	7,305,213
	11,552,032	11,383,492

Guelph Junction Railway Limited

Statement of comprehensive income year ended December 31, 2016

	2016	2015
	\$	\$
Revenue		
Freight movement	2,464,160	2,198,581
Non-freight movement	773,756	714,655
Amortization of deferred capital contributions	40,398	38,796
	3,278,314	2,952,032
Expense		
Freight movement	1,655,528	1,441,762
Track maintenance	439,041	369,730
Depreciation	321,911	228,438
Administration and office	242,386	202,563
Interest on long-term debt	89,731	40,346
Expropriation costs	7,974	14,127
Business development	8,250	-
Audit & legal	8,000	9,500
	2,772,821	2,306,466
Net comprehensive income for the year	505,493	645,566

Guelph Junction Railway Limited

Statement of changes in equity year ended December 31, 2016

	2016	2015
	\$	\$
Retained earnings, beginning of year	7,305,212	6,659,646
Net comprehensive income for the year	505,493	645,566
Retained earnings, end of year	7,810,705	7,305,212
Share capital, beginning and end of year	1	1
Equity, end of year	7,810,706	7,305,213

Guelph Junction Railway Limited

Statement of cash flows year ended December 31, 2016

	2016	2015
	\$	\$
Operating activities		
Cash from operations		
Net income from operations	505,493	645,566
Items not affecting cash:		
Amortization of deferred capital contributions	(40,398)	(38,796)
Depreciation of property, plant and equipment	321,911	228,438
Changes in non-cash operating working capital components:		
Change in accounts receivable	(121,935)	(326,902)
Change in due from City of Guelph	517,238	(124,179)
Change in inventory	(16,370)	23
Change in accounts payable and accrued liabilities	(481,323)	478,560
	684,616	862,710
Investing activity		
Acquisition of property, plant and equipment	(679,899)	(2,320,018)
Capital contributions	78,824	107,405
	(601,075)	(2,212,613)
Financing activity		
Repayment of long-term debt	(287,115)	(230,809)
Proceeds from debt issue	-	1,710,000
	(287,115)	1,479,191
(Decrease) increase in cash during the year	(203,574)	129,288
Cash, beginning of year	266,331	137,043
Cash, end of year	62,757	266,331

Guelph Junction Railway Limited

Notes to the financial statements

December 31, 2016

1. Description of business

Guelph Junction Railway Limited (the "Company") was incorporated under the laws of Canada in 1884. The Company is wholly owned by The City of Guelph and is exempt from income taxes. The Company is engaged in the rail and related transportation business in Southwestern Ontario.

The Company's head office is located at 1 Carden Street, Guelph, Ontario and is a subsidiary of the City of Guelph.

The financial statements have been approved by the Board of Directors and authorized for issue on April 21, 2017.

2. Significant accounting policies

Basis of accounting

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Boards ("IASB"). The policies set out below were consistently applied to all the periods presented unless otherwise noted below.

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

Revenue recognition

Revenue earned from the provisions of services is recognized as the service is rendered. The service is deemed to be rendered at the delivery of the service provided by the company.

Inventory

Inventory is valued at the lower of cost and net realizable value on a first-in, first-out basis.

Property, plant and equipment

Property, plant and equipment are recorded at cost, net of accumulated depreciation and accumulated impairment losses. Cost includes the acquisition cost, labour and other costs directly attributable to bringing the asset to a working condition for its intended use. When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in earnings in the period the asset is derecognized.

Depreciation is provided using the declining-balance method at rates designed to amortize the cost of the assets less their residual values over their estimated useful lives as follows:

Tracks and structures	4%
Buildings	4%
Switches	4%
Crossing equipment	4%

Work in progress is not depreciated until the equipment is put into active use.

Depreciation methods, useful lives and residual values are reviewed annually and adjusted prospectively if appropriate.

Guelph Junction Railway Limited

Notes to the financial statements

December 31, 2016

2. Significant accounting policies (continued)

Impairment of long-lived assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in earnings.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in earnings.

Financial instruments

Financial assets and financial liabilities

Financial assets and financial liabilities are initially recognized at fair value and are subsequently accounted for based on their classification as described below. Transaction costs that are directly attributable to the acquisition or issue of financial assets or liabilities not classified as fair value through profit and loss are added to or deducted from the fair value, as appropriate, on initial recognition. The classification depends on the purpose for which the financial instruments were acquired and their characteristics. Except in very limited circumstances, the classification is not changed subsequent to initial recognition.

All financial instruments are classified into one of the following five categories:

- Fair value through profit or loss ("FVTPL"). Financial assets are classified as FVTPL when the financial asset is held for trading or it is designated as FVTPL;
- Held to maturity investments;
- Loans and receivables;
- Available for sale financial assets; and
- Other financial liabilities.

Loans and receivables, held to maturity investments and other financial liabilities are measured at amortized cost. Financial instruments classified as FVTPL, including derivatives, are measured at fair value each period and all gains and losses are included in earnings in the period in which they arise. Available for sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income until the asset is removed from the balance sheet. The Company has classified its cash and accounts receivable as loans and receivables.

Financial assets that are measured at amortized cost are assessed for indicators of impairment at the end of each reporting period.

Guelph Junction Railway Limited

Notes to the financial statements

December 31, 2016

2. Significant accounting policies (continued)

Financial instruments (continued)

Financial assets and financial liabilities (continued)

Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the asset have been affected. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. If in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss.

Accounts payable and accrued liabilities, due to City of Guelph, current and long-term debt have been classified as other financial liabilities, all of which are measured at amortized cost.

Government grants and other contributions

Government grants are recognized in net income on a systematic basis over the periods in which the Company recognizes as expenses the related costs for which the grants were intended to compensate. Grants that take the form of a transfer of a non-monetary asset for the use of the Company are recognized as deferred contributions in the balance sheet and measured based on the fair value of the asset received. Deferred contributions are transferred to net income on a systematic and rational basis over the useful life of the related assets.

Significant accounting estimates and judgments

The preparation of financial statements requires management to make estimates, assumptions and judgments that affect the application of accounting policies and the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and reported revenues and expenses during the reporting period. Due to the inherent uncertainty involved in making such estimates and judgments, actual results reported could differ from those estimates and judgments. Significant judgments include the determination of cash-generating units for impairment testing and determination of useful lives of property, plant and equipment.

Recent accounting pronouncements

The Company is evaluating the adoption of the following new and revised standards along with any subsequent amendments.

Revenue Recognition

The IASB has issued IFRS 15 Revenue from Contracts with Customers ("IFRS 15"). IFRS 15 replaces IAS 11 Construction Contracts, IAS 18 Revenue and various interpretations and establishes principles regarding the nature, amount, timing and uncertainty of revenue arising from contracts with customers. The standard requires entities to recognize revenue for the transfer of goods or services to customers measured at the amounts an entity expects to be entitled to in exchange for those goods or services. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The Company is assessing the impact of IFRS 15 on its results of operations, financial position and disclosures.

Guelph Junction Railway Limited

Notes to the financial statements

December 31, 2016

2. Significant accounting policies (continued)

Recent accounting pronouncements (continued)

Financial Instruments

In July 2014, the IASB issued a new standard, IFRS 9 Financial Instruments, which will replace IAS 39 Financial Instruments: Recognition and Measurement. The replacement of IAS 39 is a multi-phase project with the objective of improving and simplifying the reporting for financial instruments. The issuance of IFRS 9 is part of the first phase of this project. IFRS 9 is effective for periods beginning on or after January 1, 2018 and must be applied retrospectively. The Company is assessing the impact of IFRS 9 on its results of operations, financial position, and disclosures.

Property, Plant and Equipment and Intangible Assets

In May 2014, the IASB issued amendments to IAS 16, Property, Plant and Equipment and IAS 38 Intangible Assets, which are effective for years beginning on or after January 1, 2016. The amendments clarify when revenue-based depreciation methods are permitted. The Company does not expect this to have an impact.

Leases

In January 2016, the IASB issued IFRS 16 to establish principles for the recognition, measurement, presentation and disclosures of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. IFRS 16 replaces IAS17 and it is effective for annual periods beginning on or after January 1, 2019. The Company is assessing the impact of IFRS 16 on its results of operations, financial position and disclosures.

Guelph Junction Railway Limited

Notes to the financial statements

December 31, 2016

3. Property, plant and equipment

Cost	Opening	Additions	Disposals	Ending
	Cost			Cost
	\$	\$	\$	\$
Land	2,997,210	-	-	2,997,210
Tracks and structures	6,826,729	2,551,687	-	9,378,416
Buildings	481,327	-	-	481,327
Switches	149,222	13,577	-	162,799
Crossing equipment	336,593	-	-	336,593
Work in progress	1,885,365	(1,885,365)	-	-
	12,676,446	679,899	-	13,356,345

2016

Accumulated depreciation

	Opening	Depreciation	Disposals	Ending
	balance			balance
	\$	\$	\$	\$
Land	-	-	-	-
Tracks and structures	1,935,826	297,704	-	2,233,530
Buildings	209,536	10,872	-	220,408
Switches	77,655	3,406	-	81,061
Crossing equipment	88,339	9,929	-	98,268
	2,311,356	321,911	-	2,633,267

2016

Net book value

	Opening net	Ending net
	book value	book value
	\$	\$
Land	2,997,210	2,997,210
Tracks and structures	4,890,903	7,144,886
Buildings	271,791	260,919
Switches	71,567	81,738
Crossing equipment	248,254	238,325
Work in progress	1,885,365	-
	10,365,090	10,723,078

Guelph Junction Railway Limited

Notes to the financial statements

December 31, 2016

3. Property, plant and equipment (continued)

2015

Cost

	Opening Cost	Additions	Disposals	Ending Cost
	\$	\$	\$	\$
Land	2,997,210	-	-	2,997,210
Tracks and structures	6,568,578	258,151	-	6,826,729
Buildings	481,327	-	-	481,327
Switches	149,222	-	-	149,222
Crossing equipment	155,861	180,732	-	336,593
Work in progress	4,230	1,881,135	-	1,885,365
	10,356,428	2,320,018	-	12,676,446

2015

Accumulated depreciation

	Opening balance	Depreciation	Disposals	Ending balance
	\$	\$	\$	\$
Land	-	-	-	-
Tracks and structures	1,732,038	203,788	-	1,935,826
Buildings	198,212	11,324	-	209,536
Switches	74,673	2,982	-	77,655
Crossing equipment	77,995	10,344	-	88,339
	2,082,918	228,438	-	2,311,356

2015

Net book value

	Opening net book value	Ending net book value
	\$	\$
Land	2,997,210	2,997,210
Tracks and structures	4,836,540	4,890,903
Buildings	283,115	271,791
Switches	74,549	71,567
Crossing equipment	77,866	248,254
Work in progress	4,230	1,885,365
	8,273,510	10,365,090

Guelph Junction Railway Limited

Notes to the financial statements

December 31, 2016

4. Deferred capital contributions

	2016	2015
	Net book	Net book
	value	value
	\$	\$
Deferred contributions - gross	1,403,811	1,324,987
Less: accumulated amortization	(434,267)	(393,869)
	969,544	931,118

5. Long-term debt

The Company entered into three long-term debt facilities with the Royal Bank of Canada ("RBC") for the purpose of constructing two new rail yards within the limits of the City of Guelph. These projects were completed and put into use during 2012.

The Company entered into a long-term loan agreement with the City for the purpose of reconstructing a bridge.

	2016	2015
	\$	\$
RBC Fixed term loan, repayable monthly, blended principal and interest at 4.27%, maturing December 2016	-	359,616
RBC Fixed term loan, repayable monthly, blended principal and interest at 3.51%, maturing December 2018	246,974	-
RBC Fixed term loan, repayable monthly, blended principal and interest at 4.34%, maturing June 2017	281,917	386,949
RBC Fixed term loan, repayable monthly, blended principal and interest at 4.34%, maturing June 2017	55,151	75,687
City of Guelph fixed term loan, repayable monthly, blended principal and interest at 3.395%, maturing December 2020	1,661,095	1,710,000
Less: current portion of long-term debt	(504,034)	(534,089)
Long-term debt	1,741,103	1,998,163

The debt is repayable as follows:

	\$
2017	504,034
2018	172,778
2019	48,800
2020	1,519,525
	2,245,137

The debt facilities are secured by a general security arrangement over all inventory, accounts receivable and property, plant and equipment.

The Company is inside with the financial covenants related to these debt facilities.

Guelph Junction Railway Limited

Notes to the financial statements

December 31, 2016

6. Share capital

Authorized, unlimited number
Common shares

<i>Issued and outstanding</i>	December 31, 2016	December 31, 2015
	\$	\$
1 Common share	1	1
	1	1

7. Related party transactions

The Company is wholly owned by The City of Guelph. The City pays certain expenses and receives revenues on behalf of the Company for which the Company reimburses the City. During the year, these net expenses for which the Company reimbursed the City amounted to \$970,867 (2015 - \$1,381,631). The Company also paid the City \$55,721 (2015 - \$23,600) in office rent and administration fees for the year. These transactions were made in the normal course of business and have been recorded at the exchange amounts.

In 2015 the Company entered into a loan agreement with the City to finance the reconstruction of a bridge. In 2016 principal and interest payments were \$48,905 and \$52,385 respectively (2015 – \$nil, \$nil).

Members of the board of directors are unpaid.

The remuneration of key management personnel during the year was \$149,112 (2015 - \$145,052).

8. Capital management

The Company's manages its capital to ensure sufficient liquidity to protect the Company's long-term viability as a going concern.

The Company's total capital is defined as shareholders' equity. Shareholders' equity at December 31, 2016 is \$7,810,706 (December 31, 2015 - \$7,305,213). There have been no changes to the Company's approach on capital management.

The company has certain restrictions to its capital as part of the debt facility agreements entered into with RBC.

9. Financial risk management

Financial assets and liabilities

The following table analyzes financial assets and liabilities by the categories defined in IAS 39. In addition, IFRS 7 requires that financial instruments held at fair value be categorized into one of the following three levels to reflect the degree to which observable inputs are used in determining the fair values:

- 'Level 1' fair value measurements are those derived without adjustment from quoted prices in active markets for identical assets or liabilities.
- 'Level 2' fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- 'Level 3' fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Guelph Junction Railway Limited

Notes to the financial statements

December 31, 2016

9. Financial risk management (continued)

The Company has no financial assets or financial liabilities held at fair value.

	Loans and receivables	Available for sale	Liabilities at amortized cost	Fair value through profit or loss	Total carrying value	Fair value
	\$	\$	\$	\$	\$	\$
As at December 31, 2016						
Financial assets not held at fair value						
Cash	62,757	-	-	-	62,757	62,757
Trade and other receivables	720,274	-	-	-	720,274	720,274
Due from City of Guelph	-	-	-	-	-	-
Financial assets held at fair value						
Total financial assets	783,031	-	-	-	783,031	783,031
Financial liabilities not held at fair value						
Trade and other payables	-	-	133,586	-	133,586	133,586
Due to City of Guelph	-	-	393,059	-	393,059	393,059
Current portion of long-term debt	-	-	504,034	-	504,034	504,034
Long-term debt	-	-	1,741,103	-	1,741,103	1,741,103
Financial liabilities held at fair value						
Total financial liabilities	-	-	2,771,782	-	2,771,782	2,771,782

The fair value of the Company's external long-term debt approximates its carrying value as the interest rate approximates market. The fair value of the debt payable to the City of Guelph, a related party is undeterminable.

	Loans and receivables	Available for sale	Liabilities at amortized cost	Fair value through profit or loss	Total carrying value	Fair value
	\$	\$	\$	\$	\$	\$
As at December 31, 2015						
Financial assets not held at fair value						
Cash	266,331	-	-	-	266,331	266,331
Trade and other receivables	598,339	-	-	-	598,339	598,339
Due from City of Guelph	124,179	-	-	-	124,179	124,179
Financial assets held at fair value						
Total financial assets	988,849	-	-	-	988,849	988,849
Financial liabilities not held at fair value						
Trade and other payables	-	-	614,909	-	614,909	614,909
Current portion of long-term debt	-	-	534,089	-	534,089	534,089
Long-term debt	-	-	1,998,163	-	1,998,163	1,998,163
Financial liabilities held at fair value						
Total financial liabilities	-	-	3,147,161	-	3,147,161	3,147,161

Guelph Junction Railway Limited

Notes to the financial statements

December 31, 2016

9. Financial risk management (continued)

Interest rate risk

Interest rate risk is the risk that market rates will fluctuate and affect the debt carrying costs paid by the Company. The Company has three fixed rate term loans and is only exposed to interest rate risk upon year five when the facilities will be renewed for an additional two year term.

Currency risk

The Company realizes an insignificant portion of its income in US dollars and is thus not exposed to foreign exchange risk.

Credit risk

Credit risk is the risk that a counter party will default on its contractual obligations resulting in financial loss to the Company.

The Company's maximum exposure to credit risk is the carrying value of financial assets on the statement of financial position. At December 31, 2016 and December 31, 2015 Company had no allowance for doubtful accounts.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

All contractual cash flows related to the Company's financial liabilities are expected to be settled within one year except for those amounts due to the City of Guelph and the long-term debt which will be settled over the next 25 years.

10. Comparative figures

Certain of the comparative figures have been reclassified to conform with the current year's presentation of the financial statements.

TO Council as the Shareholder of Guelph Junction Railway Limited

SERVICE AREA GUELPH JUNCTION RAILWAY LTD. ("GJR")

DATE June 28, 2017

SUBJECT Appointment of Auditor

REPORT NUMBER GJR-2017-02

RESOLUTION:

1. That the recommendation of the GJR Board of Directors regarding the appointment of Auditors for GJR, be received; and
2. That KPMG LLP are appointed as auditors for Guelph Junction Railway Limited for its 2017 fiscal year.

Jade Surgeoner
CFO, Guelph Junction Railway Limited

TO Council as the Shareholder of Guelph Junction Railway Limited

SERVICE AREA GUELPH JUNCTION RAILWAY LTD. ("GJR")

DATE June 28, 2017

SUBJECT Re-appointment of Members of the Board of Directors

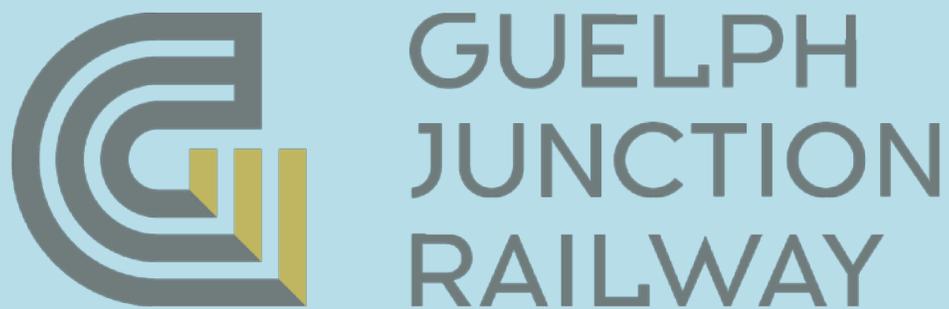
REPORT NUMBER GJR-2017-03

RESOLUTION:

1. That the following individual is re-appointed as an independent member of the Board of Directors of GJR for a two year term commencing June 26, 2017 and ending at the 2017 AGM:

Richard Puccini

Ian Brown
Chair, Guelph Junction Railway Limited



ANNUAL REPORT TO THE SHAREHOLDER FOR 2016

GUELPH JUNCTION RAILWAY LIMITED

CHAIR'S MESSAGE TO THE SHAREHOLDER:

The Board of Directors is pleased to present the 2016 Annual Report for Guelph Junction Railroad Limited.

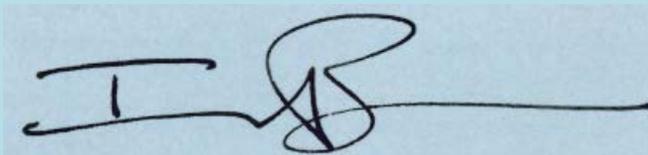
2016 has been a year of continued growth and improvement for the Guelph Junction Railway (GJR). We have increased revenues and made improvements to our infrastructure while working closely with Transport Canada, our regulator, to ensure that the GJR operates safely. We have continued to look for opportunities to expand GJR's business and identify rail serviceable lands in Guelph and the surrounding area.

Over the year, the GJR's Board of Directors held numerous meetings including two strategic planning sessions to focus the future direction of the Railway. We have clarified the working relationship with City staff to the benefit of all involved improving internal operations and our relationship with the public.

Historically the GJR has had a significant role in Guelph's economy and continues to contribute to the City's economic development. Short line railways play an important role in the North American rail and transportation network. We have a unique opportunity to contribute to the City's future prosperity in a tangible, safe, and environmentally sustainable way.

In my third year as Chair, I am pleased to report that the GJR had an excellent year in 2016. I would like to thank everyone who contributed to this success, and, in particular, I would like to thank my colleagues on the Board of Directors for their commitment and dedication.

Respectfully,



Ian Brown
Chair,
Guelph Junction Railway Ltd.



Ian Brown
Chair, Guelph Junction Railway Ltd.

OUR HISTORY:

Guelph Junction Railway (GJR) was incorporated in 1884 by a Special Act of the Federal Parliament. Local merchants and community leaders recognized that a locally owned railway connected to what is now the Canadian Pacific Railway (CP) in Campbellville would provide access to markets in the west and the United States while providing an alternative to the Grand Trunk (now Canadian National (CN)).

By 1910 the GJR's founding Act had been amended to allow the City of Guelph to become the sole shareholder.



For over a century the GJR was operated by CP under a long-term lease agreement. The GJR Board met on annual basis but was not involved in overseeing the day-to-day operations of the railway.

In 1998, CPR terminated its lease agreement. The City, recognizing the important role of rail service to the local economy, purchased CPR's remaining property and track within the City of Guelph on behalf of the GJR. GJR's Board of Directors have taken an active role in overseeing the railway's operations since that time.

Based on car counts and class of track, GJR is arguably the largest municipal owned mover of freight by rail in Canada. Since 1998, Ontario Southland Railway (OSR), a short line railway company, has been sourced as the operational railway to move freight to local industries along the GJR. The GJR has access to class 1 rail lines across North America through CN in the northwest industrial basin and CP in Campbellville. GJR has maintained modest profitability over this time, remaining self-sustaining while funding maintenance and infrastructure replacement programs.

CORPORATE STRUCTURE:

Corporate Status and Governance:



In 2015, GJR was approved for a continuance under the Federal *Canada Business Corporations Act* in order to allow for a more modern governance structure and to bring clarity to longstanding questions about GJR's place in the complex Canadian railway regulation scheme. Part of this process involved a change in the name of the corporation to Guelph Junction Railway Limited.

The relationship between GJR and its sole shareholder, the City of Guelph, is governed by a shareholder declaration that was updated in 2015. Changes were also made to the board of

directors at this time, and additional officers were appointed to support this relationship, and provide better support to the board of directors and GJR's sole employee, its general manager.

As a result of these changes, the new Board of Directors has worked to develop a strategic framework and direction for the corporation. As this strategic plan unfolds, GJR will seek to further refine its relationship to the City of Guelph and look to develop a permanent human resources plan to clarify and formalize the roles City staff play in supporting the corporation, and ensure accountability to the shareholder through the City's executive team and annual updates like this one.

MISSION, VISION, VALUES:

In order to better serve the City as shareholder, and follow up on changes to the corporate structure of the railroad in favour of a more modern, business oriented approach, the GJR Board has developed the following statement of Vision, Mission and Values that was adopted in early 2017.

This statement reflects the overarching principles of the GJR's constating documents and will serve as an overarching guide to the Board's decision making as it moves forward into the future.



Our Vision

- To safely capitalize on the efficiency of rail transportation while serving the City of Guelph.

Our Mission

- To focus on building an economically sustainable and socially and environmentally responsible business through safe and efficient operations and excellent customer relations.

Our Values

- Serving and adding value to our clients and community
- Creating business opportunities that increase the use of rail
- Transparency that builds trust and confidence
- Railway safety and operations consistent with best industry practices
- Collaboration with suppliers and clients

STRATEGIC DIRECTION:

In conjunction with the statement of Mission, Vision and Values GJR's Board has adopted the following strategic directions:

1. Strengthen our organizational capacity and operational infrastructure by creating, executing and managing:
 - a. A shared service agreement with the City
 - b. A staffing plan
 - c. A board succession plan, and
 - d. An asset management plan
2. Increase and diversify revenues through creative partnerships and new sales opportunities.
3. Develop a short term business plan that aligns with shareholder priorities.
4. Develop a long term growth plan that will be ready to manage anticipated sector, regulatory environmental change. The plan will reference
 - a. The City's future needs around rail (freight and passenger)
 - b. The Province's future needs around rail (freight and passenger)
 - c. Identify land within and near the City that may be available for rail development
5. Connect with our shareholder and stakeholders through strong communications.
 - a. Develop a GJR Website to assist with business development and stakeholder communications.

BUSINESS DEVELOPMENT:

GJR provides services to 9 customers, 2 of which provide the majority of the revenue for the corporation. GJR's only competition is Canadian National (CN), through Goderich Exeter Railway (GEX), whose activities are limited to the City's Northwest Industrial Park and the connection through the Alma rail yard to the CN main line.

GJR continues to pursue business development as a major focus, and although no new customers were added in 2016 opportunities continued to be created with existing customers, resulting in increases in overall revenues. In many cases increased



car counts from existing customers represented entirely new delivery types and product lines, which means increased diversification of GJR's business, and contributes to enhanced financial stability for the railroad by making it less vulnerable to any market changes that affect its customer base.

2016 saw the groundwork for future business expansion, and the GJR board has adopted strategic directions that include the continued development of short term business plans that align with shareholder priorities, as well as the development of a longer term growth plan that will be ready to manage anticipated sector, regulator, and environmental changes that will reference:

- The City's future needs around rail (freight and passenger)
- The Province's future needs around rail (freight and passenger), and;
- Identify land within and near Guelph that may be available for rail development

GJR's direction also includes efforts to enhance connections with our shareholder and stakeholders (both customers, and in the community) through strong communications, including the development of a GJR website to assist with business development and stakeholder communications.

GJR strives to be congruent and complementary with the strategic objectives of the City of Guelph, and seeks to work collaboratively with our Shareholder and customers to build a robust system that ensures fiscal and service sustainability, is attractive for business and provides a safe and environmentally compatible impact to the City of Guelph.

FINANCIAL AND OPERATIONS UPDATE:

Business Update:

The 2016 audited financial statements show an increase in revenues for both freight and non-freight movement over the previous year. This is particularly encouraging, as the revenues in both of these areas had represented a substantial increase over the 2014 revenues in the same categories.

Guelph Junction Railway Limited

Statement of comprehensive income year ended December 31, 2016

	2016	2015
	\$	\$
Revenue		
Freight movement	2,464,160	2,198,581
Non-freight movement	773,756	714,655
Amortization of deferred capital contributions	40,398	38,796
	3,278,314	2,952,032
Expense		
Freight movement	1,655,528	1,441,762
Track maintenance	439,041	369,730
Depreciation	321,911	228,438
Administration and office	242,386	202,563
Interest on long-term debt	89,731	40,346
Expropriation costs	7,974	14,127
Business development	8,250	-
Audit & legal	8,000	9,500
	2,772,821	2,306,466
Net comprehensive income for the year	505,493	645,566

The Board is pleased with the performance of GJR in 2016. Revenues are up however net income decreased from \$645,000 to \$505,000 due mainly to the cost of servicing the new Eramosa Bridge (approx. \$76,000 in depreciation and \$52,000 in interest on the loan payable to the City).

Overall car movements continued to increase substantially over the previous year. The primary driver for this increase was the PDI expansion project detailed in the previous year's annual report but all existing customers saw increased car movements.

Operations and Capital Maintenance:

Rail operations continue to be managed through OSR under the terms of our operations agreement. Despite renegotiation of certain aspects of this agreement relating to maintenance, track maintenance costs saw an overall increase in 2016 due primarily to increased flagging costs and OSR labor rate increases. GJR remains responsible for invoicing of third parties, and receives additional revenues from flagging for third parties. GJR plans to engage a consultant to identify competitive pricing and overall

carrier needs in 2017 to support a future competitive bid process for its operations contract. GJR staff hope to have the RFP for the new operations contract complete by mid-2018.

GJR has employed a life cycle approach to its capital maintenance programme and identifies infrastructure maintenance priorities annually.

GJR continues to take a careful financial approach, and continues with the recapitalization of infrastructure and pursuit of long range strategic growth objectives. It is a guiding principle of GJR to operate in a safe manner, and in accordance with the requirements of the Shareholder Declaration and Federal transportation regulations.



Federal Rail Safety Grant:

GJR has pursued funding from Transport Canada under the Rail Safety Improvement Program (RSIP). This has resulted in the approval of an RSIP grant of up to \$25,000 from the Federal Government for a crossing removal at mile 2.75 of the South Industrial Subdivision (Elmira Road). This grant will be reflected in 2017. Other projects will remain on the list for 2018 funding.

PDI Expansion Project:

In 2016 a partnership to expand service for GJR's primary customer, PDI, was completed. This partnership saw the expansion of a spur line to service PDI's liquid business at Victoria Road South.

Total carloads shipped and received as part of the partnership have exceeded expectations and resulted in a substantial increase in carloads for this major GJR customer. The cost of this capital project was paid in full by February 2017 utilizing increased non-freight revenues and additional revenues generated from the additional PDI liquid business made possible through the project itself.

DIVIDEND POLICY AND REPORT:

Adoption of Dividend Policy

The GJR Board of Directors approved a dividend policy in December 2016, intended to ensure the strategic growth of GJR while adding growth in shareholder value. This policy is consistent with GJR's strategic direction, and the guiding principles of its current business plan. This policy also recognizes a key overarching principle enshrined in the Shareholder Declaration, that shareholder return and benefits will be measured by several metrics, including dividends, and that a long term strategic view will generally be applied to the measure of shareholder return.



The Dividend Policy states that, subject to all applicable laws, the GJR Board may declare dividends as follows:

1. Regular dividends at a dividend payment rate (DPR) of 0% - 10% of annual Net Income, subject to the "Conditions Precedent to the Payment of Dividends" as defined in Section 2.

2. Conditions Precedent to the Payment of Dividends:

Subject to the determination of the Board in accordance with the GJR's constating documents, dividends will be declared and paid to the extent that such payment would not, in the Board's determination, otherwise cause:

- a) a breach of contract or the immediate or anticipated failure to otherwise meet the terms of financing arrangements;
- b) a material impairment in the operations and maintenance of the assets of GJR
- c) a material impairment in the financial prudence including capital investment in track infrastructure by GJR
- d) a material impairment to service the debt of GJR and the due to/from balance from the City; or

- e) a material impairment in the maintenance and growth of GJR's business plan;
(together, the "Conditions Precedent to the Payment of Dividends")
3. In lieu of a dividend, the Board may decide to provide the City with a non-monetary contribution outside of the regular service agreement.

4. Payment of Regular Dividends

Each year, at its meeting to review the preliminary yearend financial statements, the Board may approve an annual dividend (defined herein as a "Regular Dividend" by applying the DPR to current earnings. If such a regular dividend is declared it will, subject to meeting the Conditions Precedent to the Payment of Dividends prior to each payment on account thereof, be recorded in the annual financial statements and recorded by March 31st.

Determination of Dividends for 2016:

The Dividend Policy was adopted late in 2016, and in line with that policy and GJR's governing commitment to fiscal prudence the decision has been taken not to declare a dividend despite net-profitability during the 2016 fiscal year.

The net income generated was reinvested back into the company through capital purchases of \$680,000. GJR operates in a capital intensive industry and we have been reinvesting in our infrastructure in order to ensure safety to Guelph's citizens and compete effectively into the future. At year end GJR was in a cash negative position so any funds provided to the City in the form of a dividend would have required an associated short term loan from the City.

GJR had a record setting first quarter for 2017 and has projected to end the year in a cash positive position.

ONGOING PROJECTS, CHALLENGES AND OPPORTUNITIES:

Transfer of Title:

City Council approved the transfer of title of CPR assets within the City of Guelph to GJR on May 27, 2016. GJR prepaid for these assets in full in 2010. Work continues to fully transfer these assets (largely real property) to GJR.



Permanent Human Resources Solutions:

As noted, included in efforts to modernize GJR's corporate and governance structure was the appointment of an interim CEO and interim CFO as officers of the corporation. These officers are City of Guelph staff who have taken on additional responsibilities in order to assist and provide additional support to GJR and its Board of Directors, supplementing and enhancing the support provided by GJR's sole employee, its General Manager, and existing staff support received from the City Solicitor's office, acting as Corporate Secretary.

This staffing solution was intended as a temporary measure, and although it has generally worked well GJR requires permanent human resources solutions to avoid confusion and clarify reporting relationships. The GJR Board of Directors will continue to examine this issue and seek permanent solutions in 2017.

Shared Services Agreement with the City of Guelph:

As part of its strategic direction, GJR is working to establish an agreement with the City of Guelph for the provision of shared services. A draft of this agreement is now being negotiated, and is expected to be completed soon.

MTO Expropriations – Northwest Industrial:

As part of the provincial plan to improve Highway 6, the Ontario Ministry of Transportation (MTO) has expropriated several parcels of land in the Northwest of the City. These include expropriations of GJR lands that include active rail crossings at the Hanlon Expressway. As part of the reconstruction of the highway, GJR tracks will have to be moved in order to maintain service to customers in the Northwest of the City.

Currently, GJR continues to operate on its existing track configuration under agreement with MTO. GJR is working with MTO to ensure that necessary track reconfiguration will take place prior to the reconstruction of the highway in such a way as to minimize disruptions in service to customers. GJR has

retained engineering consultants to develop alternative configurations that will allow service to continue and has had discussions with MTO regarding the identified options. GJR has also retained experienced legal Counsel to deal with the legal aspects of the expropriations. The expectation continues to be that GJR will be fully compensated for all costs and disturbance, including consultant and legal costs, in accordance with the Expropriations Act.

Identification of Rail Serviceable Lands:

A continued priority for the GJR Board is to identify additional rail serviceable lands in the City of Guelph and surrounding area. This has been incorporated into the adopted strategic direction, and will form part of the GJR business plans and long term plans. On a go forward basis, the GJR Board will examine the feasibility of enlisting a consultant to assist with this work as well as engage any existing City resources, where available.



GUELPH JUNCTION RAILWAY LIMITED

1 CARDEN STREET

GUELPH, ONTARIO N1H 3A1