GUELPH MUNICIPAL HOLDINGS INC.

Shareholders Meeting

Date: May 16, 2016

Report from: Pankaj Sardana, CEO
Guelph Hydro Electric Systems Inc. and Envida Community Energy Inc.

Tara Baker, Acting City Treasurer
City of Guelph

RE: Financial History of the GMHI Group of Companies

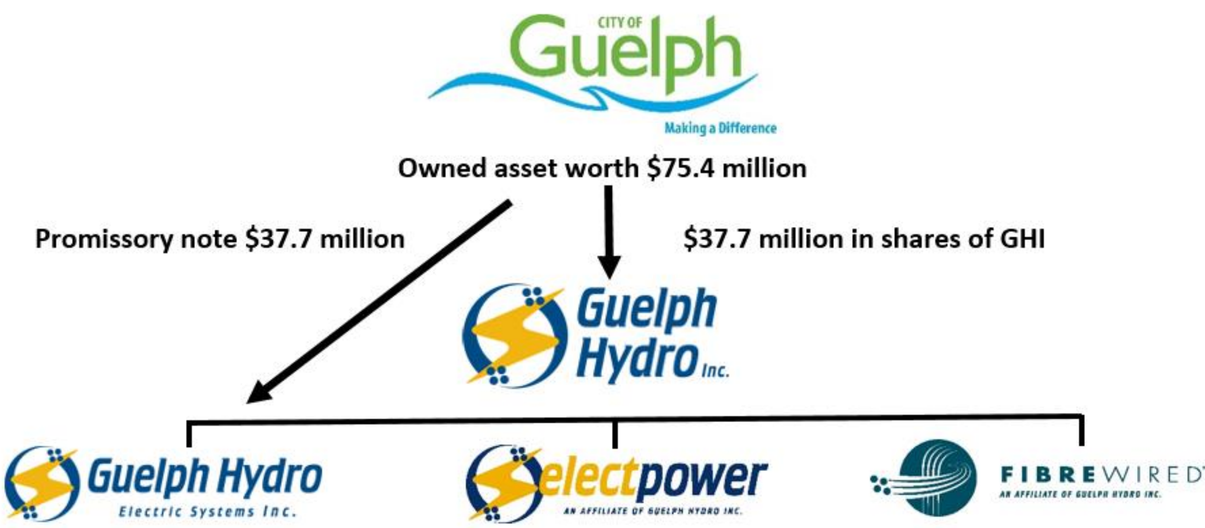

Diagram 1

1998-2000

1. In 1998, the Ontario government passed the *Energy Competition Act*, 1998 ending Ontario Hydro's monopoly in the province and outlining the procedures for restructuring to occur at all levels of the electricity industry. This is referred to as the "deregulation" of the electricity market.

2. Municipalities who were owners of hydro distribution assets had two years to establish a business corporation with all shares held by the municipality.

3. In 2000, Guelph Hydro was divided into four separate companies:
    - Guelph Hydro Inc. (GHI), the parent company which held the following three subsidiaries:

GUELPH MUNICIPAL HOLDINGS INC.

- Guelph Hydro Electric Systems Inc.(GHESI), a local distribution company (LDC), servicing distribution needs in the community;
- Selectpower Inc., a retail energy and energy services company; and
- Fibrewired, a fibre-optics company.

4. The Ontario Energy Board set a 50% / 50% debt/equity structure for LDCs. This debt-to-equity split meant that GHESI's balance sheet was initially capitalized with $37.7 million in debt (which *de facto* was new debt created from the "downloading" of the municipal utilities to the municipalities) and $37.7 million in equity which was the value of the shares held by its shareholder, GHI.
5. The City's assets were comprised of the shares of GHI valued at $37.7 million (cash) and a promissory note from GHESI for $37.7 million for a total capitalization value of $75.4 million.

GUELPH MUNICIPAL HOLDINGS INC.

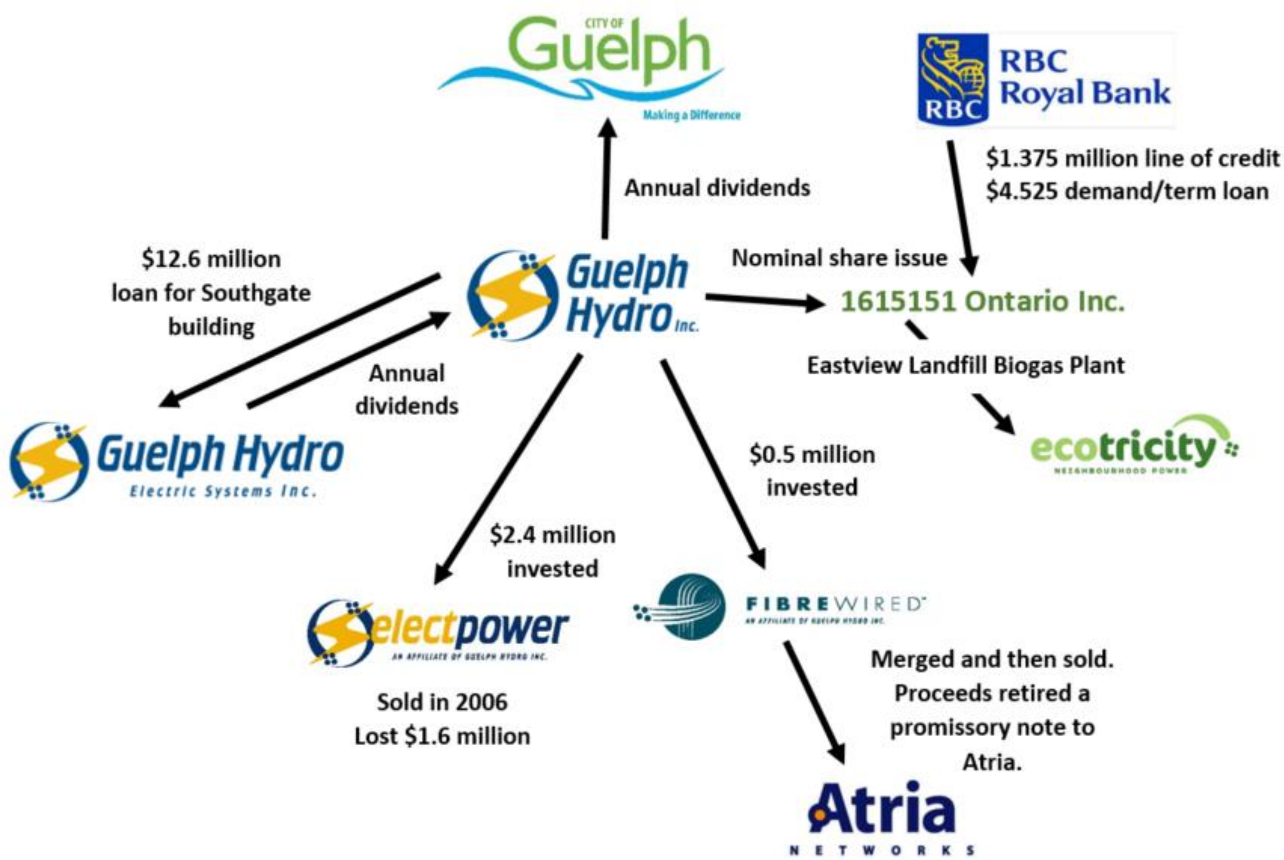

Diagram 2

2000 - 2005

6. Over time, funded by dividend payments from GHESI, the following investments were made by GHI:
    - $2.4 million in SelectPower (which it sold in 2006 at a loss of $1.5 million)
    - $0.5 million in Fibrewired (which was merged and became Atria Networks Inc. and subsequently sold, with the proceeds from the sale used to retire a promissory note with Atria Networks Inc.)
    - $12.6 million loaned back to GHESI to cover the cost of expanding the Southgate office building to house all GHESI (and GHI) employees.

7. In April, 2004, GHI incorporated another company, 1615151 Ontario Inc., with a nominal share issue (i.e. one share for $1,000 owned by GHI at that time). The company's business purpose was to own and operate generation assets starting with the Eastview Landfill Biogas Plant. Monies to build the Eastview Landfill Biogas Plant were borrowed from the Royal Bank. The credit facilities offered by the Royal bank consisted of a non-revolving line of credit for $1.375 million and a demand loan for $4.525 million.

8. In June, 2005, 161551 Ontario Inc. was renamed Ecotricity Guelph Inc. (Ecotricity) so that it would have a more recognizable corporate name.

9. In 2005, the City's Eastview Landfill Biogas Plant went into commercial operation. This plant generates electricity from methane gas captured from the landfill site, The facility was granted a 20-year contract to supply 2.775 MW (years 1-7) and 1.85 MW (years 8-20) of electricity to the Ontario grid as the first participant project under the Province of Ontario's Renewable Energy Supply (RES) contract.

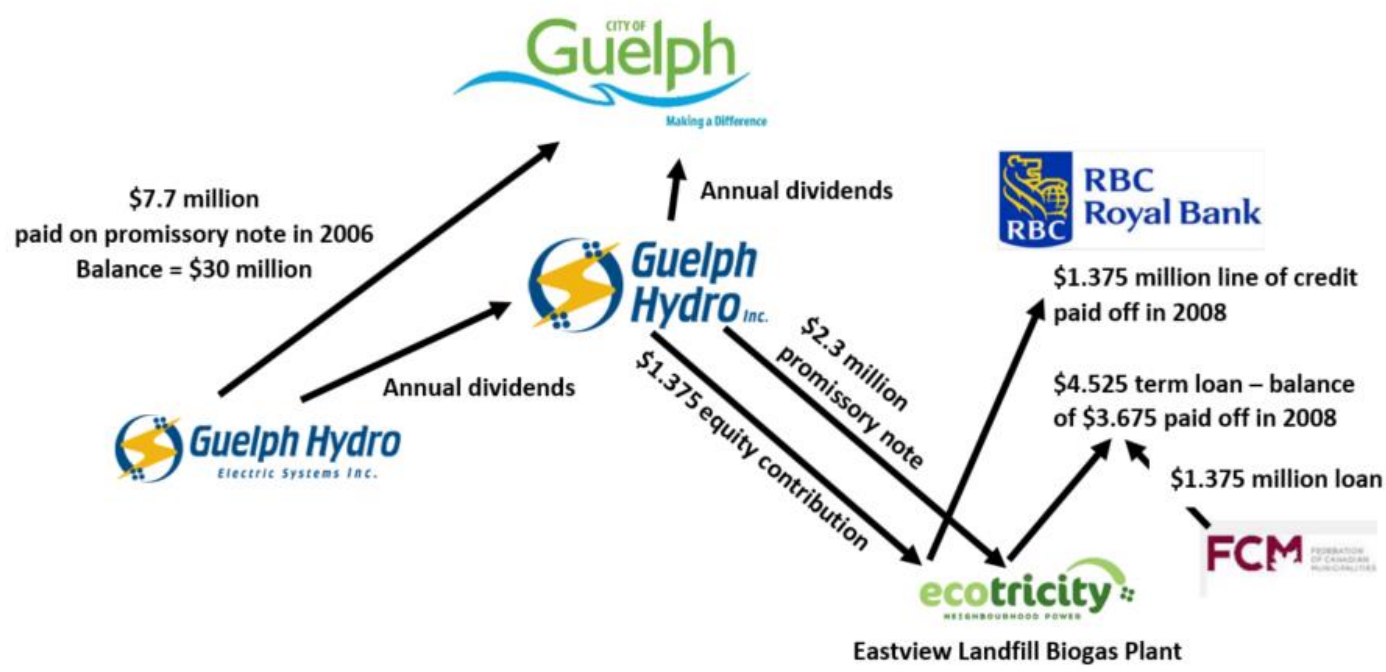

Diagram 3

2006 – 2009

10. In 2006, GHESI paid the City a lump-sum payment of $7.7 million against the $37.7 million loan provided by the City leaving a promissory note balance of $30 million. The City applied these funds towards the construction of the Guelph Civic Administration Centre Complex (including POA Courthouse renovations).

11. In March 2006, Ecotricity entered into a loan agreement and subsequent interest rate swap agreement with the Royal Bank. This resulted in the conversion of the existing demand loan into a fixed rate loan for $4.525 million.

12. In April 2007, Guelph City Council unanimously endorsed the vision, goals and general directions of a 25-year Community Energy Initiative. This plan was developed with the assistance of a Consortium that included the City of Guelph, Union Gas, Guelph Hydro, business and industry representatives, the University of Guelph, school boards, and the Guelph Chamber of Commerce The goals of the Community Energy Initiative to be achieved by 2031 were:
    - Use 50 per cent less energy per capita
    - Produce 60 per cent less greenhouse gas emissions per capita
    - Encourage and facilitate community-based renewable and alternative energy systems.

GUELPH MUNICIPAL HOLDINGS INC.

Achievement of the Community Energy Initiative goals would position Guelph among the top energy performers in the world and make it one of the most competitive and attractive communities in which to invest.

13. In March 2008, the Ecotricity non-revolving line of credit facility was repaid in full via proceeds of an equity contribution from GHI.

14. In addition, during 2008, the balance of $3.675 million on Ecotricity's term loan with the Royal Bank was repaid and the swap agreement was unwound. A portion of this debt repayment ($1.375 million) was funded via proceeds from a low interest loan from the Federation of Canadian Municipalities (FCM). The remainder of this debt repayment was made via proceeds from a promissory note for $2.3 million payable to GHI.

15. The Operating Results for Ecotricity from 2005 to 2009 were as follows:

Ecotricity Guelph Inc.					
Operating Results					
2005-2009					
	2009	**2008**	**2007**	**2006**	**2005**
Revenues	1,073	1,152	1,252	1,490	820
Landfill Gas	58	55	68	85	48
OM&A	1,541	680	655	612	427
Impairment of Fixed Assets	2,984	0	0	0	0
Depreciation	306	327	327	324	150
Interest	125	414	276	342	144
Tax	4	-11	-13	25	24
Net Income	-3,945	-313	-61	102	27

16. In 2009, due to the landfill gas supply declining faster than anticipated, one of three generators at the Envida Eastview Landfill Gas site was decommissioned reducing the contract capacity to 1.7 MW from 2.775 MW three years ahead of schedule and reducing revenues. An impairment of $2.984 million was taken in 2009.

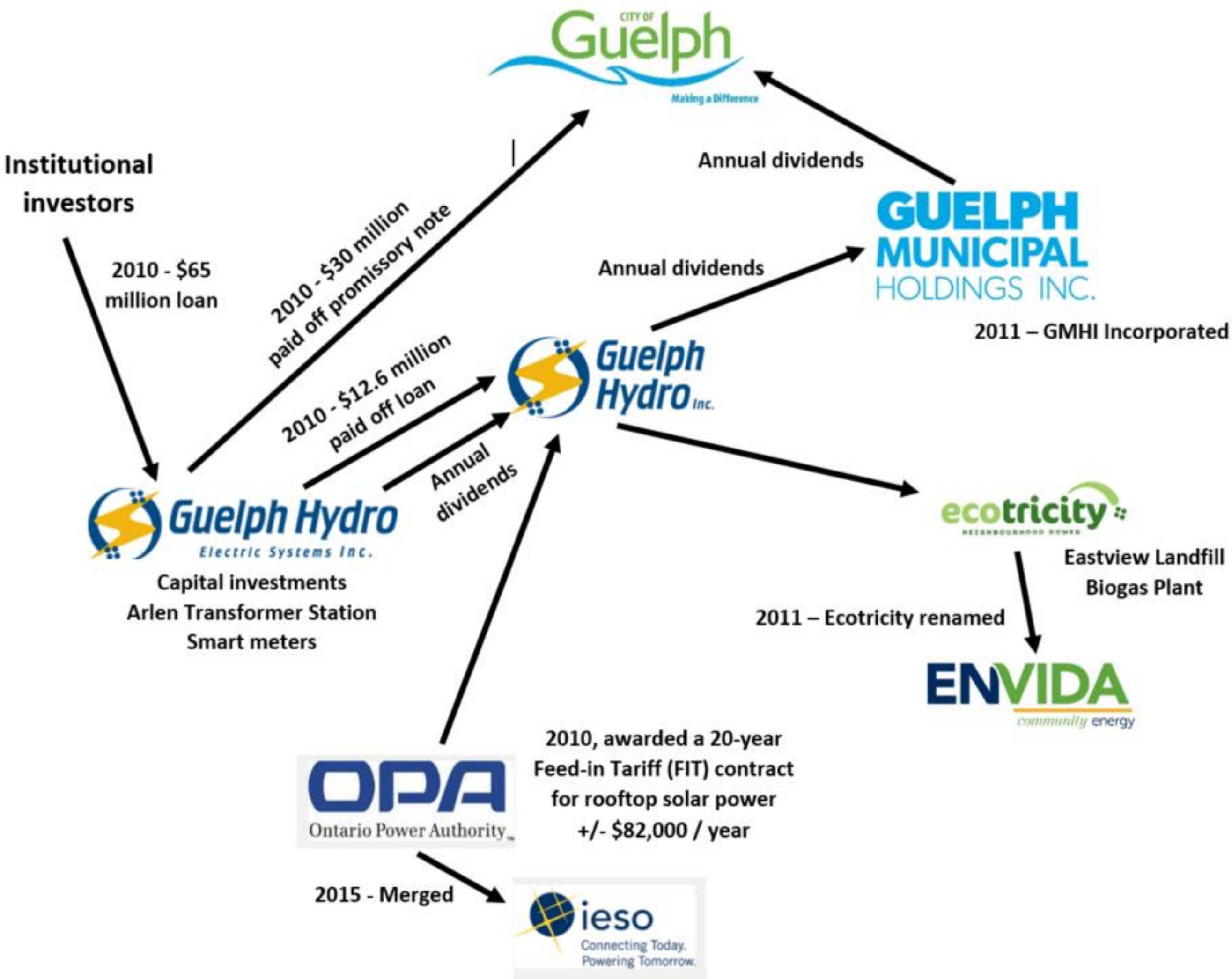

Diagram 4

2010-2011

17. In 2010, the City and GHI entered into a Memorandum of Intention in which GHI was designated as the prime implementer and key developer of high-efficiency, low-carbon, sustainable energy projects to assist the City of Guelph in achieving targets set out in the Guelph Community Energy Initiative and foster economic development.

18. In 2010, GHI was awarded a 20-year Feed-in Tariff (FIT) contract for electricity generated from a 100-kilowatt rooftop solar facility installed at a cost of just under $1 million that same year on the Guelph Hydro Southgate building. This facility went into commercial operation in 2011 with annual income estimated at $82,000.

19. In 2010, GHESI and Union Gas published a report by MCW Consultants Limited entitled "*Developing a Downtown District Energy System for the City of Guelph Using a CHP Facility*."

20. In 2010, GHESI borrowed $65 million via a private placement of debt to a group of institutional lenders (long-term debt issue) and used the money as follows:
    a) $30 million - used to pay off the remaining $30 million owed on the promissory note to the City arising from the establishment of GHESI in 2000. The City used these monies to fund the City's share of the Federal and Provincial Infrastructure Stimulus Funding and RINC programs with the remaining funds directed to a new reserve fund for "long-term capital forecast update" (later renamed as the Capital Asset Renewal Reserve Fund).
    b) $12.6 million – used to pay off the loan from GHI to cover the cost of expanding the Southgate office building to house all GHESI (and GHI) employees.
    c) Remaining proceeds – spent on capital projects i.e., Arlen Transformer Station and the provincially-mandated installation of smart meters for all residential and small commercial customers.

21. By 2011, GHI had 7 corporate employees. A portion of their salaries and benefits were charged to subsidiary companies via intercompany charges for work provided but some ongoing costs were incurred at the GHI level.

22. Guelph Municipal Holdings Inc. (GMHI) was incorporated in 2011 to hold Guelph Hydro Inc. and its two subsidiaries – Guelph Hydro Electric Systems Inc. and Ecotricity Guelph Inc. – and was expected to take on other city-owned assets at some point in the future. The City's shares in GHI were transferred to GMHI on Dec. 31, 2011. A Board of Directors was formed but no employees worked for GMHI.

23. In December 2011, to avoid possible copyright infringements, Ecotricity changed its name to Envida Community Energy Inc. (Envida), effective January 1, 2012.

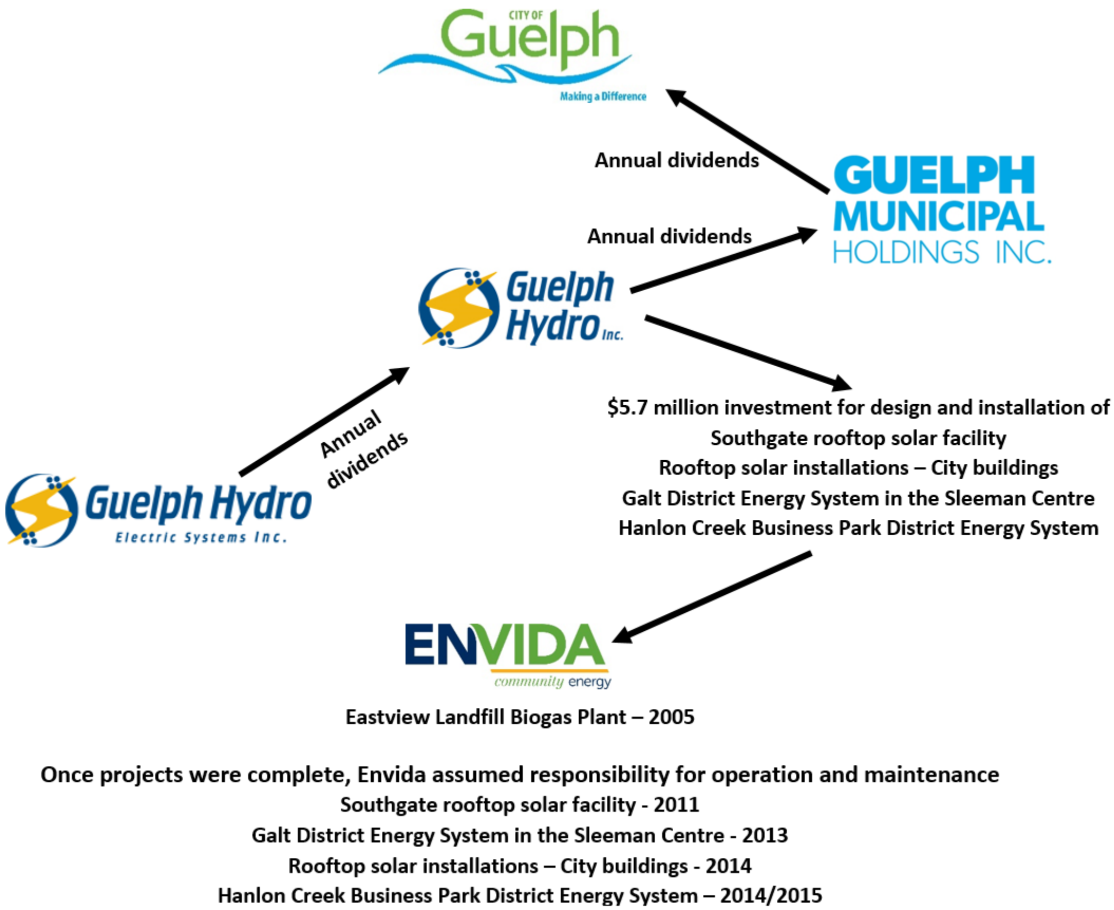

Diagram 5

2012 to September 2014

24. In 2013, Envida and the City of Guelph jointly prepared a District Energy Strategic Plan that provided background information on district energy systems, benefits for individuals and communities, and examples of successful district energy networks in other cities.

25. In May 2013, Envida elected to retire its loan payable to the Federation of Canadian Municipalities. Payment was made via proceeds of a promissory note from GHI.

26. Between 2010 and September 2014, using the $12 million received from GHESI in 2010 as well as the net proceeds from annual dividends, GHI invested $5.7 million in sustainable energy projects through a combination of equity investments and loans. Funds were used to design and install district energy infrastructure in the Sleeman Centre in downtown Guelph and the Hanlon Creek Business Park, as well as rooftop solar installations on the roof of Guelph Hydro's Southgate building and on seven buildings owned by the City of Guelph. Once projects were complete, Envida assumed responsibility for operation and maintenance.

GUELPH MUNICIPAL HOLDINGS INC.

27. In December 2013, the thermal energy centre in the Sleeman Centre in Downtown Guelph went into commercial operation
28. In April 2014, Envida was awarded a 20-year contract to supply electricity to the Ontario grid from a 10.2 megawatt natural gas-fired combined heat and power (CHP) plant to be located in the Hanlon Creek Business Park. If built, the CHP plant would serve as a heat source for a district energy system in the Hanlon Creek Business Park.
29. In August 2014, The Tricar Group – River Mill Condominium project signed a contract with Envida for district heating and cooling to be provided from the thermal energy plant in the Sleeman Centre in downtown Guelph.

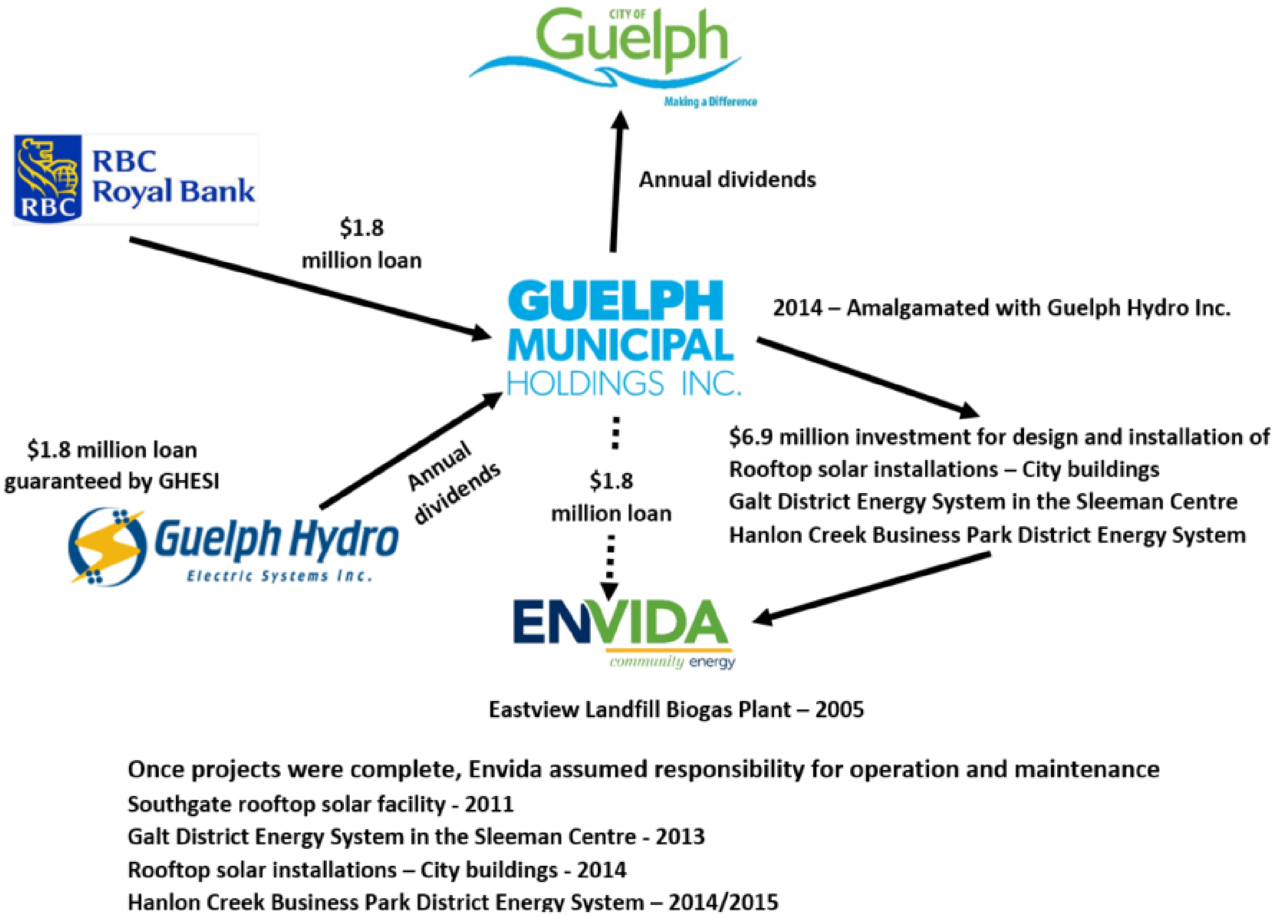

Diagram 6

September 2014 to Present

30. In 2014, Guelph Hydro Inc. and Guelph Municipal Holdings Inc. were amalgamated under Guelph Municipal Holdings Inc. (GMHI). GMHI acquired 8 employees from GHI. A portion of the salaries and benefits was charged back to subsidiaries for work provided via intercompany charges but there were ongoing costs at the GMHI level.

31. Since amalgamation, GMHI has invested $6.9 million in sustainable energy projects through a combination of equity investments and loans. Funds were used to design and install district energy infrastructure for the Galt District Energy System in downtown Guelph and the Hanlon Creek Business Park, as well as rooftop solar installations on buildings owned by the City of Guelph. Once projects were complete, Envida assumed responsibility for operation and maintenance.

GUELPH MUNICIPAL HOLDINGS INC.

32. In July, 2015, Envida was awarded a 20-year contract to supply electricity to the Ontario grid from a 10 megawatt natural gas-fired combined heat and power (CHP) plant to be located in downtown Guelph. If built, the CHP plant would serve as a heat source for a district energy system in downtown Guelph.

33. By June 2015, GMHI had completely exhausted the $12 million that GHI had received from GHESI in 2010 but was still faced with expenses relating to connections to the existing district energy infrastructure for M.F. Property Management Ltd. in the Hanlon Creek Business Park and The Tricar Group's River Mill Condominiums in downtown Guelph. To meet its obligations, GMHI borrowed $1.8 million on its short-term credit facility from the Royal Bank. This loan is guaranteed by GHESI and will need to be fully repaid at the beginning of 2017 or a new loan taken out if repayment is not possible.

34. In 2016, City Council streamlined its oversight of GMHI:
    a) The Board was restructured to consist of three members of City Council (Mayor Guthrie, Councillor Wettstein and Councillor Downer).
    b) The City's CAO was assigned the role of Interim CEO of GMHI to provide the necessary authority and oversight to implement the directions of Council.
    c) In addition, a new CEO was appointed on an interim basis for GHESI and Envida.

35. After in-depth consultation with district energy experts and KPMG, GMHI determined that without the addition of a significant thermal load in the Hanlon Creek Business Park, the project will lose money every year it is in operation and the capital costs to build the plant will be unrecoverable. Although the revenue generated from the Galt District Energy System in the Sleeman Centre will cover its operating and maintenance costs, there will be little or no revenue to repay the initial capital investment in the project.

    Capital costs incurred in building the company's two district energy projects which include engineering costs and costs for piping, boilers, chillers, pumps, energy transfer station, backup generators, air conditioning units, cooling tower, air handling units, heat exchangers, etc. totalled:

    - Hanlon Creek Business Park $5.1 million
    - Galt District Energy System in the Sleeman Centre in downtown Guelph $6.1 million

Write-Offs / Write-Downs

36. Envida prepares its financial statements in accordance with accounting standards which require that assets be carried on the balance sheet at no more than their recoverable amount. The recoverable amount of an asset is the higher of its fair value less costs of disposal and its value in use. Value in use is the present value of the future cash flows expected to be derived from an asset. For each reporting period the entity is required to determine whether there is any indication that the asset is being carried at greater than its recoverable amount. If it is determined that the recoverable amount of an asset is less than its carrying value, then the asset is deemed to be impaired and the value must be written down to the recoverable amount. District energy assets in the Hanlon Creek Business Park and downtown Guelph will not generate sufficient cash flows over their useful lives to fully recover the costs of installing these assets. The required asset write-down / write-off amounted to:
    - Hanlon Creek Business Park $5.1 million
    - Galt District Energy System in the Sleeman Centre in downtown Guelph $3.6 million

Intercompany Loans

37. As of the end of 2015, Envida owes GMHI $11.8 million related to funds invested in the Eastview Landfill Biogas Plant, district energy assets, as well as other corporate service and operating needs over the past five years.

38. Given the current state of operations, it is unlikely that Envida will be able to repay this loan and consideration to forgiving this loan is being explored.

GUELPH MUNICIPAL HOLDINGS INC.

Tax Considerations

39. GMHI's income is derived primarily from dividends paid by GHESI, as well as interest on any monies loaned to its subsidiaries. GMHI's dividends are not treated as taxable income and as a result, the company is typically in a "taxable loss" position as its other sources of income are insufficient to meet its ongoing operating expenses.

40. Since 2006, a total of $10,595,931 in tax losses have been accumulated. These tax losses may be applied against future income earnings but are subject to an expiry date.

41. Envida also generates tax losses since its taxable income from operations (solar installations, district energy projects, Eastview Landfill Gas Plant) does not offset the company's expenses (fuel costs, water charges, land lease payments, maintenance of equipment by contractors, Board of Director costs, etc.). (Note: Envida has no employees so there are no salary and benefit costs.)

42. Since 2008, a total of $7,341,313 in tax losses have been accumulated. These losses may be applied against future income earnings but are subject to an expiry date.

GMHI
Non-Capital Loss Continuity Worksheet

Year of Origin	Non-Capital Loss	Expiry Date
2015	$ 3,003,425 [1]	December 31, 2035
2014	388,429	December 31, 2034
2013	1,032,064	December 31, 2033
2012	2,218,324	December 31, 2032
2011	1,746,480	December 31, 2031
2010	562,622	December 31, 2030
2009	-	
2008	3,880	December 31, 2028
2007	143,911	December 31, 2027
2006	1,496,796	December 31, 2026
	$ 10,595,931	

[1] Estimate subject to review by KPMG

Envida
Non-Capital Loss Continuity Worksheet

Year of Origin	Non-Capital Loss	Expiry Date
2015	$ 761,290 [1]	December 31, 2035
2014	2,230,110	December 31, 2034
2013	81,592	December 31, 2033
2012	1,455,957	December 31, 2032
2011	758,000	December 31, 2031
2010	845,488	December 31, 2030
2009	939,360	December 31, 2029
2008	269,516	December 31, 2028
	$ 7,341,313	

[1] Estimate subject to review by KPMG

Report submitted by:

Pankaj Sardana
Chief Executive Officer
Guelph Hydro Electric Systems Inc. and Envida Community Energy Inc.
Email: psardana@guelphhydro.com
Tel: 519-837-4707

Tara Baker
Acting City Treasurer
City of Guelph
Email: tara.baker@guelph.ca
Tel: 519-822-1260