

GUELPH MUNICIPAL HOLDINGS INC.

2012 ANNUAL REPORT

ADVANCING INNOVATION
AND PROSPERITY



MESSAGE TO THE SHAREHOLDER

*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,

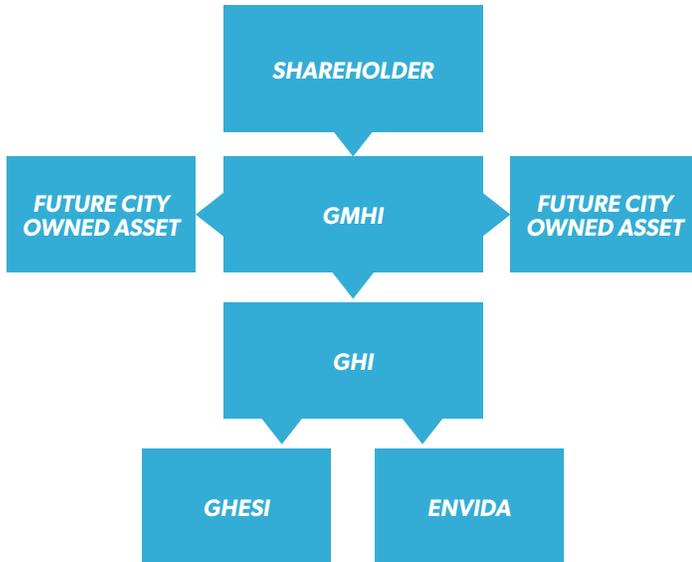


Karen Farbridge
Chair
Guelph Municipal Holdings Inc.



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

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

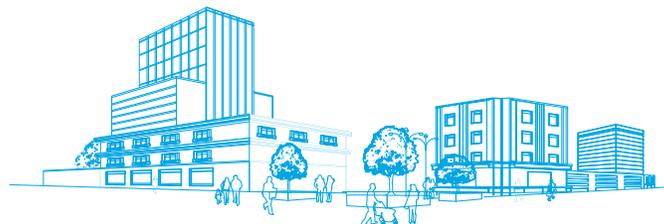
To actively explore opportunities, establish stakeholder partnerships and act as a vehicle for leveraging and implementing Guelph-based innovative delivery models.

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*





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

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

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

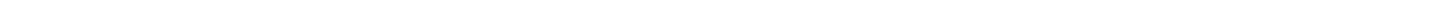
GMHI is guided by the strategic vision and priorities of Guelph City Council.

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.

1 CARDEN STREET
GUELPH, ONTARIO
N1H 3A1

WWW.GUELPHHOLDINGS.COM
INFO@GUELPHHOLDINGS.COM

