City Council as Shareholder of Guelph Municipal Holdings Inc.

Meeting Agenda

Wednesday, June 28, 2017 – 5:30 p.m.
Council Chambers, Guelph City Hall, 1 Carden Street
Please turn off or place on non-audible all electronic devices during the meeting.

Please note that an electronic version of this agenda is available on guelph.ca/agendas.

Authority to move into closed meeting

That the Council of the City of Guelph now hold a meeting that is closed to the public, pursuant to the Municipal Act, to consider:

C-GMHI-2017.2 **Envida Asset Review**
Section 239 (2) (f) of the Municipal Act related to advice that is subject to solicitor-client privilege, including communications necessary for that purpose.

Open Meeting: – 6:30 p.m.

Disclosure of Pecuniary Interest and General Nature Thereof

Closed Meeting Summary

GMHI-2017.3 **GMHI Annual General Meeting**

Presentation:
Derrick Thomson, Director, Guelph Municipal Holdings Inc.
Pankaj Sardana, Chief Financial Officer, Guelph Municipal Holdings Inc.

Recommendation:

1. That the minutes from the Guelph Municipal Holdings Inc. ("GMHI") Annual General Meeting ("AGM") held June 20, 2016 be approved.

2. That the report of the auditor, KPMG LLP, in respect of the 2016 financial statements for GMHI (consolidated) and its subsidiaries be received.

3. That the 2016 financial statements for GMHI (both consolidated and non-consolidated) and its subsidiaries be received.

4. That KPMG LLP be appointed as auditor for GMHI and its subsidiaries for the term ending June 2018.

5. That the CAO continue as the director of GMHI for a one year term ending at the June 2018 AGM.

GMHI-2017.4 Envida Asset Review

Recommendations:

1. That the transfer of the Eastview Generation Assets from Envida to Guelph Hydro Electric Systems Inc. ("Guelph Hydro") by asset purchase or amalgamation be approved pending final approval by the Independent Electricity System Operator and the Ontario Energy Board.

2. That City staff be given the delegated authority to negotiate and execute the required Memorandum of Understanding and land lease and licensing agreements with Guelph Hydro for the on-going operation of the Eastview Generation Assets on City-owned land.

3. That the transfer of the solar assets affixed to the rooftop of 395 Southgate Drive, Guelph, ON from Envida to Guelph Hydro by asset purchase or amalgamation be approved pending final approval by the Independent Electricity System Operator and the Ontario Energy Board.

4. That the sale of eight solar microFIT programs from Envida to the City for a total cost not exceeding $280,000 be approved and funded from the Capital Asset Renewal Reserve Fund.

5. That in accordance with the Capital Asset Renewal Reserve Fund policy, this reserve fund be repaid by the revenues generated from this investment on a schedule that is satisfactory to the City Treasurer that balances both the repayment of the reserve fund with operating budget savings.

6. That Staff be given delegated authority to negotiate and execute an amendment to an existing agreement with respect to the early disposal of Envida owned heating and cooling assets located on a third-party site.

GMHI-2017.5 GHESI Report on Activities

Presentation:
Jane Armstrong, Chairperson, Guelph Hydro Electric Systems Inc.
Pankaj Sardana, Chief Executive Officer, Guelph Hydro Electric Systems Inc.

Recommendation:
That the GHESI Report on Activities, dated June 28, 2017, be received.

Adjournment

Minutes of Guelph City Council as Shareholder of GMHI
Held in the Council Chambers, Guelph City Hall on
Monday, June 20, 2016 at 6:00 p.m.

Attendance

Council: Mayor Guthrie
Councillor P. Allt *(arrived 6:03 p.m.)*
Councillor B. Bell
Councillor C. Billings
Councillor C. Downer
Councillor D. Gibson
Councillor J. Gordon
Councillor J. Hofland
Councillor M. MacKinnon
Councillor L. Piper *(arrived 6:04 p.m.)*
Councillor M. Salisbury *(arrived 6:03 p.m.)*
Councillor A. Van Hellemond *(arrived 6:08 p.m.)*
Councillor K. Wettstein

Staff: Mr. D. Thomson, Chief Administrative Officer
Ms. D. Jacques, General Manager & City Solicitor
Mr. S. O'Brien, City Clerk
Ms. G. van den Burg, Council Committee Coordinator

Others: Mr. P. Sardana, Chief Financial Officer, GMHI

Open Meeting *(6:00 p.m.)*

Call to Order

Mayor Guthrie called the meeting to order.

Disclosure of Pecuniary Interest and General Nature Thereof

There were no disclosures.

Confirmation of Minutes

1. Moved by Councillor Bell
Seconded by Councillor Hofland

That the minutes for the Special Council meeting as Shareholder of Guelph Municipal Holdings Inc. on June 15, 2015 be confirmed as recorded and without being read.

VOTING IN FAVOUR: Mayor Guthrie, Councillors Allt, Bell, Billings, Downer, Gibson, Gordon, Hofland, MacKinnon, Piper, Salisbury, Van Hellemond and Wettstein (13)
VOTING AGAINST: (0)

CARRIED

Council Consent

GMHI-2016.3 2015 Consolidated Audited Financial Statements of Guelph Municipal Holdings Inc. (GMHI)

2. Moved by Councillor Allt
Seconded by Councillor Hofland

1. That the report from the CFO in respect of the 2015 Financial Statements, be received; and

2. That the Report of the Auditor, KPMG LLP, in respect of 2015 Consolidated Financial Statements of Guelph Municipal Holdings Inc., be received; and

3. That the 2015 GMHI Consolidated Financial Statements and Subsidiary Financial Statements, be received.

VOTING IN FAVOUR: Mayor Guthrie, Councillors Allt, Bell, Billings, Downer, Gibson, Gordon, Hofland, MacKinnon, Piper, Salisbury, Van Hellemond and Wettstein (13)
VOTING AGAINST: (0)

CARRIED

GMHI-2016.4 Appointment of Auditors

3. Moved by Councillor Downer
Seconded by Councillor Allt

1. That the recommendation of the GMHI Board of Directors regarding the appointment of auditors for GMHI, be received; and

2. That KPMG LLP are appointed as auditors for Guelph Municipal Holdings Inc. for its 2016 fiscal year.

VOTING IN FAVOUR: Mayor Guthrie, Councillors Allt, Bell, Billings, Downer, Gibson, Gordon, Hofland, MacKinnon, Piper, Salisbury, Van Hellemond and Wettstein (13)
VOTING AGAINST: (0)

CARRIED

GMHI-2016.5 Annual Report from Mayor Guthrie, Chair of GMHI

4. Moved by Councillor Allt
Seconded by Councillor MacKinnon

That the 2015 GMHI Annual Report be received.

VOTING IN FAVOUR: Mayor Guthrie, Councillors Allt, Bell, Billings, Downer, Gibson, Gordon, Hofland, MacKinnon, Piper, Salisbury, Van Hellemond and Wettstein (13)
VOTING AGAINST: (0)

CARRIED

Announcements

Mayor Guthrie announced that the following resolutions had been recommended for approval by the Guelph Municipal Holdings Inc. Board of Directors at the June 20, 2016 Guelph Hydro Electric Systems Inc. Annual General Meeting with the GMHI Board as Shareholder:

1. That the Board of Directors of Guelph Municipal Holdings Inc. appoint George Mitges as an independent member of the Board of Directors of Guelph Hydro Electric Systems Inc. for a term commencing June 20, 2016 and ending at the AGM in June 2017; and

2. That the Board of Directors of Guelph Municipal Holdings Inc. appoint Robert Huggard as an independent member of the Board of Directors of Guelph Hydro Electric Systems Inc. for a term commencing June 20, 2016 and ending at the AGM in June 2017.

Adjournment *(6:14 p.m.)*

5. Moved by Councillor Bell
Seconded by Councillor Hofland

That the meeting be adjourned.

CARRIED

Minutes to be confirmed at the June 2017 GMHI Shareholder AGM.

____
Mayor Guthrie

____
Stephen O'Brien – City Clerk

Guelph Municipal Holdings Inc.

Audit Findings Report
For the year ended December 31, 2016

KPMG LLP

Prepared for the May 16, 2017 Board Meeting

kpmg.ca/audit

The contacts at KPMG in connection with this report are:

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Executive summary

Purpose of this report*

The purpose of this Audit Findings Report is to assist you, as a member of the Board, in your review of the results of our audit of the consolidated financial statements of Guelph Municipal Holdings Inc. ("GMHI"), the financial statements of Guelph Hydro Electric Systems Inc. ("GHESI"), and the financial statements of Envida Community Energy Inc. ("Envida") as at and for the year ended December 31, 2016.

Audit Materiality

Materiality has been determined based on total assets. We have determined materiality to be $2.8 million for the year ending December 31, 2016.

See page five.

Audit risk and results

Our audit is risk-focused. In planning our audit we have taken into account risks and key areas of focus for financial reporting. These include:

- Property, plant, and equipment,
- Employee future benefits,
- Revenue and unbilled revenue,
- Envida continuity of operations and impairment.

See page seven.

Adjustments and differences

See page 11 and Appendix 1.

Independence

We are independent and have extensive quality control and conflict checking processes in place. We provide complete transparency on all services and follow Board approved protocols.

This Audit Findings Report should not be used for any other purpose or by anyone other than the Board. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this Audit Findings Report has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Executive summary

Finalizing the audit

As of May 16, 2017, we have completed the audit of the financial statements, with the exception of certain remaining procedures, which include amongst others:

- Receiving select support related to district energy impairment;
- final review of final versions of the financial statements;
- receiving the signed management representation letter;
- completing our discussions with the Board;
- obtaining evidence of the Board's approval of the financial statements.

We will update the Board, and not solely the Chair (as required by professional standards), on significant matters, *if any*, arising from the completion of the audit, including the completion of the above procedures. Our auditors' report will be dated upon the completion of any remaining procedures.

We met with the GHESI Audit Committee on April 18, 2017 and the GHESI financial statements have subsequently been approved by the GHESI Board.

Control and other observations

We did not identify any control deficiencies that we determined to be significant deficiencies in ICFR.

Significant accounting policies and practices

There have been no initial selections of, or changes to, significant accounting policies and practices to bring to your attention.

Materiality

Professional standards require us to re-assess materiality at the completion of our audit based on period-end results or new information in order to confirm whether the amount determined for planning purposes remains appropriate.

Our assessment of misstatements, if any, in amounts or disclosures at the completion of our audit will include the consideration of both quantitative and qualitative factors.

The first step is the determination of the amounts used for planning purposes as follows.

The determination of materiality requires professional judgment and is based on a combination of quantitative and qualitative assessments including the nature of account balances and financial statement disclosures.

Materiality determination	Comments	Group amount
Metrics	Relevant metrics included assets, revenue, and profit before taxes.	
Benchmark	Based on opening total assets. This benchmark is consistent with the prior year.	$234,487,000
Materiality	Determined to plan and perform the audit and to evaluate the effects of identified misstatements on the audit and of any uncorrected misstatements on the financial statements. The corresponding amount for the prior year's audit was $2,500,000.	$2,800,000
% of Benchmark	The corresponding percentage for the prior year's audit was 1.30%.	1.19%
Performance materiality	Used 75% of materiality, and used primarily to determine the nature, timing and extent of audit procedures. The corresponding amount for the prior year's audit was $1,875,000	$2,100,000
Audit Misstatement Posting Threshold (AMPT)	[Threshold used to accumulate misstatements identified during the audit. The corresponding amount for the previous year's audit was $125,000. Different threshold used to accumulated reclassification misstatements.	$140,000 $700,000 for reclassification

	GMHI	GHESI	Envida
Component Materiality	$2,500,000	$2,500,000	$46,000 statutory materiality

Audit approach

Professional standards presume the risk of fraudulent revenue recognition and the risk of management override of controls exist in all companies.

The risk of fraudulent recognition can be rebutted, but the risk of management override of control cannot, since management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Professional requirements	Why	Our audit approach
Fraud risk from revenue recognition	This is a presumed fraud risk. However, the audit team has rebutted this presumption due to the following: – The majority of revenues are driven directly from the purchases of hydro with little judgment over revenue recognition required by management.	Not applicable.
Fraud risk from management override of controls	This is a presumed fraud risk. We have not identified any specific additional risks of management override relating to this audit.	As the risk is not rebuttable, our audit methodology incorporates the required procedures in professional standards to address this risk. These procedures include • testing of journal entries and other adjustments, • performing a retrospective review of estimates, and • evaluating the business rationale of significant unusual transactions.

Audit risks and results

We identified risks and other areas of focus for our audit in our discussion with you in the Audit Plan

Significant findings from the audit regarding risks and other areas of focus are as follows:

Risks and other areas of focus	Our response and significant findings
Property, plant and equipment	• Identified and evaluated the operating effectiveness of internal controls over capitalization of costs. • Tested a sample of capital additions. • Reviewed and evaluated the process for allocating overhead to constructed assets. • Performed calculations of depreciation expense. • See below for Envida impairment.
Employee future benefits	• Communicated with management's actuarial specialists. We used the work of Collins Barrow in our audit of the accounts and disclosures. • Assessed the reasonableness of underlying data and assumptions used.
Revenue and unbilled revenue	• Performed an analysis of revenue based on approved/market rates and power sold/purchased. Specifically for unbilled revenue, performed analysis based on billing cycles and rates and power sold in later months of the year (i.e. November and December 2016). • Compared billings in subsequent months (i.e. January and February 2017) to substantiate the unbilled amounts.
Deferred tax asset impairment	• A valuation allowance of $3.1M was recorded on the deferred tax assets based on uncertainty around the utilization of tax assets dependent on future taxable profits.
Envida – Continuity of operations and Impairment of property, plant and equipment	• Envida continues to report a loss and negative cash flows from operations. • Its cash flow needs were met by an increase in advances from GMHI in the form of contributed capital in 2015 and further increase in related party payable in 2016. • These items are factors in considering whether or not the going concern assumption is appropriate for Envida and potentially what disclosures are required in the financial statements. • IAS 1.25 requires that "when management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties."

- Parental support is a key mitigating factor in evaluation of going concern.
- Comment regarding effect on the audit:
  - KPMG to obtain evidence of the commitment by GMHI to support Envida.
  - Audit considerations re: emphasis of matter.
- The district energy segment has continued to experience negative cash flows which are projected to be insufficient to recover the carrying value of the related assets. Management has assessed Envida's district energy property, plant and equipment for impairment and evaluated the cash flows associated with the Hanlon Creek Business Park ("Hanlon Creek DE"), Galt District Energy ("Galt DE"), and West End Community Centre ("WECC") nodes. Based on value-in-use net present value calculations, management has determined that the carrying value of all the nodes are fully impaired (the full amount of the related property, plant and equipment) for a total impairment charge in 2016 of $3.3M ($8.7M in 2015).
- Further, based on the obligations for contracts in place and the related estimated unavoidable costs of meeting the obligations exceeding the economic benefits to be received by approximately $50K annually over the life of the contracts, a provision has been recorded for $540K.
- Management's cash flow projections were based on the business plan for the segment for the upcoming years. Their analysis took into account factors including the remaining contract periods for agreements in place with current customers (approximately 18 years), history of revenue and expenses to date, and the useful lives of the equipment. Further, based on current plans and direction from the Board, the analysis includes only minimal additional investments required to service current customers.
- We understand that management and the City of Guelph are working toward an agreement related to rates for the Sleeman Centre, including the recovery of capital costs.

Accounting estimates

Under IFRS (IAS 1, 125), management is required to disclose information in the financial statements about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to carrying amounts of assets and liabilities within the next financial year. Generally, these are considered to be "critical accounting estimates."

We have summarized our assessment of the subjective areas.

Accounting estimates

Asset / liability	Balance ($'000s)	KPMG comment
Employee future benefits	$10,297	Estimates are made for the discount rate and other actuarial assumptions. Management has sought the advice of its actuaries in determining these amounts. There were no indicators of management bias noted.
Estimated useful lives of property, plant, and equipment		The estimate of remaining service life has a direct impact on annual depreciation expense. Management has used rates as determined by asset study. There were no indicators of management bias noted.
Impairment of property, plant and equipment Provision for onerous contracts	$3,255 $540	Estimates are made for the projected cash flows and the discount rate. Management's cash flow projections were based on the business plan for the segment for the upcoming years. See above for further detail. A discount rate of 4.17% was used. Onerous contract provision based on present value of negative outflows of approximately $50K per year over 18 years. There were no indicators of management bias noted.

Financial statement presentation and disclosure

The presentation and disclosure of the financial statements are, in all material respects, in accordance with the Company's relevant financial reporting framework. Misstatements, including omissions, if any, related to disclosure or presentation items are in the management representation letter included in the Appendices.

We also highlight the following:

Form, arrangement, and content of the financial statements	We have concluded that the form, arrangement and content of the financial statements are appropriate based on the size and scope of the various entities.

Adjustments and differences

Adjustments and differences identified during the audit have been categorized as "Corrected adjustments" or "Uncorrected differences". These include disclosure adjustments and differences.

Professional standards require that we request of management and the Audit Committee that all identified differences be corrected. We have already made this request of management.

Corrected adjustments

The management representation letter includes all adjustments identified as a result of the audit, communicated to management and subsequently corrected in the financial statements.

DR Expenses	540,000	
CR Liabilities		540,000

To record onerous contract provision ($50,000 current) (GMHI, Envida)

DR Deferred income tax expense	3,125,000	
CR Deferred tax asset		3,125,000

To record valuation adjustment to deferred tax asset (GMHI)

Uncorrected differences

The management representation letter includes the Summary of Uncorrected Audit Misstatements, which disclose the impact of all uncorrected differences considered to be other than clearly trivial.

DR Income taxes recoverable	192,000	
CR Current income tax expense		192,000

To adjust current income taxes (GHESI)

DR Deferred income tax expense	265,000	
CR Deferred tax asset		265,000

To adjust deferred income taxes (GHESI)

Appendices

Appendix 1: Required communications

In accordance with professional standards, there are a number of communications that are required during the course of and upon completion of our audit. These include:

- **Engagement letter** – the objectives of the audit, our responsibilities in carrying out our audit, as well as management's responsibilities, are set out in the engagement letter and any subsequent amendment letters as provided by management.
- **Required inquiries** – professional standards require that during the planning of our audit we obtain your views on risk of fraud and other matters. We make similar inquiries to management as part of our planning process; responses to these will assist us in planning our overall audit strategy and audit approach accordingly
- **Auditors' report** – the conclusion of our audit is set out in our draft auditors' report attached to the draft financial statements
- **Management representation letter** –In accordance with professional standards, copies of the management representation letter are provided to the Board. The management representation letter is attached.
- **CPAB Big Four Firm Public Report (November 2016)** – Please refer to http://www.cpab-ccrc.ca/Documents/Annual%20Reports/CPAB_2016_Big_Four_Inspections_Report_EN.pdf
- **CPAB 2016 Big Four Public Report: Highlights for Audit Committees** – Please refer to http://www.cpab-ccrc.ca/Documents/Annual Reports/CPAB_2016_Big_Four_Highlights_EN.pdf

Appendix 2: Audit Quality and Risk Management

KPMG maintains a system of quality control designed to reflect our drive and determination to deliver independent, unbiased advice and opinions, and also meet the requirements of Canadian professional standards.

Quality control is fundamental to our business and is the responsibility of every partner and employee. The following diagram summarises the six key elements of our quality control systems.

Visit our [Audit Quality Resources page] for more information including access to our audit quality report, [Audit quality: Our hands-on process.]

- Other controls include:
  - Before the firm issues its audit report, the Engagement Quality Control Reviewer reviews the appropriateness of key elements of publicly listed client audits.
  - Technical department and specialist resources provide real-time support to audit teams in the field.
- We conduct regular reviews of engagements and partners. Review teams are independent and the work of every audit partner is reviewed at least once every three years.
- We have policies and guidance to ensure that work performed by engagement personnel meets applicable professional standards, regulatory requirements and the firm's standards of quality.
- All KPMG partners and staff are required to act with integrity and objectivity and comply with applicable laws, regulations and professional standards at all times.

- We do not offer services that would impair our independence.
- The processes we employ to help retain and develop people include:
  - Assignment based on skills and experience;
  - Rotation of partners;
  - Performance evaluation;
  - Development and training; and
  - Appropriate supervision and coaching.
- We have policies and procedures for deciding whether to accept or continue a client relationship or to perform a specific engagement for that client.
- Existing audit relationships are reviewed annually and evaluated to identify instances where we should discontinue our professional association with the client.

Appendix 3: KPMG's audit approach and methodology

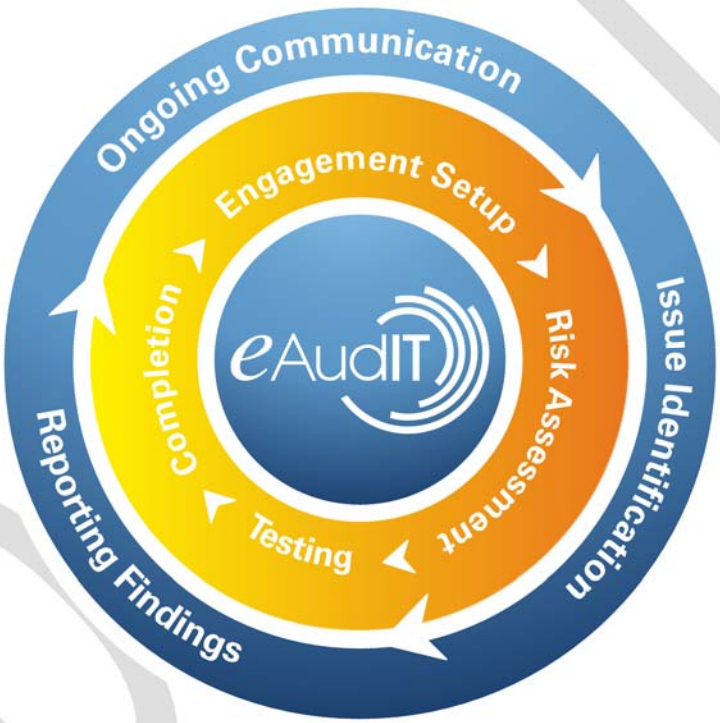
Technology-enabled audit workflow (eAudIT)

Engagement Setup

- Tailor the eAudIT workflow to your circumstances
- Access global knowledge specific to your industry
- Team selection and timetable

Completion

- Tailor the eAudIT workflow to your circumstances
- Update risk assessment
- Perform completion procedures and overall evaluation of results and financial statements
- Form and issue audit opinion on financial statements
- Obtain written representation from management
- Required Audit Committee communications
- Debrief audit process



Risk Assessment

- Tailor the eAudIT workflow to your circumstances
- Understand your business and financial processes
- Identify significant risks
- Plan the use of KPMG specialists and others including auditor's external experts, management experts, internal auditors, service organizations auditors and component auditors
- Determine audit approach
- Evaluate design and implementation of internal controls (as required or considered necessary)

Testing

- Tailor the eAudIT workflow to your circumstances
- Perform tests of operating effectiveness of internal controls (as required or considered necessary)
- Perform substantive tests

Appendix 4: Background and professional standards

Internal control over financial reporting

As your auditors, we are required to obtain an understanding of internal control over financial reporting (ICFR) relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on internal control. Accordingly, we do not express an opinion on the effectiveness of internal control.

Our understanding of ICFR was for the limited purpose described above and was not designed to identify all control deficiencies that might be significant deficiencies and therefore, there can be no assurance that all significant deficiencies and other control deficiencies have been identified. Our awareness of control deficiencies varies with each audit and is influenced by the nature, timing, and extent of audit procedures performed, as well as other factors.

The control deficiencies communicated to you are limited to those control deficiencies that we identified during the audit.

Documents containing or referring to the audited financial statements

We are required by our professional standards to read only documents containing or referring to audited financial statements and our related auditors' report that are available through to the date of our auditors' report. The objective of reading these documents through to the date of our auditors' report is to identify material inconsistencies, if any, between the audited financial statements and the other information. We also have certain responsibilities, if on reading the other information for the purpose of identifying material inconsistencies, we become aware of an apparent material misstatement of fact.

We are also required by our professional standards when the financial statements are translated into another language to consider whether each version, available through to the date of our auditors' report, contains the same information and carries the same meaning.

kpmg.ca/audit

Consolidated Financial Statements of

GUELPH MUNICIPAL HOLDINGS INC.

Year ended December 31, 2016
(Expressed in thousands of dollars)

KPMG

KPMG LLP
115 King Street South
2nd Floor
Waterloo ON N2J 5A3
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Tel 519 747-8800
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INDEPENDENT AUDITORS' REPORT

To the shareholder of Guelph Municipal Holdings Inc.

We have audited the accompanying consolidated financial statements of Guelph Municipal Holdings Inc., which comprise the consolidated balance sheet as at December 31, 2016 and the consolidated statements of comprehensive income (loss), changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Guelph Municipal Holdings Inc. as at December 31, 2016 and its consolidated results of operations and its consolidated cash flows for the year ended December 31, 2016 in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

May 16, 2017
Waterloo, Canada

GUELPH MUNICIPAL HOLDINGS INC.

Consolidated Balance Sheet

December 31, 2016, with comparative information for 2015
(Expressed in thousands of dollars)

		2016		2015
Assets				
Current assets:				
Cash	$	25,715	$	32,556
Accounts receivable (note 4)		22,541		21,945
Unbilled revenue		14,699		15,284
Income taxes recoverable		2,420		-
Inventory (note 5)		1,898		2,181
Other current assets		670		649
Total current assets		67,943		72,615
Property, plant and equipment (note 6)		160,445		155,713
Intangible assets (note 7)		665		832
Deferred income taxes (note 8)		1,543		5,327
Total non-current assets		162,653		161,872
Total assets	$	230,596	$	234,487

GUELPH MUNICIPAL HOLDINGS INC.

Consolidated Balance Sheet

December 31, 2016, with comparative information for 2015
(Expressed in thousands of dollars)

		2016		2015
Liabilities and Shareholder's Equity				
Current liabilities:				
Accounts payable and accrued liabilities	$	26,722	$	27,440
Provision for liabilities and charges – current portion (note 9)		50		-
Income tax payable		-		4,336
Deferred credits - budget billing		906		858
Customer deposits - current portion (note 10)		3,058		2,651
Total current liabilities		30,736		35,285
Provision for liabilities and charges – long-term portion (note 9)		490		-
Senior unsecured debentures (note 13)		94,283		94,245
Employee future benefits (note 12)		10,297		10,474
Customer deposits - long-term portion (note 10)		5,196		4,506
Deferred revenue		22,472		20,038
Total non-current liabilities		132,738		129,263
Total liabilities		163,474		164,548
Shareholder's equity:				
Share capital (note 19)		67,530		67,530
Accumulated other comprehensive loss		(555)		(933)
Retained earnings		147		3,342
		67,122		69,939
Commitments and contingencies (note 18)				
Guarantees (note 21)				
Total liabilities and shareholder's equity	$	230,596	$	234,487

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

On behalf of the Board:

_________________________ Director

_________________________ Director

GUELPH MUNICIPAL HOLDINGS INC.

Consolidated Statement of Comprehensive Income (Loss)

Year ended December 31, 2016, with comparative information for 2015
(Expressed in thousands of dollars)

	2016	2015
Revenue:		
Electricity sales	$ 245,812	$ 242,665
Other services	858	978
	246,670	243,643
Cost of electricity sold	214,539	201,233
	32,131	42,410
Other operating revenue (note 14)	4,091	3,761
Net operating revenue	36,222	46,171
Expenses:		
Operations and maintenance	13,943	12,379
General and administrative	10,433	14,593
Other provision expense (note 9)	540	-
Impairment of property, plant and equipment	3,255	8,677
	28,171	35,649
Earnings before the undernoted	8,051	10,522
Financial and other expenses (income):		
Interest on notes payable, less amounts capitalized	4,531	3,643
Interest income	(323)	(132)
Other	265	114
	4,473	3,625
Earnings before undernoted	3,578	6,897
Income tax expense (recovery): (note 8)		
Provision for payments in lieu of corporate taxes	1,623	4,485
Deferred income taxes	3,650	(379)
	5,273	4,106
Net earnings (loss) from operations for the year	(1,695)	2,791
Other comprehensive income:		
Actuarial gains on employee future benefit plans	378	-
Total comprehensive income (loss) for the year	$ (1,317)	$ 2,791

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

GUELPH MUNICIPAL HOLDINGS INC.

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

Year ended December 31, 2016, with comparative information for 2015

	Share capital	Accumulated other Comprehensive income (loss)	Retained earnings	Total
Balance at December 31, 2015	$ 67,530	$ (933)	$ 2,051	$ 68,648
Dividends	-	-	(1,500)	(1,500)
Total comprehensive income for the year	-	-	2,791	2,791
Balance at December 31, 2015	67,530	(933)	3,342	69,939
Dividends	-	-	(1,500)	(1,500)
Total comprehensive income (loss) for the year	-	378	(1,695)	(1,317)
Balance, December 31, 2016	$ 67,530	$ (555)	$ 147	$ 67,122

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

GUELPH MUNICIPAL HOLDINGS INC.

Consolidated Statement of Cash Flows

Year ended December 31, 2016, with comparative information for 2015
(Expressed in thousands of dollars)

	2016	2015
Cash flows from operating activities:		
Total comprehensive income (loss) for the year	$ (1,317)	$ 2,791
Adjustments for:		
Income tax expense	5,408	4,106
Depreciation and amortization	7,162	6,972
Impairment of property, plant and equipment	3,255	8,677
Amortization of deferred revenue	(632)	(562)
Interest income	(323)	(132)
Interest expense	4,796	3,757
Gain on disposal of property, plant and equipment	(48)	(31)
	18,301	25,578
Change in:		
Accounts receivables	(596)	(3,293)
Unbilled revenue	585	(4,395)
Inventory	283	(349)
Other current assets	(21)	(22)
Deferred charges	-	40
Accounts payable and accrued liabilities	(718)	2,385
Provision for liabilities and charges	540	-
Deferred credits - budget billing	48	(284)
Employee future benefits	(177)	435
	(56)	(5,483)
Income taxes (paid) refunded	(8,380)	1,556
Net cash from operating activities	9,865	21,651
Cash flows from investing activities:		
Purchase of property, plant and equipment	(14,740)	(19,765)
Purchase of intangible assets	(77)	(602)
Proceeds from disposal of property, plant and equipment	48	42
	(14,769)	(20,325)
Cash flows from financing activities:		
Issuance of long term debentures	-	29,607
Contributions in aid of construction	3,066	5,140
Net change in customer deposits	1,097	(1,294)
Dividends paid	(1,500)	(1,500)
Interest paid	(4,923)	(3,535)
Interest received	323	132
	(1,937)	28,550
Increase (decrease) in cash	(6,841)	29,876
Cash, beginning of year	32,556	2,680
Cash, end of year	$ 25,715	$ 32,556

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

1. Reporting entity:

Guelph Municipal Holdings Inc. (the "Corporation" or "GMHI") is wholly-owned by the City of Guelph. GMHI was incorporated on August 16, 2011 under the laws of the Province of Ontario, Canada. The address of the Corporation's registered office is 395 Southgate Drive, Guelph, Ontario.

As a result of the Corporation's amalgamation with Guelph Hydro Inc. ("GHI") on September 6, 2014, the principal activity of the Corporation, via its wholly-owned subsidiary, Guelph Hydro Electric Systems Inc. ("GHESI"), is to distribute electricity to the residents and businesses in the City of Guelph and the Village of Rockwood under a license issued by the Ontario Energy Board ("OEB"). GHESI is regulated by the OEB and adjustments to GHESI's distribution rates require OEB approval. The Corporation, via its wholly-owned subsidiary, Envida Community Energy Inc. ("Envida"), also as a result of the above noted amalgamation, owns generation assets that produce electricity, and district energy assets that distribute thermal energy.

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

2. Basis of presentation:

(a) Statement of compliance:

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

(b) Approval of the financial statements:

The financial statements were approved by the Board of Directors on May 16, 2017.

(c) Basis of measurement:

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

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

(ii) Contributed assets are initially measured at fair market value.

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

2. Basis of presentation (continued):

(d) Functional and presentation currency:

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

(e) Use of estimates and judgments:

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

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

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

(i) Note 4 and Note 19(a) – Receivables: allowance for impairment

(ii) Note 6 – Property, plant and equipment: impairment, useful lives and the identification of significant components of property, plant and equipment

(iii) Note 8 – Income taxes: utilization of tax losses

(iv) Note 11 – Employee future benefits: measurement of the defined benefit obligation

(v) Note 17 – Commitments and contingencies

(vi) Note 19 – Financial instruments and risk management: valuation of long-term debt.

(f) Rate regulation:

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

GHESI is regulated by the OEB, under the authority granted by the *Ontario Energy Board Act (1988)*. Among other things, the OEB has the power and responsibility to approve or set rates for the transmission and distribution of electricity, to provide continued rate protection for rural and remote electricity consumers, and to ensure that distribution companies fulfill obligations to connect and service customers. In its capacity to approve or set rates, the OEB has the authority to specify regulatory accounting treatments that may differ from IFRS for enterprises operating in a non-rate regulated environment.

2. Basis of presentation (continued):

On August 13, 2015, GHESI filed its 2016 electricity distribution rates application using the OEB's 4th Generation IRM as the basis for its application. The OEB rendered its Decision on December 4, 2015 which approved a distribution rate increase of 1.3% for all customers.

In addition to the distribution rate increase, the OEB approved GHESI's recovery of deferral and variance account balances in the amount of $6.9 million to be recovered over a one-year period. These recoveries relate to past difference between the costs charged by the IESO and Hydro One (including whole market, transmission connection and network, commodity, global adjustment, and low voltage charges) and OEB-approved non-distribution charges billed to GHESI's customers.

On April 24, 2015, GHESI filed a cost of service rate application for its 2016 electricity distribution rates application. The OEB rendered its Decision on November 26, 2015 which approved a distribution rate increase of 4.86% for all customers.

On August 15, 2016, GHESI filed its 2017 electricity distribution rates application using the OEB's 4th Generation IRM as the basis for its application. The OEB rendered its Decision on December 8, 2016 which approved a distribution rate increase of 1.6% for all customers.

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

3. Significant accounting policies:

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

(a) Cash and cash equivalents:

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

(b) Revenue recognition:

Revenue for GHESI is recognized as electricity is delivered to customers and is recorded on the basis of regular meter readings and estimated customer usage since the last meter

3. Significant accounting policies (continued):

(b) Revenue recognition (continued):

reading date to the end of the year. The related cost of power is recorded on the basis of power used.

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

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

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

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

Revenue for Envida is recorded on the basis of regular meter readings recording electricity production at the generation plant and solar energy facilities. In addition, there is a small amount of contracted fixed metered revenue being generated by the district energy business.

(c) Inventory:

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

(d) Property, plant and equipment:

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

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

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

(Expressed in thousands of dollars)

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

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

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

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

Buildings and fixtures	15 - 50 years
Distribution lines	40 - 70 years
Distribution transformers	35 - 55 years
Distribution meters	30 years
Smart meters	15 years
Electricity generation equipment	10 - 15 years
District energy equipment	10 - 50 years
General office equipment	5 - 10 years
Computer equipment	5 years
Major tools	5 - 15 years
Data acquisition system	5 years
Trucks and rolling stock	5 - 10 years
Other capital assets	10 - 45 years

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

(e) Intangible assets:

(i) Computer software:

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

(ii) Land rights:

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

3. Significant accounting policies (continued):

(iii) Amortization:

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

Computer software	5 years

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

(f) Impairment:

(i) Financial assets:

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

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

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

(ii) Non-financial assets:

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

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

3. Significant accounting policies (continued):

discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

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

(g) Provisions:

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

Decommissioning or dismantling:

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

(h) Employee future benefits:

i. Pension plan:

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

ii. Post-employment benefits, other than pension:

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

The cost of these benefits is expensed as earned by employees through employment service. The accrued benefit obligations and the current service costs are actuarially determined by applying the projected unit credit method and reflect management's best

3. Significant accounting policies (continued):

ii. Post-employment benefits, other than pension (continued):

estimate of certain underlying assumptions. Any actuarial gains (losses) will require a re-measurement of the net defined benefit liability or asset and will be recognized as other comprehensive income or loss in the year that it is known.

(i) Deferred revenue and assets transferred from customers:

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

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

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

(j) Leased assets:

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

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

(k) Finance income and finance costs:

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

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

(Expressed in thousands of dollars)

3. Significant accounting policies (continued):

(l) Income taxes:

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

Under the *Electricity Act*, 1998, the Corporation makes payments in lieu of corporate taxes to the OEFC. These payments are calculated in accordance with the rules for computing taxable income and taxable capital and other relevant amounts contained in the *Income Tax Act (Canada)* and the *Corporations Tax Act (Ontario)* as modified by the *Electricity Act, 1998*, and related regulations. Prior to October 1, 2001, the Corporation was not subject to income or capital taxes. Payments in lieu of taxes are referred to as income taxes.

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

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

4. Accounts receivable:

	2016	2015
Revenue	$ 19,916	$ 19,419
Regulatory	842	867
Due from the City of Guelph	1,943	1,894
	22,701	22,180
Less allowance for doubtful accounts	(160)	(235)
	$ 22,541	$ 21,945

5. Inventory:

The amount of inventories consumed by the Corporation and recognized as an expense during 2016 was $252 (2015 - $243).

(Expressed in thousands of dollars)

6. Property, plant and equipment:

(a) Cost or deemed cost:

	Land and buildings	Distribution equipment	Electricity generation equipment	Other fixed assets	Construction -in- Progress	Alternative Energy Projects	Total
Bal. at January 1, 2015	$ 21,904	$ 131,015	$ 830	$ 10,613	$ 6,629	$ 6,666	$ 177,657
Additions	76	6,848	190	1,400	6,484	4,914	19,912
Transfers	-	4,675	-	-	(4,675)	-	-
Disposals/retirements	-	-	-	(112)	-	-	(112)
Impairment of property, plant and equipment	-	-	-	-	-	(8,677)	(8,677)
Bal. at Dec. 31, 2015	$ 21,980	$ 142,538	$ 1,020	$ 11,901	$ 8,438	$ 2,903	$ 188,780

	Land and buildings	Distribution equipment	Electricity generation equipment	Other fixed assets	Construction -in- Progress	Alternative Energy Projects	Total
Bal. at January 1, 2016	$ 21,980	$ 142,538	$ 1,020	$ 11,901	$ 8,438	$ 2,903	$ 188,780
Additions	213	7,915	-	1,407	5,362	8	14,905
Transfers	-	7,362	-	-	(8,439)	1,077	-
Disposals/retirements	-	-	-	(132)	-	-	(132)
Impairment of property, plant and equipment	-	-	-	-	-	(3,255)	(3,255)
Bal. at Dec. 31, 2016	$ 22,193	$ 157,815	$ 1,020	$ 13,176	$ 5,361	$ 733	$ 200,298

(b) Accumulated depreciation:

	Land and buildings	Distribution equipment	Electricity generation equipment	Other fixed assets	Construction -in- Progress	Alternative Energy Projects	Total
Bal. at January 1, 2015	$ 3,153	$ 17,513	$ 414	$ 5,201	$ -	$ 98	$ 26,379
Dep'n charge for the year	807	4,402	104	1,237	-	239	6,789
Disposals/retirements	-	-	-	(101)	-	-	(101)
Bal. at Dec. 31, 2015	$ 3,960	$ 21,915	$ 518	$ 6,337	$ -	$ 337	$ 33,067

(Expressed in thousands of dollars)

6. Property, plant and equipment (continued):

(b) Accumulated depreciation (continued):

	Land and buildings	Distribution equipment	Electricity generation equipment	Other fixed assets	Construction -in- Progress	Alternative Energy Projects	Total
Bal. at January 1, 2016	$ 3,960	$ 21,915	$ 518	$ 6,337	$ -	$ 337	$ 33,067
Dep'n charge for the year	851	4,725	83	1,197	-	62	6,918
Disposals/retirements	-	-	-	(132)	-	-	(132)
Bal. at Dec. 31, 2016	$ 4,811	$ 26,640	$ 601	$ 7,402	$ -	$ 399	$ 39,853

(c) Carrying amounts:

	Land and buildings	Distribution equipment	Electricity generation equipment	Other fixed assets	Construction -in- Progress	Alternative Energy Projects	Total
December 31, 2015	$18,020	$ 120,623	$ 502	$ 5,564	$ 8,438	$ 2,566	$ 155,713
December 31, 2016	17,382	131,175	419	5,774	5,361	334	160,445

(d) Borrowing costs:

During the year, borrowing costs of $165 (2015 - $148) were capitalized as part of the cost of property, plant and equipment.

(e) Allocation of depreciation and amortization:

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

	Cost of electricity sold	Distribution expenses	Administration expenses	Total
December 31, 2015:				
Depreciation of property, plant and equipment	$ -	$ 6,692	$ 97	$ 6,789
Amortization of intangible assets	-	-	183	183
	$	$ 6,692	$ 280	$ 6,972

(Expressed in thousands of dollars)

6. Property, plant and equipment (continued):

e) Allocation of depreciation and amortization (continued):

	Cost of electricity sold	Distribution expenses	Administration expenses	Total
December 31, 2016:				
Depreciation of property, plant and equipment	$ -	$ 6,829	$ 89	$ 6,918
Amortization of intangible assets	-	-	244	244
	$ -	$ 6,829	$ 333	$ 7,162

f) Impairment of fixed assets:

	Cost	Accumulated Depreciation	Total
West End Community Centre	$ 781	$ -	$ $781
Hanlon Creek Business Park	(40)	-	(40)
Galt District Energy System	2,637	123	2,514
Impairment of fixed assets as at December 31, 2016	$ 3,378	$ 123	$ 3,255

	Cost	Accumulated Depreciation	Total
Hanlon Creek Business Park	$ 5,170	$ 116	$ 5,054
Galt District Energy System	3,776	153	3,623
Impairment of fixed assets as at December 31, 2015	$ 8,946	$ 269	$ 8,677

(i) Assessment:

At December 31, 2015 and 2016, due to continuing negative business segment cash flows, poor economic performance and the re-evaluation of its business contracts, the Company determined that these financial impairment triggers were present on its district energy cash generating units (DE CGU's). The Company tested its DE CGU's for impairment. The

(Expressed in thousands of dollars)

6. Property, plant and equipment (continued):

recoverable amounts of the Company's DE CGU's were estimated as the value-in-use based on the net present value of the before-tax cash flows from DE operations. The cash inflows were estimated using the remaining contract periods for current customers. The cash outflows were projected for the remaining contract periods based on the Company's detailed business plan for this business segment for the 2017 year.

In determining the appropriate discount rate of 4.26% (2015 - 4.17%), the Company applied the long-term Bank of Canada Bond rate of 2.41% (2015 - 2.32%) as the risk free rate and included an additional 1.85% (2015 - 1.85%) premium to reflect an appropriate risk factor related to future cash flows.

(ii) Results of 2016 assessment:
At December 31, 2016 it was determined that the net book value of the Company's DE CGUs exceeded the recoverable amount and the Company recognized $3,255 (2015 - $8,677) in impairment charges.

7. Intangible assets:

(a) Cost or deemed cost:

	Computer software	Land rights	Total
Balance at January 1, 2015	$ 615	$ 25	$ 640
Additions in 2015	602	-	602
Balance at December 31, 2015	1,217	25	1,242
Additions in 2016	76	-	76
Balance at December 31, 2016	$ 1,293	$ 25	$ 1,318

(b) Accumulated amortization:

	Computer software	Land rights	Total
Balance at January 1, 2015	$ 227	$ -	$ 227
Amortization charges in 2015	183	-	183
Balance at December 31, 2015	410	-	410
Amortization charges in 2016	243	-	243
Balance at December 31, 2016	$ 653	$ -	$ 653

(Expressed in thousands of dollars)

7. Intangible assets (continued):

(c) Carrying amounts:

		Computer software		Land rights		Total
Balance at December 31, 2015	$	807	$	25	$	832
Balance at December 31, 2016	$	640	$	25	$	665

8. Income taxes:

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

		2016		2015
Basic rate applied to earnings before income tax	$	1,095	$	1,828
Increase (decrease) in income tax resulting from:				
Losses not recognized for tax		971		2,501
Adjustment to prior year's taxes		82		(223)
Valuation allowance on deferred tax asset		3,125		-
Income tax expense	$	5,273	$	4,106
Effective rate applied to profit before income taxes		52.0%		59.5%

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

		2016		2015
Deferred tax assets (liabilities):				
Property, plant and equipment	$	(7,591)	$	(6,215)
Cumulative eligible capital		603		648
Employee benefits		2,729		2,776
Deferred Revenue – Contributed Capital		5,955		5,310
Non-capital loss carry forwards		2,972		2,808
Valuation allowance on deferred tax asset		(3,125)		-
Net deferred tax asset	$	1,543	$	5,327

At December 31, 2016, based on substantively enacted income tax rates, deferred tax assets of $2,054 (2015 - $1,945) have not been recorded. These deferred tax assets relate to tax bases of

(Expressed in thousands of dollars)

8. Income taxes (continued):

depreciable capital assets and employee future benefits in excess of amounts recorded for accounting purposes. Such deferred tax assets have not been recorded in the accounts as there is uncertainty as to whether the Corporation will realize the benefits related to these assets which would be realized as relatively modest reductions of future tax liability over many future years.

At December 31, 2016, a deferred tax asset of $1,543 (2015 - $5,327) has been recorded. The utilization of this tax asset is dependent on future taxable profits in excess of profits arising from the reversal of existing taxable temporary differences.

9. Provision for liabilities and charges

Opening balance, January 1, 2016	$	-
Additions		540
Closing balance, December 31, 2016		540
Less: current portion		(50)
Provision for liabilities and charges, long-term	$	490

The onerous contract provision is discounted. No provision has been released or utilized.

The onerous contract provision relates to the Hanlon Creek Business Park system.

The provision is expected to be utilized over the next 18 years.

10. Customer deposits:

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

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

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

Customer deposits comprise:

		2016		2015
Customer deposits	$	3,260	$	2,504
Construction deposits		4,994		4,653
Total customer deposits	$	8,254	$	7,157

(Expressed in thousands of dollars)

11. Pension agreement:

The Corporation provides a pension plan for its employees through the Ontario Municipal Employees Retirement System ("OMERS"). OMERS is a multi-employer pension plan which operates as the Ontario Municipal Employee Retirement Fund (the "Fund") and provides pensions for employees of Ontario municipalities and public utilities. The Fund is a contributory defined benefit pension plan, which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund. The Corporation uses defined contribution plan accounting as it is only liable for contributions to the Plan. The Corporation's contribution for employees' current service for the year ended December 31, 2016 was $1,161 (2015 - $1,096).

12. Employee future benefits:

Components of employee future benefits recognized are as follows:

	2016	2015
Post-retirement benefits - accrued benefit liability, as previously reported	$ 9,764	$ 9,814
Accrued sick leave benefit	533	660
	$ 10,297	$ 10,474

Post-retirement benefits:

The Corporation pays certain medical and life insurance benefits on behalf of some of its retired employees. The Corporation recognizes these post-retirement costs in the period in which employees' services were rendered. The accrued benefit liability at December 31, 2016 of $9,814 was based on an actuarial valuation completed in 2015 using a discount rate of 4.05%. The restated accrued benefit liability at December 31, 2015 of $9,359 (previously reported to be $7,929) and the expense for the year ended December 31, 2015, were based on an actuarial valuation completed in 2015, using a discount rate of 4.05%.

(Expressed in thousands of dollars)

12. Employee future benefits (continued):

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

		2016		2015
Defined benefit obligation, beginning of year	$	9,814	$	9,359
Current service cost		285		273
Interest cost		393		374
Re-measurement of obligation		(513)		-
Benefits paid during the year		(215)		(192)
Accrued benefit liability, end of year	$	9,764	$	9,814

Components of net benefit expense recognized are as follows:

		2016		2015
Current service cost	$	285	$	273
Interest cost		393		374
Net benefit expense recognized	$	678	$	647

In 2016, $475 of the corporation's net benefit costs were charged as an operational expense and the remaining $203 was capitalized. In 2015, $647 of the corporation's net benefit costs were charged as an operational expense.

(Expressed in thousands of dollars)

12. Employee future benefits (continued):

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

	2016	2015
Accrued benefit obligation:		
Discount rate	3.90%	4.05%
Benefit cost for the year:		
Withdrawal rate	1%	1%
Assumed health care cost trend rates:		
Initial health care cost trend rate	5%	5%
2018 and thereafter	6%	6%

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

	Defined Benefit Obligation	Periodic Benefit Cost
1% increase in health care trend rate	$ 9,841	$ 11,542
1% decrease in health care trend rate	8,467	8,348

Historical information

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

	2016	2015
Defined benefit obligation	$ 9,764	$ 9,814
Experience adjustments	513	-

12. Employee future benefits (continued):

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

General inflation - future general inflation levels, as measured by the changes in the Consumer Price Index, were assumed 2.0% in 2016, and thereafter (2015 - 2.0%).

Discount (interest) rate - the discount rate used to determine the present value of future liabilities and the expense for the year ended December 31, 2016, was 3.90% (2015 - 4.05%).

Historical information

Salary levels - future general salary and wage levels were assumed to increase at 3.3% (2015 - 3.3%) per annum.

Medical costs - medical costs were assumed to increase 5% for 2016, 5% for 2017, and 6% thereafter.

Dental costs - dental costs were assumed to increase 5% for 2016, 5% for 2017, and 6% thereafter.

Accrued sick leave benefit:

The Corporation allows regular employees the equivalent of one and one-half days per month sick time credit to be applied in case of illnesses or accidents not covered by Workers' Compensation. A maximum of eighteen days sick time credit is accrued to each employee's credit each year and is reduced by the amount of sick time utilized each year. At the end of the year, the remaining credit, if any, is added to each employee's sick time credit accumulation. Employees can accumulate sick time credit up to a capped amount of 200 days with the following exception. Any employee on payroll at the date the cap went into effect (May 2, 2013), did not lose any credit for accumulated sick time exceeding 200 days. These employees had their sick time capped individually at the level of the sick time accumulation accrued when the cap came into effect. Any unused sick time credit is forfeited when employment ceases with the Corporation. As at December 31, 2016, the estimated value of the expected future payments to be made because of unused sick time credits amounts to $533 (2015 - $660).

(Expressed in thousands of dollars)

13. Long-term debt:

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

On May 17, 2015, Envida elected to retire its loan payable to the Federation of Canadian Municipalities which had a maturity date of June 30, 2018 and which bore interest at a rate of 2.37%. In addition to repaying the outstanding principal of $825, Envida also paid an early payment penalty of $17 plus accrued interest since the last interest payment of $7. In order to make this lump sum payment, Envida replaced this loan payable with a promissory note from its parent company Guelph Municipal Holdings Inc.

b) Senior unsecured debentures

The Series "A" senior unsecured debentures have a maturity date of December 6, 2030 and have an interest rate of 5.264% per annum. Interest is payable in equal semi-annual installments, in arrears, on June 6 and December 6 each year commencing June 6, 2015 until maturity. The debentures were issued on December 6, 2013. The debentures are represented by a single Global Debenture Certificate registered in the name of CDS & Co. In order to put the debentures in place, the Corporation incurred debt issuance costs in the amount of $500.

The Series "B" senior unsecured debentures have a maturity date of September 25, 2045 and have an interest rate of 4.121% per annum. Interest is payable in equal semi-annual installments, in arrears, on March 25 and September 25 each year commencing March 25, 2016 until maturity. The debentures were issued on September 25, 2016. The debentures are represented by a single Global Debenture Certificate registered in the name of CDS & Co. In order to put the debentures in place, the Corporation incurred debt issuance costs in the amount of $393.

	2016	2015
Senior unsecured debentures, maturity 2030	$ 65,000	$ 65,000
Senior unsecured debentures, maturity 2045	30,000	30,000
Less: cost of debt issuance	(717)	(755)
Senior unsecured debentures, net proceeds	$ 94,283	$ 94,245

(Expressed in thousands of dollars)

14. Other income:

Other income comprises:

		2016		2015
Late payment charges	$	163	$	152
Pole and other rental income		332		432
Collection and other service charges		447		410
Waterworks revenue		1,419		1,244
Storm water revenue		188		-
Customer contributions		632		562
Shared Services		159		-
Conservation and Demand Management Performance Bonus		630		-
Miscellaneous		121		961
Total other income	$	4,091	$	3,761

15. Employee benefits:

		2016		2015
Salaries and wages	$	9,585	$	10,916
Contributions to multi-employer plan		1,161		1,096
Expenses related to defined benefit plans		678		647
	$	11,424	$	12,659

16. Finance income and expense:

		2016		2015
Interest income on bank deposits	$	(323)	$	(132)
Finance income		(323)		(132)
Interest expense on long-term debt		4,696		3,794
Interest adjustment re: capitalized borrowing costs		(165)		(148)
Interest expense on deposits		31		32
Other		234		79
		4,796		3,757
Net finance costs recognized in profit or loss	$	4,473	$	3,625

(Expressed in thousands of dollars)

17. Related party transactions:

a) Parent and ultimate controlling party:

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

b) Key management personnel:

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

	2016	2015
Directors' fees	$ 119	$ 181
Salaries and other short-term benefits	3,561	3,348
Post-employment benefits	57	48
	$ 3,737	$ 3,577

c) Transactions with ultimate parent (the City):

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

	2016	2015
Revenue:		
Energy sales (at commercial rates)	$ 9,047	$ 8,245
Energy sales (solar & district energy)	95	195
Waterworks revenue	1,419	1,243
Storm water revenue	188	-
Street light maintenance	380	353
Expenses:		
Subcontracting	5	7
Rent, percentage rent, land lease	56	53
Property taxes	355	327
Balances:		
Accounts receivable	1,943	1,894
Accounts payable and accrued charges	117	53

17. Related party transactions (continued):

d) Transactions with subsidiaries of the City:

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

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

18. Commitments and contingencies:

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

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

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

(a) $5 in advance of each fiscal year, for the use of the lands and access lands; and

(b) An amount for the cubic feet of landfill gas used by Envida for the preceding fiscal year based on a rate agreed upon at the time of signing the agreement adjusted annually by the Consumer Price Index – Ontario.

(c) A percentage rent based on 20% (2015 – 20% amended from 10%) of the difference between gross revenues arising from the sale of electricity and the value of electricity generated at a rate of $57/MWh. In 2016, the amount incurred was $17 (2015 -$21 amended from $11).

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

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

(Expressed in thousands of dollars)

18. Commitments and contingencies (continued):

The Corporation is a member of the Municipal Electric Association Reciprocal Insurance Exchange (MEARIE). MEARIE is a pooling of property, casualty, and vehicle risks of many of the electrical utilities in Ontario. All members of the pool could potentially be subjected to an assessment for losses experienced by the pool for the years in which they were members on a pro-rata basis based on the total of their respective service revenues. It is anticipated that should such an assessment occur it would be funded over a period of up to 5 years. As at December 31, 2016, no assessments have been made.

19. Share capital:

	2016	2015
Authorized:		
Unlimited number of common shares		
Issued:		
67,530 common shares	$ 67,530	$ 67,530

20. Financial instruments and risk management:

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

The fair value of the $65,000 Series "A" unsecured debenture at December 31, 2016 was $73,612 (2015 - $73,068) and the fair value of the Series "B" $30,000 unsecured debenture at December 31, 2016 was $30,044. The fair value is calculated based on the present value of future principal and interest cash flows, discounted at the current rate of interest at the reporting date. The interest rate used to calculate fair value at December 31, 2016 was 4.012% (2015 – 4.140%) on the $65,000 debenture and was 4.112% (2015 – 4.190%) on the $30,000 debenture.

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

a) Credit risk:

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

20. Financial instruments and risk management (continued):

The carrying amount of accounts receivable is reduced through the use of an allowance for impairment and the amount of the related impairment loss is recognized in the income statement. Subsequent recoveries of receivables previously provisioned are credited to the income statement. The balance of the allowance for impairment at December 31, 2016 is $160 (2015 - $235). An impairment loss of $59 (2015 - $142) was recognized during the year. The Corporation's credit risk associated with accounts receivable is primarily related to payments from distribution customers. At December 31, 2016, approximately $232 (2015 - $327) is considered 60 days past due. The Corporation has approximately 54 thousand customers, the majority of which are residential. Credit risk is managed through collection of security deposits from customers in accordance with directions provided by the OEB. As at December 31, 2016, the Corporation held security deposits in the amount of $4,993 (2015 - $4,653).

b) Market risk:

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

A 1% increase in the interest rate at December 31, 2016 would have increased interest expense on the long-term debt by $950 (2015 - $950), assuming all other variables remain constant. A 1% decrease in the interest rate would have an equal but opposite effect.

(c) Liquidity risk:

The Corporation monitors its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The Corporation's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest exposure. As at December 31, 2016, the Corporation, through its parent company Guelph Municipal Holdings Inc. Centralized Banking Agreement, had access to a $20,000 credit facility. The Corporation monitors cash balances daily to ensure that a sufficient level of liquidity is on hand to meet financial commitments as they come due. As at December 31, 2016, no amounts had been drawn under this $20,000 credit facility (2015 - $20,000).

As part of the $20,000 credit facility, The Corporation has a bilateral facility for $5,000 (the "LC" facility) for the purpose of issuing letters of credit mainly to support the prudential requirements of the IESO, of which $4,000 has been drawn and posted with the IESO (2015 - $4,000).

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

20. Financial instruments and risk management (continued):

(d) Capital disclosures:

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

The Corporation's definition of capital includes shareholder's equity and long-term debt. As at December 31, 2016, shareholder's equity amounts to $67,122 (2015 - $69,939) and long-term debt amounts to $94,283 (2015 - $94,245).

21. Guarantees:

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

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

GUELPH MUNICIPAL HOLDINGS INC.
Non-Consolidated Balance Sheet

December 31, 2016 with comparative for 2015
(Expressed in thousands of dollars)

	IFRS 2016	2015
ASSETS		
Current Assets:		
Cash	$ 1,448	$ -
Accounts receivable	238	222
Other current assets	2	38
Due from related parties	1,825	2,539
Intercompany promissory note-current	1,837	178
Total current assets	5,350	2,977
Long-Term Assets:		
Long-term investment	53,870	53,870
Construction in progress	-	1,077
Intangible assets	24	24
Intercompany long-term loan receivable	8,969	10,791
Deferred income taxes	-	2,963
Total long-term assets	62,863	68,725
Total Assets	$ 68,213	$ 71,702
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current Liabilities:		
Bank indebtedness	$ -	$ 265
RBC Term Loan - Current	1,736	1,800
Accounts payable and accrued liabilities	114	1,021
Restricted cash	1,005	932
Total current liabilities	2,855	4,018
Total Liabilities	2,855	4,018
Shareholder's equity:		
Share capital	67,530	67,530
Retained earnings	(2,172)	154
	65,358	67,684
Total Liabilities and Shareholder's Equity	$ 68,213	$ 71,702

GUELPH MUNICIPAL HOLDINGS INC.

Statement of Comprehensive Income

Period Ended December 31, 2016, with comparative information for 2015
(Expressed in thousands of dollars)

	2016 ACTUAL	IFRS 2016 BUDGET	2015 ACTUAL
Revenues:			
Intercompany services	$ 349	$ 799	$ 799
Interest income	-	152	29
Interest income-intercompany	42	-	200
Dividend income	3,000	3,000	3,000
Other income	-	-	1
Total operating income	3,391	3,951	4,029
Expenses:			
Board of Directors	59	149	122
General administration	176	240	340
Human resources	615	1,152	2,312
Intercompany fees	267	616	435
Business development	24	-	809
Total administration expenses	1,141	2,157	4,018
Income before the undernoted	2,250	1,794	11
Financial and other expenses:			
Interest expense	113	-	19
	2,137	1,794	(8)
Income tax expense (recovery):			
Provision for payments in lieu of corporate taxes	(162)	(320)	(773)
Deferred income taxes	3,125	-	-
	2,963	(320)	(773)
Total comprehensive income (loss) for the year	$ (826)	$ 2,114	$ 765

GUELPH MUNICIPAL HOLDINGS INC.
Statement of Changes in Equity

Period Ended December 31, 2016, with comparative information for 2015
(In thousands of Canadian dollars)

	Share Capital	Retained Earnings	Total
Balance at December 31, 2014	67,530	154	67,684
Dividends	-	(1,500)	(1,500)
Total comprehensive loss for the year	-	(826)	(826)
Balance, December 31, 2016	$ 67,530	$ (2,172)	$ 65,358

GUELPH MUNICIPAL HOLDINGS INC.

Statement of Cash Flows

Period Ended December 31, 2016, with comparative information for 2015
(Expressed in thousands of dollars)

	IFRS 2016	IFRS 2015
Cash flows from operating activities:		
Total comprehensive income (loss) for the year	$ (826)	$ 765
Adjustments for:		
Income tax expense (recovery)	2,963	(773)
Interest income	(42)	(229)
Interest expense	113	13
	2,208	(224)
Change in:		
Receivables	(17)	389
Other current assets	36	(19)
Accounts payable and accrued liabilities	(897)	1,975
	(878)	2,345
Net cash from operating activities	1,330	2,121
Cash flows from investing activvties:		
Purchase of property, plant and equipment	-	878
Sale on price of fixed assets transferred to related party	1,077	-
Investment in subsidiary to fund capital projects	-	(9,122)
Net cash from investing activities	1,077	(8,244)
Cash flows from financing activties:		
Change in amounts due to related parties	777	4,035
Interest received	42	229
Interest paid	(113)	40
Received (paid) on intercompany term loan	100	-
Dividends paid	(1,500)	(1,500)
Net cash from financing activities	(694)	2,804
Increase (decrease) in cash	1,713	(3,319)
Cash / (bank indebtedness), beginning of year	(265)	3,054
Cash / (bank indebtedness), end of year	$ 1,448	$ (265)

Financial Statements of

GUELPH HYDRO ELECTRIC SYSTEMS INC.

Year ended December 31, 2016
(Expressed in thousands of dollars)

KPMG LLP
115 King Street South
2nd Floor
Waterloo ON N2J 5A3
Canada
Tel 519 747-8800
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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Guelph Hydro Electric Systems Inc.

We have audited the accompanying financial statements of Guelph Hydro Electric Systems Inc., which comprise the statement of financial position as at December 31, 2016, the statements 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.

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 Hydro Electric Systems Inc. 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.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

April 26, 2017
Waterloo, Canada

GUELPH HYDRO ELECTRIC SYSTEMS INC.

Balance Sheet

December 31, 2016, with comparative information for 2015
(Expressed in thousands of dollars)

		2016		2015
Assets				
Current assets:				
Cash	$	23,935	$	32,380
Accounts receivable (note 4)		22,096		21,508
Unbilled revenue		14,699		15,284
Income taxes recoverable		2,420		-
Inventory (note 5)		1,898		2,181
Other current assets		626		558
Due to related parties		1,579		-
Total current assets		67,253		71,911
Property, plant and equipment (note 6)		158,944		150,634
Intangible assets (note 7)		641		807
Deferred income taxes (note 8)		1,542		2,364
Total non-current assets		161,127		153,805
Total assets	$	228,380	$	225,716

GUELPH HYDRO ELECTRIC SYSTEMS INC.

Balance Sheet

December 31, 2016, with comparative information for 2015
(Expressed in thousands of dollars)

Liabilities and Shareholder's Equity

		2016		2015
Current liabilities:				
Accounts payable and accrued liabilities	$	23,436	$	23,425
Income taxes payable		-		4,336
Deferred credits - budget billing		906		858
Customer deposits - current portion (note 9)		3,058		2,651
Due to related parties		-		500
Total current liabilities		27,400		31,770
Senior unsecured debentures (note 12)		94,283		94,245
Employee future benefits (note 11)		10,297		10,474
Customer deposits - long-term portion (note 9)		5,196		4,506
Deferred revenue		22,472		20,038
Total non-current liabilities		132,248		129,263
Total liabilities		159,648		161,033
Shareholder's equity:				
Share capital (note 18)		43,374		43,374
Accumulated other comprehensive loss		(555)		(933)
Retained earnings		25,913		22,242
		68,732		64,683
Commitments and contingencies (note 17)				
Guarantees (note 21)				
	$	228,380	$	225,716

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

On behalf of the Board:

_________________________ Director

_________________________ Director

GUELPH HYDRO ELECTRIC SYSTEMS INC.

Statement of Comprehensive Income

Year ended December 31, 2016, with comparative information for 2015
(Expressed in thousands of dollars)

	2016	2015
Electricity sales	$ 245,812	$ 242,665
Cost of electricity sold	214,504	201,196
	31,308	41,469
Other operating revenue (note 13)	4,668	3,760
Net operating revenue	35,976	45,229
Expenses:		
Operations and maintenance	12,921	12,118
General and administrative	9,716	10,186
	22,637	22,304
Earnings before the undernoted	13,339	22,925
Financial and other expenses (income):		
Interest on notes payable, less amounts capitalized	4,531	3,643
Interest income	(323)	(121)
Other	150	80
	4,358	3,602
Earnings from operations before income taxes	8,981	19,323
Income taxes (note 8):		
Provision for payments in lieu of corporate taxes	1,623	4,485
Deferred income taxes	687	394
	2,310	4,879
Net earnings from operations for the year	6,671	14,444
Other comprehensive income:		
Actuarial gains on employee future benefit plan	378	-
Total comprehensive income for the year	$ 7,049	$ 14,444

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

GUELPH HYDRO ELECTRIC SYSTEMS INC.

Statement of Changes in Equity
(In thousands of Canadian dollars)

Year ended December 31, 2016, with comparative information for 2015

	Share capital	Accumulated other comprehensive income (loss)	Retained earnings	Total
Balance at December 31, 2013	43,374	(933)	10,798	53,239
Dividends			(3,000)	(3,000)
Total comprehensive income for the year			14,444	14,444
Balance at December 31, 2015	43,374	(933)	22,242	64,683
Dividends			(3,000)	(3,000)
Total comprehensive income for the year		378	6,671	7,049
Balance, December 31, 2016	$ 43,374	$ (555)	$ 25,913	$ 68,732

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

GUELPH HYDRO ELECTRIC SYSTEMS INC.

Statement of Cash Flows

Year ended December 31, 2016, with comparative information for 2015
(Expressed in thousands of dollars)

	2016	2015
Cash flows from operating activities:		
Total Comprehensive income for the year	$ 7,049	$ 14,444
Adjustments for:		
Income tax expense	2,445	4,879
Depreciation and amortization	6,831	6,480
Amortization of deferred revenue	(632)	(562)
Interest income	(323)	(96)
Interest expense	4,681	3,723
Gain on disposal of property, plant and equipment	(48)	(31)
	20,003	28,837
Change in:		
Receivables	(588)	(3,620)
Unbilled revenue	585	(4,395)
Inventory	283	(349)
Other current assets	(68)	(6)
Accounts payable and accrued liabilities	11	538
Deferred credits - budget billing	48	(284)
Employee future benefits	(177)	434
	94	(7,682)
Income taxes (paid) refunded	(8,379)	1,556
Net cash from operating activities	11,718	22,711
Cash flows from investing activities:		
Purchase of property, plant and equipment	(14,733)	(15,517)
Purchase of intangible assets	(77)	(602)
Proceeds from disposal of property, plant and equipment	48	42
	(14,762)	(16,077)
Cash flows from financing activities:		
Issuance of long term debentures	-	29,607
Contributions in aid of construction	3,066	5,140
Net change in customer deposits	1,097	(1,294)
Dividends paid	(3,000)	(3,000)
Interest received	323	96
Interest paid	(4,808)	(3,502)
Change in amounts due to related parties	(2,079)	(211)
	(5,401)	26,836
Increase (decrease) in cash	(8,445)	33,470
Cash / (bank indebtedness), beginning of year	32,380	(1,090)
Cash, end of year	$ 23,935	$ 32,380

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

1. Reporting entity:

Guelph Hydro Electric Systems Inc. (the “Corporation” or “GHESI”) became a wholly-owned subsidiary of Guelph Municipal Holdings Inc. (“GMHI”) on September 6, 2015 when GMHI amalgamated with Guelph Hydro Inc. (“GHI”). GMHI is a wholly-owned subsidiary of the City of Guelph. GHESI was incorporated on October 31, 2000 under the laws of the Province of Ontario, Canada. The address of the Corporation’s registered office is 395 Southgate Drive, Guelph, Ontario.

The principal activity of the Corporation is to distribute electricity to the residents and businesses in the City of Guelph and the Village of Rockwood, under a license issued by the Ontario Energy Board (“OEB”). The Corporation is regulated by the OEB and adjustments to the Corporation’s distribution rates require OEB approval.

2. Basis of presentation:

(a) Statement of compliance:

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

(b) Approval of the financial statements:

The financial statements were approved by the Board of Directors on April 26, 2017.

(c) Basis of measurement:

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

(i) Where held, financial instruments at fair value through profit or loss, including those held for trading, are measured at fair value.

(ii) Contributed assets are initially measured at fair value.

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

(d) Functional and presentation currency:

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

2. Basis of presentation (continued):

(e) Use of estimates and judgments:

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and will affect any future period going forward

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

(i) Note 4 and note 20(a) - Receivables: allowance for impairment.
(ii) Note 6 - Property, plant and equipment: useful lives and the identification of significant components of property, plant and equipment.
(iii) Note 11 - Employee future benefits: measurement of the defined benefit obligation.
(iv) Note 19 - Financial instruments and risk management: valuation of long-term debt.

f) Rate regulation:

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

The Corporation is regulated by the OEB, under the authority granted by the *Ontario Energy Board Act (1988)*. Among other things, the OEB has the power and responsibility to approve or set rates for the transmission and distribution of electricity, providing continued rate protection for rural and remote electricity consumers, and ensuring that distribution companies fulfill obligations to connect and service customers. In its capacity to approve or set rates, the OEB has the authority to specify regulatory accounting treatments that may differ from IFRS for enterprises operating in a non-rate regulated environment.

On August 13, 2014, GHESI filed its 2015 electricity distribution rates application using the OEB's 4th Generation IRM as the basis for its application. The OEB rendered its Decision on December 4, 2014 which approved a distribution rate increase of 1.3% for all customers.

2. Basis of presentation (continued):

f) Rate Regulation (continued):

In addition to the distribution rate increase, the OEB approved GHESI's recovery of deferral and variance account balances in the amount of $6.9 million to be recovered over a one-year period. These recoveries relate to past difference between the costs charged by the IESO and Hydro One (including whole market, transmission connection and network, commodity, global adjustment, and low voltage charges) and OEB-approved non-distribution charges billed to GHESI's customers.

On April 24, 2015, GHESI filed a cost of service rate application for its 2016 electricity distribution rates application. The OEB rendered its Decision on November 26, 2015 which approved a distribution rate increase of 4.86% for all customers.

On August 15, 2016, GHESI filed its 2017 electricity distribution rates application using the OEB's 4th Generation IRM as the basis for its application. The OEB rendered its Decision on December 8, 2016 which approved a distribution rate increase of 1.6% for all customers.

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

3. Significant accounting policies:

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

(a) Cash and cash equivalents:

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

(b) Revenue recognition:

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

The Corporation is licensed by the OEB to distribute electricity. As a licensed distributor, the Corporation is responsible for billing customers for electricity generated by third parties and the related costs of providing electricity service, such as transmission services and other services

3. Significant accounting policies (continued):

b) Revenue recognition (continued):

provided by third parties. The Corporation is required, pursuant to regulation, to remit such amounts to these third parties, irrespective of whether the Corporation ultimately collects these amounts from customers. The Corporation has determined that it is acting as a principal for electricity distribution and, therefore, has presented electricity revenue on a gross basis.

Customer billings for debt retirement charges are recorded on a net basis as the Corporation is acting as an agent for this revenue stream. The Corporation may file to recover uncollected debt retirement charges from Ontario Electricity Financial Corporation (“OEFC”) once each year.

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

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

(c) Inventory:

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

(d) Property, plant and equipment:

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

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

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

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

The cost of replacing a part of an item of property, plant and equipment is recognized in the net book value of the item if it is probable that the future economic benefits embodied within the part will flow to the Corporation and its cost can be measured reliably.

(Expressed in thousands of dollars)

3. Significant accounting policies (continued):

(d) Property, plant and equipment (continued)

In this event, the replaced part of property, plant and equipment is written off, and the related gain or loss is included in profit or loss. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

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

The estimated useful lives are as follows:

Buildings and fixtures	15 - 50 years
Distribution lines	40 – 70 years
Distribution transformers	35 – 55 years
Distribution meters	30 years
Smart meters	15 years
General office equipment	5 - 10 years
Computer equipment	5 years
Major tools	5 - 15 years
Data acquisition system	5 years
Trucks and rolling stock	5 - 10 years
Other capital assets	10 - 25 years

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

(e) Intangible assets:

(i) Computer software:

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

(ii) Land rights:

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

3. Significant accounting policies (continued):

(e) Intangible assets (continued):

(iii) Amortization:

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

The estimated useful lives for the current and comparative years are:

Computer software	5 years

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

(f) Impairment:

(i) Financial assets:

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

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

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

(ii) Non-financial assets:

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

3. Significant accounting policies (continued):

(f) Impairment (continued):

(iii) Non-financial assets (continued):

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

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

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

(g) Provisions:

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

Decommissioning or dismantling:

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

3. Significant accounting policies (continued):

(h) Employee future benefits:

(i) Pension plan:

The Corporation provides a pension plan for all its full-time employees through Ontario Municipal Employees Retirement System (“OMERS”). OMERS is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund (“the Fund”), and provides pensions for employees of Ontario municipalities, local boards and public utilities. The Fund is a contributory defined benefit pension plan, which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund. To the extent that the Fund finds itself in an under-funded position, additional contribution rates may be assessed to participating employers and members. In this case, GHESI and its employees could face the prospect of higher contributions until the funded status of the Fund is restored. GHESI may only fully recover additional contribution amounts in distribution rates if increased contribution rates are factored into GHESI’s rebasing rates applications before the OEB.

(i) Post-employment benefits, other than pension:

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

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

(i) Deferred revenue and assets transferred from customers:

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

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

3. Significant accounting policies (continued):

(i) Deferred revenue and assets transferred from customers (continued):

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

(j) Leased assets:

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

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

(k) Finance income and finance costs:

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

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

(l) Income taxes:

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

Under the *Electricity Act, 1998*, the Corporation makes payments in lieu of corporate taxes to the OEFC. These payments are calculated in accordance with the rules for computing taxable income and taxable capital and other relevant amounts contained in the *Income Tax Act (Canada) and the Corporations Tax Act (Ontario)* as modified by the *Electricity Act, 1998*, and related regulations. Prior to October 1, 2001, the Corporation was not subject to income or capital taxes. Payments in lieu of taxes are referred to as income taxes.

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

(Expressed in thousands of dollars)

3. Significant accounting policies (continued):

(l) Income taxes (continued):

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

4. Accounts receivable:

	2016	2015
Revenue	$ 19,471	$ 18,981
Regulatory	842	868
Due from the City of Guelph	1,943	1,894
	22,256	21,743
Less allowance for doubtful accounts	(160)	(235)
	$ 22,096	$ 21,508

5. Inventory:

The amount of inventories consumed by the Corporation and recognized as an expense during 2016 was $252 (2015 - $243).

(Expressed in thousands of dollars)

6. Property, plant and equipment:

(a) Cost or deemed cost:

	Land and buildings	Distribution equipment	Other fixed assets	Construction -in- Progress	Total
Balance at January 1, 2015	$ 20,958	$ 131,008	$ 10,094	$ 4,675	$ 166,735
Additions	75	6,848	1,380	7,362	15,665
Transfers	-	4,675	-	(4,675)	-
Disposals/retirements	-	-	(112)	-	(112)
Balance at December 31, 2015	$ 21,033	$ 142,531	$ 11,362	$ 7,362	$ 182,288

	Land and buildings	Distribution equipment	Other fixed assets	Construction -in- Progress	Total
Balance at January 1, 2016	$ 21,033	$ 142,531	$ 11,362	$ 7,362	$ 182,288
Additions	213	7,915	1,407	5,362	14,897
Transfers	-	7,362	-	(7,362)	-
Disposals/retirements	-	-	(132)	-	(132)
Balance at December 31, 2016	$ 21,246	$ 157,808	$ 12,637	$ 5,362	$ 197,053

(b) Accumulated depreciation:

	Land and buildings	Distribution equipment	Other fixed assets	Construction -in- Progress	Total
Balance at January 1, 2015	$ 2,685	$ 17,513	$ 5,260	$ -	$ 25,458
Depreciation charge for the year	712	4,402	1,183	-	6,297
Disposals/retirements	-	-	(101)	-	(101)
Balance at December 31, 2015	$ 3,397	$ 21,915	$ 6,342	$ -	$ 31,654

	Land and buildings	Distribution equipment	Other fixed assets	Construction -in- Progress	Total
Balance at January 1, 2016	$ 3,397	$ 21,915	$ 6,342	$ -	$ 31,654
Depreciation charge for the year	718	4,725	1,144	-	6,587
Disposals/retirements	-	-	(132)	-	(132)
Balance at December 31, 2016	$ 4,115	$ 26,640	$ 7,354	$ -	$ 38,109

(Expressed in thousands of dollars)

6. Property, plant and equipment (continued):

(c) Carrying amounts:

	Land and buildings	Distribution equipment	Other fixed assets	Construction -in- Progress	Total
December 31, 2015	$ 17,636	$ 120,616	$ 5,020	$ 7,362	$ 150,634
December 31, 2016	17,131	131,168	5,283	5,362	158,944

(d) Borrowing costs:

During the year, borrowing costs of $165 (2015 - $148) were capitalized as part of the cost of property, plant and equipment.

(e) Allocation of depreciation and amortization:

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

	Distribution expenses	Administration expenses	Total
December 31, 2015:			
Depreciation of property, plant and equipment	$ 6,199	$ 98	$ 6,297
Amortization of intangible assets	-	183	183
	$ 6,199	$ 281	$ 6,480
December 31, 2016:			
Depreciation of property, plant and equipment	$ 6,498	$ 89	$ 6,587
Amortization of intangible assets	-	244	244
	$ 6,498	$ 333	$ 6,831

(Expressed in thousands of dollars)

7. Intangible assets:

(a) Cost or deemed cost:

	Computer software
Balance at January 1, 2015	$ 614
Additions in 2015	602
Balance at December 31, 2015	1,216
Additions in 2016	78
Balance at December 31, 2016	$ 1,294

(b) Accumulated amortization:

	Computer software
Balance at January 1, 2015	$ 226
Amortization charges in 2015	183
Balance at December 31, 2015	409
Amortization charges in 2016	244
Balance at December 31, 2016	$ 653

(c) Carrying amounts:

	Computer software
Balance at December 31, 2015	$ 807
Balance at December 31, 2016	$ 641

(Expressed in thousands of dollars)

8. Income taxes:

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

	2016	2015
Basic rate applied to profit before income tax	$ 2,380	$ 5,120
Decrease in income tax resulting from:		
Adjustment to prior year's taxes	(70)	(241)
Income tax expense	$ 2,310	$ 4,879
Effective rate applied to profit before income taxes	25.7%	25.3%

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

	2016	2015
Deferred tax assets (liabilities):		
Plant and equipment	$ (7,702)	$ (6,324)
Cumulative eligible capital	560	602
Employee benefits	2,865	2,776
Deferred revenue - contributed capital	5,955	5,310
Net deferred tax asset	$ 1,678	$ 2,364

As at December 31, 2016, a deferred tax asset of $1,678 (2015 - $2,364) has been recorded. The utilization of this tax asset is dependent on future taxable profits in excess of profits arising from the reversal of existing taxable temporary differences.

(Expressed in thousands of dollars)

9. Customer deposits:

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

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

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

Customer deposits comprise:

	2016	2015
Customer deposits	$ 3,260	$ 2,504
Construction deposits	4,994	4,653
Total customer deposits	$ 8,254	$ 7,157

10. Pension agreement:

GHESI provides a pension plan for its employees through the Ontario Municipal Employees Retirement System (“OMERS”). OMERS is a multi-employer pension plan which operates as the Ontario Municipal Employee Retirement Fund (“the Fund”) and provides pensions for employees of Ontario municipalities, local boards, public utilities, and school boards. The Fund is a contributory defined benefit pension plan, which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund. GHESI uses defined contribution plan accounting as it is only liable for contributions to the Plan. GHESI’s contribution for employees’ current service for the year ended December 31, 2016 was $1,161 (2015 - $1,096).

(Expressed in thousands of dollars)

11. Employee future benefits:

Components of employee future benefits recognized are as follows:

	2016	2015
Post-retirement benefits – accrued benefit liability as previously reported	$ 9,764	$ 9,814
Accrued sick leave benefit	533	660
	$ 10,297	$ 10,474

Post-retirement benefits:

The Corporation pays certain medical and life insurance benefits on behalf of some of its retired employees. The Corporation recognizes these post-retirement costs in the period in which employees' services are rendered. The accrued benefit liability at December 31, 2016 of $9,764 was based on an actuarial valuation completed in 2017 using a discount rate of 3.90%. The accrued benefit liability at December 31, 2015 of $9,814 was based on an actuarial valuation completed in 2015, using a discount rate of 4.05%.

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

	2016	2015
Defined benefit obligation, beginning of year	$ 9,814	$ 9,359
Current service cost	285	273
Interest cost	393	374
Re-measurement of obligation	(513)	-
Benefits paid during the year	(215)	(192)
Accrued benefit liability, end of year	$ 9,764	$ 9,814

(Expressed in thousands of dollars)

11. Employee future benefits (continued):

Components of net benefit expense recognized are as follows:

	2016	2015
Current service cost	$ 285	$ 273
Interest cost	393	374
Net benefit costs	$ 678	$ 647

In 2016, $475 of the corporation's net benefit costs were charged as an operational expense and the remaining $203 was capitalized. In 2015, $647 of the corporation's net benefit costs were charged as an operational expense.

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

	2016	2015
Accrued benefit obligation:		
Discount rate	3.90%	4.05%
Benefit cost for the year:		
Withdrawal rate	1%	1%
Assumed health and dental care cost trend rates:		
Initial health and dental care cost trend rate	5%	5%
2018 and thereafter	6%	6%

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

	Defined Benefit Obligation	Periodic Benefit Cost
1% increase in health care trend rate	$ 9,841	$ 755
1% decrease in health care trend rate	8,467	619

(Expressed in thousands of dollars)

11. Employee future benefits (continued):

Historical information

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

	2016	2015
Defined benefit obligation	$ 9,764	$ 9,814
Experience adjustments	513	-

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

General inflation - future general inflation levels, as measured by the changes in the Consumer Price Index, were assumed at 2.0% in 2016, and thereafter (2015 - 2.0%).

Discount (interest) rate - the discount rate used to determine the present value of future liabilities and the expense for the year ended December 31, 2016, was 3.90% (2015 - 4.05%).

Salary levels - future general salary and wage levels were assumed to increase at 3.3% (2015 - 3.3%) per annum.

Medical costs - medical costs were assumed to increase 5% for 2016, 5% for 2017, and 6% thereafter.

Dental costs - dental costs were assumed to increase 5% for 2016, 5% for 2017, and 6% thereafter.

Accrued sick leave benefit:

The Corporation allows regular employees the equivalent of one and one-half days per month sick time credit to be applied in case of illnesses or accidents not covered by Workers' Compensation. A maximum of eighteen days sick time credit is accrued to each employee's credit each year and is reduced by the amount of sick time utilized each year. At the end of the year, the remaining credit, if any, is added to each employee's sick time credit accumulation. Employees can accumulate sick time credit up to a capped amount of 200 days with the following exception. Any employee on payroll at the date the cap went into effect (May 2, 2013), did not lose any credit for accumulated sick time exceeding 200 days. These employees had their sick time capped individually at the level of the sick time accumulation accrued when the cap came into effect. Any unused sick time credit is forfeited when employment ceases with the Corporation. As at December 31, 2016, the estimated value of the expected future payments to be made because of unused sick time credits amounts to $533 (2015 - $660).

(Expressed in thousands of dollars)

12. Long-term debt:

Series A senior unsecured debentures have a maturity date of December 6, 2030 and have an interest rate of 5.264% per annum. Interest is payable in equal semi-annual installments, in arrears, on June 6 and December 6 each year commencing June 6, 2014 until maturity. The debentures were issued on December 6, 2010. The debentures are represented by a single Global Debenture Certificate registered in the name of CDS & Co. In order to put the debentures in place, the Corporation incurred debt issuance costs in the amount of $500.

Series B senior unsecured debentures have a maturity date of September 25, 2045 and have an interest rate of 4.121% per annum. Interest is payable in equal semi-annual installments, in arrears, on March 25 and September 25 each year commencing March 25, 2016 until maturity. The debentures were issued on September 25, 2015. The debentures are represented by a single Global Debenture Certificate registered in the name of CDS & Co. In order to put the debentures in place, the Corporation incurred debt issuance costs in the amount of $393.

	2016	2015
Senior unsecured debentures, maturity 2030	$ 65,000	$ 65,000
Senior unsecured debentures, maturity 2045	30,000	30,000
Less: cost of debt issuance	(717)	(755)
Senior unsecured debentures, net proceeds	$ 94,283	$ 94,245

13. Other income:

Other income comprises:

	2016	2015
Late payment charges	$ 163	$ 152
Pole and other rental income	332	381
Collection and other service charges	447	376
Waterworks revenue	1,420	1,244
Storm water revenue	188	-
Intercompany services	577	749
Customer contributions	632	562
Shared Services	159	76
Conservation and Demand Management Performance Bonus	630	-
Miscellaneous	120	220
Total other income	$ 4,668	$ 3,760

(Expressed in thousands of dollars)

14. Employee benefits:

		2016		2015
Salaries, wages and benefits	$	8,769	$	8,659
Contributions to multi-employer plan		1,161		1,096
Expenses related to defined benefit plans		678		647
	$	10,608	$	10,402

15. Finance income and expense:

		2016		2015
Interest income on bank deposits	$	(323)	$	(121)
Finance income		(323)		(121)
Interest expense on long-term debt		4,696		3,794
Interest adjustment re: capitalized borrowing costs		(165)		(148)
Interest expense on deposits		31		32
Other		119		45
Net finance costs recognized in profit or loss	$	4,358	$	3,602

16. Related party transactions:

(a) Parent and ultimate controlling party:

The sole shareholder of the Corporation is Guelph Municipal Holdings Inc. (“GMHI”), effective September 8, 2014 when GMHI amalgamated with Guelph Hydro Inc. (“GHI”). GMHI is a wholly-owned subsidiary of the City of Guelph. The City produces financial statements that are available for public use.

(b) Key management personnel:

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

		2016		2015
Directors’ fees	$	110	$	108
Salaries and other short-term benefits		2,914		1,912
Post-employment benefits		57		48
	$	3,081	$	2,068

(Expressed in thousands of dollars)

16. Related party transactions (continued):

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

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

	2016	2015
Revenue:		
Energy sales (at commercial rates)	$ 9,047	$ 8,245
Waterworks revenue	1,419	1,243
Storm water revenue	188	-
Street light maintenance	-	353
Expenses:		
Subcontracting	5	7
Property taxes	355	327
Balances:		
Accounts receivable	1,943	1,894

(d) Transactions with subsidiaries of the City:

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

The Corporation had the following transactions with GMHI and its subsidiary, Envida Community Energy Inc.:

	2016	2015
Revenue:		
Energy sales (at commercial rates)	$ 50	$ 43
Multiple function support services	577	749
Street light maintenance	380	-
Expenses:		
Management services	278	656
Balances:		
Accounts receivable	1,580	1,185
Accounts payable and accrued charges	-	1,685

(Expressed in thousands of dollars)

17. Commitments and contingencies:

From time to time, the Corporation may be involved in various litigation matters arising in the ordinary course of its business. As at the end of 2016, there were no litigation matters facing the Corporation.

General Liability Insurance:

The Corporation is a member of the Municipal Electric Association Reciprocal Insurance Exchange (MEARIE). MEARIE is a pooling of public liability insurance risks of many of the electrical utilities in Ontario. All members of the pool are subjected to assessment for losses experienced by the pool for the years in which they were members on a pro-rata basis based on the total of their respective service revenues. As at December 31, 2015, no assessments have been made.

18. Share capital:

	2016	2015
Authorized:		
Unlimited number of common shares		
Issued:		
1,000 common shares	$ 43,374	$ 43,374

19. Financial instruments and risk management:

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

The fair value of the $65,000 senior unsecured debenture at December 31, 2016 was $73,612 (2015 - $73,068) and the fair value of the new $30,000 senior unsecured debenture at December 31, 2015 was $30,044. The fair value is calculated based on the present value of future principal and interest cash flows, discounted at the current rate of interest at the reporting date. The interest rate used to calculate fair value at December 31, 2016 was 4.012% (2015 - 4.140%) on the $65,000 debenture and was 4.112% (2015 – 4.190%) on the $30,000 debenture.

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

19. Financial instruments and risk management (continued):

(a) Credit risk:

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

The carrying amount of accounts receivable is reduced through the use of an allowance for impairment and the amount of the related impairment loss is recognized in the income statement. Subsequent recoveries of receivables previously provisioned are credited to the income statement. The balance of the allowance for impairment at December 31, 2016 is $160 (2015 - $235). An impairment loss of $59 (2015 - $142) was recognized during the year. The Corporation's credit risk associated with accounts receivable is primarily related to payments from ratepayers. At December 31, 2016, approximately $232 (2015 - $327) was considered 60 days past due. The Corporation has over 55,000 customers, the majority of whom are residential customers. Credit risk is managed through collection of security deposits from customers in accordance with directions provided by the OEB. As at December 31, 2016, the Corporation held security deposits amounting to $4,993 (2015 - $4,653).

(b) Market risk:

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

The Corporation estimates that a 1% increase in interest rates at December 31, 2016 would have increased interest expense on the long-term debt by $950 (2015 - $950), assuming all other variables remained constant. A 1% decrease in the interest rate would have an equal but opposite effect.

(c) Liquidity risk:

The Corporation monitors its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The Corporation's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest exposure.

20. Financial instruments and risk management (continued):

(c) Liquidity risk (continued):

As at December 31, 2016, the Corporation, through its parent company Guelph Municipal Holdings Inc. Centralized Banking Agreement, had access to a $20,000 credit facility. The Corporation monitors cash balances daily to ensure that a sufficient level of liquidity is on hand to meet financial commitments as they come due. As at December 31, 2016, no amounts had been drawn under this $20,000 credit facility (2015 - $20,000).

As part of the $20,000 credit facility, The Corporation has a bilateral facility for $5,000 (the “LC” facility) for the purpose of issuing letters of credit mainly to support the prudential requirements of the IESO, of which $4,000 has been drawn and posted with the IESO (2015 - $4,000).

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

(d) Capital disclosures:

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

The Corporation’s definition of capital includes shareholder’s equity and long-term debt. As at December 31, 2016, shareholder’s equity amounted to $68,732 (2015 - $64,683) and long-term debt amounted to $94,283 (2015 - $94,245).

21. Guarantees:

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

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

Financial Statements of

ENVIDA COMMUNITY ENERGY INC.

Year ended December 31, 2016
(Expressed in thousands of dollars)

KPMG LLP
115 King Street South
2nd Floor
Waterloo ON N2J 5A3
Canada
Tel 519 747-8800
Fax 519 747-8830

INDEPENDENT AUDITORS' REPORT

To the shareholder of Envida Community Energy Inc.

We have audited the accompanying financial statements of Envida Community Energy Inc., which comprise the balance sheet as at December 31, 2016 and the statements of comprehensive loss and deficit, 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.

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 Envida Community Energy Inc. as at December 31, 2016, and its results of operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards**.**

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

May 16, 2017
Waterloo, Canada

ENVIDA COMMUNITY ENERGY INC.

Balance Sheet
(In thousands of dollars)

December 31, 2016, with comparative information for 2015

	2016	2015
Assets		
Current assets:		
Cash	$ 332	$ 441
Accounts receivable (note 5)	207	217
Other current assets	42	53
	581	711
Property, plant and equipment (note 6)	1,501	4,002
	$ 2,082	$ 4,713
Liabilities and Shareholder's Deficiency		
Current liabilities:		
Accounts payable and accrued liabilities	$ 425	$ 260
Current portion of provision for liabilities and charges (note 8)	50	-
Current portion of long-term debt (note 9)	141	178
	616	438
Due to related parties (note 7)	3,404	2,039
Provision for liabilities and charges (note 8)	490	-
Long-term debt (note 9)	10,665	10,791
Total liabilities	15,175	13,268
Shareholder's deficiency:		
Share capital (note 11)	1	1
Contributed surplus	10,497	10,497
Deficit	(23,591)	(19,053)
	(13,093)	(8,555)
Commitments (note 12)		
	$ 2,082	$ 4,713

The accompanying notes are an integral part of the financial statements.

On behalf of the Board:

_______________ Director

_______________ Director

ENVIDA COMMUNITY ENERGY INC.

Statement of Comprehensive Loss and Deficit
(In thousands of dollars)

Year ended December 31, 2016, with comparative information for 2015

		2016		2015
Revenue	$	858	$	978
Cost of gas		35		37
Net operating income		823		941
Expenses:				
Operations and maintenance		1,021		1,024
General and administrative		394		282
Management fee		107		142
Other provision expense (note 8)		540		-
Impairment of property, plant and equipment (note 6)		3,255		8,677
		5,317		10,125
Loss before financial items and income taxes		(4,494)		(9,184)
Financial expense:				
Interest expense		44		238
Interest income		-		(5)
Total comprehensive loss for the year		(4,538)		(9,417)
Deficit, beginning of year		(19,053)		(9,636)
Deficit, end of year	$	(23,591)	$	(19,053)

The accompanying notes are an integral part of the financial statements.

ENVIDA COMMUNITY ENERGY INC.

Statement of Changes in Equity
(In thousands of dollars)

Year ended December 31, 2016, with comparative information for 2015

	Share capital	Contributed surplus	Accumulated deficit	Total
Balance at December 31, 2014	1	$ 1,375	$ (9,636)	$ (8,260)
Equity contribution from the parent company	-	9,122	-	9,122
Total comprehensive loss for the year	-	-	(9,417)	(9,417)
Balance at December 31, 2015	1	10,497	(19,053)	(8,555)
Total comprehensive loss for the year	-	-	(4,538)	(4,538)
Balance, December 31, 2016	$ 1	$ 10,497	$ (23,591)	$ (13,093)

The accompanying notes are an integral part of the financial statements.

ENVIDA COMMUNITY ENERGY INC.

Statement of Cash Flows
(In thousands of dollars)

Year ended December 31, 2016, with comparative information for 2015

	2016	2015
Cash provided by (applied to):		
Operations:		
Total comprehensive loss for the year	$ (4,538)	$ (9,417)
Items not involving cash:		
Depreciation	331	494
Impairment of property, plant and equipment	3,255	8,677
Interest income	-	(5)
Interest expense	44	238
	(908)	(13)
Change in:		
Accounts receivable	10	(62)
Other current assets	11	2
Deferred charges	-	40
Accounts payable and accrued liabilities	165	(132)
Provision for liabilities and charges	540	-
Net cash used by operating activities	(182)	(165)
Financing:		
Increase (decrease) in related party payables	1,365	(5,619)
Increase (decrease) in related party promissory notes	(163)	1,746
Increase in contributed capital from related parties	-	9,122
Interest received	-	5
Interest paid	(44)	(238)
	1,158	5,016
Investments:		
Purchase of property, plant and equipment	(1,085)	(5,126)
Decrease in cash	(109)	(275)
Cash, beginning of year	441	716
Cash, end of year	$ 332	$ 441

The accompanying notes are an integral part of the financial statements

1. Reporting entity:

Envida Community Energy Inc. (the “Company” or “Envida”) became a wholly-owned subsidiary of Guelph Municipal Holdings Inc. pursuant to an amalgamation between Guelph Holdings Inc. (the company’s predecessor parent company) and Guelph Municipal Holdings Inc. on September 6, 2015. The Company was incorporated on April 19, 2005 under the laws of the Province of Ontario, Canada. The address of the Company’s registered office is 395 Southgate Drive, Guelph, Ontario.

The principal activities of the Company are the generation of electricity from a landfill gas field and from solar photovoltaic projects, and to manage and operate district energy facilities located in the City of Guelph.

2. Basis of presentation:

(a) Statement of compliance:

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

(b) Approval of the financial statements:

The financial statements were approved by the Board of Directors on May 16, 2017.

(c) Basis of measurement:

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

Where held, financial instruments at fair value through profit or loss, including those held for trading, are measured at fair value.

(d) Functional and presentation currency:

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

(e) Use of estimates and judgements:

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

2. Basis of presentation (continued):

(e) Use of estimates and judgements (continued):

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

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

(i) Note 6 - Property, plant and equipment: impairment, useful lives and the identification of significant components of property, plant and equipment.

(ii) Note 9 - Income taxes: utilization of tax losses.

3. Significant accounting policies:

(a) Revenue recognition:

Revenue is recorded on the basis of regular meter readings recording electricity production at the generation plant and solar energy facilities. In addition, there is a small amount of contracted fixed metered revenue being generated by the district energy business.

(b) Property, plant and equipment:

Buildings and fixtures	10 years
Electricity generation equipment	10 - 15 years
District energy equipment	10 – 50 years
Other assets	15 - 45 years

(c) Impairment:

(i) Financial assets:

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

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

3. Significant accounting policies (continued):

(c) Impairment (continued):

(i) Financial assets (continued):

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

(ii) Non-financial assets:

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

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

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

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

(d) Leased assets:

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

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

(In thousands of dollars)

4. Continuity of Operations:

A significant portion of the Company's liabilities are comprised of an amount due to its parent company of $12,720 (2015 - $11,847) which is made up of $1,914 (2015 - $878) non-interest bearing with no fixed terms of repayment, a $9,069 (2015 - $9,169) Promissory Note repayable in semi-annual principal payments on each 6-month anniversary date, bearing interest at a fixed rate of 0% and has a maturity date of January 1, 2024 and a $1,737 (2015 - $1,800) Promissory Note repayable in monthly blended payments of $9, bearing interest at a fixed rate of 2.78% with a maturity date of August 5, 2017. The parent company has indicated that it will not call repayment on this note for at least one year from December 31, 2016. The $9,169 Promissory Note replaced an existing note with a December 31, 2015 outstanding balance of $9,223, a maturity date of January 1, 2024, and semi-annual principal payments of $50, non-interest bearing (2015 - 1.0%).

If the Company does not receive continuing financial support from its parent or if the Company does not raise additional funds, it may not be able to continue as a going concern and realize its assets and pay its liabilities as they fall due. In 2017, the parent company has indicated its intention to transfer some of its electricity generating assets (landfill gas field and Southgate solar photovoltaic project) to a sister company (Guelph Hydro Electric Systems Inc.). As a result, the parent company is continuing to look at alternative solutions regarding how it plans to operate the company and at what level of future financial support it plans on continuing to provide. The parent company has indicated its intention to not call for repayment of any loan due to it for at least one year from December 31, 2016.

5. Accounts receivable:

		2016		2015
Revenue	$	203	$	217
Other		4		-
	$	207	$	217

(In thousands of dollars)

6. Property, plant and equipment:

(a) Cost:

	Buildings and fixtures	Electricity generation equipment	Solar panels	District energy equipment	Total
Balance at January 1, 2015	$ 1,676	$ 1,479	$ 1,049	$ 6,323	$ 10,527
Additions	-	190	20	4,916	5,126
Impairment of property, plant and Equipment	-	-	-	(8,677)	(8,677)
Balance at December 31, 2015	$ 1,676	$ 1,669	$ 1,069	$ 2,562	$ 6,976

	Buildings and fixtures	Electricity generation equipment	Solar panels	District energy equipment	Total
Balance at January 1, 2016	1,676	1,669	1,069	2,562	6,976
Additions	-	-	-	1,085	1,085
Impairment of property, plant and equipment	-	-	-	(3,255)	(3,255)
Balance at December 31, 2016	$ 1,676	$ 1,669	$ 1,069	$ 392	4,806

(b) Accumulated depreciation:

	Buildings and fixtures	Electricity generation equipment	Solar panels	District energy equipment	Total
Balance at January 1, 2015	$ 1,200	$ 1,056	$ 135	$ 89	$ 2,480
Depreciation charge for the year	95	104	54	241	494
Balance at December 31, 2015	$ 1,295	$ 1,160	$ 189	$ 330	$ 2,974

	Buildings and fixtures	Electricity generation equipment	Solar panels	District energy equipment	Total
Balance at January 1, 2016	$ 1,295	$ 1,160	$ 189	$ 330	$ 2,974
Depreciation charge for the year	133	83	53	62	331
Balance at December 31, 2016	$ 1,428	$ 1,243	$ 242	$ 392	$ 3,305

(In thousands of dollars)

6. Property, plant and equipment (continued):

(c) Carrying amounts:

	Buildings and fixtures	Electricity generation equipment	Solar panels	District energy equipment	Total
December 31, 2015	$ 381	$ 509	$ 880	$ 2,232	$ 4,002
December 31, 2016	248	426	827	-	1,501

(d) Borrowing costs:

During the year, borrowing costs of $ nil (2015 - $ nil) were capitalized as part of the cost of property, plant and equipment.

(e) Impairment of fixed assets:

	Cost	Accumulated Depreciation	Total
West End Community Centre	$ 781	$ -	$ 781
Hanlon Creek Business Park	(40)	-	(40)
Galt District Energy System	2,637	123	2,514
Impairment of fixed assets as at December 31, 2016	$ 3,378	123	$ 3,255

	Cost	Accumulated Depreciation	Total
Hanlon Creek Business Park	$ 5,170	$ 116	$ 5,054
Galt District Energy System	3,776	153	3,623
Impairment of fixed assets as at December 31, 2015	$ 8,946	$ 269	$ 8,677

6. Property, plant and equipment (continued):

(f) Assessment:

At December 31, 2015 and 2016, due to continuing negative business segment cash flows, poor economic performance and the re-evaluation of its business contracts, the Company determined that these financial impairment triggers were present on its district energy cash generating units (DE CGUs). The Company tested its DE CGUs for impairment. The recoverable amounts of the Company's DE CGUs were estimated as the value in use based on the net present value of the before tax cash flows from DE operations. The cash inflows were estimated using the remaining contract periods for current customers. The cash outflows were projected for the remaining contract periods based on the Company's detailed business plan for the business segment for the 2017 year.

In determining the appropriate discount rate of 4.26% (2015 - 4.17%), the Company applied the long term Bank of Canada Bond rate of 2.41% (2015 - 2.32%) as the risk free rate and included an additional 1.85% (2015 – 1.85%) premium to reflect an appropriate risk factor related to future cash flows.

(i) Results of 2016 assessment:
At December 31, 2016 it was determined that the net book value of the Company's DE CGUs exceeded the recoverable amount and the Company recognized $3,255 (2015 - $8,677) in impairment charges.

7. Related party transactions:

Guelph Municipal Holdings Inc. ("GMHI"), the Company's parent, develops and manages the District Energy business on behalf of the Company. Fees for these management services amounted to $107 (2015 - $142). The Company also has financed its investment in this new business through GMHI which generated interest expense of $42 (2015 - $210). The Company maintains its liability insurance through the Municipal Electric Association Reciprocal Insurance Exchange ("MEARIE"). The name of the insured is GMHI and the Company is a named additional insured on the policy.

Guelph Hydro Electric Systems Inc. ("GHESI"), a sister company, performs the review of settlement statements and associated reports regarding the generation output of the Company from the Eastview landfill gas generation plant. GHESI also performs services related to the collection of revenues, payment of purchases and government remittances, engineering, information services, accounting, financial reporting and treasury of the Company. During the year, the Company incurred expenses of $199 (2015 - $229) for these services.

(In thousands of dollars)

7. Related party transactions (continued):

Amounts due to related parties at December 31, 2016, for transactions in the normal course of operations, are as follows:

		2016		2015
Due to GMHI	$	1,914	$	878
Due to GHESI		1,490		1,161
	$	3,404	$	2,039

8. Provision for liabilities and charges

Opening balance, January 1, 2016	$	-
Additions		540
Closing balance, December 31, 2016		540
Less: current portion		(50)
Provision for liabilities and charges, long-term	$	490

The onerous contract provision is discounted. No provision has been released or utilized.

The onerous contract provision relates to the Hanlon Creek Business Park system.

The provision is expected to be utilized over the next 18 years.

9. Long-term debt:

		2016		2015
Promissory note payable to GMHI, maturity 2024	$	9,069	$	9,169
Promissory note payable to GMHI, maturity 2017		1,737		1,800
		10,806		10,969
Less: current portion		141		178
	$	10,665	$	10,791

(In thousands of dollars)

9. Long-term debt (continued):

a) Promissory note payable to GMHI, maturity 2024:

The Company's parent company, ("GMHI"), has provided financial support by way of a promissory note in the amount of $9,069 (2015 - $9,169). The purpose of the Note was to finance the company's investment in its new district energy initiative and to retire the company's previous promissory note. The new promissory note is repayable in semi-annual principal payments on each 6-month anniversary date, bearing interest at a fixed rate of 0% (2015: 1.0%) and has a maturity date of January 1, 2024.

b) Promissory note payable to GMHI, maturity 2017:

In 2015, the Company's parent company, ("GMHI"), provided additional financial support by way of a second promissory note in the amount of $1,737 (2015 - $1,800). The purpose of this note was to complete the financing of the company's investment in its district energy initiative. This promissory note is repayable in monthly blended payments of $9, bearing interest at a fixed rate of 2.78% and has a maturity date of August 5, 2017. The parent company has indicated that it will not call repayment on this note for at least one year from December 31,2016.

10. Deferred income taxes:

As at December 31, 2016, the Company had $7,750 (2015 - $7,341) of unused non-capital loss carry-forwards, available to reduce taxable income in future years. Deferred income tax assets related to these unused tax losses will be recorded when taxable income is generated or management makes the assessment that it is more likely than not that the Company will generate taxable income sufficient to realize the benefit of these unused deductions.

11. Share capital:

	2016	2015
Authorized:		
Unlimited number of common shares		
Issued:		
1 common share	$ 1	$ 1

12. Commitments:

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

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

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

a) $5 in advance of each fiscal year, for the use of the Lands and Access Lands.

b) An amount for the cubic feet of landfill gas used by the Company for the preceding fiscal year based on a rate agreed upon at the time of signing the agreement adjusted annually by the Consumer Price Index - Ontario.

c) A percentage rent based on 20% (2015 - 20% amended from 10%) of the difference between gross revenues arising from the sale of electricity and the value of electricity generated at a rate of $57/MWh. In 2016, the amount incurred was $17 (2015 - $21 amended from $11).

In June 2011, the Company commenced supplying the IESO with electrical energy under a twenty-year Feed-in-Tariff power purchase agreement. The electrical energy is produced by a roof-top mounted array of photo-voltaic solar panels with a total capacity of 125 kW. The IESO purchases all the energy produced by photo-voltaic array. The price that the IESO pays for the electrical energy is fixed by the contract.

The Company also earns revenue from 8 solar photo-voltaic projects that are operated and managed for the City of Guelph. The projects supply electrical energy to the grid under twenty-year MicroFit Feed-in-Tariff power purchase agreements that the City of Guelph has with the IESO. Under the terms of the Agreement between the Company and the City, 96% of the payments from the IESO to the City of Guelph are remitted to the Company.

13. Financial instruments:

At December 31, 2016, the estimated fair market value of cash, accounts receivable, due to related parties, and accounts payable and accrued liabilities was equal to the book value, given the short-term nature of the items.

(a) Credit risk:

The energy generated by the Company is sold to one buyer, the IESO. As an Agency of the Government of Ontario, there is low credit risk associated with this customer.

(b) Market risk:

Market risks primarily refer to the risks of loss that result from changes in commodity prices, foreign exchange rates, and interest rates. The Company currently does not have commodity or foreign exchange risk and all debt has a fixed interest rate.

(c) Liquidity risk:

The Company monitors its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The Company's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest exposure. The Company will obtain advances from GMHI and monitor cash balances to ensure that sufficient levels of liquidity are on hand to meet financial commitments as they come due.

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

(d) Capital disclosures:

The main objectives of the Company when managing capital are to ensure ongoing access to funding to maintain its assets, compliance with covenants related to its credit facilities, prudent management of its capital structure, and to deliver the appropriate financial returns.

The Company's definition of capital includes shareholder's equity and long-term debt. During 2015, the Company's parent company, Guelph Municipal Holdings Inc., injected $9,122 of additional equity as part of the funding formula related to their investment in the Company's District Energy equipment. As at December 31, 2016, shareholder's deficit amounts to $13,093 (2015 - $8,555) and long-term debt amounts to $10,806 (2015 - $10,969).

GUELPH MUNICIPAL HOLDINGS INC.

TO	Council as the Shareholder of GMHI
SERVICE AREA	GUELPH MUNICIPAL HOLDINGS INC.
DATE	June 28, 2017
SUBJECT	**ENVIDA ASSET REVIEW**
REPORT NUMBER	GMHI-2017-05

RECOMMENDATIONS:

1) That the transfer of the Eastview Generation Assets from Envida to Guelph Hydro Electric Systems Inc. ("Guelph Hydro") by asset purchase or amalgamation be approved pending final approval by the Independent Electricity System Operator and the Ontario Energy Board.

2) That City staff be given the delegated authority to negotiate and execute the required Memorandum of Understanding and land lease and licensing agreements with Guelph Hydro for the ongoing operation of the Eastview Generation Assets on City-owned land.

3) That the transfer of the solar assets affixed to the rooftop of 395 Southgate Drive, Guelph, ON from Envida to Guelph Hydro by asset purchase or amalgamation be approved pending final approval by the Independent Electricity System Operator and the Ontario Energy Board.

4) That the sale of eight solar microFIT programs from Envida to the City for a total cost not exceeding $280,000 be approved and funded from the Capital Asset Renewal Reserve Fund.

5) That in accordance with the Capital Asset Renewal Reserve Fund policy, this reserve fund be repaid by the revenues generated from this investment on a schedule that is satisfactory to the City Treasurer that balances both the repayment of the reserve fund with operating budget savings.

6) That Staff be given delegated authority to negotiate and execute an amendment to an existing agreement with respect to the early disposal of Envida owned heating and cooling assets located on a third-party site.

GUELPH MUNICIPAL HOLDINGS INC.

REPORT:

In March 2016, a full chronology of the financial history of the GMHI group of companies from inception through to 2016 was presented to Council. This report provided the baseline understanding of all financial decisions and activity that occurred in these companies and formed the basis for all staff work since.

Subsequent to this, at a meeting of the Shareholder of GMHI on October 24, 2016, Council approved the following direction:

That the CAO begin the following:

a) The transfer of functional control of Guelph Hydro Electric Systems Inc. ("Guelph Hydro"), currently owned by Guelph Municipal Holdings Inc. ("GMHI"), to the City;

b) Deferring active business operations of GMHI and the development corporation until it is determined by Council that there are adequate City resources to support this activity or a clear objective with corresponding and compelling business case; and,

c) Transfer oversight and management of Envida Community Energy Inc. ("Envida") and the Strategies and Options Committee to City management, with support from Guelph Hydro, who will report to Council.

The planned end result of this direction is for Council to hold the shares of Guelph Hydro directly without the intermediary holding company of GMHI. In order to accomplish this direction as set out, Guelph Hydro and City staff have collectively been assessing the active businesses in Envida and identifying off-boarding solutions for these activities that maximize Shareholder value. GMHI and Envida will continue as corporations until such time that the active businesses and related tax assets can be sold, transferred or dissolved.

Significant progress has been made over the past nine months with recommended outcomes for a number of assets included in this report. Staff continue to work on the remaining asset evaluations and assessments to bring these Council motions to completion. These businesses are complex and the appropriate risk assessment and financial modeling take time to develop and test practicality.

The active businesses in Envida have been identified and analyzed as follows:

1) **Eastview Landfill Gas Generators**
   - This is a profitable electricity generation business operated by Envida through two landfill gas-fired generators sited on City land at the Eastview landfill site.
   - The City, through a land lease agreement with Envida, receives annual revenue of approximately $87,000 through electrical sales, and $350,000 of annual carbon tax credits. This lease expires December 2025 unless termination clauses are triggered.
   - As an Envida exit strategy, this business is allowable under legislation to be operated by Guelph Hydro and as such, Envida presented a business case to the Guelph Hydro Finance Committee on April 18, 2017 recommending the transfer of this asset from Envida to Guelph Hydro.
   - Subsequent to additional information being provided at the May 16, 2017 meeting, the Guelph Hydro Finance Committee recommended this asset transfer be approved by the Guelph Hydro Board (pending certain provisions were met with respect to the operating agreement between the City Guelph and Guelph Hydro prior to the transfer).
   - The Guelph Hydro Board approved this asset acquisition at the May 29, 2017 Guelph Hydro Board Meeting.
   - Subject to the approval of this strategy by City Council, it is Envida's expectation that the required Ontario Energy Board (OEB) approval to transfer the asset could be achieved by August 31, 2017.

   Municipal Impacts/Approvals:
   - A new land lease agreement will be required between the City and Guelph Hydro for the continued operation of the generator assets, and assessment and confirmation of the above-noted revenue streams. Envida staff have identified concern with the landfill gas field and diminishing returns which will be considered in the new agreement.
   - City Council as the (indirect) Shareholder of Envida is required to approve the disposition of these assets in accordance with GMHI Shareholder Declaration.
   - The purchase price/transfer value of the Eastview asset is $558,000, and all of these monies received by Envida will be used to repay intercompany payables to Guelph Hydro.

2) **395 Southgate Drive Solar Asset**
   - The solar assets owned by Envida that are affixed to the rooftop of the Guelph Hydro headquarters at 395 Southgate Drive, generate electricity and through a FIT agreement the generation output is sold back to the market producing revenue between $65,000 and $80,000 per year depending on sunshine.

- As an Envida exit strategy, this asset is allowable under legislation to be operated by Guelph Hydro and, as such, Envida presented a business case to the Guelph Hydro Finance Committee on April 18, 2017 recommending the transfer of this asset from Envida to Guelph Hydro.
- Subsequent to additional information being provided at the May 16, 2017 meeting, the Guelph Hydro Finance Committee recommended this asset transfer be approved by the Guelph Hydro Board.
- The Guelph Hydro Board approved this asset transfer at the May 29, 2017 Guelph Hydro Board Meeting.
- Subject to the approval of this strategy by City Council, it is Envida's expectation that the required OEB approval to transfer the asset could be achieved by August 31, 2017.

Municipal Impacts/Approvals:

- City Council as the (indirect) Shareholder of Envida is required to approve the disposition of these assets in accordance with the GMHI Shareholder Declaration.
- The purchase price/transfer value of the solar asset is $796,000, and all of these monies received by Envida will be used to repay intercompany payables to Guelph Hydro.

3) **Solar Assets affixed to City of Guelph Facilities / Land**

- Envida owns and operates eight microFIT solar facilities that have been installed on City rooftops and marginal land. The City leases these properties to Envida for this purpose.
- Envida prepared a business case and proposed the sale of these assets to the City for a cost of $276,000.
- Based on historical solar generation from these facilities, Envida estimates that the solar contracts could yield approximately $500,000 in gross revenues over the next 17 years for the City.
- City staff from Facilities Management and Finance have reviewed the business case and support this investment as it has a positive net present value and a payback period of 7.5 years. In addition, the assets will continue to produce power and have financial benefit after the contract period expires.
- These assets require little or no ongoing maintenance, and hence will have minimal impact other than providing a revenue stream to the City.

Municipal Impacts/Approvals:

- City staff believe that purchasing these assets makes good business sense, they are already affixed to City-owned property, the microFIT agreements are in the City's name and this asset purchase is aligned with direction of the newly created Climate Control Office. Further, the project contributes to the Community Energy Initiative goals for local, renewable generation and the "one thousand solar roofs" objective.

- Staff recommend funding this solar asset purchase from the Capital Asset Renewal Reserve Fund (“CARR”) for total purchase price not exceeding $280,000. In accordance with the CARR policy, this reserve fund shall be repaid through the revenue earned on this investment.

4) **Hanlon Creek Business Park - Real Estate**
- Upon the direction of Guelph City Council, Business Development and Enterprise staff has been working with Envida and a third party to subdivide and sell land currently leased by Envida from the City. This action will right-size Envida’s property requirements.
- Business terms of the two transactions have been reached by all parties.
- Completion of the agreements of purchase and sale are subject to addressing current storm water engineering matters between the newly created parcels. This work is currently underway.
- The target date to achieve executed agreements of purchase and sale between all parties is June 30, 2017.

Municipal Impacts/Approvals:
- Guelph City Council has previously delegated its authority to staff to amend the current Envida lease-to-own agreement and enter into two new agreements of purchase and sale. The execution of the agreements will require the signatures of the Mayor and City Clerk.
- The proceeds from the sale of these properties will be directed to the City’s Industrial Land Reserve Fund in accordance with the provisions of the funding arrangement for the development of the Hanlon Creek Business Park.

5) **Heating and cooling equipment**
- Envida has installed and owns boilers and chillers within a third party property located at 500 Hanlon Creek Boulevard. This equipment is functional and is being used by the property owner for all of the office’s heating and cooling needs. The property owner is responsible for paying all commodity costs and also pays Envida a fixed monthly fee to maintain the equipment over a five year contract period. At the end of the contract, the property owner can trigger an option to buy the equipment.
- Envida, with the assistance of Business Development and Enterprise staff, has presented a proposal to the property owner for the property owner to acquire ownership of the boilers and chillers for a reasonable amount now, instead of at the end of the contract in five years’ time.
- Subject to Council approval, Envida intends to wrap up discussions on this matter by no later than July 31, 2017.

Municipal Impacts/Approvals:
- Council is required to approve of the disposition of these assets as per the GMHI Shareholder Declaration.

- The proceeds received from a potential early sale would be used by Envida to offset ongoing losses from the district energy businesses.

6) **Energy conservation contract with Ontario Ministry of Agriculture, Food and Rural Affairs (OMAFRA)**
   - Envida entered into a $1 million contract with OMAFRA and a third party for the purpose of conducting a behind-the-meter Combined Heat and Power feasibility assessment of a third party facility.
   - Envida's current financial situation prevented Envida from completing the assessment as required under this contract.
   - Envida, with the assistance of Business Development and Enterprise, consulted with the third party and OMAFRA to terminate this contract.
   - All parties to this contract have agreed to its termination, which has now been accomplished.
   - Envida has returned funds that were advanced by OMAFRA.
   - This matter has now been fully resolved without financial penalty.

7) **District Energy (DE) Systems**
   - Envida owns and operates two DE systems – the Hanlon Creek Business Park node (HCBP node) and the Downtown node.
   - Analysis is ongoing with respect to the DE assets. Staff has provided further information to Council with respect to these assets in a companion closed report GMHI-2017-06C entitled Envida Asset Review.
   - Due to the direction approved by Council on October 24, 2016 as referenced earlier in this report as well as direction approved by Council at a closed meeting on July 18, 2016 specifically with respect to the DE nodes, certain accounting write downs and contract liabilities were required to be recorded relating to these DE assets in accordance with the applicable accounting standards.
     - In 2016, the remaining $2.475 million book value of the Downtown DE node (as previously reported in the GMHI Financial History report in May 2016), was impaired and written down. A further $780,000 expended prior to 2016 on research and development for a third DE node was also written off in 2016. Therefore the total write down recognized in 2016 is $3.255 million. As a result of this accounting treatment in 2015 and 2016, the district energy assets have been fully written down.
     - Additionally, in 2016, an onerous contract liability of $540,000 was recognized on the HCBP node since the net future cash inflows is less than the cost to serve the related contracts over the remaining 18-year term. A similar liability may be required on the Downtown node in 2017, but this is dependent upon contract terms that are still in the progress of being finalized.

Municipal Impacts/Approvals:

- Council has previously approved and given staff direction at a closed meeting on July 18, 2016 with respect to the DE nodes and no further action is required at this time.

8) **Envida and GMHI Tax Losses**

- Since their inception, GMHI and Envida have both accumulated tax losses from ongoing operations. GMHI's tax losses were recognized as an asset on the financial statements; Envida's were not.

GMHI

- GMHI has $11.2 million of tax losses available to reduce future taxable income – this is a real asset if it can be utilized. This represents an increase of $600,000 since last reported to Council in May 2016 due to an additional year of tax losses accumulating.
- These tax losses were capitalized annually on the GMHI balance sheet at a total tax-effected asset value of $3.12 million in 2016.
- Since 2006, various tax strategies, including issuing intercompany debt and implementing a management fee regime, have been utilized to try to capitalize on the GMHI tax losses. These were only partially successful.
- Until 2016, there was hope that the City would be able to generate taxable income in GMHI through reviving the DE program or bringing on new profitable business of some nature. It became apparent this year that taxable income in GMHI is not likely and therefore a full impairment allowance of $3.12 million was taken against the GMHI tax asset. The City recognizes this loss upon the consolidation of the GMHI financial statements.
- The losses remain available for use in GMHI if taxable income is generated; this allowance is just the required accounting treatment.

Envida

- Envida's tax losses total $7.75 million which are available to reduce future taxable income – similar to GMHI, this is a real asset if it can be utilized. This represents an increase of $410,000 since last reported to Council in May 2016 due to an additional year of losses accumulating.
- Tax losses are categorized by the type of business they were generated from and they travel with the corporation in a business sale or merger situation.
- Consolidation of Envida into Guelph Hydro may be the most tax effective strategy to utilize some of these losses but further strategic tax advice and analysis is still warranted. GMHI is currently working with tax advisors to assess all options and staff will report back to Council once more information is known and recommendations can be developed.
- Further challenging the tax losses in Envida is the intercompany loan between GMHI and Envida. Envida does not have the resources required to repay the debt to GMHI and as such the loan will need to be dealt with in some other

manner. It is essential that the strategy recommended preserves the tax loss asset remaining in Envida.

Municipal Impacts/Approvals:

- In all cases, the disposition of assets, the related tax losses and the decisions related to eliminating the intercompany debt require Council approval.
- Any strategy to dissolve the intercompany debt will not have a direct financial impact on the City as this debt is eliminated upon the consolidation of GMHI.
- The impact to the City in 2016 of the aforementioned DE asset related write-downs and liabilities as well as the GMHI tax loss impairment has resulted in a decrease to the City's investment in GMHI by $2.8 million as follows:

GMHI net income before other items	$ 5,603
DE asset write down	(3,255)
DE onerous contract liability	(540)
GMHI tax loss impairment	(3,125)
Total GMHI net loss	(1,317)
Less: Dividend paid to City	(1,500)
2016 Total decrease in GMHI investment	$(2,817)

9) **GMHI loan payable to RBC**

- As last reported in May 2016, GMHI had borrowed $1.8 million on a short term credit facility from RBC which is due in full in August 2017.
- This loan will be fully repaid by GMHI on August 5, 2017 as expected.

ATTACHMENTS:

None noted.

Guelph Municipal Holdings Inc.

Pe

Guelph Hydro Electric Systems Inc.
Annual General Meeting
June 26, 2017

Guelph Hydro Electric Systems Inc.

Strategic Imperatives | Overview

Financial Performance and Growth – Control costs & realize efficiencies; Increase shareholder dividends; Develop new revenue streams

Operational Excellence – Foster a high performance culture & be a great place to work; Enhance process improvement capability; Leverage technology with every business process

Customer and Community Focus – Ensure competitive rates; Improve the customer experience; Meet energy conservation targets and contribute to community sustainability

Vision and Mission Statements

Mission

Guelph Hydro Electric System Inc. will be ranked as one of Ontario's top electrical utilities; trusted by stakeholders to provide continually increasing value while playing a leading role in the rapidly transforming energy sector

Vision

Powering Community Well-Being

Core Values

- Safety, Reliability and Efficiency
- Caring
- Relationships
- Innovation and Leadership
- Environmental Stewardship

Guelph Hydro…by the numbers

- First community-owned utility in Guelph was formed in 1903; 114 years of service history
- GHESI serves Guelph and Rockwood (93 square kms)
- Approximately 55,000 customers
- Population 136,423 including the Village of Rockwood
- Peak demand of about 300 MW
- $160 million in fixed assets
- $250 million revenues
- 124 employees

Guelph Hydro Electric Systems Inc.

GHESI Comparative Operating Statistics

	Ontario LDC Average	GHESI		
	2015	2014	2015	2016
Number of Customers	71,194	53,007	54,099	54,996
Summer Peak Demand (MW)	306	285	293	292
Electricity Sales (GWh)	1,755	1,765	1,807	1,719
OM&A Costs per Customer	$318.7	$271.5	$281.4	$284.8

Sources: GHESI Operations and 2014 & 2015 Yearbooks of Electricity Distributors, Ontario Energy Board.

- GHESI converted to IFRS in 2010, and this added over $20/customer to GHESI's OM&A costs due to reclassifications required under IFRS
- Number of customers does not include microFIT and FIT

GHESI Income Statements

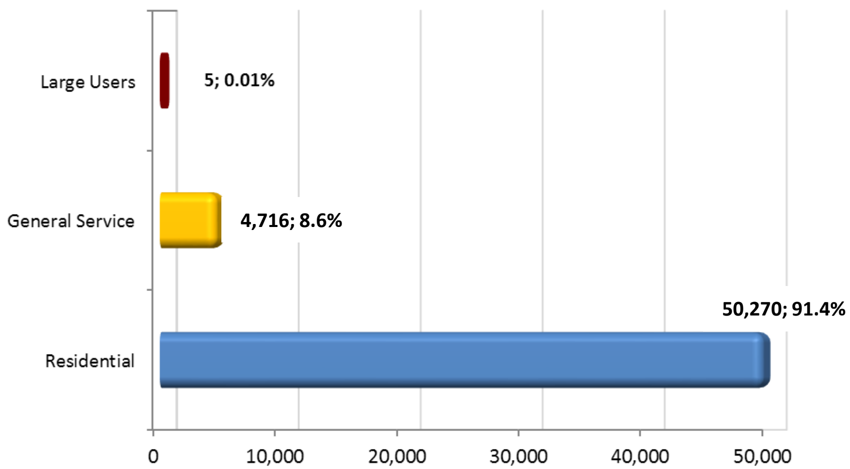
$000s	2013 Actual	2014 Actual	2015 Actual	2016 Actual
Non-Distribution Revenue	168,743	184,552	213,720	**217,153**
Distribution Revenue	26,443	28,010	28,945	**28,659**
Other Revenue	3,243	4,719	3,760	**4,668**
Cost of Electricity	174,871	190,844	201,196	**214,504**
Gross Margin/ Net Operating Revenue	23,558	26,437	45,229	**35,976**
EBITDA	7,093	10,798	28,882	**19,618**
EBIT	1,307	5,202	22,924	**13,338**
Net Interest Expense	3,313	3,396	3,602	**4,358**
Net Income	(1,446)	668	14,444	**7,049**

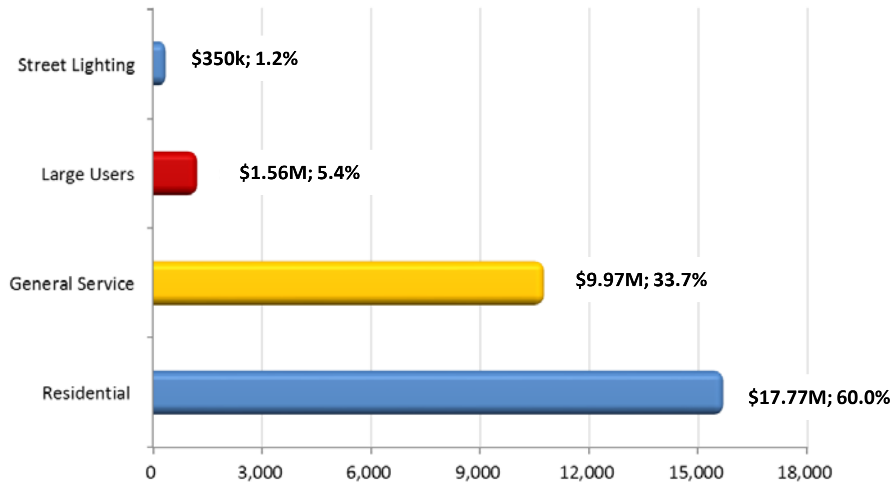
Guelph Hydro
Electric Systems Inc.

GHESI Operating Statistics, 2016

No. of Customers*:
54,991

Total Distribution Revenue:
$29.6 million



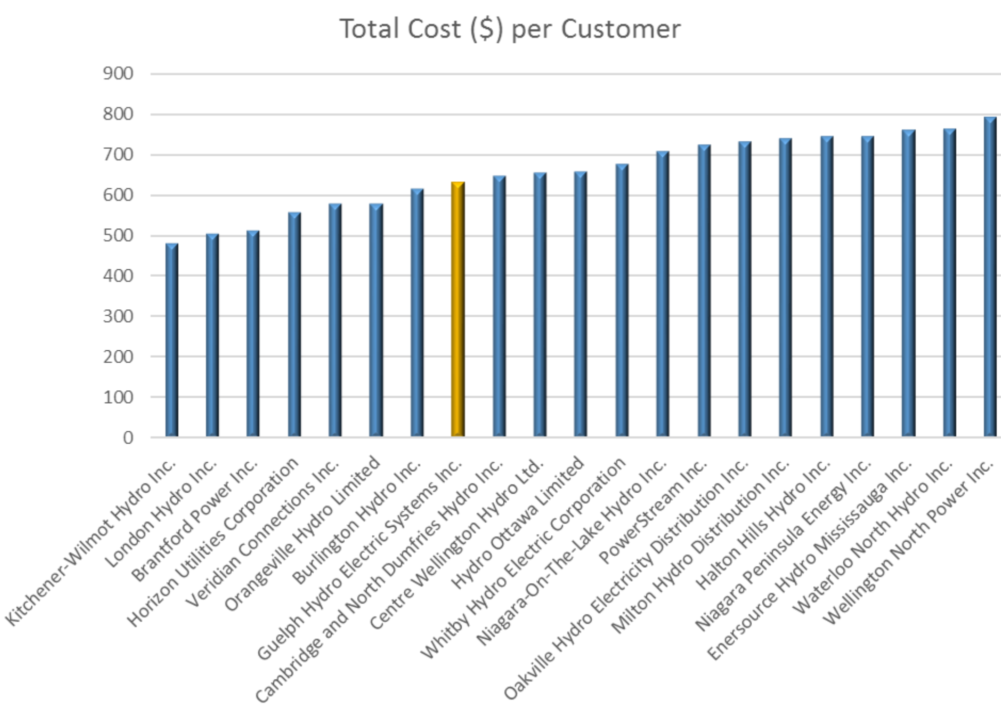


* excludes microFit and sentinel lighting customers

Guelph Hydro Electric Systems Inc.

2015 total Cost per Customer – OM&A and capital (sample comparators of small, medium and large LDCs)

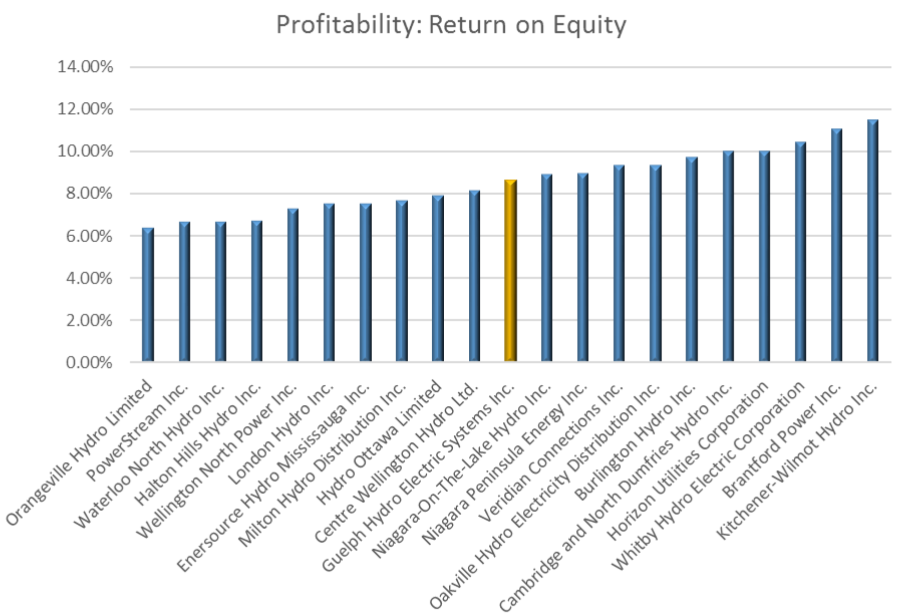
Distributor	Total Cost ($) per Customer
Kitchener-Wilmot Hydro Inc.	481
London Hydro Inc.	505
Brantford Power Inc.	512
Horizon Utilities Corporation	557
Veridian Connections Inc.	577
Orangeville Hydro Limited	578
Burlington Hydro Inc.	616
Guelph Hydro Electric Systems Inc.	632
Cambridge and North Dumfries Hydro Inc.	646
Centre Wellington Hydro Ltd.	654
Hydro Ottawa Limited	656
Whitby Hydro Electric Corporation	676
Niagara-On-The-Lake Hydro Inc.	706
PowerStream Inc.	723
Oakville Hydro Electricity Distribution Inc.	732
Milton Hydro Distribution Inc.	739
Halton Hills Hydro Inc.	744
Niagara Peninsula Energy Inc.	744
Enersource Hydro Mississauga Inc.	760
Waterloo North Hydro Inc.	762
Wellington North Power Inc.	791



Source: Ontario Energy Board Website

2015 Return on Equity
(sample comparators -- small, medium, large LDCs)

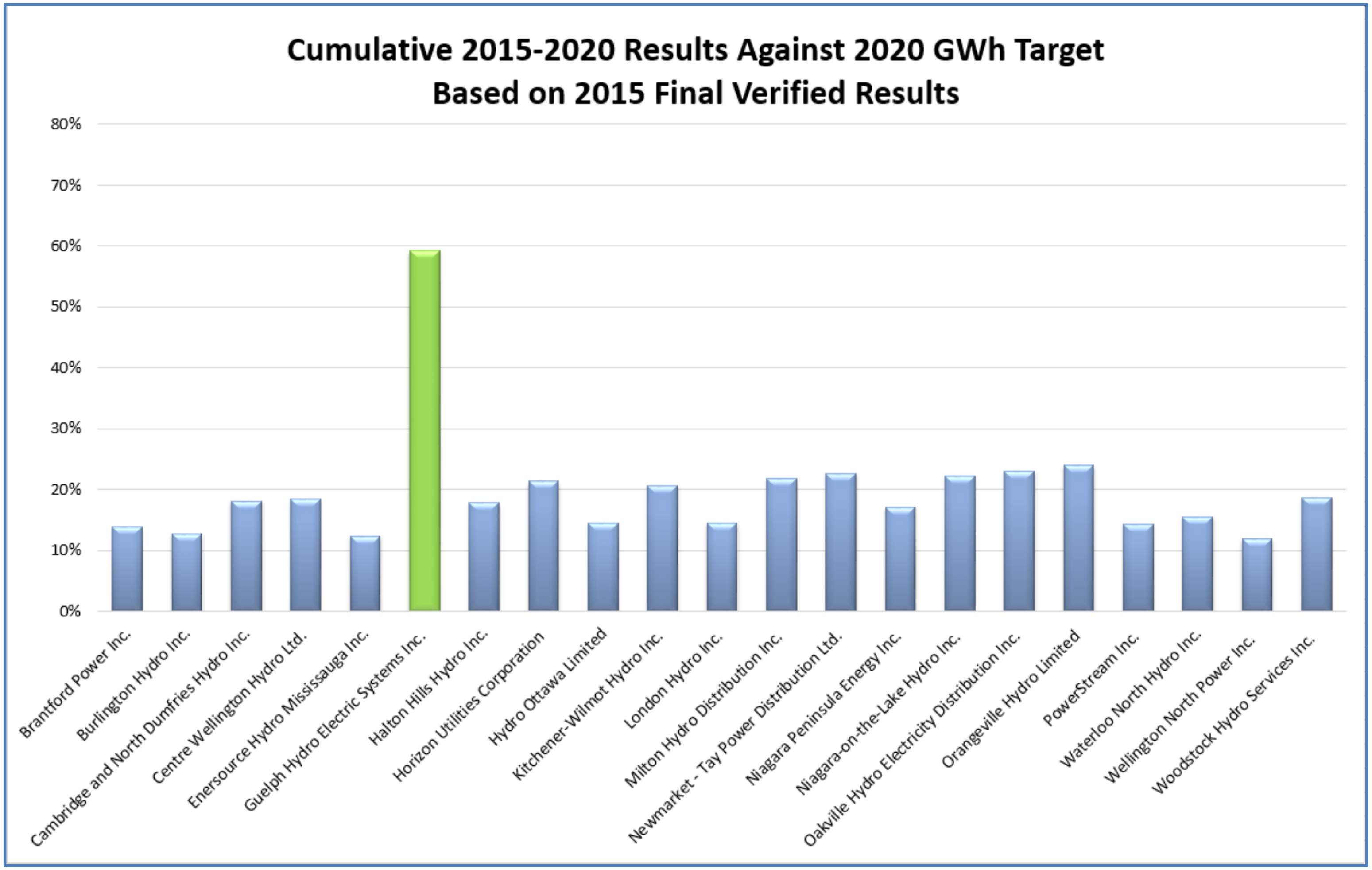
Distributor	Profitability: Return on Equity
Orangeville Hydro Limited	6.40%
PowerStream Inc.	6.65%
Waterloo North Hydro Inc.	6.65%
Halton Hills Hydro Inc.	6.70%
Wellington North Power Inc.	7.30%
London Hydro Inc.	7.52%
Enersource Hydro Mississauga Inc.	7.54%
Milton Hydro Distribution Inc.	7.68%
Hydro Ottawa Limited	7.92%
Centre Wellington Hydro Ltd.	8.13%
Guelph Hydro Electric Systems Inc.	8.66%
Niagara-On-The-Lake Hydro Inc.	8.90%
Niagara Peninsula Energy Inc.	8.96%
Veridian Connections Inc.	9.31%
Oakville Hydro Electricity Distribution Inc.	9.35%
Burlington Hydro Inc.	9.71%
Cambridge and North Dumfries Hydro Inc.	10.00%
Horizon Utilities Corporation	10.00%
Whitby Hydro Electric Corporation	10.43%
Brantford Power Inc.	11.06%
Kitchener-Wilmot Hydro Inc.	11.47%



Source: OEB website
ROE determined using OEB's methodology which examines net income and equity using regulatory accounts

Guelph Hydro Electric Systems Inc.

Conservation and Demand Management Final Verified 2015 Contribution to 2020 Target



Guelph Hydro Electric Systems Inc.

Operational Highlights and Strengths

SCADA System: GHESI has an advanced automated distribution system province with 121 automated remote controlled switches across the system

Fleet Management: GHESI manages a fleet of vehicles essential to the efficient day-to-day operations of the utility

Arlen Transformer Station: Commissioned and operating since December 31, 2011; fully reflected in rate base

Outage Management System (OMS): Developed an in-house state-of-the-art OMS. Also provide OMS services to Milton Hydro as a shared service

Health & Safety Management: GHESI subscribes to the eCompliance safety and compliance management system

Advanced GIS System: GHESI operates advanced GIS and mapping systems; these systems generate revenue through shared service agreements with other utilities

Control Room Operations: GHESI manages a Control Room that is fully equipped and staffed 24/7 to effectively monitor and react instantly to power outages, allowing for increased service reliability and enhanced safety operations. GHESI also provides 24/7 Control Room coverage to Milton Hydro

Asset Management Process: GHESI's asset management program analyzes the distribution system to determine an optimal maintenance and capital schedule required to meet asset management objectives. Expenditures are optimized through this process, and this informs the company's capital plan and helps with budget allocations for capital investments

Operational Performance

OEB Objectives for 2016

Item	Base Target	Target	Results	Comments
Low Voltage Connections within 5 days	90%	90%	808/808; 100%	Exceeded target
High Voltage Connections within 10 days	90%	90%	1/1; 100%	Exceeded target
Cable Locates within 5 days	80%	90%	8090/8184; 98.9%	Exceeded target
Telephone response within 30 seconds	65%	80%	29429/33958; 86.7%	Exceeded target
Appointments Met on time	90%	90%	1824/1830; 99.7%	Exceeded target
Written Responses within 10 days	80%	80%	6969/6969; 100%	Exceeded target
Emergency Responses within 60 minutes	80%	80%	80/90; 88.9%	Exceeded target

Operational Performance (continued)

Infrastructure Health and Safety Association (IHSA) and Electrical Safety Authority (ESA) Objectives for 2016

ITEM	Target	Results	Comments
System Reliability Index ≥ than the average over the past three years	99.99%	99.9911%	Customer average interruption duration was 47 minutes in 2016
Hours worked without a lost time injury (LTI)	Zero LTIs	1,063,957 hrs to November 24, 2016. 16,884 hrs to December 31, 2016	Attained 1,000,000 Hour IHSA President's Award, August 2016. Experienced 1 LTI (2Days) Nov. 24, 2016
Public and Contractor Safety Programs	20	30	• First Responders (6) • Contractor Safety (2) • Emergency Preparedness Days (2) • Elementary Schools (20)

Guelph Hydro Electric Systems Inc.

Strategic Performance

Enhanced our position as an asset to our shareholder and the communities we served by engaging all stakeholders in our key initiatives and objectives

Continued active participation in Grid Smart City Cooperative of like-sized LDCs and industry partners:

- Increased purchasing pool;
- Continued to expand Shared Services with neighbouring LDCs
- Microgrid research – implemented controls pilot project
- Facilitated a Flywheel Energy Storage project
- EV charging station installed as part of Microgrid research project

A Look Ahead

- Explore opportunities to merge GHESI in a manner that adds value relative to the status quo
- 2015 to 2020 Conservation First Framework program roll out intended to achieve six-year GHESI target of 99.04 GWh reduction
- Pilot project for in-home communication and load control
- Connect Flywheel energy storage project
- Continue research into micro and nano (residential) CHP project application
- Continue activities with Cambridge, Kitchener and Waterloo in regional planning on local bulk supply needs for the next 25 years
- Explore growth opportunities with emerging technology projects

Thank You

Guelph Hydro Electric Systems Inc.

2016 Year-in-Review

Powering community well-being

Creating value for customers and our shareholder

CORPORATE PROFILE

Guelph Hydro Electric Systems Inc. (Guelph Hydro) is a regulated electricity distribution company that builds, operates and maintains essential infrastructure and provides services to deliver electricity safely and reliably to more than 55,000 customers in the City of Guelph and the Village of Rockwood, Ontario.

Guelph Hydro is regulated by the Ontario Energy Board, a Crown Corporation that has broad powers related to licensing, rules of conduct and services, compliance, performance, as well as the regulation of rates charged by Guelph Hydro and 69 other local electricity distribution companies in Ontario.

Our Shareholder

The Legislature and Government of Ontario, through the Ministry of Energy, sets the legal and policy framework—passing legislation and issuing regulations—that govern the energy sector.

Our Mission

To be ranked as one of Ontario's top electrical utilities; trusted by stakeholders to provide continually increasing value while playing a leading role in the rapidly transforming energy sector.

Our Strategic Imperatives

Guelph Hydro's key strategic imperatives are aligned with the objectives of our shareholder, Guelph Municipal Holdings Inc., and the City of Guelph. They ensure we live up to the public trust invested in us to provide a safe and reliable supply of electricity while meeting changing customer needs and expectations, and achieving sustainable and profitable business growth.

FINANCIAL PERFORMANCE AND GROWTH – Control costs and realize efficiencies; increase shareholder dividends; develop new revenue streams

OPERATIONAL EXCELLENCE – Foster a high-performance culture and be a great place to work; enhance process improvement capability; leverage technology with every business process

CUSTOMER AND COMMUNITY FOCUS – Ensure competitive rates; improve the customer experience; meet energy conservation targets and contribute to community sustainability

A MESSAGE TO OUR STAKEHOLDERS

On behalf of the Board of Directors, management team and our workforce of 124 dedicated employees, we are pleased to present the Guelph Hydro Electric Systems Inc. 2016 Year in Review Report to our shareholder, Guelph Municipal Holdings Inc.

This report provides an overview of the company's achievements in advancing key elements of the company's business strategy. In the interest of transparency, also included are high-level financial results that are contained within the consolidated financial statements of Guelph Municipal Holdings Inc.[1]

> Serving more than 55,000 customers and with assets of $228 million, Guelph Hydro is among the top performers in Ontario's electricity distribution sector with noteworthy achievements in safety, energy conservation, efficiency, customer service, reliability and outage communications.

Guelph Hydro continues to provide excellent value for our shareholder, customers and the community, achieving a healthy financial outcome in 2016 while meeting operational performance targets, enhancing customer services, finding efficiencies and embracing innovation and growth.

Financial Highlights

A financially stable company, Guelph Hydro has a strong balance sheet and has been rated as "A" with a stable outlook by Standard & Poor's.

Guelph Hydro Electric Systems Inc. 2016 Financial Highlights (millions of dollars)	
Electricity Distribution Service and Other Revenues	$33.4
Total Assets	$228.3
Capital Expenditures	$14.8
Dividends Paid	$3.0
Long-Term Debt	$94.3
Total Equity	$68.7
Net Income	$7.1

In 2016, Guelph Hydro provided our shareholder, Guelph Municipal Holdings Inc., with a dividend of $3 million and achieved a book return on equity of 10.57 per cent.

[1] Consolidated financial statements for Guelph Municipal Holdings Inc. can be found on the City of Guelph website at: http://guelph.ca/living/environment/energy/gmhi/

Economic Impact

It is important to note that dividends are only a small portion of the value Guelph Hydro contributes to the economy. In 2016, the communities served by Guelph Hydro and the Province of Ontario derived more than $65.2 million in in economic benefits[2] from the company's operations. Added to this are the many non-financial, environmental and social benefits outlined in this report.

Positively Impacting the Local Economy (millions of dollars)	
Operating Expenses Property taxes, water costs, facility costs, professional fees, local purchasing, employee compensation and benefits, etc.	$22.6
Dividends Dividends paid to our shareholder, Guelph Municipal Holdings Inc.	$3.0
Capital Expenditures Capital expenditures to serve the needs of the business and the growing community	$14.8
Payments to Capital Providers and Government Interest and payments in lieu of taxes	$9.0
Energy and Conservation Program Incentives Includes Save on Energy[OM] conservation program incentives and payments to residents and businesses who generate renewable electricity	$15.8
$65.2 million in direct economic value	

[OM] Official Mark of the Independent Electricity System Operator. Used under licence.

[2] To measure our financial impact, Guelph Hydro calculates the value generated and distributed including operating costs, employee compensation, capital expenditures, dividends, payments to capital providers and government, energy conservation incentives, and payments to customers who generate electricity under Feed-in-Tariff (FIT) and microFIT contracts.

Operational Excellence

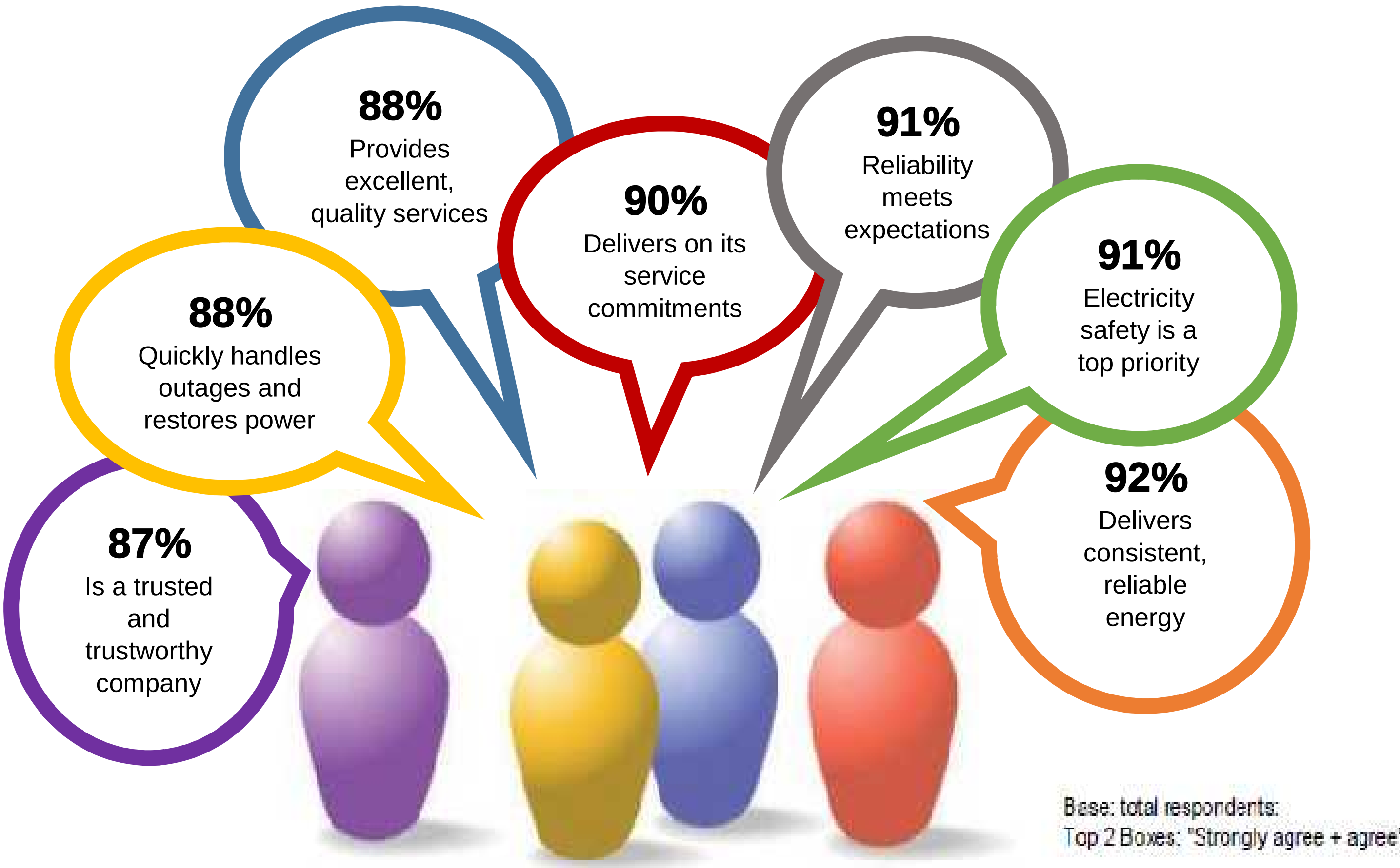
Guelph Hydro is performing exceptionally well from an operational standpoint with customers continuing to enjoy a safe and reliable supply of energy and customer services that rank among the best in the province.

Guelph Hydro's results in key performance categories are reported on the annual Guelph Hydro scorecard, which is posted on the Guelph Hydro and Ontario Energy Board websites. Although final 2016 results will not be compiled until September 2017, preliminary results indicate that the company met or exceeded all performance targets set by the Ontario Energy Board.

Performance Outcomes	Performance Categories	Measures
Customer Focus Services are provided in a manner that responds to identified customer preferences.	Service Quality	New Residential/Small Business Services Connected on Time
		Scheduled Appointments Met On Time
		Telephone Calls Answered On Time
	Customer Satisfaction	First Contact Resolution
		Billing Accuracy
		Customer Satisfaction Survey Results
Operational Effectiveness Continuous improvement in productivity and cost performance is achieved; and distributors deliver on system reliability and quality objectives.	Safety	Level of Public Awareness
		Level of Compliance with Ontario Regulation 22/04 [1]
		Serious Electrical Incident Index: Number of General Public Incidents
		Serious Electrical Incident Index: Rate per 10, 100, 1000 km of line
	System Reliability	Average Number of Hours that Power to a Customer is Interrupted [2]
		Average Number of Times that Power to a Customer is Interrupted [2]
	Asset Management	Distribution System Plan Implementation Progress
	Cost Control	Efficiency Assessment
		Total Cost per Customer [3]
		Total Cost per Km of Line [3]
Public Policy Responsiveness Distributors deliver on obligations mandated by government (e.g., in legislation and in regulatory requirements imposed further to Ministerial directives to the Board).	Conservation & Demand Management	Net Cumulative Energy Savings [4]
	Connection of Renewable Generation	Renewable Generation Connection Impact Assessments Completed On Time
		New Micro-embedded Generation Facilities Connected On Time
Financial Performance Financial viability is maintained; and savings from operational effectiveness are sustainable.	Financial Ratios	Liquidity: Current Ratio (Current Assets/Current Liabilities)
		Leverage: Total Debt (includes short-term and long-term debt) to Equity Ratio
		Profitability: Regulatory Return on Equity: Deemed (included in rates)
		Profitability: Regulatory Return on Equity: Achieved

Customer Satisfaction

Thanks to the hard work and professionalism of all employees who interact with our customers during a workday, customer satisfaction remains high with 89 per cent of the 400 residential and commercial customers who participated in a comprehensive telephone survey indicating they are satisfied[3] with the services provided by Guelph Hydro. This score is five per cent higher than the Ontario utilities benchmark.



89%

Overall Customer Satisfaction Score

Recognizing that consumer expectations are changing, the company is actively engaging customers to better understand their preferences and working to continually improve information and services. For example, in 2016, estimated restoration times now appear on our power outage map and are communicated by Twitter.

[3] Per cent of total respondents who indicated they are "very or fairly satisfied" with Guelph Hydro services

STRATEGIES FOR FUTURE GROWTH

Although Guelph Hydro is a financially and operationally sound local distribution company that is fully capable of meeting near-term challenges, we are mindful of the current political environment, advances in technology, and changes in customer expectations and behaviour that are resulting in the rapid transformation of the electricity sector and the evolution of existing utility business models.

Guelph Hydro continues to facilitate the adoption of alternative energy sources in the community. In 2016, the company connected five Feed-in-Tariff (FIT) and 45 microFIT solar installations to the grid bringing the total of such connections in the City of Guelph and Village of Rockwood to 38 FIT and 365 microFIT installations with a nameplate capacity of more than 8 megawatts and 3 megawatts respectively. Solar installations on the rooftops of Guelph Hydro's head office and service centre, and the Arlen transformer station generated 139 megawatt-hours of electricity for the Ontario grid.

With an eye on the future, Guelph Hydro has established new partnerships and will be conducting research and development work associated with smart grids, microgrids, energy storage, and electric vehicle charging stations and networks. We have also expanded services, for example, by providing Control Room operations for a neighbouring utility and storm water billing services for the City of Guelph.

Mid-way through 2016, the Strategies and Options Committee, formed by the City of Guelph as a Committee of Guelph Municipal Holdings Inc., started to review ownership options for the company to ensure the community is getting the best long-term value from this important City asset. In January, 2017, Guelph City Council voted to explore opportunities to merge Guelph Hydro with other publicly-owned utilities and compare these with maintaining full ownership. The Chair and Vice-Chair of the Board of Guelph Hydro Electric Systems Inc. will be representing the corporation on this Committee in 2017.

We would like to thank the Board of Directors for their dedication, leadership and guidance in helping to establish and oversee the realization of a strategic direction for Guelph Hydro as the utility industry transforms.

We would also like to commend Guelph Hydro employees for continuing to work safely while providing superior customer service, completing significant business objectives and positioning the company to take advantage of future opportunities. The successes achieved by Guelph Hydro in 2016 are a testament to their ongoing hard work and commitment to our customers and the community.

Jane Armstrong Board Chair	Pankaj Sardana Chief Executive Officer

CUSTOMERS AND ELECTRICITY CONSUMPTION

Although Guelph and Rockwood are both growing communities, Guelph Hydro recorded a drop in electricity consumption in 2016 when compared against 2015 results. This reduction can be attributed to several factors including:

- Customer adoption of energy conservation and energy efficiency measures
- Behind-the-meter, customer-owned generation
- Four customer-owned net metering installations
- Some impact from weather-related differences in heating and cooling days

CUSTOMERS AND CONSUMPTION	**2016**	**2015**
Total electricity customers	54,996 customers	54,099 customers
Total electricity consumed	1,719 gigawatt-hours	1,807 gigawatt-hours

RESIDENTIAL CUSTOMERS	**2016**	**2015**
Residential accounts	50,270 customers	49,417 customers
Total electricity consumed	377 gigawatt-hours	396 gigawatt-hours
Average monthly consumption	625 kilowatt-hours	669 kilowatt-hours
Typical Ontario household monthly consumption[4]	750 kilowatt-hours	800 kilowatt-hours

COMMERCIAL CUSTOMERS[5]	**2016**	**2015**
Commercial accounts	4,721 customers	4,677 customers
Total electricity consumed	1,106 gigawatt-hours	1,114 gigawatt-hours

LARGE INDUSTRIAL USERS[6]	**2016**	**2015**
Large industrial accounts	5 customers	5 customers
Total electricity consumed	236 gigawatt-hours	297 gigawatt-hours

FEED-IN TARIFF CUSTOMERS	**2016**	**2015**
Feed-in-Tariff (FIT) accounts	38 customers	33 customers
Electricity generated	10,307 megawatt-hours	9,208 megawatt-hours
MicroFIT accounts	364 customers	319 customers
Electricity generated	3,163 megawatt-hours	2,576 megawatt-hours

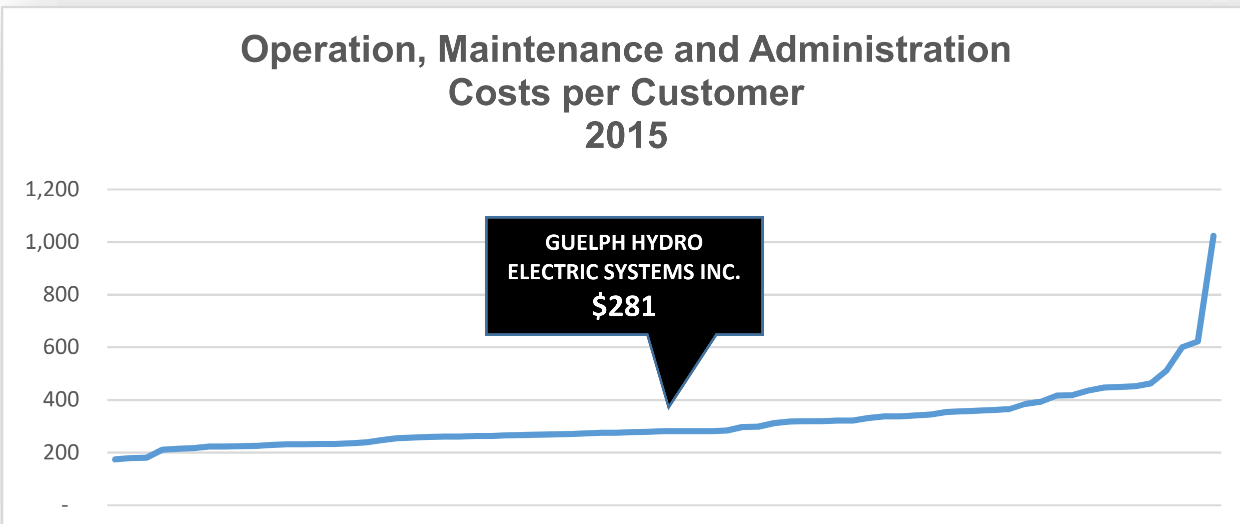
[4] Ontario Energy Board - 2016
[5] Includes unmetered scattered loads, sentinel lighting and street lighting
[6] More than 5,000 kilowatts

AFFORDABLE DISTRIBUTION RATES FOR CUSTOMERS

When applying to the Ontario Energy Board for new distribution rates, Guelph Hydro endeavours to keep rates affordable while generating enough revenue to support capital projects to upgrade and expand the network to meet the needs of our growing communities.

Prudent capital investment and effective cost control enable us to ensure the efficiency of our operation and ongoing affordability of our services.

Our ability to run an efficient and productive operation can be measured by comparing our operation, maintenance and administration (OM&A) costs per customer against those of other utilities. The graph below indicates that Guelph Hydro's operation, maintenance and administration costs per customer in 2015 were about average when compared against the 69 other utilities in the province. Guelph Hydro's OM&A costs per customer for 2016 were $284. Comparative information from other utilities will not be available until sometime during the summer of 2017.



UNDERSTANDING ELECTRICITY CHARGES

When you pay your Guelph Hydro bill*, 79 per cent goes to electricity generators, transmitters and provincial government agencies. These charges are related to the amount of electricity you use, and Guelph Hydro has limited control over them.

Guelph Hydro keeps 21 per cent of your payment to cover the cost of distributing electricity here in our community. Guelph Hydro manages these distribution charges carefully.

Average consumption
750 kWh**

Average bill per month
$133.43

79%

of charges on a monthly bill, or $105.41, are collected on behalf of other organizations

64% **Generators**
The cost of building, maintaining, and operating power generating stations (nuclear, hydro, gas, wind, solar and bioenergy)

6% **Hydro One and other transmitters**
Costs paid to Hydro One and others to transmit power from generating stations to Guelph and Rockwood

5% **Revenue Canada**
13% Harmonized Sales Tax (HST)
-8% rebate for Ontario electricity consumers

4% **Government and Government Agencies*****
Regulatory charges to administer Ontario's electricity system and maintain the reliability of the provincial grid

21%

of charges on a monthly bill, or $28.02, is used by Guelph Hydro

21% **Guelph Hydro Distribution Charges**
Infrastructure–Design, construction, operation and maintenance of poles, wires, underground cables, meters, transformers and transformer substations
Customer services–Administrative services including billing and maintaining a call centre in Guelph
Emergency services–24/7/365 power outage emergency services
Operating costs–Property taxes, water and wastewater fees, employee compensation and payments in lieu of taxes
Financial costs–Debt service costs and payment of a fair return on equity to the City of Guelph

Any changes to Guelph Hydro distribution rates must be approved by the Ontario Energy Board.

* Charges for water, waste water and storm water fees are not included in these calculations

** Source: Ontario Energy Board—Based on an average residential customer on the Regulated Rate Plan paying Time-of-Use rates for 750 kilowatt hours of electricity—2016

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

As of January 2017

OPERATIONAL EXCELLENCE

Working Safely

Guelph Hydro achieved two important milestones in safety in 2016.

First, the personal commitment of each of our employees to work safely was evidenced by the achievement of one million hours without a lost time incident in 2016.

Secondly, the company was presented with a Certificate of Recognition (COR™) by the Infrastructure Health and Safety Association (IHSA) attesting to the quality of the company's health and safety management system.

Guelph Hydro's efforts in the community to raise awareness about electrical hazards included conducting a public safety awareness telephone survey, attending emergency preparedness days, making presentations at schools and sponsoring radio advertisements.

Investing to Meet the Needs of a Growing Community

In 2016, Guelph Hydro invested $13.5 million in electricity distribution infrastructure to serve the needs of the growing communities of Guelph and Rockwood.

In addition to providing connections for 858 newly constructed buildings, the company continued to invest prudently to upgrade the electricity distribution network to accommodate more and different sources of renewable energy as well as the anticipated increase in home-based electric vehicle charging systems.

Assets	
Total assets	$228.4 million
Overhead lines	420 kilometres
Underground cable	712 kilometres
Total circuit length	1,132 kilometres
Municipal transformer stations	1 transformer station
Substations	2 substations
Transformers	5,903
Poles	10,765
Fleet vehicles	42 including an electric van and a hybrid bucket truck
LEED®-certified office building[7]	1

[7] LEED® - Leadership in Energy and Environmental Design is a rating system that is recognized as the international mark of excellence for green building in 150 countries.

Reliability

Increased investments in smart grid technologies that reduce the number and duration of power outages are benefitting customers any time the lights go out. As a result, Guelph Hydro achieved a system reliability index of 99.991 per cent in 2016, evidence that the company operates one of the most reliable electricity distribution networks in the province.

Peak Demand	
Summer – with / without embedded generation	292 / 308 megawatts
Winter – with / without embedded generation	254 / 262 megawatts
Historical peak demand – summer – without generation	308 megawatts in 2016
Historical peak demand – winter – without generation	270 megawatts in 2014

Distribution System Reliability[8]	
Index of Reliability	
Excluding upstream loss of supply Including upstream loss of supply	99.991% 99.987%
SAIDI[9] – System Average Interruption Duration Index	
Excluding upstream loss of supply Including upstream loss of supply	0.79 = 47 minutes 1.08 = 65 minutes
SAIFI[10] – System Average Interruption Frequency Index	
Excluding upstream loss of supply Including upstream loss of supply	1.41 interruptions 2.19 interruptions
CAIDI[11] – Customer Average Interruption Duration Index	
Excluding upstream loss of supply Including upstream loss of supply	0.56 = 33 minutes 0.49 = 30 minutes

[8] Reliability indicators
Distribution system reliability includes (SAIFI, SAIDI, CAIDI) include all planned and unplanned interruptions lasting more than one minute. Loss of supply refers to customer interruptions caused by an outage that occurs upstream of the Guelph Hydro Electric Systems Inc. distribution system.
[9] SAIDI = total hours of customer interruptions divided by total customers served
[10] SAIFI = Total customer interruptions divided by total customers served
[11] CAIDI = SAIDI/SAIFI

CREATING A FIRST-CLASS CUSTOMER EXPERIENCE

At Guelph Hydro, we value our customers and endeavour to provide a responsive, first-class customer experience.

2016 Customer Service Highlights

200,000	Visits to our website
33,958	Incoming telephone calls from customers
21,000	Visits to our mobile site
9,734	Opened and closed accounts
4,365	Customer emails
4,200	Twitter followers
3,912	Used online move-in/move-out forms
2,604	Online chat sessions
2,460	Used Intelligent Voice Response (IVR) to get account balance
1,327	Tweets sent

Customer Satisfaction Survey Results

To determine the satisfaction of customers with the quality of the service we provide, we contracted with UtilityPULSE to conduct an Electric Utility Customer Satisfaction Survey. This survey, which consisted of one-on-one telephone interviews with 400[12] randomly selected residential and small commercial customers, was conducted in January 2017 and reflects customer attitudes based on past interactions with the company.

As illustrated on page 5, survey results indicate that 89 per cent of customers are very or fairly satisfied with the services provided by Guelph Hydro. This score is five per cent higher than the Ontario utilities benchmark but lower than the 96 per cent satisfaction score Guelph Hydro achieved in 2013, the last year in which we did this survey.

However, to put this in context, many utilities in Ontario have experienced a similar drop during this period which reflects general public dissatisfaction with rising electricity prices and the fact that more Ontario consumers are having difficulty paying their hydro bill.

We were pleased to see that we received high scores for reliability, outage responsiveness and the accuracy of bills. (See scores on page 5.)

A summary of the results of the 2017 Electric Utility Customer Satisfaction Survey conducted by UtilityPULSE can be found on the Guelph Hydro website at www.guelphhydro.com.

[12] 85 per cent residential customers, 15 per cent commercial customers

What Our Customers Say About Our Service

Guelph Hydro's Customer Call Centre, located in Guelph, is staffed by a talented team of employees who receive excellent training and possess an in-depth knowledge of our business. We know their ability to promptly and accurately respond to the myriad of questions posed by customers on the telephone, via email or during online chat sessions, results in highly satisfied customers.

Field crews, engineering staff, energy conservation team members, metering employees and others also interact one-on-one with customers and provide excellent customer service while making repairs, overseeing construction projects, solving problems and answering questions.

Results of the 2017 Customer Satisfaction Survey reveal that a large majority of our customers find our employees professional, customer focused, courteous and easy to do business with. The scores in the table below are all significantly above the Ontario benchmark.

LEADING IN ENERGY CONSERVATION

In 2016, Guelph Hydro continued to help reduce greenhouse gas emissions by championing energy conservation in the community. The success of the company's Conservation and Demand Management efforts was proven in 2015 when the Ontario Energy Board announced that Guelph Hydro exceeded the four-year electricity consumption and demand reduction targets set by the province. Guelph Hydro was one of only five electricity distribution companies in the province to exceed both targets.

In 2016, Guelph Hydro's Conservation and Demand Management Team was presented with a *Connecting Today – Powering Tomorrow* plaque by Ontario's Independent Electricity System Operator (IESO) in recognition of the company's outstanding achievements in promoting Save on Energy[OM] conservation programs in the community.

Outstanding results achieved in energy conservation thanks to the efforts of the Guelph Hydro Energy Conservation and Demand Management Team - (left to right) Ian Garrett, Matt Weninger, Giorgio Boccalon, Kevin Pratt, Colleen Pearse and Julie Wildgoose.

[OM] Official Mark of the Independent Electricity System Operator. Used under licence.

Conservation First Framework Targets for 2020

Ontario's 2015-2020 Conservation First Framework maps out the province's energy conservation goals over the next six years, emphasizing a coordinated effort within all stages of energy planning, as well as more effective teamwork among sector partners, including gas utilities and local distribution companies (LDCs), like Guelph Hydro.

The goal of the Conservation First Framework is a total reduction of 8.7 terawatt-hours of electricity consumption in Ontario by December 31, 2020 — 1.7 terawatt-hours to be achieved through conservation projects with transmission-connected customers, and 7 terawatt-hours from conservation programs delivered by LDCs to residential and business customers across the province.

The Conservation First Framework reflects an evolution of conservation planning and management in Ontario. It emphasizes the role of Ontario's LDCs by enabling them to better tailor conservation planning to meet the needs of their local communities and the larger region.

Collectively, Ontario's LDCs are responsible for planning cost-effective ways to reduce 7 terawatt-hours of electricity consumption by December 31, 2020, with individual targets assigned to each. To meet these targets, LDCs have developed their own six-year plans for delivering energy conservation programs to their customers, assisted by the tools, support and guidance of the IESO.

Guelph Hydro's target is to reduce consumption in Guelph and Rockwood by a total of 99.04 gigawatt-hours. The company's six-year CDM plan outlines the province-wide programs that will be offered to customers and proposes several pilot programs that could be launched if approved by the IESO.

On Track to Achieve 2020 Target

In 2016, the company continued its success in promoting Save on Energy[OM] conservation programs; distributing almost $7 million in Save on Energy[OM] incentives from the IESO and Guelph Hydro to customers who took advantage of a number of programs including:

- Process and Systems Upgrade Program
- High Performance New Construction
- Retrofit Program
- Heating and Cooling Program
- Coupon Program

Preliminary results indicate the company has already achieved 79 per cent of the new six-year energy conservation target set for 2020.

[OM] Official Mark of the Independent Electricity System Operator. Used under licence.

SUPPORTING THE COMMUNITY

As a corporation, Guelph Hydro provides a variety of social benefits to the communities of Guelph and Rockwood by:

- Providing more than 120 local jobs
- Supporting powerline training programs at local colleges by providing instructors and donating two $1,000 bursaries
- Supporting low income customers by contributing $38,000 to the Low-Income Energy Assistance Program (LEAP) delivered through local social service agencies
- Promoting the Ontario Electricity Support Program via bill inserts and website banners
- Providing over $450,000 in Save on Energy^OM incentives to Guelph Hydro business customers. These customers invested over $2 million locally to reduce the annual consumption in their facilities, plants and processes by almost $500,000
- Providing “Understanding Your Hydro Bill and the Ontario Electricity Industry” educational sessions for new Canadians, seniors and low income customers
- Donating 500 trees to Trees for Guelph representing one tree for every ten customers who signed up for paperless ebilling in 2016

Charitable Giving

At Guelph Hydro, we take great pride in the time and effort our employees contribute to community well-being. In 2016, employees raised money for several worthy causes including:

- Wyndham House
- Red Cross Alberta Fires Fund
- Guelph Humane Society
- Guelph & Wellington Children’s Foundation Adopt-a-Family program and breakfast program

In addition, more than $60,000 was donated to the United Way. This accomplishment was recognized by the United Way with a *United Way Business and Finance Division Spirit Award*.

CORPORATE GOVERNANCE

Guelph Hydro Electric Systems Inc. is 100 per cent owned by Guelph Municipal Holdings Inc., which, in turn, is wholly owned by the City of Guelph.

Guelph Municipal Holdings Inc., is guided by the community vision and strategic priorities of Guelph City Council. Its Board reports directly to Council and, thus, to Guelph citizens.

As shareholder, Guelph Municipal Holdings Inc. appoints the Board of Directors for Guelph Hydro Electric Systems Inc. The Guelph Hydro Electric Systems Inc. Board of Directors consists of five independent directors and three representatives of the City of Guelph.

Integrity and Ethics

Guelph Hydro Electric Systems Inc., its Board and its management are committed to the highest standards of corporate governance and business ethics. The Board, through its Governance and Risk Committee, continually evaluates and enhances the Corporation's governance and business practices through a process of self-evaluation and continuous improvement.

Although not publicly traded, the Board and management team target compliance with the corporate governance rules and guidelines of Canadian Securities regulators and the requirements of the Ontario Energy Board's Affiliate Relationships Code.

Risk Management

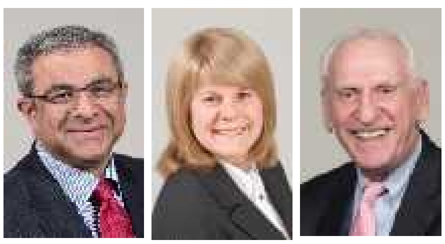
The Board and Board committees have specific oversight responsibility for risk management as follows:

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

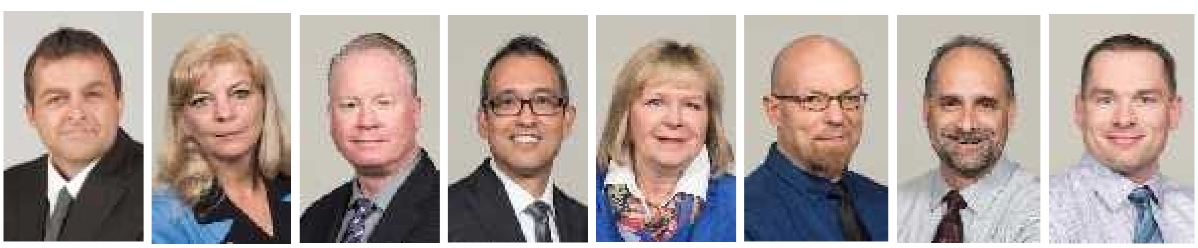
Board of Directors

The Board of Directors consists of (left to right):
Jane Armstrong, Chair[16], Robert M. Bell, Vice-Chair[13,14,16], Phil Allt[14], Marika Hare[13,15], Robert J. Huggard[14,15], George Mitges[13,14,15], Mike Salisbury[13], and Derrick Thomson[16].

Corporate Officers and Leadership Team



Corporate Officers are not members of the Board and consist of (left to right):
Pankaj Sardana, Chief Executive Officer; Nicole Mailloux, Vice President Human Resources, and Seymour Trachimovsky, Corporate Secretary.



The Leadership Team consists of (left to right**):**
Dan Amyot, Director of Information Systems; Cristina Birceanu, Vice-President, Regulatory Affairs, Customer Care and Billing; Paul Drone, Acting Director of Operations; Michael Koktan, Director of Finance / Controller; Sandy Manners, Director of Corporate Communications; Erik Veneman, Vice-President, Innovation and Growth; Matt Weninger, Vice-President, Metering and Conservation; and Michael Wittemund, Vice-President, Engineering and Operations.

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[13] Finance and Audit Committee – Robert M. Bell, Chair
[14] Human Resources and Compensation Committee – Robert J. Huggard, Chair
[15] Governance and Risk Committee – George Mitges, Chair
[16] Guelph Municipal Holdings Inc. Strategies and Options Committee – Derrick Thomson, Co-Chair, Jane Armstrong, Co-Chair

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Guelph Hydro Electric Systems Inc.

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