

City Council as Shareholder of Guelph Junction Railway Limited

Revised Meeting Agenda

Wednesday, July 22, 2020, 7:00 p.m.

Remote meeting live streamed
on guelph.ca/live

Changes to the original agenda are noted with an asterisk "*".

To contain the spread of COVID-19, City Council meetings are being held electronically and can be live streamed at guelph.ca/live.

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Pages

1. Notice - Electronic Participation

1.1 City Council

This meeting will be held by Electronic Participation in accordance with the City of Guelph Procedural By-law (2020)-20490.

2. Call to Order

3. Open Meeting

3.1 Disclosure of Pecuniary Interest and General Nature Thereof

*4. Confirmation of Open Minutes

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*The June 17, 2019 Council as Shareholder of Guelph Junction Railway Minutes have been revised since the original issuance of the agenda to correct an administrative error.

Recommendation:

That the minutes of the open Council as Shareholder of Guelph Junction Railway Limited Meeting held June 17, 2019 be confirmed as recorded and without being read.

5. Consent Agenda

The following resolutions have been prepared to facilitate Council's consideration of various matters and are suggested for consideration. If Council wishes to address a specific report in isolation of the Consent Agenda, please identify the item. It will be extracted and dealt with separately as part of the Items for Discussion.

5.1 2019 Audited Financial Statements - 2020-86

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Recommendation:

1. That the Guelph Junction Railway Limited Audited Financial Statements for the year-ended December 31, 2019 be received for information.

5.2 Appointment of Auditors for 2020 - Guelph Junction Railway Limited - 2020-89

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Recommendation:

1. That the audit firm selected by City Council through the competitive procurement process in 2020 for the City's audit be appointed by City Council, as Shareholder for Guelph Junction Railway Limited ("GJR"), as auditors for the 2020 fiscal year.

6. Items for Discussion

The following items have been extracted from the Committee of the Whole Consent Report and the Council Consent Agenda and will be considered separately. These items have been extracted either at the request of a member of Council or because they include a presentation and/or delegations.

***6.1 Guelph Junction Railway 2019 Annual Report - 2020-92**

30

Presentation:

Scott Stewart, Director and Chief Executive Officer, Guelph Junction Railway

Correspondence:

*Richard Puccini

Recommendation:

1. That City Council in its capacity as the sole shareholder of the Guelph Junction Railway Limited receives and approves the Guelph Junction Railway 2019 Annual Report.

7. Adjournment



**Minutes of Guelph City Council as
Shareholder of Guelph Junction Railway
Held in the Council Chambers, Guelph City Hall on
Monday, June 17, 2019 at 7:30 p.m.**

Attendance

Council:	Mayor C. Guthrie Councillor B. Bell Councillor C. Billings Councillor C. Downer Councillor D. Gibson Councillor R. Goller	Councillor J. Gordon Councillor J. Hofland Councillor M. MacKinnon Councillor D. O'Rourke Councillor L. Piper Councillor M. Salisbury
Absent:	Councillor P. Allt Councillor D. Gibson	
Staff:	Mr. T. Lee, Acting Chief Administrative Officer/DCAO, Corporate Services Mr. C. Cooper, General Manager Legal, Realty, and Court Services/City Solicitor Ms. J. Surgeoner, Manager of Financial Reporting/Accounting Mr. S. O'Brien, General Manager, City Clerk's Office/City Clerk Ms. D. Black, Council Committee Coordinator	
Also Present:	Mr. I. Brown, Chair, Guelph Junction Railway Limited Board of Directors Mr. R. Puccini, Member, Guelph Junction Railway Limited Board of Directors	

Call to Order (7:30 p.m.)

Mayor Guthrie called the meeting to order.

Disclosure of Pecuniary Interest and General Nature Thereof

There were no disclosures.

Authority to Move into Closed Meeting

1. Moved by Councillor Hofland
Seconded by Councillor Goller

That the Council of the City of Guelph as shareholder of Guelph Junction Railway now hold a meeting that is closed to the public, pursuant to the Section 239 (2) (b) and (f) of the Municipal Act with respect to personal matters about an identifiable individual, including municipal or local board employees; and advice

that is subject to solicitor-client privilege, including communications necessary for that purpose.

Voting In Favour: Mayor Guthrie, Councillors Bell, Billings, Downer, Goller, Gordon, Hofland, Piper and Salisbury (9)

Voting Against: (0)

Closed Meeting (7:31 p.m.)

Disclosure of Pecuniary Interest and General Nature Thereof

There were no disclosures.

The following matters were considered:

GJR-2019-01 Guelph Junction Railway Limited Governance Review

Rise and Report from Closed Meeting (8:10 p.m.)

Council recessed.

Open Meeting – 8:12 p.m.

Closed Meeting Summary

Mayor Guthrie spoke regarding the matters addressed in closed and identified the following:

GJR-2019-01 Guelph Junction Railway Limited Governance Review

Information was received and this matter will come forward as a special resolution at this meeting.

Confirmation of Minutes

2. Moved by Councillor Hofland
Seconded by Councillor Goller

That the minutes of the June 18, 2018 Council as Shareholder of Guelph Junction Railway Annual General Meeting be confirmed as recorded and without being read.

Voting in Favour: Mayor Guthrie, Councillors Bell, Billings, Downer, Goller, Gordon, Hofland, MacKinnon, O'Rourke and Piper (10)

Voting Against: (0)

Carried

Councillor Salisbury arrived at the meeting. (8:13 p.m.)

Items for Discussion

Presentation:

Ian Brown, Chair, Guelph Junction Railway Board of Directors, advised he would like the opportunity to speak to the governance review if possible. He provided highlights of the Guelph Junction Railway Annual Report.

The Mayor expressed appreciation to the Board of Directors for their hard work and dedication to the Guelph Junction Railway.

3. Moved by Councillor Downer
Seconded by Councillor O'Rourke

That the 2018 Guelph Junction Railway Limited Annual Report be received.

Voting in Favour: Mayor Guthrie, Councillors Bell, Billings, Downer, Goller, Gordon, Hofland, MacKinnon, O'Rourke and Piper (11)

Voting Against: (0)

Carried

GJR-2019.03**Guelph Junction Railway Limited Assessment of Business and Governance**

4. Moved by Councillor Downer
Seconded by Councillor O'Rourke

That City Council in its capacity as the sole shareholder of the Guelph Junction Railway Limited directs staff to implement recommendations that are provided in Report GJR-2019-03 – "Assessment of Business and Governance Recommendations".

Voting in Favour: Mayor Guthrie, Councillors Billings, Downer, Goller, Gordon, Hofland, MacKinnon, O'Rourke and Piper (10)

Voting Against: Councillor Bell (1)

Carried

GJR-2019.04**Chief Financial Officer Report – 2018 Guelph Junction Railway Limited Audited Financial Statements**

5. Moved by Councillor Billings
Seconded by Councillor Hofland

1. That report GJR-2019-04 titled, Chief Financial Officer Report – 2018 Guelph Junction Railway Limited Audited Financial Statements be received for information.
2. That the Guelph Junction Railway Limited Audited Financial Statements for the year-ended December 31, 2018 be received for information.

Voting in Favour: Mayor Guthrie, Councillors Bell, Billings, Downer, Goller, Gordon, Hofland, MacKinnon, O'Rourke and Piper (11)

Voting Against: (0)

Carried

GJR-2019-05 Appointment of KPMG LLP as Auditors for 2019

6. Moved by Councillor Hofland
Seconded by Councillor Gordon

That KPMG LLP be appointed as auditors for Guelph Junction Railway Limited for its 2019 fiscal year.

Voting in Favour: Mayor Guthrie, Councillors Bell, Billings, Downer, Goller, Gordon, Hofland, MacKinnon, O'Rourke and Piper (11)

Voting Against: (0)

Carried

Special Resolution

7. Moved by Councillor Piper
Seconded by Councillor Billings

1. That City Council, as the Shareholder of Guelph Junction Railway Limited (GJR), receive Report Number GJR-2019-01, entitled "Guelph Junction Railway Limited Governance Review", dated June 17, 2019.
2. That City Council, as the Shareholder of Guelph Junction Railway Limited (GJR):
 - (a) approve the new corporate governance structure for GJR as set out in Report Number GJR-2019-01; and
 - (b) appoints the Deputy Chief Administrative Officer, Corporate Services, as Director and Chief Executive Officer of GJR, to hold those positions until City Council appoints the City's new Chief Administrative Officer; and
 - (c) directs the Chief Administrative Officer to prepare, in consultation with the Corporate Secretary/Legal Counsel, a new Shareholder Declaration regarding GJR, as recommended in Report Number GJR-2019-01.

Point of Order

Councillor Goller raised a point of order and inquired whether the confidential report could be disclosed in open with the recommendations arising out of the closed meeting. The Mayor ruled that the confidential report and discussion within the closed meeting should remain confidential and that Council as Shareholder, in closed, resolved to only introduce the motions noted above. The Mayor proceeded with calling the vote on the special resolutions.

Voting in Favour: Mayor Guthrie, Councillors Billings, Downer, Gordon, Hofland, MacKinnon, O'Rourke and Piper (8)

Voting Against: Councillors Bell, Goller and Salisbury (3)

Carried

Adjournment (8:33 p.m.)

8. Moved by Councillor Billings
Seconded by Councillor MacKinnon

That the meeting be adjourned.

Carried

Minutes to be confirmed at the Guelph Junction Railway Annual General Meeting to be held in June, 2020.

Mayor Guthrie

Stephen O'Brien - City Clerk

Staff Report



To	City Council as Shareholders of Guelph Junction Railway Inc.
Date	Wednesday, July 22, 2020
Subject	Guelph Junction Railway 2019 Audited Financial Statements

Recommendation

That the Guelph Junction Railway Limited Audited Financial Statements for the year-ended December 31, 2019 be received for information.

Executive Summary

Purpose of Report

To present and review the 2019 Guelph Junction Railway Limited Audited Financial Statements.

Key Findings

Please refer to Attachment-1, which represents the audited financial statements of Guelph Junction Railway Limited for the year-ended December 31, 2019. KPMG LLP performed the audit in accordance with generally accepted auditing standards. KPMG LLP has expressed an unqualified or “clean” opinion that the statements present fairly, in all material respects, the financial position of Guelph Junction Railway Limited.

Guelph Junction Railway Limited had another strong financial year, reporting a net income of \$1,092,200, which contributes to an increase in the City’s investment in Guelph Junction Railway Limited to \$10.4 million as at December 31, 2019 (\$9.4 million at December 31, 2018).

Financial Implications

The governance and oversight of the City’s wholly-owned subsidiaries creates financial value to the City through equity gains and dividend returns.

Report

Accounting Treatment

Guelph Junction Railway Limited has prepared its financial statements in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board. The financial statements have been prepared on a historical cost basis.

Comment on 2019 Results

Guelph Junction Railway Limited (GJR) had another strong financial year reporting a net income of \$1,092,200 compared to \$740,600 in 2018, an increase of \$351,600 (47.5%) over 2018. The increase in net income relates to revenue increases for both freight and non-freight movement with an increase in revenue of \$720,000 (18.1%) over 2018. Expenses increased by \$370,000 (11.4%), with freight movement costs being the largest area of increase (\$355,000) as expected with the increase in freight movement revenue.

During 2019, GJR successfully paid off the remaining loans facilitated through the Royal Bank of Canada. The Board has approved management's recommendation to set aside the cash freed up from loan payments for two purposes: to make a one-time lump sum payment towards the current loan with the City that is due for renewal in 2020; and to set aside funds for the 2023 Speed River bridge project.

GJR declared a dividend to the City of \$80,000, equal to budget and based on the 2019 financial results. This was within the policy guideline of a dividend payout rate of 0-10% of net income. Due to the timing of when the dividend was approved, the 2019 dividend will be reflected in the 2020 financial statements.

The remaining cash generated in 2019 was reinvested back into the company through capital acquisitions of \$1.45 million. GJR operates in a capital-intensive industry with management focusing on reinvesting in capital infrastructure to ensure that GJR remains competitive in the future, meets legislative requirements, and operates in a safe and efficient manner.

GJR is committed to increasing its long-term value to the City and to the community. The focus for 2020 is to ensure that GJR continues to be a profitable and self-sustaining company into the future.

Financial Implications

The governance and oversight of the City's wholly-owned subsidiaries creates financial value to the City through equity gains and dividend returns.

Consultations

The Board of Directors for GJR met on May 12, 2020. The Company's auditor, Matt Betik of KPMG LLP attended the meeting. The audited financial statements were approved by the Board at this meeting.

Attachments

Attachment-1 2019 Audited Financial Statements

Report Author

Raquel Gurr, Senior Corporate Analyst, Financial Reporting and Accounting

This report was approved by:

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Financial statements of

Guelph Junction Railway Limited

December 31, 2019

Guelph Junction Railway Limited

December 31, 2019

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Guelph Junction Railway Company

Opinion

We have audited the financial statements of Guelph Junction Railway Company (the Entity), which comprise:

- the statement of balance sheet as at December 31, 2019
- the statement of comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "**Auditors' Responsibilities for the Audit of the Financial Statements**" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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



Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), 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.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, stylized font and is underlined with a single horizontal stroke.

Chartered Professional Accountants, Licensed Public Accountants

Waterloo, Canada

May 12, 2020

Guelph Junction Railway Limited

Balance sheet

as at December 31, 2019

	2019	2018
	\$	\$
Assets		
Current assets		
Cash	568,040	648,896
Accounts receivable	1,157,631	673,020
Inventory	76,408	103,329
	1,802,079	1,425,245
Property, plant and equipment (note 3)	12,658,745	11,583,081
	14,460,824	13,008,326
Liabilities and equity		
Current liabilities		
Accounts payable and accrued liabilities	237,021	209,762
Due to City of Guelph	344,460	321,139
Current portion of long-term debt (note 5)	1,519,521	118,753
Deferred revenue	-	34,524
	2,101,002	684,178
Long-term debt (note 5)	-	1,519,551
Deferred capital contributions (note 4)	1,938,722	1,395,713
	4,039,724	3,599,442
Share capital (note 7)	1	1
Retained earnings (note 9)	10,421,099	9,408,883
	10,421,100	9,408,884
	14,460,824	13,008,326

Approved by the Board:

_____ Chair

Guelph Junction Railway Limited

Statement of comprehensive income year ended December 31, 2019

	2019	2018
	\$	\$
Revenue		
Freight movement	3,728,233	3,211,088
Non-freight movement	917,044	731,230
Amortization of deferred capital contributions	68,049	49,500
	4,713,326	3,991,818
Expense		
Freight movement	2,482,890	2,126,806
Track maintenance	361,648	360,939
Depreciation	372,396	340,428
Administration and office	307,666	258,571
Interest on long-term debt	49,020	61,197
Expropriation costs	23,192	15,159
Business development	15,958	79,998
Audit & legal	8,340	8,168
	3,621,110	3,251,266
Net comprehensive income for the year	1,092,216	740,552

Guelph Junction Railway Limited

Statement of changes in equity year ended December 31, 2019

	2019	2018
	\$	\$
Retained earnings, beginning of year	9,408,883	8,668,331
Dividends to Shareholder (note 6)	(80,000)	-
Net comprehensive income for the year	1,092,216	740,552
Retained earnings, end of year	10,421,099	9,408,883
Share capital, beginning and end of year	1	1
Equity, end of year	10,421,100	9,408,884

Guelph Junction Railway Limited

Statement of cash flows year ended December 31, 2019

	2019	2018
	\$	\$
Operating activities		
Cash from operations		
Net income from operations	1,092,216	740,552
Items not affecting cash:		
Amortization of deferred capital contributions	(68,049)	(49,500)
Depreciation of property, plant and equipment	372,396	340,428
Changes in non-cash operating working capital components:		
Change in accounts receivable	(484,611)	(35,532)
Change in due to City of Guelph	23,321	215,024
Change in inventory	26,921	(46,386)
Change in accounts payable and accrued liabilities	27,259	(251,882)
Change in deferred revenue	(34,524)	(24,903)
Change in dividend payable	-	(100,000)
	954,929	787,801
Investing activity		
Acquisition of property, plant and equipment	(1,448,060)	(791,524)
Capital contributions	611,058	400,771
	(837,002)	(390,753)
Financing activity		
Repayment of long-term debt	(118,783)	(309,666)
Dividends paid	(80,000)	-
	(198,783)	(309,666)
Increase in cash during the year	(80,856)	87,382
Cash, beginning of year	648,896	561,514
Cash, end of year	568,040	648,896

Guelph Junction Railway Limited

Notes to the financial statements

December 31, 2019

1. Description of business

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

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

The financial statements have been approved by the Board of Directors and authorized for issue on May 12, 2020.

2. Significant accounting policies

Basis of accounting

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

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

Revenue recognition

Revenue recognition

Revenues are recorded based on the five-step approach outlined by IFRS 15:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when (or as) the Company satisfies a performance obligation.

The Company recognizes revenue when (or as) a performance obligation is satisfied, which is when control of the goods or services underlying the particular performance obligation is transferred to the customer. A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

The Company's service revenue is recognized as the service is provided. These services are usually billed and paid for on a monthly basis.

Inventory

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

Property, plant and equipment

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

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

Guelph Junction Railway Limited

Notes to the financial statements

December 31, 2019

2. Significant accounting policies (continued)

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

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

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

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

Leases

Under IAS 17

In the comparative period, assets held under leases were classified as operating leases and were not recognized in the Company's statement of financial position. Payments made under operating leases were recognized in profit or loss on a straight-line basis over the term of the lease.

Policy applicable from January 1, 2019

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- (i) The contract involves the use of an identified asset;
- (ii) The Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- (iii) The Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used is predetermined, the Company has the right to direct the use of the asset if either:
 - a. The Company has the right to operate the asset; or
 - b. The Company designed the asset in a way that predetermines how and for what purposes it will be used.

This policy is applied to contracts entered into, or changed, on or after January 1, 2019.

Impairment of long-lived assets

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

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate

Guelph Junction Railway Limited

Notes to the financial statements

December 31, 2019

2. Significant accounting policies (continued)

that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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

Financial instruments

At initial recognition, the Company measures its financial assets at fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Subsequent measurement of the financial asset depends on the classification determined on initial recognition. Financial assets are classified as either amortized cost, fair value through other comprehensive income or fair value through profit or loss, depending on its business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are not reclassified subsequent to their initial recognition, unless the Company changes its business model for managing financial assets.

Financial liabilities are initially measured at fair value, net of transaction costs incurred. They are subsequently carried at amortized cost using the effective interest rate method; any difference between the proceeds (net of transaction costs) and the redemption value is recognized as an adjustment to interest expense over the period of the borrowings.

The Company has classified its financial instruments, in accordance with IFRS 9, as follows: cash, accounts receivable, accounts payable, Due to City of Guelph and long-term debt are classified as amortized cost.

Financial assets and liabilities are recorded in the statement of financial position as current if they mature within one year and non-current if they mature after one year.

Impairment of financial assets

The Company recognizes a loss allowance for expected credit losses on a financial asset that is designated as amortized cost or fair value through other comprehensive income. For financial assets designated as fair value through other comprehensive income, the loss allowance is recognized in other comprehensive income and is not reflected in the carrying amount of the financial asset in the statement of financial position.

At each reporting date, the Company assesses whether there is any objective evidence that the credit risk associated with a financial asset not carried at fair value through profit or loss has increased significantly since initial recognition. In the event there is a significant increase in credit risk, a loss allowance is recorded at an amount equal to the lifetime expected credit losses arising from the financial asset. If, at the reporting date, the credit risk has not increased significantly, the loss allowance is measured at an amount equal to the twelve-month expected credit losses.

The carrying values of cash, accounts receivable, and accounts payable approximate their fair values due to the short-term nature of these financial instruments. The fair value of long-term debt represents the value as at December 31, 2019, based on interest rates in effect as at that date available to the Company for the same or similar debt instruments.

Guelph Junction Railway Limited

Notes to the financial statements

December 31, 2019

2. Significant accounting policies (continued)

Government grants and other contributions

Government grants are recognized in net income on a systematic basis over the periods in which the Company recognizes as expenses the related costs for which the grants were intended to compensate.

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

Significant accounting estimates and judgments

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

Recent accounting pronouncements

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

a) Accounting pronouncements adopted in the current year:

The Corporation has applied IFRS 16 with a date of initial application of January 1, 2019. As a result, the Corporation has changed its accounting policy for lease contracts as detailed below. The Corporation has applied IFRS 16 using the retrospective approach. The details of the changes in accounting policies are disclosed below.

Previously, the Corporation determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, the Corporation assesses whether a contract is or contains a lease based on the definition of a lease under IFRS 16. As a lessee, the Corporation previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Corporation. Under IFRS 16, the Corporation recognizes right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

There are no transitional impacts to report as the Corporation has not entered into significant leasing arrangements and has determined that there are no arrangements that contain a lease.

Guelph Junction Railway Limited

Notes to the financial statements

December 31, 2019

3. Property, plant and equipment

2019

Cost

	Opening cost	Additions	Disposals	Ending cost
	\$	\$	\$	\$
Land	2,997,210	-	-	2,997,210
Tracks and structures	8,362,954	534,311	-	8,897,265
Bridges	1,917,827	55,703	-	1,973,530
Buildings	481,327	-	-	481,327
Switches	158,599	78,025	-	236,624
Crossing equipment	806,928	780,021	-	1,586,949
Work in progress	-	-	-	-
	14,724,845	1,448,060	-	16,172,905

2019

Accumulated depreciation

	Opening balance	Depreciation	Disposals	Ending balance
	\$	\$	\$	\$
Land	-	-	-	-
Tracks and structures	2,625,109	240,200	-	2,865,309
Bridges	141,628	72,162	-	213,790
Buildings	240,865	9,618	-	250,483
Switches	83,270	4,574	-	87,844
Crossing equipment	50,892	45,842	-	96,734
Work in progress	-	-	-	-
	3,141,764	372,396	-	3,514,160

2019

Net Book Value

	Opening net book value	Ending net book value
	\$	\$
Land	2,997,210	2,997,210
Tracks and structures	5,737,845	6,031,956
Bridges	1,776,199	1,759,740
Buildings	240,462	230,844
Switches	75,329	148,780
Crossing equipment	756,036	1,490,215
Work in progress	-	-
	11,583,081	12,658,746

Guelph Junction Railway Limited

Notes to the financial statements

December 31, 2019

3. Property, plant and equipment (continued)

2018

Cost

	Opening cost	Additions	Disposals	Ending cost
	\$	\$	\$	\$
Land	2,997,210	-	-	2,997,210
Tracks and structures	7,908,707	477,747	23,500	8,362,954
Bridges	1,917,827	-	-	1,917,827
Buildings	481,327	-	-	481,327
Switches	158,599	-	-	158,599
Crossing equipment	464,409	352,379	9,860	806,928
Work in progress	38,602	0	38,602	-
	13,966,681	830,126	71,962	14,724,845

2018

Accumulated depreciation

	Opening balance	Depreciation	Disposals	Ending balance
	\$	\$	\$	\$
Land	-	-	-	-
Tracks and structures	2,419,509	229,100	23,500	2,625,109
Bridges	67,620	74,008	-	141,628
Buildings	230,845	10,020	-	240,865
Switches	80,130	3,140	-	83,270
Crossing equipment	36,592	24,160	9,860	50,892
Work in progress	-	-	-	-
	2,834,696	340,428	33,360	3,141,764

2018

Net Book Value

	Opening net book value	Ending net book value
	\$	\$
Land	2,997,210	2,997,210
Tracks and structures	5,489,198	5,737,845
Bridges	1,850,207	1,776,199
Buildings	250,482	240,462
Switches	78,469	75,329
Crossing equipment	427,817	756,036
Work in progress	38,602	-
	11,131,985	11,583,081

Guelph Junction Railway Limited

Notes to the financial statements

December 31, 2019

4. Deferred capital contributions

	2019	2018
	Net book value	Net book value
	\$	\$
Deferred contributions - gross	2,531,641	1,920,582
Less: accumulated amortization	(592,919)	(524,869)
	1,938,722	1,395,713

5. Long-term debt

The Company entered into three long-term debt facilities with the Royal Bank of Canada ("RBC") for the purpose of constructing two new rail yards within the limits of the City of Guelph. These projects were completed and put into use during 2012. The remaining two RBC loans were fully extinguished in 2019.

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

	2019	2018
	\$	\$
RBC Fixed term loan, repayable monthly, blended principal and interest at 3.41%, maturing June 2019	-	58,521
RBC Fixed term loan, repayable monthly, blended principal and interest at 3.41%, maturing June 2019	-	11,455
City of Guelph fixed term loan, repayable monthly, blended principal and interest at 3.395%, maturing December 2020	1,519,521	1,568,328
	1,519,521	1,638,304
Less: current portion of long-term debt	(1,519,521)	(118,753)
Long-term debt	1,519,521	3,157,855

The debt is repayable as follows:

	\$
2020	1,519,521
	1,519,521

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

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

The Treasurer for the City of Guelph has signed a statement that the City intends to enter into an agreement to refinance the City of Guelph fixed term loan due December 31, 2020.

Guelph Junction Railway Limited

Notes to the financial statements

December 31, 2019

6. Dividend to Shareholder

On March 1, 2019, the Board of Directors declared a dividend of \$80,000 based on the income earned in the year ended December 31, 2019. The dividend was paid on April 1, 2019.

7. Share capital

Authorized, unlimited number
Common shares

<i>Issued and outstanding</i>	December 31, 2019	December 31, 2018
	\$	\$
1 Common share	1	1
	1	1

8. Related party transactions

The Company is wholly owned by The City of Guelph. The City pays certain expenses and receives revenues on behalf of the Company for which the Company reimburses the City. During the year, these net expenses for which the Company reimbursed the City amounted to \$405,083 (2018 - \$512,304). The Company also receives direct revenue from the City which amounted to \$232,986 (2018 - \$122,309). The Company also paid the City \$54,500 (2018 - \$55,250) in office rent and administration fees for the year. These transactions were made in the normal course of business and have been recorded at the exchange amounts.

In 2015 the Company entered into a loan agreement with the City to finance the reconstruction of a bridge. In 2019 principal and interest payments were \$48,800 and \$52,490 respectively (2018 - \$47,173, \$54,116).

Members of the board of directors are unpaid.

The remuneration of key management personnel during the year was \$169,980.57 (2018 - \$163,668).

9. Capital management

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

The Company's total capital is defined as shareholder's equity. Shareholder's equity at December 31, 2019 is \$10,421,102 (December 31, 2018 - \$9,408,884). There have been no changes to the Company's approach on capital management.

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

10. Financial risk management

Financial assets and liabilities

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

- 'Level 1' fair value measurements are those derived without adjustment from quoted prices in active markets for identical assets or liabilities.
- 'Level 2' fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Guelph Junction Railway Limited

Notes to the financial statements

December 31, 2019

10. Financial risk management (continued)

- 'Level 3' fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

	Loans and receivables	Available for sale	Liabilities at amortized cost	Fair value through profit or loss	Total carrying value	Fair value
	\$	\$	\$	\$	\$	\$
As at December 31, 2019						
Financial assets not held at fair value						
Cash	568,040	-	-	-	568,040	568,040
Trade and other receivables	1,157,631	-	-	-	1,157,631	1,157,631
Financial assets held at fair value	-	-	-	-	-	-
Total financial assets	1,725,671	-	-	-	1,725,671	1,725,671
Financial liabilities not held at fair value						
Trade and other payables	-	-	237,017	-	237,017	237,017
Due to City of Guelph	-	-	344,460	-	344,460	344,460
Current portion of long-term debt	-	-	1,519,522	-	1,519,522	1,519,522
Long-term debt	-	-	-	-	-	-
Financial liabilities held at fair value	-	-	-	-	-	-
Total financial liabilities	-	-	2,100,999	-	2,100,999	2,100,999

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

	Loans and receivables	Available for sale	Liabilities at amortized cost	Fair value through profit or loss	Total carrying value	Fair value
	\$	\$	\$	\$	\$	\$
As at December 31, 2018						
Financial assets not held at fair value						
Cash	648,896	-	-	-	648,896	648,896
Trade and other receivables	673,020	-	-	-	673,020	673,020
Financial assets held at fair value	-	-	-	-	-	-
Total financial assets	1,321,916	-	-	-	1,321,916	1,321,916
Financial liabilities not held at fair value						
Trade and other payables	-	-	209,762	-	209,762	209,762
Due to City of Guelph	-	-	321,139	-	321,139	321,139
Current portion of long-term debt	-	-	118,753	-	118,753	118,753
Long-term debt	-	-	1,519,551	-	1,519,551	1,519,551
Financial liabilities held at fair value	-	-	-	-	-	-
Total financial liabilities	-	-	2,169,205	-	2,169,205	2,169,205

Guelph Junction Railway Limited

Notes to the financial statements

December 31, 2019

10. Financial risk management (continued)

Interest rate risk

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

Currency risk

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

Credit risk

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

The Company's maximum exposure to credit risk is the carrying value of financial assets on the statement of financial position.

Liquidity risk

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

All contractual cash flows related to the Company's financial liabilities are expected to be settled within one year except for those amounts due to the City of Guelph and the long-term debt which is also payable to the City of Guelph and is due in December 2020. The Treasurer for the City of Guelph has signed a statement that the City intends to enter into an agreement to refinance the fixed term loan due December 31, 2020.

Staff Report



To	City Council as Shareholder of Guelph Junction Railway Limited
Date	Wednesday, July 22, 2020
Subject	Appointment of Auditors for 2020 – Guelph Junction Railway Limited

Recommendation

1. That the audit firm selected by City Council through the competitive procurement process in 2020 for the City's audit be appointed by City Council, as Shareholder for Guelph Junction Railway Limited ("GJR"), as auditors for the 2020 fiscal year.
-

Executive Summary

In November 2015, City Council approved a resolution to appoint KPMG LLP as the City's auditor for the 2015 through 2019 period, subject to an annual review of their performance. With the completion of that five-year cycle, the City is in the process of tendering audit services for the next five-year cycle (2020 – 2024).

Efficiencies are gained by retaining the same auditor for GJR and the City of Guelph, given that the accounting processes and practices use the same systems and accounting staff.

A post-Request for Proposals (RFP) staff recommendation to City Council regarding audit services for 2020 is expected in early Fall 2020.

Report

City staff are in the process of preparing the RFP for audit services to be issued in the summer of 2020. Staff expect to have a recommendation before City Council in early fall 2020.

Staff recommend appointing the same auditor for the City of Guelph, GJR and Guelph Municipal Holdings Inc. as there are efficiencies realized by having the same auditor for all three organizations, given the accounting processes and practices use the same systems and accounting staff.

Financial Implications

There are no direct financial implications resulting from this report.

Report Author

Trevor Lee, Chief Financial Officer

Guelph Junction Railway Limited

519-822-1260 extension 2281

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This report was approved and recommended by:

Scott Stewart
Chief Executive Officer
Guelph Municipal Holding Inc.
519-822-1260 Extension 2221
Scott.Stewart@guelph.ca

Staff Report



To	City Council as Shareholder of Guelph Junction Railway Limited
Date	Wednesday, July 22, 2020
Subject	Guelph Junction Railway 2019 Annual Report

Recommendation

1. That City Council in its capacity as the sole shareholder of the Guelph Junction Railway Limited receives and approves the Guelph Junction Railway 2019 Annual Report.
-

Executive Summary

Purpose of Report

The purpose of this report is to provide City Council as shareholder of Guelph Junction Railway Limited (GJR) with the 2019 Annual Report.

Financial Implications

There are no financial implications.

Report

The Guelph Junction Railway Board is proud to produce the 2019 Annual Report to City Council as sole Shareholders.

Financial Implications

There are no financial implications.

Consultations

Guelph Junction Railway Limited Board of Directors

Finance Department, City of Guelph

Legal, Realty and Court Services, City of Guelph

Deputy CAO, Infrastructure, Development and Enterprise, City of Guelph

Corporate Administrative Officer (CAO), Office of the CAO, City of Guelph

Attachments

Attachment-1 Guelph Junction Railway 2019 Annual Report

Report Author

Les Petroczi, General Manager, Guelph Junction Railway Limited

This report was approved by:

Kealy Dedman, P.Eng., MPA
Deputy Chief Administrative Officer
Infrastructure, Development and
Enterprise Services
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This report was recommended by:

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Chief Executive Officer
Guelph Junction Railway
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**ANNUAL REPORT TO THE SHAREHOLDER FOR 2019
GUELPH JUNCTION RAILWAY LIMITED**

SCOTT'S 2019 CHAIR MESSAGE TO THE SHAREHOLDER:

On behalf of the Guelph Junction Railway Board of Directors, I am pleased to present the 2019 Annual Report for Guelph Junction Railway Limited.

This past year GJR continued to focus on safety and fiscal responsibility, undergoing a number of changes to strengthen our service delivery and alignment to the City's Strategic Plan.

Our aim is to help foster easy, safe, and accessible movement of goods through Guelph along nearly 40 kilometers of track to connect our economy with other regions. We do that by fostering a culture of innovation and service delivery for our customers.

In 2019, Guelph City Council voted to retain GJR as a City asset. This enabled the railway to establish a new governance structure and hire a second full-time, contract staff member to ensure appropriate distribution of resources across the City and GJR. We also acquired new customers by expanding our storage tracks.

Our efforts resulted in an 18.1 per cent increase in 2019 revenue over 2018, and a declared City dividend of \$80,000. In addition, GJR paid its outstanding external bank loans in full, which positions it well to be future ready from a financial point of view.

We continued to focus on capital improvements such as arterial signal crossing upgrades and main roadway rehabilitations to increase safety.

As we look forward, we will continue making capital investments to meet regulations and ensure safety for those who are using or are near our rail lines. We will also continue to focus on fiscal responsibility and accountability.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Scott Stewart', with a horizontal line extending from the end.

Scott Stewart

Chair, Guelph Junction Railway Limited

OUR HISTORY:

GJR was created by a Special Act of the Federal Parliament originally passed in 1884 and began operations in 1888, but the railway has been with the City longer still, with the Grand Trunk Railway (now Canadian National Railway, CNR) having operated in the City since 1852. Guelph's business leaders attributed the city's early growth and prosperity to its access to competing rail lines and expanding markets.



By 1910, GJR's founding Act had been amended to allow the City of Guelph to become the sole shareholder. Today, GJR is unique in being wholly municipally owned, with only two others in Ontario out of a dozen across the country.

For over a century, GJR was run by Canadian Pacific Railway (CPR) under a lease agreement. Its Board met annually in order to declare a dividend. In 1998, CPR terminated its lease agreement and the City, on behalf of GJR, purchased CPR's remaining real property and track within the City of Guelph. A new contract was signed with the Ontario Southland Railway (OSR), a rail contracting company, who officially took over on January 1, 1998 and has continued working with the GJR as a provider through 2019/2020. OSR manages moving freight for a number of local industrial manufacturers and producers in Southwest Ontario.

Currently operating on 38.6 km of track through Campbellville, Puslinch, Arkell and Guelph, GJR remains connected on two sides to both the Canadian National and Canadian Pacific Railways.

CORPORATE STRUCTURE:

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

The relationship between GJR and its sole shareholder, the City of Guelph, is governed by a shareholder declaration that was updated in 2015. Additional changes were made at this time to the Board of Directors as additional officers were appointed to support the relationship with the City, provide better support to the existing Board and GJR's general manager. These changes were in effect until the end of 2018.

NEW GOVERNANCE STRUCTURE

After the Shareholder's Annual General Meeting of June 2019, the decision to update the structure of GJR's board was passed, and with it a more linear corporate governance structure that eliminated the board positions held by external parties and amalgamated the position of CEO and Board Director to being occupied by the same person; the Chief Administrative Officer for the City of Guelph.

The approved report also recommended that a new Shareholder Declaration be prepared in order to reflect the proposed rationalized corporate governance structure for GJR. This is anticipated to be completed in the year 2020.

GJR	
OFFICER TITLE	CITY POSITION
Chief Executive Officer	Chief Administrative Officer
Chief Financial Officer	Deputy CAO - Corporate Services
Corporate Secretary/Legal	City Solicitor
BOARD OF DIRECTORS	
Director	Chief Administrative Officer

Figure 1: GJR Corporate Governance Structure

VISION, MISSION, and VALUES:



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

This statement serves as an overarching guide to the Board's decision making as it moves forward into the future.

Our Vision

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

Our Mission

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

Our Values

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

Throughout 2019, GJR has been consistent in upholding these principles. Inspections from Transport Canada have found GJR in compliance and any recommended upgrades have been implemented well before the allotted deadline required.

STRATEGIC DIRECTION:

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

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

RELATIONSHIP TO THE CITY OF GUELPH'S STRATEGIC PLAN: Guelph. Future Ready.

Guelph Junction Railway works to align their activities with the City's Strategy Plan. The primary synergies between the City of Guelph and Guelph Junction Railway occur in the Powering Our Future, Navigating Our Future, and Sustaining Our Future priority areas.

Powering our Future

GJR supports “Powering Our Future” by helping businesses to succeed and add value to the community. With a safe operating record and good business foundation, GJR contributed more than \$2.7 million to the local economy in 2017 (up from \$2.3 million and \$1.9 million in 2016 and 2015, respectively), which represents close to 90% of GJR’s total spending.

GJR provides services to 16 Guelph customers and through interviews, City staff confirmed that the presence of the railway is essential to the continuation of customers’ operations. Some Guelph companies rely nearly solely on railway services, without which they would cease to operate. GJR customers take comfort in knowing that the railway is City owned and monitored. Without the keen economic development interest that the municipally-owned railway currently takes, these companies would likely no longer see project planning or site development as being in the interest of helping to expand their business through rail commodities.

GJR also indirectly benefits the local economy by drawing new business to the city. The north industrial sector possesses the advantage of accessible track and, in many cases, the space to build spur lines directly to the facility for loading/offloading ability. For those businesses that are unable to build or lease on rail-accessible land, there is still the option of bringing in inventory through a trans-loading facility.

Sustaining our Future

As green infrastructure, rail also helps to serve the City’s ambitious energy and environmental goals and through this supports “Sustaining our Future”. The Corporate Energy Management Plan outlines Guelph's aim to be a greener city with a plan to meet the target of 100% renewable energy and to make the city a net zero carbon community by 2050. According to the Official Plan, transport accounts for 30% of energy used and 45% of greenhouse gas (GHG) emissions in Guelph. Highly energy efficient and with low emissions of GHGs, a locomotive can move one tonne of freight more than 200 km on a single litre of fuel.

With a single railcar able to handle the load of three to four conventional trucks, the nearly 5,000 railcars that GJR transports annually are diverting approximately 20,000 trucks from the city’s local roads and highways every year. This improves traffic flow for residential automobiles on the roads and reduces taxpayers’ costs associated with road maintenance as well as traffic-related collisions.

Navigating our Future

GJR supports “Navigating our Future” through co-operative collaboration with other municipal departments to support accessible movement through trails and corridors to connect Guelph’s economy with other regions. Already, the railway works as an excellent resource to allow the transport of goods. The GJR extends outside of the city’s limits and meets up on either end with other major Class 1 railways to be part of a widespread national rail network, supplying the region and many other Canadians.

Within the city itself, GJR aids in the construction and connection of trail networks that follow the railway and provide a safe, easy way to get around or through Guelph. The future of rail within the city looks ahead to not only the movement of goods, but the movement of people as well. Quick connectivity from the south end of Guelph all the way to the heavy employment area of the North Industrials could offer a drastic change in quality of life for Guelph residents. With continued investments and careful planning that aligns with the municipal master plans, this could be a reality in the near future.

FINANCIAL UPDATE:

GJR earned just under \$1.1 million in net comprehensive income for the year, an increase of \$350,000 (47.5%) over 2018.

2019 revenue increased for both freight and non-freight movement with an overall increase in revenue of \$720,000 (18.1%) over 2018. The increase in freight revenues can be attributed to revenue from CP which increased by \$585,000, whereas revenue from CN decreased by \$70,000. Non-freight movement revenue increased by \$185,000 with the largest driver of this increase being inplant switching (\$140,000 increase). Flagging revenue and other revenues also increased, which was offset by decreased lease revenue and industrial recoveries.

Overall expenses increased by \$370,000 (11.4%), with freight movement costs being the largest area of increase (\$355,000) as expected with the increase in freight movement revenue. Freight movement expenses represented 66.6% of freight movement revenues in 2019 (66.2% in 2018).

Guelph Junction Railway Limited

Statement of comprehensive income year ended December 31, 2019

	2019	2018
	\$	\$
Revenue		
Freight movement	3,728,233	3,211,088
Non-freight movement	917,044	731,230
Amortization of deferred capital contributions	68,049	49,500
	4,713,326	3,991,818
Expense		
Freight movement	2,482,890	2,126,806
Track maintenance	361,648	360,939
Depreciation	372,396	340,428
Administration and office	307,666	258,571
Interest on long-term debt	49,020	61,197
Expropriation costs	23,192	15,159
Business development	15,958	79,998
Audit & legal	8,340	8,168
	3,621,110	3,251,266
Net comprehensive income for the year	1,092,216	740,552

During 2019, GJR successfully paid off the remaining loans facilitated through RBC. The Board has approved management's recommendation to set aside the cash freed up from loan payments for two purposes: to make a one-time lump sum payment towards the current loan with the City that is due for renewal in 2020; and to set aside funds for the 2023 Speed River bridge project.

GJR declared a dividend to the City at the May 12, 2020 Board meeting in the amount of \$80,000, equal to budget based on the 2019 financial results. This was within the policy guideline of a dividend payout rate of 0-10 % of net income. Due to the timing of when the dividend was approved, the 2019 dividend will be reflected in the 2020 financial statements.

The remaining cash generated in 2019 was reinvested back into the company through capital acquisitions of \$1.45 million (30.8% of 2019 revenue). In 2017, the Board of Directors approved the Capital Investment Policy that states the average capital contribution target should be above 16% of revenues annually. GJR has met this target over the past six years and continues to monitor these ratios quarterly to ensure annual targets are met. GJR operates in a capital-intensive industry with management focusing on reinvesting in capital infrastructure to ensure that GJR remains competitive in the future, meets legislative requirements, and operates in a safe and efficient manner. The Board was pleased with the performance of GJR in 2019.

BUSINESS DEVELOPMENT:

GJR provides services to 16 customers, 4 of which provide the majority of the revenue for the corporation. GJR's only competition in Guelph is Canadian National Railway (CNR), whose activities are limited to the City's Northwest Industrial Park and the connection through the Alma rail yard to the main CN line. However, with the anticipation of two-way all day GO service between Kitchener and Toronto, the increased passenger trains on the main line will tighten the window for CN freight train availability to service Guelph. This could create the opportunity for GJR to take over switching traffic that previously came daily with CN.

GJR continues to pursue local business development as a major focus. In 2019 in collaboration with PDI Liquid and Bulk, GJR built an additional storage track at Arkell to meet growing volume demands for our largest customer. When the track build and grading was complete, PDI developed their transloading facility on site for easy access trucking trans-loading outside of city limits, therefore reducing the time required to switch on site at the customer's yard and decreasing the size of train required to enter the city.



Additionally, GJR continued to focus heavily on reinvesting into capital programs along the rail to meet or even exceed Transport Canada expectations. Soaring ahead of most short lines in their ability to reinvest capital to increase capacity, speed, and performance; GJR is comparable to Class 1 railways in Canada for reinvestment in which they have a minimum capital improvement rate of 16 per cent of revenues. From 2015-2018, GJR implemented track upgrades that raised it from Track Class 1: 10 mph to Class 2: 25 mph, however the speeds remain low within city limits by choice of management for safety precautions. Improvements to the track provides GJR's customers with faster delivery of goods, more reliable service, and options for dimensional loads. All of this allows GJR to remain competitive in the rail service environment and a desirable option for businesses looking into exploring rail service as an alternative to commercial trucking.

Car counts were up considerably from 2018 with a total gain of 577 cars. The increase in car counts is a result of customer contracts gained by the GJR with Guelph Utility Pole, and increased volume brought in by both Traxxside and PDI Liquid.

Overall, GJR operated at an impressive increase of 11.8% in car counts which is well over and above other Shortline railways as reported in “Progressive Railroading”, a magazine that reports on the North American rail industry, which also had a far better year over 2018, operating at an increase in car load volume of 2.3% for 2019. Other Class 1 railways in comparison operated at an unfortunate decrease of 5.1%.

GJR strives to be complementary with the strategic objectives of the City of Guelph, and seeks to work collaboratively with our Shareholder and our customers to build a robust system that ensures fiscal and service sustainability, while attracting business and providing a safe and environmentally conscious service to the City of Guelph.

OPERATIONS AND CAPITAL MAINTENANCE UPDATE:

OPERATIONS

Rail operations continue to be provided by Ontario Southland Railway under the terms of the operations agreement. GJR receives additional revenues from flagging for third parties and is responsible for the invoicing for the additional revenues.

Contract negotiations proposed by OSR in Q4 2019 prior to its termination for year end 2020 were rejected by GJR's management and officers. GJR then entered into legal negotiation carrying over into 2020 for the anticipated early termination of the current operating contract and the issuance of a request for proposals for a short line operator in Q1 2020 with anticipated start date of Q3 2020.

CAPITAL PROGRAMS

GJR has adopted a life cycle approach to its capital maintenance program and identifies infrastructure maintenance priorities annually. This ensures that GJR maintains financial health, and continues with the recapitalization of infrastructure and pursuit of long range strategic growth objectives. GJR's guiding principle is to operate in a safe manner, and in accordance with the requirements of the Shareholder Declaration and Federal transportation regulations.

GJR completed several large scale capital projects over the course of 2019 which included the following:

Tie replacement program: GJR identified failing ties for replacement along the main track within the city of Guelph. In 2019 we replaced 1580 ties from MP 16.35 – 25.84 and 88 switch ties.

Scrap Tie Clean Up: Aiming to be environmentally conscious and supporting the goals of Guelph as a green city, GJR had approximately 6,500 scrap ties pulled from railway improvement projects or cleaned up from previous years. The preferable recycling option for used treated wood is the recovery of solid wood. Subsequent recycling options include fibre recovery and energy production. GJR sends their creosote treated wood to one of two approved Canadian co-generation facilities that have permits to use treated wood as supplementary fuel in their co-generation units.



Ballasting and surfacing program: New track ballast was delivered and distributed to MP 16.35 –25.84. Track surfacing brings the level of the track to new standards of safety, providing maximum performance and extending the life cycle of track components. Ballasting provides a stable base for the track and allows for better drainage which extends the life of the ties.

Grading: Grading was completed at multiple locations along the railway in 2019. Road widening at Elmira was completed for a new customer, Guelph Utility Pole, to allow for space enough for two trucks to pass each other for loading. Corwhin was graded for access widening required for the loading out of ties and anticipated future additional storage siding. Grading at Traxxside on location at Silvercreek was completed for upcoming future growth and additional track expansion. Continual efforts north of Woodlawn and Edinburgh are reducing high maintenance costs in the near future. GJR is taking small, gradual steps to prepare for the end of track realignment and the potential Trans Canada Trail system connections.



Arkell Rd Siding: GJR completed a major business expansion at Arkell Rd in conjunction with PDI who built a mini truck transloading site alongside a new storage track. The addition of this south storage track and switch was built to keep up with the increase in car traffic and to reduce train and truck traffic needing to enter city limits.



Roadway crossing upgrades: Seven (7) roadway and/or pedestrian crossings were upgraded. This included the reconstruction of railway tracks, upgrading of signal conduits through the roadway crossing and the subsequent re-asphalting.



Signal upgrades: Six (6) major arterial roadway crossings received important signal upgrades, from 8" incandescent bulbs to 12" LED lights, including their wiring. This included the Hanlon N, Arthur St., Victoria Rd., Arkell Rd., Concession 11, and 15th Side road.



Emergency Signs: As per new Transport Canada standards, GJR had emergency signs made for every controlled and uncontrolled crossing to clearly state ownership of the railway line and provide an emergency call number that can put a member of the public or an emergency worker directly in touch with our Shortline operator for equipment malfunction, the GJR general manager for general inquiries, or a 24 hour helpline for those experiencing a personal crisis.

ONGOING PROJECTS, CHALLENGES AND OPPORTUNITIES:

ONGOING PROJECTS

Eramosa River Bridge

Engineering design for new abutments on the Eramosa River bridge were completed for 2018 but were received late in 2019. Materials were purchased for the installation however, and were pushed to installation for 2020.

Trans Canada Trail System

GJR continues to work with Parks and Trails to aid the connections of the Trans Canada Trail System through discussions of land transfer, grading of land, and the realignment of track.

Vegetation Control

Vegetation control along the entirety of the track continues yearly as per Transport Canada standards. However, the standard pesticide used on the majority of the railway is never utilized within 200 feet of any waterways. For several years GJR has experimented with various partners in applying organic substances in attempts to find a more environmentally safe and sustainable option. After a successful trial in 2019, we have high hopes that we have found a viable and eco-friendly alternative for vegetation spraying in our more vulnerable and heavily gardened areas.



GJR Community and Marketing Videos

In 2019 GJR entered into a media contract with Ward 1 Studios to develop a series of videos to highlight the success and importance of having a municipally owned short line railway. With the completion of the new business website, GJR hopes to further increase public awareness through a series of vignettes aimed at the community to highlight key aspects of this historical asset as well as a marketing video geared

towards business attraction to the Guelph through the added bonus of established logistics companies already working together here in the City and surrounding area.

Permanent Human Resources Solutions and Governance Review

GJR continued to receive significant support from City of Guelph staff within the Legal and Finance departments in 2019 as per the Shared Service Agreement. The current organizational structure of GJR employs City Staff, through the shared service agreement, to assist GJR's general manager with the various components of the business such as legal, finance, and governance. The Shared Service Agreement is reviewed yearly to ensure fair compensation costs.

In 2019 GJR added a second full-time position to the company's roster for the purpose of administrative assistance. This role has allowed the GJR to alleviate some of the shared service hours required of the internal finance departments, eliminate the dependence on administrative assistance from the Business Development department, and opened up availability for involvement in various City projects, meetings, and initiatives.

Ontario Ministry of Transportation (MTO) Expropriations

As part of the Province's plan to improve Highway 7, the Ministry of Transportation (MTO) has expropriated several parcels of land in the City's Northwest region. These include GJR lands that are active rail crossings at the Hanlon Expressway. As part of the reconstruction of Highway 7, GJR tracks will have to be moved in order to maintain service to customers in the Northwest.

GJR remains in possession of, and is currently still operating on, the lands expropriated by MTO. GJR has been working with the MTO to ensure that necessary track reconfiguration will take place prior to the reconstruction of Highway 7, in such a way as to minimize disruptions in service to customers.

GJR has retained experienced external legal counsel to deal with the legal aspects of the expropriations. The expectation continues to be that GJR will be fully compensated for all costs and disturbance damages, including consultant and legal costs, in accordance with the Expropriations Act.

On September 5, 2020, GJR served MTO with a Notice of Arbitration and Statement of Claim, which seek compensation from MTO for injurious affection and disturbance damages, pursuant to subsection 26(b) of the Expropriations Act. By way of its Decision and Order, dated February 11, 2020, the Local Planning Appeal Tribunal (LPAT) ordered that the Procedural Order submitted by the parties be in force and effect for the purpose of governing the required process leading up to and including any LPAT hearing. The purpose of the Procedural Order is, among other things, to identify who may participate in the hearing, the issues in dispute, and the matters that are required to be carried out before the hearing.

The MTO's Highway 7 improvement and expansion project is currently delayed for project cost evaluation by the Provincial Government. GJR is otherwise working with MTO to determine the impact of this delay on GJR operations, compensation related to the expropriations, and future track and road configuration options.

Transfer of Title

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

Railway Safety

2019 was a year of continued heavy focus on capital improvements to the railway such as arterial signal crossing upgrades and main roadway rehabilitations to increase safety and near miss incidents.

With the physical work well underway, GJR has identified the next steps which are increasing community awareness through educational programs and attending and hosting events to promote rail safety. In 2019, GJR worked closely with representatives from VIA, CN, and Metrolinx through participation on the provincial committee for Operation Lifesaver (OL) to promote these messages within Guelph and the surrounding area.

Pedestrian safety on our bridges was a large focus with the creation and installation of new informative signage and interactive days where staff engaged the public on site.

GJR also hosted its first ever Rail Safety Week event at John Galt park that saw collaboration with the members of the OL committee and the Guelph Historical Railway Society. Despite the poor weather, there was interest in attendance and good media coverage. GJR looks forward to hosting more local events as a tradition.



CHALLENGES

Certain challenges that affect GJR's business are not within the control of the railway, but efforts are made by management to mitigate impacts. Examples include impacts that occur at the level of the Class 1 railway, weather, infrastructure failures, or service interruptions caused by labour disputes. Further, the nature of the railway business is very competitive and changes in contracts can directly influence car counts and ultimately freight revenues.

Challenges to GJR in 2019 were thankfully minimal with the exception of some service interruption later in Q4 due to a change in management with GJR's Shortline operator, Ontario Southland Railway.

Changes anticipated for 2020 due to the movement of early termination of the operating contract with OSR include GJR seeking third party contracts for track and signal maintenance and flagging, as well as potentially increased rates for Shortline operator switching service. With further research and requests for bids, GJR remains optimistic in the ability to outsource fair and efficient work that will translate into eventual, if not immediate, savings for the corporation. Initial start up or termination fees may have a negative impact on 2020 revenues but are anticipated to be recouped in short order when routine has been established by 2021.

OPPORTUNITIES

Identification of Rail Serviceable Lands

A continued priority for the GJR Board is to identify additional rail serviceable lands in the City of Guelph and surrounding area. This has been incorporated into the adopted strategic direction, and will form part of the GJR business plans and long term plans. GJR's General Manager will continue to advise the GJR Board on potential opportunities for rail expansion.

Business Expansions

GJR continues to build relationships and financial security with both Traxxside and PDI through new business expansions that will increase revenues for all parties involved. A new packaging track at the PDI Massey location already has materials purchased, pending increased car counts from anticipated contract volume growth as well as the grading completed at Traxxside to extend 2 tracks is pending a switch of traffic from CN to CP.

CN Class 1 Traffic Transfer

Following the takeover of GEXR by CN, increased costs involved in the switching of rail cars within the city and the reduced window of time for freight trains on their main line due to sharing with GO passenger service may encourage CN to defer all switching to GJR on their behalf.

North Industrial Interchange Siding

GJR management has identified an additional location at the north industrial interchange with CN trackage to stage cars before entering a customer's yard. This will significantly reduce traffic wait times

at Woodlawn and Edinburgh as longer trains need not switch back and forth over the intersection towards the end of track, and it will reduce wait times for both GJR and CN as a train finishes building.



GUELPH JUNCTION RAILWAY LIMITED

1 CARDEN STREET

GUELPH, ONTARIO

N1H 3A1

Guelph Junction Railway

2019 Annual Report to Shareholders

Guelph City Council Meeting
July 22, 2020

2019 snapshot



- GJR was retained as a City asset
- A new governance structure was introduced
- Continued heavy capital investments
- Rail safety education and awareness programming
- Business expansion at Arkell with PDI

2019 financials

- Earned just under \$1.1 million in net comprehensive income
 - Increase of 47.5 per cent over 2018
- Car volume increased 11.8 per cent over 2018
- Successfully paid off remaining external bank loans
- Dividend declared to the City in the amount of \$80,000

Becoming future ready

- Short Line operator contract ending in 2020
 - RFP for a new operator has been issued
 - Contract will be awarded for 2020/2021 season
- Increasing GJR management and responsibility of maintenance of the line with third party contracts
- Track enhancements
 - New siding at the north interchange track with CN



Thank you!

Please accept the following comments as input to the Council meeting as Shareholder of GJR on July22, 2020.

As shareholders we should all be very pleased with the 2019 financial performance of the GJR. I am sure this result is due in some measure to good luck and good management but it is certainly not related to good governance.

Last year in a closed meeting Council decided to restructure the Board of the GJR.

The new governance model is unusual (perhaps unprecedented) and certainly places the Shareholder/City in a position of increased risk from a lack of appropriate oversight of an operating railway.

Council's stated objectives for GJR governance could be simply achieved by creating a municipal railway department of the City or by appointing a few council members to serve as Board members for the GJR.

To continue with the City CAO as the railway CEO and as GJR's sole board member is not reasonable. One person should not undertake all these responsibilities and with this governance model the GJR Board cannot oversee the safety, financial and environmental performance of the railway or deal with potential conflict of interest situations. Remember Council serves only as the shareholder of GJR not as its Board of Directors.

Following are some questions i hope you will discuss at the meeting.

1 Has the GJR/City completed an inventory of rail-ready lands (existing and potential). What specific efforts have been made to market these lands to new GJR customers

2 What was the final cost of the AECOM consultant study requested by the City and paid for by the GJR. Is the final study report with governance recommendations a public document.

3 What is the implementation status for each of the specific recommendations in the AECOM report

4 A number of years ago GJR spent \$135 000 to make support provisions for a pedestrian walkway/bikeway adjacent to the new Eramosa River bridge. As this walkway will eliminate a significant trespass and safety concern for GJR what is the projected implementation date for a functioning walkway.

5 Will the GJR work with it's major customer PDI to secure sufficient right of way/easement to implement a safe bike/pedestrian way along the north side of the river from the new bridge walkway to the city trail under the Victoria Rd bridge

6 What further actions has the GJR/City taken to convince MTO that the implementation of the new HWY 7/Hanlon freeway connection requires a full grade separation for the GJR rail crossing at the time of construction

7 Is the City's intention to continue the current governance structure of GJR, add Council members to the current Board, convert to a municipal department, sell the asset or revert to a multi-person skills based Board to oversee GJR operations.

As a shareholder i recommend that the City obtain external legal opinion on whether the current governance structure is appropriate for an operating railway and whether this structure places undue risk on the City/Shareholder.

Respectfully Richard Puccini