



GUELPH
JUNCTION
RAILWAY

2020

**ANNUAL REPORT TO THE
SHAREHOLDER**

**GUELPH JUNCTION RAILWAY
LIMITED**

SCOTT'S 2020 CHAIR MESSAGE TO THE SHAREHOLDER:

On behalf of the Guelph Junction Railway Board of Directors, I am pleased to present the 2020 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 continued to acquire new customers by expanding our storage tracks.

Although our best efforts were made during the COVID-19 crisis, GJR saw a 15.5% decrease in 2020 revenue as compared to 2019 revenue and will not be declaring a dividend to the City in 2021. In addition, GJR worked with customers and the new short line operator, Goderich-Exeter Railway, ensuring a smooth transition and continuing our monitoring and implementation of safety with our new contractors, PNR Railworks, to meet or exceed Transport Canada regulations.

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.



A handwritten signature in blue ink, appearing to read "Scott Stewart", written in a cursive style.

Sincerely,

Scott Stewart

Chair, Guelph Junction Railway Limited

OUR HISTORY:

The Guelph Junction Railway (GJR) was created by a Special Act of the Federal Parliament, originally passed in 1884, and began operations in 1888. The railway has been with the City longer still, with the Grand Trunk Railway (now Canadian National Railway or 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 property and track within the City of Guelph. 2020 was a year of change for GJR and the City of Guelph. Ontario Southland Railway (OSR), a rail contracting company, which officially took over on January 1, 1998 and had continued working with GJR as a provider through 2019/2020, made changes in its operations and, therefore, ceased operations for the GJR in August 2020. Goderich-Exeter Railway (GEXR) was awarded the new switching contract with a start date of September 2020, and manages moving freight for several local industrial manufacturers and producers within Canada and the U.S.

Currently operating on 38.6 km of track through Campbellville, Puslinch, Arkell and Guelph, GJR remains connected on two sides to both CNR and CPR.

CORPORATE STRUCTURE:

In 2015, GJR was approved for a continuance under the [Canada Business Corporations Act](#) 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 (formerly 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 that 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. With it came a more linear corporate governance structure that eliminated the Board positions held by external parties and amalgamated the position of CEO and Board Director such that those positions are now 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 to reflect the proposed rationalized corporate governance structure for GJR. This will be completed in 2021.

Figure 1: GJR Corporate Governance Structure

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

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 2020, GJR has been consistent in upholding these values while working toward its vision. Inspections conducted by 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 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 the City's strategic priorities.
4. Develop a long-term growth plan that will be ready to manage anticipated sector, and regulatory environmental changes.
 - 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. Utilize GJR's Web site to assist with business development and stakeholder communications.

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

GJR works to align its activities with the City's Strategic Plan. The most synergy between the City and GJR occurs in the Powering Our Future, Navigating Our Future, and Sustaining Our Future priority areas.

Powering Our Future

GJR supports the Powering Our Future pillar through its focus area of helping businesses to succeed and add value to the community. With a safe operating record and good business foundation, GJR offers benefits such as directly contributing more than \$2.7 million to the local economy in 2020, down from \$2.9 million in 2019.

GJR provides services to 17 Guelph customers and, through interviews, City staff can confirm that the presence of the railway is essential to the continuation of the customers' operations. Some Guelph companies rely almost solely on railway services, without which they would cease to operate. GJR's customers take comfort in knowing that the railway is City-owned and monitored. Without the keen attention to economic development that the municipally-owned railway currently takes, these companies would likely no longer see project planning or site development in the interest of helping to expand their businesses 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 and 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. The Corporate Energy Management Plan outlines Guelph's intentions on being a greener city with a plan to meet the target of 100% renewable energy and becoming 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. A locomotive can move one tonne of freight more than 200 km on a single litre of fuel, making it a highly energy efficient and a low emitter of GHGs.

With a single railcar able to handle the load of three to four conventional trucks, the nearly 4,300 railcars that GJR transported in 2020 diverted approximately 17,000 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

Through co-operative collaboration with other municipal departments, GJR supports Navigating Our Future in its efforts to help in the expected outcome of 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. GJR extends outside of the city's limits and meets on either end with other major Class 1 railways as 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 also the movement of people. Quick connectivity from the south end of Guelph all the way to the heavy employment area of the North Industrial could offer a drastic change in quality of life for Guelph residents. This could be a reality in the future with continued investments and careful planning that aligns with the municipal master plans.

FINANCIAL UPDATE:

In 2020, total revenue decreased by \$729 thousand (15.5%) as compared to 2019 revenue. GJR's budgeted revenue of \$4.6 million in 2020 and actual revenue was \$636 thousand (13.8%) lower than budget at \$4.0 million.

The most significant area of variance was freight revenue, which was \$692 thousand (18.0%) below budget (\$581 thousand lower than 2019 actuals) due to a decrease in car volumes by 905 cars because of the COVID-19 pandemic.

Non-freight movement revenue decreased by \$167 thousand with the largest driver of this decrease being flagging revenue (\$60 thousand decrease) and other revenue (\$68 thousand decrease). Amortization of deferred capital contributions increased by \$18 thousand as capital contributions of \$415 thousand were received in 2020.

Guelph Junction Railway Limited
Statement of comprehensive income
year ended December 31, 2020

	2020	2019
	\$	\$
Revenue		
Freight movement	3,147,694	3,728,233
Non-freight movement	750,335	917,044
Amortization of deferred capital contributions	85,842	68,049
	3,983,871	4,713,326
Expense		
Freight movement	2,309,549	2,482,890
Track maintenance	287,112	361,648
Bad Debt	5,767	-
Depreciation	410,195	372,396
Administration and office	324,269	307,666
Interest on long-term debt	50,807	49,020
Expropriation costs	32,283	23,192
Business development	25,500	15,958
Audit & legal	8,640	8,340
	3,454,122	3,621,110
Net comprehensive income for the year	529,749	1,092,216

GJR will not declare a dividend to the City for 2021 based on the 2020 financial results. This was within the policy guideline of a dividend payout rate of 0-10% of net income. Due to the timing of dividend approvals, the 2019 dividend was reflected in the 2020 financial statements.

The remaining cash generated in 2020 was reinvested back into the company through capital acquisitions of \$1.2 million (approximately 30% of 2020 revenue). Capital contributions totalled \$415 thousand, which offset GJR's cost of capital investment. 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 2020 although both revenue and net income decreased due to the pandemic.

BUSINESS DEVELOPMENT:

GJR provides services to 17 customers, six of which provide most 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 2020, GJR collaborated with Traxxside and brought three new companies to Guelph that were looking for storage and trans-loading assistance. GJR built an additional storage track to meet growing volume demands for storage of additional cars for our second largest customer. GJR has also experienced an 18% increase in demand with CN. The new trans-loading track allows for quicker interchange times and reduction of switching over Woodlawn Road.



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, which have a minimum capital improvement rate of 16-20% of revenues. From 2015-2019, 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 provide 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 down considerably from 2019, with a total loss of 905 cars. The decrease in car counts was a result of a reduction in customer trans-loading due to the COVID-19 pandemic and the Molson's strike. Overall, GJR operated with a decrease of 18% in car volumes. Other short line railways and Class 1's, as reported in "Progressive Railroading", reported a decrease of 22% compared with 2019 within the North American rail industry. GJR fared well in comparison.

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 Goderich-Exeter Railway (GEXR) under the terms of a new operating agreement. GJR receives additional revenues from flagging for third parties and is responsible for the invoicing for the additional revenues, including freight revenues with CN and CP. GJR now manages all maintenance and inspections of signals, track and crossings as well as all third-party flagging contracts noted above.

2020 was a year of change for GJR and the City of Guelph. Ontario Southland Railway (OSR), a rail contracting company, which officially took over on January 1, 1998 and had continued working with GJR as a provider through 2019/2020, made changes in its operations and, therefore, ceased operations for the GJR in August 2020. Goderich-Exeter Railway (GEXR) was awarded the new switching contract with a start date of September 2020, and manages moving freight for several local industrial manufacturers and producers within Canada and the U.S.

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 2020, which included the following:

Tie replacement program: GJR identified failing ties for replacement along the main track within the city of Guelph. In 2020, we replaced 1,850 cross ties and 72 switch ties. Most tie replacements occurred within the North Industrial of Guelph.

Scrap Tie Clean Up: Although GJR had budgeted for tie disposals in the 2020 budget, due to the sudden drop in revenues, cost cutting was required. Tie disposal was the first item to be cut. Ties pulled from railway improvement projects are stockpiled ready for disposal in hopes of disposal in 2021. 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 its 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 within the North Industrial and on the main track between MP 34.5 – 26.60. 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 2020. Grading between the end of track main switch MP 34.2 and Woodlawn Road has started. GJR is planning to remove the gradient currently in place and remove seven curves by way of making the track straight. This will reduce high maintenance costs in the near future and improve site line visibility. GJR is taking small, gradual steps to also prepare for the end of track realignment and the potential Trans Canada Trail system connections. GJR also completed the grade preparations for the new interchange spur with CN at Dawson Road. The new track was installed in the summer of 2020. This new track is being utilized daily and has reduced traffic congestion and impacts to Woodlawn Road.



XT99 Siding North Industrial Dawson Road: GJR completed a major expansion at Dawson Road in conjunction with CN. The addition of this new interchange track was built to keep up with the 18% increase in car traffic from CNR.



Roadway crossing upgrades: Five roadway and/or one farm crossings were upgraded. This included the reconstruction of railway tracks, upgrading of signal conduits through the roadway crossing and the subsequent re-asphalting. The locations completed included Eramosa Road, Lewis Road, Royal Road, York Road and First Line, Milton.



Signal upgrades: Five major arterial roadway crossings received important signal upgrades, from 8" incandescent bulbs to 12" LED lights, including their wiring and bells. This included the intersection of Woodlawn and Edinburgh, Cardigan Street, Duke Street, Huron Street and Morris Street.



Emergency Signs: In accordance with 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 short line operator for equipment malfunction, the GJR General Manager for general inquiries, or a 24-hour helpline for those experiencing a personal crisis. Signs were completed on all signalled and non-signalled crossings in 2020.

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 in 2020 for the installation; however, due to lower revenues, installation is scheduled for 2021. Bridge engineer inspections determined that the wooden ballast abutment walls are safe for continued use.

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 in accordance with Transport Canada standards. However, the standard pesticide used on most 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 2020, we are hopeful 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

Throughout 2020, the Economic Development and Tourism Department has made significant steps integrating GJR into its composition. GJR anticipates working closely with the Department's Marketing and Promotions Coordinators to increase public awareness, business attraction and to highlight key aspects of this historical asset to the community.

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 2020 in accordance with the Shared Service Agreement. Through the Shared Service Agreement, the current organizational structure of GJR contracts with City staff 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 2021, GJR's payments to the City's Finance Department will increase due to additional administrative requirements because of the transition from OSR to GEXR as the service provider.

In 2019-20, GJR added a second full-time position to the company for the purpose of administrative assistance. This role has allowed GJR to alleviate some of the shared service hours required of the internal finance divisions and has opened availability for involvement in various City projects, meetings, and safety initiatives. The additional support has also allowed for more GJR involvement in the Economic Development and Tourism Department as well as the Economic Development and Tourism Strategy.

Ontario Ministry of Transportation 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 relocated and constructed in order to maintain service to customers in the Northwest.

GJR possesses and operates 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 efforts to minimize service disruptions to customers. GJR has retained experienced external legal counsel to handle 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 seeks 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. Among other things, the purpose of the Procedural Order is 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. This has since been placed on hold.

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. The MTO Hanlon project has now been approved to proceed.

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

2020 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, including increasing community awareness through educational programs, and attending and hosting events to promote rail safety. In 2020, 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. Due to the COVID-19 pandemic, GJR could not host any local railway safety events like we did in 2019, as railway safety week was exclusively virtual.

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.

GJR endured challenges in 2020 because of the COVID-19 pandemic and the change of its short line operator, Ontario Southland Railway. GJR was also impacted by the strike at the Molson plant in Toronto.

Changes in 2020 due to the 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 short line operator switching services. With further research and requests for bids, GJR has outsourced fair and efficient work that will translate into eventual, if not immediate, savings for the corporation. Initial start up or termination fees

will have a negative impact on 2020 net income 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.

South Industrial, Lewis Siding

GJR management has identified an additional location at the South Industrial at Lewis Road, where a new siding will be built to accommodate more regular switching schedules to PDI at Massey Road and AOC at Royal Road. Currently, we cannot switch both customers on the same day, given that tracks are oriented in opposite directions. This will save approximately three hours of additional switching per week and will allow both customers to be serviced on the same day.



**GUELPH JUNCTION RAILWAY
LIMITED**

**1 CARDEN STREET
GUELPH, ONTARIO
N1H 3A1**