

Financial Statements of

GUELPH MUNICIPAL HOLDINGS INC.

Year ended December 31, 2023
(Expressed in thousands of dollars)



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INDEPENDENT AUDITOR'S REPORT

To the Shareholder of Guelph Municipal Holdings Inc.

Opinion

We have audited the financial statements of Guelph Municipal Holdings Inc. (the "Entity"), which comprise:

- the statement of financial position as at December 31, 2023
- the statement of income and other 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 at December 31, 2023 and its results of operations 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 "***Auditor's Responsibilities for the Audit of the Financial Statements***" section of our auditor's 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 Canadian public sector accounting standards for not-for-profit organizations, 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.

Auditor's 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 auditor's 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.



Page 3

- 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 auditor's 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 auditor's 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.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Kitchener, Canada

May 29, 2024

Guelph Municipal Holdings Inc.

Statement of Financial Position

December 31, 2023, with comparative information for 2022
(Expressed in thousands of dollars)

	2023	2022
	\$	\$
Assets		
Current Assets		
Cash	1,329	1,469
Accounts receivable	20	209
Prepaid expenses	3	-
Total current assets	1,352	1,678
Due from related parties (Note 8)	2,083	2,055
Investment in Alectra Inc. (Note 4)	104,447	101,281
Total non-current assets	106,530	103,336
Total Assets	107,882	105,014
Liabilities and Shareholder's Equity		
Current Liabilities		
Accounts payable and accrued liabilities	19	-
Total current liabilities	19	-
Refundable security deposit	400	400
Deferred tax liability (Note 7)	15,329	14,535
Total non-current liabilities	15,729	14,935
Total Liabilities	15,748	14,935
Shareholder's Equity		
Share capital		
Authorized: Unlimited common shares		
Issued: 67,530 common shares (Note 5)	67,530	67,530
Retained earnings	24,604	22,549
Total shareholder's equity	92,134	90,079
Total Liabilities and Shareholder's Equity	107,882	105,014

Guelph Municipal Holdings Inc.

Statement of Income and Other Comprehensive Income

Year ended December 31, 2023, with comparative information for 2022
(Expressed in thousands of dollars)

	2023	2022
	\$	\$
Revenue		
Equity share of earnings in Alectra Inc. (Note 4)	6,714	3,010
Electricity sales	-	107
Other revenue	112	40
Total revenue	6,826	3,157
Expenses		
Operations	124	267
Management and general administration	53	86
District energy wind down costs (recovery)	-	7
Total expenses	177	360
Earnings before the undernoted	6,649	2,797
Income tax expense		
Deferred income tax expense (recovery) (Note 7)	309	(139)
	309	(139)
Total comprehensive income for the year	6,340	2,936

Guelph Municipal Holdings Inc.

Statement of Changes in Equity

Year ended December 31, 2023, with comparative information for 2022
(Expressed in thousands of dollars)

	Share capital	Retained earnings	Total
	\$	\$	\$
Balance at January 1, 2022	67,530	23,096	90,626
Dividends	-	(3,700)	(3,700)
Increase in refundable portion of deferred tax liability		217	217
Total comprehensive income for the year	-	2,936	2,936
Balance, December 31, 2022	67,530	22,549	90,079
(Decrease) in refundable portion of deferred tax liability		(485)	(485)
Dividends	-	(3,800)	(3,800)
Total comprehensive income for the year	-	6,340	6,340
Balance, December 31, 2023	67,530	24,604	92,134

Guelph Municipal Holdings Inc.

Statement of Cash Flows

Year ended December 31, 2023, with comparative information for 2022
(Expressed in thousands of dollars)

	2023	2022
	\$	\$
Operating Activities		
Total comprehensive income for the year	6,340	2,936
Adjustment for non-cash items:		
Investment revenue	(6,714)	(3,010)
Deferred income taxes	309	(139)
Changes in non-cash working capital balances		
Decrease in non-cash current assets	186	4
(Increase) decrease in amount receivable from related party	(28)	278
Increase (decrease) in accounts payable and accrued liabilities	19	(35)
Receipt of district energy security deposit	-	400
Cash provided by operating activities	112	434
Investing Activities		
Dividends received	3,548	4,392
Cash provided by investing activities	3,548	4,392
Financing Activities		
Dividends paid	(3,800)	(3,700)
Cash applied to financing activities	(3,800)	(3,700)
Net change in cash during the year	(140)	1,126
Cash, beginning of year	1,469	343
Cash, end of year	1,329	1,469

GUELPH MUNICIPAL HOLDINGS INC.

Notes to Financial Statements

Year ended December 31, 2023
(Expressed in thousands of dollars)

1. Reporting entity

Guelph Municipal Holdings Inc. (GMHI) is wholly-owned by the City of Guelph. GMHI was incorporated on August 16, 2011 under the laws of the Province of Ontario, Canada. The address of GMHI's registered office is 1 Carden Street, Guelph, Ontario.

GMHI owns 4.63% of the shares of Alectra Inc., a regulated electricity distribution company, and operated district energy assets providing services to two customers in the City of Guelph. The district energy assets were sold on June 27, 2022.

These financial statements are for GMHI as at and for the year-ended December 31, 2023 and reflect the following accounting policies:

2. Basis of presentation

(a) Statement of compliance:

GMHI's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Management has assessed that GMHI's investment in Alectra represents significant influence and has therefore accounted for the investment in Alectra using the equity method.

(b) Approval of the financial statements:

The financial statements were approved by the Board of Directors on May 28, 2024.

(c) Basis of measurement:

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

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

GUELPH MUNICIPAL HOLDINGS INC.

Notes to Financial Statements, continued

Year ended December 31, 2023
(Expressed in thousands of dollars)

2. Basis of presentation (continued)

(d) Functional and presentation currency:

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

(e) Use of estimates and judgments:

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

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

3. Significant accounting policies

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

(a) Financial instruments

All financial assets are classified as loans and receivables and all financial liabilities are classified as other liabilities. These financial instruments are recognized initially at fair value plus any directly attributable transaction costs. Subsequently, they are measured at amortized cost using the effective interest method less any impairment for the financial assets as described in note 3(c). GMHI does not enter into derivative instruments.

(b) Revenue recognition

Revenue earned from the provision of services is recognized as the service is rendered.

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

GUELPH MUNICIPAL HOLDINGS INC.

Notes to Financial Statements, continued

Year ended December 31, 2023
(Expressed in thousands of dollars)

3. Significant accounting policies (continued)

(c) Impairment

(i) Financial assets

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

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

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

(ii) Non-financial assets

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

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

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

GUELPH MUNICIPAL HOLDINGS INC.

Notes to Financial Statements, continued

Year ended December 31, 2023
(Expressed in thousands of dollars)

3. Significant accounting policies (continued)

(c) Impairment (continued)

(ii) Non-financial assets (continued)

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

(d) Income taxes

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

GMHI is currently exempt from taxes under the Income Tax Act (Canada) and the Ontario Corporations Tax Act (collectively the "Tax Acts"). Under the *Electricity Act, 1998*, GMHI makes payments in lieu of corporate taxes (PILs) to the Ontario Electricity Financial Corporation (OEFC). These payments are calculated in accordance with the rules for computing taxable income and taxable capital and other relevant amounts contained in the *Income Tax Act (Canada)* and the *Corporations Tax Act (Ontario)* as modified by the *Electricity Act, 1998*, and related regulations. Payments in lieu of taxes are referred to as income taxes.

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

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

GUELPH MUNICIPAL HOLDINGS INC.

Notes to Financial Statements, continued

Year ended December 31, 2023
(Expressed in thousands of dollars)

3. Significant accounting policies (continued)

(d) Income taxes (continued)

or substantive enactment. A valuation allowance is recorded against any deferred income tax asset if it is more likely than not that the asset will not be realized.

4. Investment in Alectra Inc.

	2023	2022
Opening investment, January 1	\$ 101,281	\$ 102,663
Equity share of earnings	6,714	3,010
Dividends received	(3,548)	(4,392)
Ending investment, December 31	\$ 104,447	\$ 101,281

5. Share capital

	2023	2022
Authorized:		
Unlimited number of common shares		
Issued:		
67,530 common shares	\$ 67,530	\$ 67,530

6. Dividends

The holders of the common shares are entitled to receive dividends as declared from time to time.

GMHI paid aggregate dividends in the year on common shares of \$56.27 per share (2022 \$54.79 per share), which amount to total dividends paid in the year of \$3,800 (2022 - \$3,700). Per share amounts are not expressed in thousands of dollars.

GUELPH MUNICIPAL HOLDINGS INC.

Notes to Financial Statements, continued

Year ended December 31, 2023
(Expressed in thousands of dollars)

7. Income taxes

The current tax expense for 2023 is \$- (2022 - \$-).

	2023	2022
Origination and reversal of temporary differences	\$ 309	\$ (139)

Reconciliation of effective tax rate:

	2023	2022
Income before income taxes	\$ 6,648	\$ 2,797
Federal and Ontario statutory income tax rate	26.50%	26.50%
Provision for income taxes at statutory rate	\$1,762	\$ 741
Losses not benefited for accounting	17	56
Equity share of earnings in Alectra	(1,779)	(797)
Non-refundable portion of deferred tax on investment in Alectra	309	(139)
	\$ 309	\$ (139)

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

	2023	2022
Deferred tax liabilities:		
Investment in Alectra	\$ (15,329)	\$ (\$14,535)

GMHI has non-capital tax losses that can be carried forward to reduce future taxes owing that have not been recognized as a deferred tax asset, as follows:

Year of Loss	Loss	Year of Expiry
2006 - 2010	\$ 706	2026 - 2030
2011 - 2015	\$ 8,150	2031 - 2035
2016 - 2022	\$ 5,457	2036 - 2041

8. Related party transactions

(a) Parent and ultimate controlling party

GMHI is wholly-owned by the City of Guelph. The City produces financial statements that are available for public use.

GUELPH MUNICIPAL HOLDINGS INC.

Notes to Financial Statements, continued

Year ended December 31, 2023
(Expressed in thousands of dollars)

8. Related party transactions (continued)

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

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

	2023	2022
Revenue:		
Energy sales (at commercial rates)	\$ -	\$ 44
Expenses:		
Management fees	\$ 40	\$ 65
Water and electricity costs	\$ -	\$ 32

(c) In 2019 GMHI loaned the City \$17,500 on an interest free basis. As of December 31, 2023, the City owed GMHI \$2,083 (2022 - \$2,055).

9. Financial instruments and risk management

The carrying values of cash, receivables, and accounts payable and accrued liabilities approximate fair values because of the short maturity of these instruments.

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

(a) Credit risk

Financial assets carry credit risk that a counterparty will fail to discharge an obligation which could result in a financial loss. Financial assets held by GMHI, such as accounts receivable, expose it to credit risk. GMHI's accounts receivable pertains to HST refunds receivable from Canada Revenue Agency.

GUELPH MUNICIPAL HOLDINGS INC.

Notes to Financial Statements, continued

Year ended December 31, 2023
(Expressed in thousands of dollars)

9. Financial instruments and risk management (continued)

(a) Credit risk (continued)

The carrying amount of accounts receivable is reduced through the use of an allowance for impairment and the amount of the related impairment loss is recognized in the income statement. Subsequent recoveries of receivables previously provisioned are credited to the income statement. The balance of the allowance for impairment at December 31, 2023 is \$nil (2022 - \$nil). No impairment loss was recognized during the year (2022 - \$nil). At December 31, 2023, the balance in accounts receivable is zero from customers.

Market risk

GMHI is exposed to market risk through its investment in Alectra as dividends paid by Alectra are impacted by Alectra's performance and profitability.

(b) Liquidity risk

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

(c) Capital disclosures

The main objectives of GMHI when managing capital are to ensure prudent management of its capital structure and to deliver the appropriate financial returns for its shareholder.

GMHI's definition of capital includes shareholder's equity. As at December 31, 2023 shareholder's equity amounts to \$92,132 (2022 - \$90,079).

10. Commitment

As part of the sale of the district energy operations, GMHI committed to providing \$250 to the purchaser for equipment replacement and retro-commissioning costs. Of this, \$108 has been incurred in 2022, \$73 in 2023 and the remainder will be incurred in 2024.