



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

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