

**MINUTES OF THE REGULAR MEETING OF COUNCIL, HELD IN THE CAO MEETING ROOM, CITY HALL, 141 WEST 14<sup>TH</sup> STREET, NORTH VANCOUVER, BC, ON  
MONDAY, JULY 20, 2020**

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**REPORTS**

16. Lonsdale Energy Corp. – 2020 Annual General Meeting – File: 11-5500-06-0001/1

Report: Director, Lonsdale Energy Corp., July 13, 2020

Moved by Councillor McIlroy, seconded by Councillor Bell

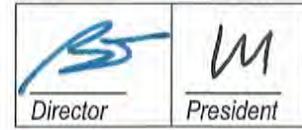
PURSUANT to the report of the Director, Lonsdale Energy Corp., dated July 13, 2020, entitled, “2020 Annual General Meeting”:

THAT the 2019 Financial Statements be received and filed;

THAT the proposed Unanimous Consent Resolutions of the Shareholder of Lonsdale Energy Corp. (Attachment #2) be endorsed;

AND THAT the Mayor and City Clerk be authorized to sign and seal the resolution.

**CARRIED UNANIMOUSLY**



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141 West 14th Street, North Vancouver BC V7M 1H9

## REPORT

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To: Mayor Linda Buchanan and Members of Council  
From: Ben Themens, Director, LEC  
SUBJECT: 2020 ANNUAL GENERAL MEETING  
Date: July 13, 2020

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### RECOMMENDATION:

**PURSUANT** to the report of the Director of Lonsdale Energy Corp., dated July 13, 2020, entitled, "2020 Annual General Meeting":

**THAT** the 2019 Financial Statements be received and filed;

**THAT** the attached proposed Unanimous Consent Resolutions of the Shareholder of Lonsdale Energy Corp. (Attachment 2) be endorsed;

**AND THAT** the Mayor and City Clerk be authorized to sign and seal the said resolution.

### ATTACHMENTS:

1. Financial Statements of Lonsdale Energy Corp. for the period ended December 31, 2019, made up of the Statement of Financial Position, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows
2. Proposed Unanimous Consent Resolutions of the Shareholder of Lonsdale Energy Corp. (in lieu of the annual general meeting)
3. Historical Data for 2004 – 2019 Years of Operation
4. Summary of LEC Statistics, as of December 31, 2019

## PURPOSE:

This report provides information concerning Lonsdale Energy Corp.'s (LEC) 2019 activities and presents the audited Financial Statements for that year. It recommends that a resolution be adopted by the City of North Vancouver, sole shareholder of LEC, in lieu of holding an annual general meeting.

## DISCUSSION:

### *Review of 2019 Activity*

LEC was incorporated on July 7, 2003. In November of that year, the Company started to provide heat for hydronic space heating and domestic hot water to buildings within the City. Since its inception, LEC has grown to provide reliable and reasonably priced thermal energy and cooling services to its customers grouped in four service areas. LEC's statements comply with the International Financial Reporting Standards (IFRS).

The following accounts were added to the LEC network in 2019:

#### Lower Lonsdale Lower Lonsdale

- Pipe Shop Cooling (115 Victory Ship Way)
- Promenade (119 West Esplanade)
- The Shipyards Heating (125 Victory Ship Way)
- The Shipyards Cooling (125 Victory Ship Way)
- The Shipyards Ice Rink Heat Recovery (125 Victory Ship Way)
- West Third (177 West Third Street)

#### Central Lonsdale Service Area

- Belaire Apartments (1549 Chesterfield Avenue)

#### Harbourside Service Area

- Five Points (711 W 14<sup>th</sup> Street)
- St. Thomas Aquinas Secondary School (541 West Keith Road)

#### Moodyville Services Area

- Founders Block North (533 East 3<sup>rd</sup> Street)
- Green (709 East 3<sup>rd</sup> Street)
- Founders Block South (528 East 2<sup>nd</sup> Street)
- The Morrison (645 East 3<sup>rd</sup> Street)

The four Moodyville buildings add approximately 300 residential units to the service area increasing it to 400 and make up a majority of the 560 units added in 2019.

With the addition of these 13 accounts in 2019, LEC's distribution network has 93 energy transfer stations delivering heating and cooling services to 87 separate premises. LEC's network services approximately 6.6 million sq. ft. of properties

including 5,479 households, as well as various commercial and institutional premises. **Attachment 4** provides additional statistics on LEC.

During 2019 LEC added over 1 km of distribution piping worth \$3.4 million to its district energy system (DES). Approximately 400 meters were constructed on St. Georges Avenue between 6<sup>th</sup> Street and 3<sup>rd</sup> Street. With the completion of this project, the four service areas of the DES are completely interconnected. Interconnection not only creates redundancy and resilience for LEC's system by allowing thermal energy to be transferred from mini-plants amongst its different service areas, it also allows for the transfer of thermal energy from sustainable sources to be used beyond a single service area, increasing utilization of alternative sources by more customers. For example, on warm summer days when cooling demand is high, the heat recovery system as part of the district cooling service to the Shipyard's precinct has the capability to heat LEC's entire heating customer base with no supplemental heat production from other mini-plants. Without interconnection, the recovered heat energy in excess of the Lower Lonsdale service area demand would need to be rejected and therefore wasted. Interconnection of service areas is also extremely important to maximize future heat recovery from the North Shore Wastewater Treatment Plant (NSWWTP).

In addition to the above, LEC completed or made significant progress on several sections of distribution piping to reach new customer(s) including East 15<sup>th</sup> Street from Lonsdale Ave. to St. Georges Ave. and up to 1549 St. Georges Ave. (250m); Chesterfield Ave. from 15<sup>th</sup> Street to 16<sup>th</sup> Street (120m); and Ridgeway Ave. from 3<sup>rd</sup> Street to 2<sup>nd</sup> Street (100m). Remaining additions were of smaller lengths including connections to new buildings. .

The majority of LEC's plant and equipment growth during 2019 (approximately \$785,000) was from the construction of the energy transfer stations within customer buildings. These stations allow for the transfer of thermal energy between LEC's DES and the customer's in-building heating system which brings thermal energy to individual units. In 2019, LEC also started work on the addition of two boilers at Mini-Plant 2 (161 W 2<sup>nd</sup> Street) to meet future demand for its growing customer base. The installation of these boilers was completed in February 2020. LEC also began servicing the ice rink at the Shipyards Commons through the use of a CO2 chiller. The waste heat from the ice rink system is captured and put back in the DES. The Company completed its first Network Transfer Station at 160 East 6<sup>th</sup> Street (NTS2) in April 2019. This station facilitates the transfer of energy between service areas without compromising the integrity of LEC's distribution system as a result of large differences in pressure due to elevation differentials between service areas.

With the completion of a \$100,000 network control and automation upgrade at MP4, LEC completed upgrades to its control systems in the Harbourside and Central Lonsdale service areas which began in 2017 (Lower Lonsdale upgrades were completed in 2015). The completion of these upgrades provide LEC with much greater control and management of its system and provide an abundance of valuable performance data to better serve customers, improve system efficiency, and prioritize the use of the most appropriate available energy source.

### **Review of 2019 Financial Performance**

The financial statements of Lonsdale Energy Corp. (**Attachment 1**) provide the financial information of the business for the benefit of the sole shareholder, the City, and other stakeholders. LEC is reporting a profit of \$724,724 for the year ended December 31, 2019. This is greater than 2018's results (\$580,598) and the third year in a row that LEC has earned a profit. It should be noted that with the addition of the 2019 net income, LEC is able to report a significant amount of retained earnings (\$697,052) for the first time since the Company's inception. During LEC's startup years (2004-2008), the Company incurred losses creating a deficit while establishing a customer base. From 2009-2014 the Company grew and began earning a modest income and decreasing the deficit. However, in 2015 non-recurring expenses resulting from obligations under a finance lease with Corix Utilities Inc. caused an increase in the deficit. In 2016, LEC once again saw a modest income. In the past three years, as the Company has continued to expand and mature, LEC has been able to eliminate the deficit and accumulate retained earnings to the benefit of its shareholders. For more details, a historical summary of LEC's financial results is provided in **Attachment 3**.

During 2019, the Company made additions of approximately \$4.5 million to plant and equipment and \$137,000 to software. The amount is required to maintain service to approximately 5,500 households and numerous commercial and institutional spaces. This growth in assets is matched by a growth in liabilities, primarily made up of loans from the City. LEC provided a schedule for reimbursement of City loans in July 2019 which projected complete repayment by 2038. In the schedule, LEC committed to principal payments of approximately \$530,000 in 2019 (including loans to the City and FCM) and dividends to the City of \$30,100. In 2019, LEC exceeded these commitments with actual payments of \$681,000 and dividends of \$30,100. The schedule also projected interest expenses of \$680,000, however successful cash flow management, has kept interest payments at \$655,000 in 2019.

LEC's revenue increased by 28% from 2018 to 2019, this is a result of the addition of the above-mentioned new connections and rate increases to the meter and capacity charges. Through the addition of new customers, new technologies (such as automation system enhancement), and new practices, LEC continues to increase the efficiency of its DES. Expenses are also managed by taking advantage of the fact that plants are interconnected and contracting the purchase of natural gas based on daily Sumas rates at two of LEC's plants. Monitoring daily pricing fluctuation, plants are prioritized to take advantage of the best available price each day. This reduces LEC's cost of sales.

Increased operating expenses on the Statement of Comprehensive income align with the growth of the DES. The addition of more boilers, energy transfer stations, and ancillary plants like NTS2, increases the costs of operating and maintaining the system. The aging of some of the system components also increases the need for maintenance and repairs. LEC has increased equipment preventative maintenance which increases operating costs. However, it should be noted that proactive maintenance helps mitigate the potential of large repair costs resulting from equipment major repair or replacement.

General and administrative expenses have increased by approximately 30% (Note 13 of the Financial Statements provides a breakdown of the functional areas of these

expenses), which is a combination of a general increase in costs, additional staff for the operation and administration of the Company, and the introduction of rent payments for office space and an additional IT support contract.

The Company was able to maintain a profit margin (Net income / Revenue) of 14% in 2018 and 2019 despite an increase in operating costs. This level of profit has been maintained by the additional revenue and contributions from the expansion of LEC's customer base, as well as management practices including natural gas purchase strategies, increased efficiency measures, cash flow management, and preventative maintenance.

### ***Outlook for 2020***

During 2020 LEC is expected to maintain a high rate of customer connections. As of June 30, 2020, LEC has connected five buildings and forecasts five additional connections by year-end. This will bring the total buildings served by LEC to 97. Three of the new buildings are of significant size adding several new residential units to the DES: 1441 St. Georges Ave. (Chard) – 255 units; 108 West 13<sup>th</sup> Street (The Lonsdale) – 144 rental units; and 128 East 8<sup>th</sup> Street (Crest) – 179 units.

During the first six months of 2020, LEC has completed distribution piping on East 15<sup>th</sup> Street from Lonsdale Ave. to St. Georges Ave. and up 1549 St. Georges Ave.; Bewicke Ave. from 14<sup>th</sup> to 15<sup>th</sup> Street; and East 8<sup>th</sup> Street from St. Georges Ave. to 128 E 8<sup>th</sup> Street. LEC also assisted the City by replacing distribution piping as a part of the Mosquito Creek bridge replacement project. The Company plans to complete the following DES sections this year: Chesterfield Ave. from 16<sup>th</sup> Street to 1730 Chesterfield Ave.; East 20<sup>th</sup> Street from Lonsdale Ave. to 125 East 20<sup>th</sup> Street; and East 12<sup>th</sup> Street from St. Georges Ave. to 129 East 12<sup>th</sup> Street.

LEC will be conducting work on a number of ancillary equipment sites to its plants and distribution system during 2020. This includes the construction of another network transfer stations at 717 Chesterfield Avenue (NTS1) to facilitate the transfer of energy between Central Lonsdale and Harbourside. The Company will also be building two booster pump stations to counter the pressure loss caused by long sections of distribution system piping. Booster Pump Station 1 (BPS1) located at 541 W Keith Road will enhance the future conveyance of thermal energy from the NSWWTP. Construction of BPS1 will depend on the NSWWTP's construction progress. Construction of Booster Pump Station 2 (BPS2) is currently in progress. Located at 366 East 3<sup>rd</sup> Street, it will increase the pressure in the supply line servicing the Moodyville service area.

While LEC is always aiming to maintain its cost advantage in relation to stand-alone in-building technologies, LEC is optimistic that it will be able to continue generating significant profits in 2020. A recently approved rate freeze through to November 1, 2021 will impact profitability. However, this rate freeze provides LEC customers with certainty and stability in the face of the economic and financial hardships of COVID-19. The impact of the rate freeze will be partially mitigated by the addition of new buildings and the delay of the NSWWTP construction. As per LEC's report presented at the July 24, 2017 Council meeting, LEC has implemented annual 5% Capacity Charge increases since 2017 as part of a five year plan to fund additional costs of the future NSWWTP heat recovery project. NSWWTP construction delays allow the postponement

of the annual rate increases. Profits will continue to be used to reimburse LEC's debt obligations to the City and fund the implementation of lower greenhouse gas (GHG) energy sources.

### ***Alternative Energy Sources***

LEC is continuously exploring new ways to innovate and enhance the sustainability of the DES. Currently, LEC's alternative energy sources include a solar thermal panel array on the roof of the Library, a geo-exchange field under and around the School District 44 head office, as well as recovery of rejected heat from the cooling process used in LEC's cooling services at the School District 44 head office and the Shipyard's precinct including the newly constructed ice rink. These energy sources are used in priority and directly offset energy that would otherwise be generated by using natural gas fired boilers in LEC's system.

On October 5, 2017, LEC entered into a Thermal Energy Sale and Purchase Agreement with the Greater Vancouver Sewerage & Drainage District (GVS&DD). Under the agreement, GVS&DD is to recover heat from the treated sewage effluent which will then be distributed through LEC's DES. GHG reductions resulting from this heat recovery will allow LEC to supply a considerably larger amount of low-carbon energy to its customers (20,000-30,000 MWh) and displace 7,200 tonnes of emissions per year (as estimated by the GVS&DD). This represents approximately half of the 60,000 MWh delivered by LEC in 2019. LEC received Council's approval on July 24, 2017 for a loan of \$3.6 million to fund the capital cost of the distribution system to link the Harbourside service area with the future NSWWTP. Upon completion, LEC will be responsible for the heat recovery plant's operating and electricity costs.

The reduction of the use of natural gas boilers is an increasing priority for LEC as it continues to focus on reducing the use of fossil fuels. However, the significantly higher capital and operating costs of alternative energy projects makes their financial viability challenging, particularly when considering the past decade's low natural gas prices. As owner/operator, LEC must complete rigorous financial analysis of such projects before making any investment recommendations.

### ***Annual General Meeting***

Legislation requires that each year the Company hold an Annual General Meeting (AGM) so that its shareholders can approve the Company's financial statements; appoint the Directors and Auditors; and conduct any other business that the situation may require. Alternatively, the shareholders may consent in writing to the business required to be transacted at the AGM. Accordingly, a consent resolution has been submitted so that the shareholder may consent to the resolutions to be passed at an AGM (**Attachment 2**).

It should be noted that the consent resolution names BDO Canada LLP as auditors of the Company until the next annual reference date or until a successor is appointed. In 2016, the City and LEC issued a Request for Proposal of Professional Audit Services for the audit of the 2016 to 2020 Financial Statements. After conducting the selection process, a Unanimous Consent Resolution of the Shareholders appointed BDO Canada LLP as the auditors of the Company.

### ***Nomination of the Directors***

Article 18.1 of the Articles of the Company specifies the officers that must be appointed to the Company as follows: a Chairperson of the Board, a Vice-Chairperson, a President and a Secretary-Treasurer.

A Unanimous Consent Resolution of the Shareholder dated December 21, 2018 appointed Leanne McCarthy and Jessica McIlroy to the LEC Board. The proposed Unanimous Consent Resolutions of the Shareholder of LEC (**Attachment 2**) has been prepared on the same basis as previous years and references LEC's Officers as follows:

Name	Office
Leanne McCarthy	Chairman of the Board and President
Jessica McIlroy	Vice-Chair and Director At Large
Ben Themens	Executive Director and Secretary-Treasurer

Note that the title Executive Director is meant to recognize the fact that this director is involved in the Company's day-to-day management and operations. It also aligns with the title of Director currently in use by most of the City department's heads. The title Director at Large recognizes the fact that while not being specifically involved in the Company's operations, the appointee represents the customers' broader interests.

### ***Amount Due to the City of North Vancouver***

On June 29, 2012 the City received a loan of \$2,000,000 under the Green Municipal Investment Fund Project Loan through the Municipal Finance Authority ("MFA") to finance eligible capital costs. Funding was transferred to LEC who is responsible for principal and interest payments. As of December 31, 2019, the loan had an outstanding balance of approximately \$684,287. The final principal payment of this loan is scheduled for 2022.

On August 1, 2018, the City authorized a five-year demand term loan maturing on August 1, 2023, and bearing an interest rate of 2.65% per annum. The total authorized amount of this loan is \$33,661,966. This replaced and consolidated funding previously approved by Council for various capital projects authorized from 2013 to 2018. As of December 31, 2019, the amount owed to the City against the loan was \$25,623,086.

On July 15, 2019 the Company was authorized to borrow an additional \$1,681,000 from the City bearing the same interest rate and terms as the above loan for additional capital projects scheduled into 2021. This increases the total funding available to the Company from the City to \$35,342,966.

In a report to Council dated June 6, 2017 entitled "2017-2018 LEC Construction Program Financing", the Company informed Council of its intention to cease using its operating revenue for the purpose of funding capital expansions and major upgrades. This practice was implemented to enhance transparency as moving forward LEC would borrow funding for future capital projects making Council aware of significant capital projects for the Company. Operating revenue could then be targeted toward the payment of interest and the principal of existing loans. A report to Council on July 9,

2019 provided an updated loan repayment schedule which indicated that the Company intended to allocate \$1.210 million for this purpose in 2019. This was achieved through payment of \$654,777 in interest to the City and principal payments throughout 2019 totaling \$680,779. With total interest and principal payments of \$1.336 million, LEC exceeded its 2019 target by approximately \$126,000. In addition to these payments, administrative services as well as maintenance and operation activities provided by the City are reimbursed on a quarterly basis.

At year-end, LEC had approximately \$897,000 in cash. This amount includes approximately \$719,000 of cash disbursements from the above mentioned loans. The latter amount is to be used solely on capital projects specified in the loan agreements. The difference of \$178,000 reflects LEC's available working capital as of December 31, 2019. At the end of 2019 LEC was in the middle of large capital projects on 15<sup>th</sup> Street and the addition of two boilers at MP2. These large disbursements at the end of the year make up a majority of the above noted cash dedicated to capital projects.

#### **FINANCIAL IMPLICATIONS:**

Discussed throughout the report.

#### **INTER-DEPARTMENTAL IMPLICATIONS**

LEC works in constant cooperation with City departments. LEC is involved in the review of rezoning and building permit applications of buildings with a floor area exceeding 1,000 square meters. All LEC distribution system projects are reviewed by the Engineering, Parks and Environment department to ensure good coordination between LEC and the City. The City Finance department is also involved in the invoicing of all City charges recoverable from LEC.

**RESPECTFULLY SUBMITTED BY:**



Ben Themens, MBA, P.Eng., CPA, CGA  
Director, LEC

Financial Statements of

**LONSDALE ENERGY CORP.**

Year ended December 31, 2019



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## Independent Auditor's Report

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To the Shareholders of Lonsdale Energy Corp.

### Opinion

We have audited the financial statements of Lonsdale Energy Corp. (the "Entity"), which comprise the Statement of Financial Position as at December 31, 2019, and the Statements of Comprehensive Income, Changes in Equity and Cash Flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

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

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 these 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 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.

We 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.

*BDO Canada LLP*

Chartered Professional Accountants

Vancouver, British Columbia  
July 13, 2020

# LONSDALE ENERGY CORP.

## Statement of Financial Position

December 31, 2019, with comparative information for 2018

	Note	2019	2018
<b>Assets</b>			
Current Assets:			
Cash		\$ 896,635	\$ 817,106
Accounts receivable	5	1,333,640	1,057,351
Prepaid expenses		57,328	61,040
		<u>2,287,603</u>	<u>1,935,497</u>
Plant and equipment	6	34,325,528	31,198,418
Supplies for the distribution system	6	436,624	578,279
Software assets	7	581,881	530,468
Debt Reserve Fund	8(c)	20,000	20,000
		<u>\$ 37,651,636</u>	<u>\$ 34,262,662</u>
<b>Liabilities and Shareholder's Equity</b>			
Current liabilities:			
Accounts payable and accrued liabilities		\$ 494,592	\$ 659,220
Due to the City of North Vancouver	8(a)	522,235	559,040
Current portion of Loan from City of North Vancouver	8(a)	405,790	494,982
Security deposits		330,059	230,059
Current portion of loan from Green Municipal Investment Fund	8(c)	219,210	210,779
Current portion of deferred contributions	9	686,794	561,405
		<u>2,658,680</u>	<u>2,715,485</u>
Loan from City of North Vancouver	8(b)	25,217,296	22,798,944
Loan from Green Municipal Investment Fund	8(c)	465,077	684,287
Deferred contributions	9	6,501,798	5,949,785
		<u>34,842,851</u>	<u>32,148,501</u>
Shareholder's equity:			
Share capital	10	2,000,010	2,000,010
Contributed surplus		111,723	111,723
Retained earnings (deficit)		697,052	2,428
		<u>2,808,785</u>	<u>2,114,161</u>
Commitments and contingencies (note 13)			
		<u>\$ 37,651,636</u>	<u>\$ 34,262,662</u>

See accompanying notes to financial statements.

Approved on behalf of the Board:

  
Director

  
Director

# LONSDALE ENERGY CORP.

## Statement of Comprehensive Income

Year ended December 31, 2019, with comparative information for 2018

	<i>Note</i>	2019	2018
Revenue	12	\$ 5,297,998	\$ 4,132,957
Cost of sales		2,125,632	1,678,140
		3,172,366	2,454,817
Operating expenses:			
Plant operation and maintenance		335,474	218,812
Depreciation		1,456,913	1,206,818
General and administrative	13	766,138	587,399
		2,558,525	2,013,029
Contributions and financing costs:			
Contributions	9 & 12	688,149	571,832
Finance income		77,511	65,426
Finance costs	8(b) & 8(c)	(654,777)	(498,448)
		110,883	138,810
Net income and comprehensive income		\$ 724,724	\$ 580,598

See accompanying notes to financial statements.

# LONSDALE ENERGY CORP.

## Statement of Changes in Equity

Year ended December 31, 2019, with comparative information for 2018

	Share capital	Contributed surplus	Retained earnings (deficit)	Shareholder's equity
Balance, December 31, 2017	\$ 2,000,010	\$ 111,723	\$ (578,170)	\$ 1,533,563
Net income and comprehensive income	-	-	580,598	580,598
Balance, December 31, 2018	2,000,010	111,723	2,428	2,114,161
Net income and comprehensive income	-	-	724,724	724,724
Cash dividends			(30,100)	(30,100)
Balance, December 31, 2019	\$ 2,000,010	\$ 111,723	\$ 697,052	\$ 2,808,785

See accompanying notes to financial statements.

# LONSDALE ENERGY CORP.

## Statement of Cash Flows

Year ended December 31, 2019, with comparative information for 2018

	2019	2018
Cash provided by (used in)		
Operations:		
Net income	\$ 724,724	\$ 580,598
Adjustments for:		
Depreciation	1,456,913	1,206,818
Recognition of deferred contributions	(686,794)	(561,405)
Net finance cost	577,267	433,022
Loss on disposal of property and equipment	-	-
Change in non-cash operating working capital:		
Accounts receivable	(276,289)	(39,073)
Prepaid expenses	3,712	1,294
Accounts payable and accrued liabilities	(164,628)	(158,948)
Security deposits	100,000	(32,441)
Net cash from operating activities	1,734,905	1,429,865
Investing:		
Purchase of plant and equipment (including supplies for the distribution system put into use)	(4,498,624)	(6,320,877)
Change in supplies for distribution system	141,655	(75,000)
Purchase of software assets	(136,812)	(163,056)
Interest received	77,510	65,426
Net cash used in investing activities	(4,416,271)	(6,493,507)
Financing:		
Contributions received	1,364,196	704,218
Repayments of loans from the City of North Vancouver	(635,880)	(233,000)
Proceeds from loans from the City of North Vancouver	2,928,235	4,427,600
Dividends paid to the City of North Vancouver	(30,100)	-
Interest paid	(654,777)	(498,448)
Principal payments on Green Municipal Investment Fund loan	(210,779)	(202,672)
Net cash from financing activities	2,760,895	4,197,698
Increase (decrease) in cash	79,529	(865,944)
Cash, beginning of year	817,106	1,683,050
Cash, end of year	\$ 896,635	\$ 817,106

See accompanying notes to financial statements.

# LONSDALE ENERGY CORP.

Notes to Financial Statements

Year ended December 31, 2019

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## 1. Reporting entity:

Lonsdale Energy Corp. (the "Company") is domiciled in Canada and was incorporated under the Business Corporations Act (British Columbia) on July 7, 2003 and commenced development activities thereafter and commercial operations on March 1, 2004. The address of the Company's registered office is 141 West 14th Street North Vancouver, British Columbia, V7M 1H9. The Company is a wholly owned subsidiary of The Corporation of the City of North Vancouver (the "City"). Since inception, the efforts of the Company have been devoted to the development and operation of a district energy system in the City of North Vancouver. Under Section 149(1)(d) of the Income Tax Act, the Company is exempt from income and capital taxes by virtue of the fact that it is a wholly owned subsidiary of the City.

## 2. Basis of presentation:

### (a) Statement of compliance:

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

The financial statements were authorized for issue by the Board of Directors on July 13, 2020.

### (b) Basis of measurement:

The financial statements have been prepared on the historical cost basis on a going concern basis. The going concern basis of presentation assumes the Company will continue in operation for the foreseeable future and will be able to realize its assets and settle its liabilities and commitments in the normal course of business.

Management believes that, based on its current cash flow forecasts and continued and on-going financing from the City, when and if required, to fund future capital requirements that the Company will be able to operate for the foreseeable future.

### (c) Presentation of financial statements:

The Company uses a classified statement of financial position. The statement of financial position distinguishes between current and non-current assets and liabilities. Current assets and liabilities are those expected to be recovered or settled within twelve months from the reporting date and non-current assets and liabilities are those where the recovery or settlement is expected to occur more than twelve months from the reporting date. The Company classifies the statement of comprehensive income using the function of expense method, which classifies expenses according to their functions, such as costs of operation or administrative activities.

# LONSDALE ENERGY CORP.

Notes to Financial Statements (continued)

Year ended December 31, 2019

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## 2. Basis of presentation (continued):

### (d) Functional and presentation currency:

These financial statements are presented in Canadian dollars, which is the Company's functional currency.

### (e) Judgements and estimates:

The preparation of the 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. Actual results may differ from these estimates.

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

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

Note 5 - valuation of accounts receivable (note 15)

Note 6 - useful lives of plant and equipment (note 4(a)(iii))

Note 7 - useful lives of software assets (note 4(b))

## 3. Adoption of new accounting standards:

Accounting standards, interpretations and amendments impacting the Company that will be adopted for accounting years beginning on or after January 1, 2019, and which have given rise to changes in the Company's accounting policies are:

- IFRS 16 *Leases* (IFRS 16)

### IFRS 16 *Leases*

Effective January 1, 2019, IFRS 16 has replaced IAS 17 *Leases* and IFRIC 4 *Determining whether an Arrangement Contains a Lease*.

This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. The Company does not have leasing activities acting as a lessor.

# LONSDALE ENERGY CORP.

Notes to Financial Statements (continued)

Year ended December 31, 2019

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### 3. Adoption of new accounting standards (continued):

Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided.

#### **Impacts of adopting IFRS 16 on the Company's financial statements on January 1, 2019.**

The adoption of IFRS 16 did not result in any material changes to the Company's financial statements.

### 4. Significant accounting policies:

(a) Plant and equipment, supplies for the distribution system:

(i) Recognition and measurement:

Items of plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets include the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets.

The supplies for the distribution system are capital items, not for resale, which have yet to be used in the construction of the distribution system infrastructure, and accordingly are not amortized until installed and available for use.

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

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

Gains and losses on disposal of an item of plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of plant and equipment, and are recognized net within other income in profit or loss.

(ii) Subsequent costs:

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

# LONSDALE ENERGY CORP.

Notes to Financial Statements (continued)

Year ended December 31, 2019

## 4. Significant accounting policies (continued):

### (iii) Depreciation:

Depreciation is calculated over the depreciable amount, which is the cost of an asset less its residual value.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

Depreciation of the various components of the general equipment and sections of the distribution system starts once a component/section is available for use at the following rates on a straight line basis for the current and comparative periods:

Asset	Rate
Distribution system	2.5%
General equipment	5%

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

### (b) Software assets:

The software assets are integral to the functionality of related equipment. Software assets are recognized at cost, net of accumulated amortization and accumulated impairment losses, if any. Software assets, less their estimated residual values, are amortized on a straight-line basis. Depreciation of the software assets starts once the software is available for use at the following rate on a straight line basis for the current and comparative periods:

Asset	Rate
Software	10%

The estimated useful lives, amortization method, and residual value of each asset are evaluated annually or more frequently if required, and are adjusted, if appropriate.

### (c) Revenue recognition:

The Company recognizes revenue when it transfers control over a promised good or services, which constitutes a performance obligation under the contract, to a customer and where the Company is entitled to consideration as a result of completion of the performance obligation. Depending on the terms of the contract with the customer, revenue recognition can occur at a point in time or over time. When a performance obligation is satisfied, revenue is measured at the transaction price that is allocated to that performance obligation. Revenue is recognized over time generally using output as a measure or progress (i.e. kilowatt hours

# LONSDALE ENERGY CORP.

Notes to Financial Statements (continued)

Year ended December 31, 2019

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## 4. Significant accounting policies (continued):

delivered) as the Company's customers simultaneously receive and consume energy. Energy sales are based on fixed rates and meter readings and are billed on a cyclical basis. Revenue is accrued for energy delivered but not yet billed where collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable.

Application fee revenues are based on a percentage of the value of a development. Revenue is earned over time on an accrual basis upon providing services.

### (d) Government grants:

Government grants are recognized initially as deferred contributions at fair value when there is reasonable assurance that they will be received and the Company will comply with the conditions associated with the grant. Grants that compensate the Company for operating expenses incurred are initially deferred and recognized in profit or loss as other income in the same periods in which the expenses are recognized. Grants that compensate the Company for the cost of an asset are initially deferred and recognized in profit or loss on a systematic basis consistent with the depreciation of the of the asset, over the useful life of the asset when put into use.

### (e) Finance income and finance costs:

Finance income comprises of interest on funds invested. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, and impairment losses recognized on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

### (f) Financial instruments:

#### (i) Financial assets:

The Company has the following financial assets: cash and accounts receivables.

The Company initially recognizes cash and accounts receivable on the date on which they are originated. Cash and accounts receivable are initially measured at fair value and are subsequently classified and measured at amortized cost, using the effective interest rate method, because they meet the solely payments of principal and interest criterion and are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows. The carrying amount is reduced through the use of a loss allowance and the amount of the related loss allowance is recognized in profit or loss. Subsequent recoveries of receivables and unbilled service revenue previously provisioned are credited to profit or loss.

Due to its short term nature, the carrying amounts of accounts receivable and unbilled service revenue approximates their fair value.

# LONSDALE ENERGY CORP.

Notes to Financial Statements (continued)

Year ended December 31, 2019

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## 4. Significant accounting policies (continued):

### (f) Financial instruments (continued):

#### (ii) Financial liabilities:

The Company initially recognizes financial liabilities on the date that they are originated. All other financial liabilities are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

The Company has the following financial liabilities: accounts payable and accrued liabilities, due to the City of North Vancouver, security deposits, loan from City of North Vancouver, and loan from the Green Municipal Investment Fund.

#### Other financial liabilities

Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

#### (iii) Share capital:

#### Common shares

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity.

### (g) Impairment:

The carrying amounts of the Company's non-financial 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.

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 discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually 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, or CGU").

# LONSDALE ENERGY CORP.

Notes to Financial Statements (continued)

Year ended December 31, 2019

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## 4. Significant accounting policies (continued):

### (g) Impairment (continued):

The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

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

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. The 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.

### (h) New standards and interpretations not yet adopted:

The following is a summary of recent relevant accounting pronouncements which have not yet been adopted by the Company:

#### (i) IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

In October 2018, the IASB issued amendments to IAS 1 and IAS 8 *Definition of Material*. The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS.

#### (ii) IFRS 3 *Business Combinations*

As part of the 2015-18 Annual Improvements Cycle, an amendment, *Definition of business* clarifies "A company remeasures its previously held interest in a joint operation when it obtains control of the business."

The Company has assessed IFRS 3, IAS 1 and IAS 8 and does not expect the new standards will have a material impact on in its consolidated financial statements for the annual period beginning on January 1, 2020.

# LONSDALE ENERGY CORP.

Notes to Financial Statements (continued)

Year ended December 31, 2019

## 5. Accounts receivable:

	2019	2018
Trade receivables	\$ 1,141,525	\$ 880,499
Sales tax receivable	192,115	176,852
	<u>\$ 1,333,640</u>	<u>\$ 1,057,351</u>

The Company settles the receivables due from the City separate from its payment of the amounts due to the City. As a result, the outstanding receivables and payables due from/to the City are recorded on a gross basis.

The aging of trade receivables at the reporting date was:

	2019	2018
(a) Utilities		
Current	\$ 660,500	\$ 511,522
Past due 30-60 days	259,381	173,790
Past due 60-90 days	48,782	9,313
Past due greater than 90 days	29,878	2,865
(b) Application fees		
Current	\$ -	\$ -
Past due 30-60 days	-	-
Past due 60-90 days	606	394
Past due greater than 90 days	19,719	38,274
(c) Other		
Current	\$ 975	\$ 43,730
Past due 30-60 days	108,105	100,611
Past due 60-90 days	-	-
Past due greater than 90 days	13,579	-
	<u>\$ 1,141,525</u>	<u>\$ 880,499</u>

### (a) Utilities

Included in utilities are trade receivables for the monthly provision of space heating, space cooling and domestic hot water services.

# LONSDALE ENERGY CORP.

Notes to Financial Statements (continued)

Year ended December 31, 2019

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## 5. Accounts receivable (continued):

### (b) Application fees

Included in application fees are trade receivables for 0.15% of the construction value of new developments connecting to the Company's district energy system. These trade receivables cover multiple phases of development and the developers are offered the option of paying fees separately by phase. Phased payments can result in the potential for longer aging of trade receivables. These trade receivables are still expected to be collected within one year.

### (c) Other

Included in other are trade receivables such as the non-refundable connection fees from new customers or contributions from developers for extended distribution piping as part of the initial connection of a building to the system.

The Company measures the loss allowance at an amount equal to the lifetime expected credit loss (ECL) for accounts receivables. The ECL is an estimation of loss in the event of default of the accounts receivable arising from default events occurring in the lifetime of the instrument. The lifetime ECL is estimated based on historical default rates and forward looking trends in the energy and real estate industry.

No loss allowance has been made in relation to the collectability of accounts receivable as at December 31, 2019 and 2018 as the impact is expected to be trivial.

# LONSDALE ENERGY CORP.

Notes to Financial Statements (continued)

Year ended December 31, 2019

## 6. Plant and equipment:

	Distribution system	General equipment	Total
<i>Cost</i>			
Balance as at December 31, 2018	\$ 22,404,951	\$ 15,637,729	\$ 38,042,680
Additions	3,422,718	1,075,906	4,498,624
Disposal	-	-	-
Balance as at December 31, 2019	\$ 25,827,669	\$ 16,713,635	\$ 42,541,304
<i>Accumulated depreciation</i>			
Balance as at December 31, 2018	\$ 2,443,829	\$ 4,400,433	\$ 6,844,262
Depreciation	564,675	806,839	1,371,514
Disposal	-	-	-
Balance as at December 31, 2019	\$ 3,008,504	\$ 5,207,272	\$ 8,215,776
<i>Net book value</i>			
At December 31, 2018	\$ 19,961,122	\$ 11,237,296	\$ 31,198,418
At December 31, 2019	22,819,165	11,506,363	34,325,528

Supplies for the distribution system represent plant and equipment which have not been installed or used for the district energy system as at December 31, 2019. In addition, they are not being amortized.

# LONSDALE ENERGY CORP.

Notes to Financial Statements (continued)

Year ended December 31, 2019

## 7. Software assets:

### Cost

Balance, at December 31, 2018	\$	691,761
Additions		136,812
Balance, at December 31, 2019	\$	828,573

### Accumulated Depreciation

Balance, at December 31, 2018	\$	161,293
Depreciation		85,399
Balance, at December 31, 2019	\$	246,692

### Net book value

At December 31, 2018	\$	530,468
At December 31, 2019	\$	581,881

In 2014, the Company initiated the replacement and upgrade of the central control system in the Lower Lonsdale service area as well as acquiring a new financial reporting system. The new financial reporting system was put into service in March 2015 and is being amortized over its estimated useful life of 10 years. The control system was put into service in July 2016 and is being amortized over its estimated useful life of 10 years.

In 2017, the Company undertook further controls upgrades for the Harbourside and Central Lonsdale service areas. The control system in Harbourside was put into service in September 2017, the Central Lonsdale system was completed and put into service in January 2019.

## 8. Due to the City of North Vancouver:

### (a) Due to the City of North Vancouver:

The amount due to the City of \$522,235 (2018 - \$559,040) is used to cover operating and financing expenses incurred by the City on behalf of the Company. The amounts outstanding as at 2019 are expected to be repaid as part of the ongoing operations of the Company. The amount due to the City is non-interest bearing, unsecured and due on demand.

# LONSDALE ENERGY CORP.

Notes to Financial Statements (continued)

Year ended December 31, 2019

## 8. Due to the City of North Vancouver (continued):

### (a) Due to the City of North Vancouver (continued):

In addition to the amount due to the City, \$405,790 (2018 - \$494,982) of the principal loan amount is included in the current liabilities this amount is expected to be reimbursed by the Company within one year. In 2019, \$635,880 was reimbursed to the City in payment of the principal of a City loan.

All of the Company's shares are owned by the City, the parent organization. The full financial statements of the City are publicly available and produced by the City.

### (b) Loans from the City of North Vancouver:

	2019	2018
Demand promissory note (i)	\$ 25,623,086	\$ 23,293,926
Demand promissory note (ii)	-	-
	<u>\$ 25,623,086</u>	<u>\$ 23,293,926</u>

(i) On August 1, 2018 a new five-year demand term loan was issued by the City. This Promissory Note replaced and nullified all previous Promissory Notes issued by the City to the Company. The loan matures on August 1, 2023 and bears interest at 2.65% per annum. As at December 31, 2019 an amount of \$25,623,086 had been drawn by the Company. Additional funding is available to the Company under the terms of the agreement to a maximum of \$33,661,966.

(ii) On July 15, 2019 the Company was authorized to borrow an additional \$1,681,000 from the City. The loan bears interest at 2.65% per annum. As at December 31, 2019 no amount had been drawn by the Company on this loan. This Promissory Note carries the same terms as the Promissory Note in Note 8.(b)(i).

Although the term loans are due on demand, with the exception of an amount of \$405,790, the amounts have been classified as a non-current liability as the City has, as approved by council, committed to providing the Company with a twelve month notice period for any reimbursements of the loan requested in advance of the planned repayment schedule.

The interest expense of \$648,777 (2018 - \$492,448) related to the due to the City of North Vancouver are included in finance costs in the Statement of Comprehensive Income.

The loans are secured by an interest in all of the Company's current and future property, including plant and equipment, supplies for the distribution system and other related assets.

# LONSDALE ENERGY CORP.

Notes to Financial Statements (continued)

Year ended December 31, 2019

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## 8. Due to the City of North Vancouver (continued):

### (c) Loan from Green Municipal Investment Fund:

On June 29, 2012, the City received a loan of \$2,000,000 under the Green Municipal Investment Fund Project Loan through the Municipal Finance Authority ("MFA") to finance Eligible Costs incurred related to the capital projects undertaken by the Company. The loan bears interest at the ten year Government of Canada bond yield rate in effect at the date of request of the disbursement less 1.5% (effective interest rate of 0.3%) and is payable semi-annually and matures on the tenth anniversary of the loan date. As a condition to receive the loan, the Company made a debt reserve deposit payment of \$20,000 to the MFA on behalf of the City which is recorded in other assets on the statement of financial position.

The annual principal payments to the MFA are held in a sinking fund deposit account which accrues interest income based on actuarial estimates. The total principal repayments made including the interest income earned on the sinking fund deposit will be used to retire the loan on June 29, 2022. The difference between the actuarial and actual interest income earned during the term will be paid by or reimbursed to the Company.

The City assumed this loan on behalf of the Company. The City then loaned the proceeds of the loan to the Company with terms consistent with the MFA. The principal payments of this loan are made by the Company directly to the MFA which results in the reduction to the amounts owed by the Company to the City. The loan is subject to certain financial and non-financial covenants. As at December 31, 2019, the City and Company were in compliance with these covenants.

Future principal repayments, including actuarial adjustments of \$184,542 (2018 - \$228,739), on this loan over the next three years are as follows:

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2020	\$	219,210
2021		227,979
2022		237,098
	\$	684,287

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The interest expense of \$6,000 (2018 - \$6,000) is included in finance costs in the Statement of Comprehensive Income.

# LONSDALE ENERGY CORP.

Notes to Financial Statements (continued)

Year ended December 31, 2019

## 9. Deferred contributions:

	2019	2018
(a) Green Municipal Investment Fund Project Grant	\$ 986,662	\$ 1,068,480
(b) Gas Tax Agreement – Innovation Fund	773,242	797,640
(c) Infrastructure Stimulus Fund Grant	79,645	81,728
(d) Solar Water Installation	136,601	150,261
(e) Contributions from developers and new customers	5,187,878	4,385,788
(f) Contributions from utility company	24,564	27,293
	7,188,592	6,511,190
Current portion	(686,794)	(561,405)
Non-current portion	\$ 6,501,798	\$ 5,949,785

### (a) Green Municipal Investment Fund Project Grant:

In 2005, the City and the Federation of Canadian Municipalities (FCM) entered into an agreement whereby FCM provides a grant from the Green Municipal Investment Fund. The grant provides for 25% of the eligible costs, to a maximum of \$2,000,000, related to the construction of the mini-plants, distribution system and project soft costs such as those related to intangible assets, development costs and pre-operating costs. The Company has received the maximum eligible grant of \$2,000,000.

The contribution is recognized over the useful life of the related assets. The portion of the grant that is not recognized as revenue is recorded as deferred contribution.

The following table summarizes the amount recognized as of December 31:

	2019	2018
Deferred contribution - FCM Grant, beginning of year	\$ 1,068,480	\$ 1,150,298
Revenue recognized from grant	(81,818)	(81,818)
Deferred contribution - FCM Grant, end of year	\$ 986,662	\$ 1,068,480

### (b) Gas Tax Agreement - Innovation Fund:

In 2009, the City and the Union of British Columbia Municipalities (UBCM) entered into an agreement whereby UBCM provided a grant from the Gas Tax Innovation Fund. The grant provides for 100% of the eligible costs, to a maximum of \$973,750 related to the construction of a section of the distribution system in Central Lonsdale.

The contribution is recognized over the useful life of the distribution system at a rate of 2.5% per year from the date the section covered under the grant is available for use. The portion of the grant that is not recognized as revenue is recorded as deferred contribution.

# LONSDALE ENERGY CORP.

Notes to Financial Statements (continued)

Year ended December 31, 2019

## 9. Deferred contributions (continued):

### (b) Gas Tax Agreement - Innovation Fund (continued):

The following table summarizes the amount recognized as of December 31:

	2019	2018
Deferred contribution - Gas Tax Grant, beginning of year	\$ 797,640	\$ 822,038
Revenue recognized from grant	(24,398)	(24,398)
Deferred contribution - Gas Tax Grant, end of year	\$ 773,242	\$ 797,640

### (c) Infrastructure Stimulus Fund Grant:

In 2011, the City and the Province of British Columbia (Province) entered into agreement whereby the Province provides a grant from the Infrastructure Stimulus Fund. The grant provides for 66.66% of the eligible costs, to a maximum of \$83,332 related to the construction of a section of the distribution system in Central Lonsdale. The maximum contribution of \$83,332 was received in 2011.

The contribution is recognized over the useful life of the distribution system at a rate of 2.5% per year from the date the section completed under the grant is available for use. Depreciation of this section of the distribution system started to be recognized as of November 1, 2017 resulting in the commencement of revenue recognition.

The following table summarizes the amount recognized as of December 31:

	2019	2018
Deferred contribution - Infrastructure grant, beginning and end of year	\$ 81,728	\$ 83,103
Revenue recognized from grant	(2,083)	(1,375)
Deferred contribution - Infrastructure Stimulus Fund Grant, end of year	\$ 79,645	\$ 81,728

### (d) Solar Water Installation:

In 2010, the City transferred the ownership of the Solar Panels to the Company which involved the transfer of all costs incurred and contributions received that were associated with the project.

# LONSDALE ENERGY CORP.

Notes to Financial Statements (continued)

Year ended December 31, 2019

## 9. Deferred contributions (continued):

### (d) Solar Water Installation (continued):

The City had incurred a total of \$347,150 in project costs and received two grant contributions from the Federal Government and the Province towards the project for a total of \$273,202. The contributions are recognized over the useful life of the solar panels at rate of 5% per year.

The following table summarizes the amount recognized as of December 31:

	2019	2018
Deferred contribution - Solar Water Installation, beginning of year	\$ 150,261	\$ 163,921
Revenue from contributions recognized	(13,660)	(13,660)
Deferred contribution - Solar Water Installation, end of year	\$ 136,601	\$ 150,261

### (e) Contributions from developers and new customers:

The Company recognizes as a contribution from developers the amounts reimbursed by developers to the Company for costs to construct or acquire property and equipment. Revenue is recognized over the useful life of the distribution system at a rate of 2.5% per year from the date a section is available for use.

The Company also includes in the contributions from developers and new customers the non-refundable connection fees or general contributions received as part of the initial connection of a building to the system. These fees and general contributions are linked to the cost of the initial connection including installation of the building heat exchanger. The contributions are recognized over the useful life of the general equipment at a rate of either 2.5% or 5% per year from the date of connection of the building. This amount includes compensation of \$98,493 and \$23,676 received in 2016 and 2017 respectively, from the City for service connection rebates granted to rental buildings.

The following table summarizes the amount recognized as of December 31:

	2019	2018
Deferred contribution from developers and new customers, beginning of year	\$ 4,385,788	\$ 4,118,994
Contributions	1,364,196	704,218
Revenue recognized from contributions	(562,106)	(437,424)
Deferred contribution, end of year	\$ 5,187,878	\$ 4,385,788

# LONSDALE ENERGY CORP.

Notes to Financial Statements (continued)

Year ended December 31, 2019

## 9. Deferred contributions (continued):

### (f) Contribution from utility company:

In 2009, the City received funding under the Efficient Boiler Program administered by Fortis Gas Inc. of \$54,586. The contribution is recognized over the useful life of the boilers at a rate of 5% per year.

The following table summarizes the amount recognized as of December 31:

	2019	2018
Deferred contribution from utility company, beginning of year	\$ 27,293	\$ 30,022
Revenue recognized from contributions	(2,729)	(2,729)
Deferred contribution from utility company, end of year	\$ 24,564	\$ 27,293

## 10. Share capital:

The authorized capital of the Company consists of an unlimited number of voting common shares without par value. As of December 31, 2019, a total of \$2,000,010 (2018 - \$2,000,010) shares were issued and outstanding to the Company's sole shareholder, the City.

There were no changes in share capital during the year.

Dividends issued amounted to \$30,100, were approved by the board on April 26, 2019, and were paid to the City.

## 11. Related parties:

The City has incurred expenses, including sales taxes, on behalf of the Company in the year of approximately \$1,288,943 (2018 - \$1,263,124) by providing staff, purchasing material and installing and operating the distribution system for the Company's benefit. These expenses are included in Plant operation and maintenance, General and administrative, and additions to Plant and equipment. Of this amount \$172,891 (2018 - \$271,651) has been capitalized to plant and equipment. Specifically, City staff has been involved in designing, purchasing materials for and installing and operating components of the distribution system. The Company made \$46,200 (2018 - \$0) in rent payments to the City included in the incurred expenses for use of a portion of the building at 141 West 14th Street for office space. These costs have been charged to the Company by the City on a cost recovery basis. Included in revenue for 2019 is \$221,190 (2018 - \$204,053) for heating and cooling services rendered by the Company to the City.

Included in the services provided to the Company by the City is key management personnel compensation, comprised of the executive director, deputy director, manager - engineering, two project engineers, construction manager, senior energy specialist – hydrogen, and accountant.

# LONSDALE ENERGY CORP.

Notes to Financial Statements (continued)

Year ended December 31, 2019

## 11. Related parties (continued):

These key management personnel are directly employed by the City and contracted to the Company based on an allocation of their compensation. For the year ended December 31, 2019, key management personnel compensation of \$951,957 (2018 - \$874,142) was included in the costs charged to the Company by the City.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

## 12. Revenue:

	Note	2019	2018
Revenue from contracts with customers			
Energy sales		\$5,297,998	\$4,132,957
Current portion of contributions			
Contributions from government	9(a)-(d)	\$121,959	\$121,251
Contributions from developers	9(e)	111,193	112,534
Connection fees	9(e)	158,192	130,595
Application fees	9(e)	292,721	194,295
Contributions from utility companies	9(f)	2,729	2,729
Total current portion of contributions		\$686,794	\$561,405
Miscellaneous revenue		1,355	10,427
Total contributions and miscellaneous revenue		\$688,149	571,832
Total revenue		\$5,986,147	4,704,789

# LONSDALE ENERGY CORP.

Notes to Financial Statements (continued)

Year ended December 31, 2019

## 13. General and administrative expenses:

	2019	2018
Administrative support	\$22,600	\$39,434
Financial services	6,622	3,879
Insurance	111,147	104,563
IT Support	30,896	16,107
Miscellaneous	14,285	7,029
Professional services	56,757	53,010
Rent	46,200	-
Salaries	477,631	363,377
Total general and administrative expenses	\$766,138	587,399

## 14. Commitments and contingencies:

- (a) As at December 31, 2019, the Company has approximately \$466,463 (2018 - \$1,028,831) in open purchase and work orders relating to plant and equipment.
- (b) As a condition of the Green Municipal Investment Fund Project Loan from the MFA (note 8(c)), the City executed a demand note in connection with the loan whereby the City may be required to lend certain amounts to the MFA. The demand note relating to the loan is \$66,291. The demand note is contingent in nature and is therefore not recorded as a liability.
- (c) On October 5, 2017, the Company entered in an agreement with Greater Vancouver Sewerage and Drainage District for the purchase of thermal energy from the new North Shore wastewater treatment plant currently under construction. Under the agreement, the Company will be obligated to purchase minimal quantities of energy from the new plant at a mutually agreed upon date between both parties when thermal energy will be available. The cost of this future energy is based on an agreed upon pricing model.

# LONSDALE ENERGY CORP.

Notes to Financial Statements (continued)

Year ended December 31, 2019

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## 15. Fair values:

### Financial Assets and Liabilities:

The Company uses the following hierarchy to determine and disclose fair value of financial instruments:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data, which are unobservable inputs.

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company does not have any financial assets or liabilities that are carried at fair value.

The fair values of cash, accounts receivable, accounts payable and accrued liabilities, due to the City of North Vancouver, and security deposits approximate their carrying values due to their short term nature.

The fair value of the loan from the City of North Vancouver is equal to its carrying amount as the loan is due on demand.

The fair value of the loan from the Green Municipal Investment Fund at year end is \$661,941 (2018 - \$842,925) and is classified as level 3.

## 16. Financial risk management:

### Overview

The Company has exposure to the following risks from its use of financial instruments:

- operational risk
- credit risk
- liquidity risk
- market risk

### Risk management framework:

Management has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

# LONSDALE ENERGY CORP.

Notes to Financial Statements (continued)

Year ended December 31, 2019

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## 16. Financial risk management (continued):

### Operational risk:

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Company's operations.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management. This responsibility is supported by the development of overall Company standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of spending authority;
- ethical and business standards; and
- risk mitigation, including insurance when this is effective.

### Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers.

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Management has established a credit policy under which each new customer and developer must provide a security deposit that is held for 18 months following the issuance of a building occupancy permit.

As at December 31, 2019, \$63,176 (2018 - \$41,139) of accounts receivable exceeded 90 days.

# LONSDALE ENERGY CORP.

Notes to Financial Statements (continued)

Year ended December 31, 2019

## 16. Financial risk management (continued):

### Liquidity risk:

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities in the normal course of business. The Company anticipates that its cash flows from operations and current grant agreements will be sufficient to satisfy its current obligations. The City provides financing to the Company through its formal related party loan which has a specified rate of interest and is repayable on demand with, as approved by council, a twelve month notice period for any reimbursements of the loan requested in advance of the planned repayment schedule.

As at December 31, 2019, all financial liabilities, except for the loan from the Green Municipal Investment Fund and the loan from City of North Vancouver, have been classified as current as they are contractually due within the next fiscal year.

As at December 31, 2019	Carrying amount	Total contractual cash flows	Less than one year	1 to 5 years	More than 5 years
Loan from Green Municipal Investment Fund	\$ 684,287	\$ 693,287	\$ 219,210	\$ 474,077	\$ -
Loan from City of North Vancouver	25,623,086	25,623,046	405,790	25,217,296	-

As at December 31, 2018	Carrying amount	Total contractual cash flows	Less than one year	1 to 5 years	More than 5 years
Loan from Green Municipal Investment Fund	\$ 895,066	\$ 916,066	\$ 216,779	\$ 699,287	\$ -
Loan from City of North Vancouver	23,293,926	23,293,926	494,982	22,798,944	-

# LONSDALE ENERGY CORP.

Notes to Financial Statements (continued)

Year ended December 31, 2019

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## 16. Financial risk management (continued):

### Market risk:

Market risk is the risk that changes in market prices, such as energy prices, interest rates and other rate risks, will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

- *Interest rate risk:*

In respect of financial assets, the Company's policy is to invest cash at fixed rates of interest in order to maintain liquidity. The loan from the Green Municipal Investment Fund and the loan from City of North Vancouver bear a fixed rate of interest. The loan from City of North Vancouver is maturing on August 1, 2023 and the Company is cognizant that the interest rate may be adjusted in line with market pricing at that time.

## 17. Capital management:

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern to sustain future development of the business, so that it can provide returns for the shareholder and benefits for other stakeholders.

The Company considers the items included in shareholder's equity as capital. There were no changes in the Company's approach to capital management during the year.

## 18. Subsequent event note:

Subsequent to year end, the impact of COVID-19 in Canada and on the global economy increased significantly. As the impacts of COVID-19 continue, there could be specific impact on the Company, its citizens, employees, suppliers and other third party business associates that could impact the timing and amounts realized on the Company's assets and future ability to deliver services and projects. At this time, the full potential impact of COVID-19 on the Company is not known. Although the disruption from the virus is expected to be temporary, given the dynamic nature of these circumstances, the duration of disruption and the related financial impact cannot be reasonably estimated at this time. The Company's ability to continue delivering non-essential services and employ related staff will depend on the legislative mandates from the various levels of government. The Company will continue to focus on collecting receivables, managing expenditures, and, if necessary, leveraging existing reserves and investigate available credit facilities to ensure it is able to continue providing essential services to its citizens.

**UNANIMOUS CONSENT RESOLUTIONS OF THE SHAREHOLDER  
OF  
LONSDALE ENERGY CORP.  
(the "Company")**

in lieu of the annual general meeting

The undersigned, being the sole shareholder of the Company entitled to vote at an annual general meeting, hereby consents to and adopts in writing the following resolutions:

**RESOLVED THAT:**

1. the financial statements of the Company for the period ended December 31, 2019, made up of statement of financial position, statement of comprehensive income, statement of changes in equity and statement of cash flows as at the end of that period and the report of the auditors thereon are hereby received and filed;
2. all lawful acts, contracts, proceedings, appointments and payments of money by the directors of the Company since the last annual reference date of the Company, and which have previously been disclosed to the shareholder, are hereby adopted, ratified and confirmed;
3. the number of Directors of the Company is hereby fixed at 3;
4. the following persons, each of whom has consented in writing to act as a director, are hereby elected as directors of the Company, to hold office until the next annual general meeting of the Company or unanimous resolutions consented to in lieu of holding an annual general meeting, or until their successors are appointed:  
  

Jessica McIlroy	Leanne McCarthy	Ben Themens
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5. BDO Canada LLP be appointed as auditors of the Company until the next annual reference date of the Company or until a successor is appointed, at a remuneration to be fixed by the Directors; and
6. June 15, 2020 be and is hereby selected as the annual reference date for the Company for its current annual reference period.

DATED as of July 20, 2020.

**THE CORPORATION OF THE CITY OF  
NORTH VANCOUVER**

\_\_\_\_\_  
Mayor Linda Buchanan

\_\_\_\_\_  
Karla Graham, City Clerk

**Historical Data for 2004 - 2019 Years of Operations**

Income Statement line description	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	\$ 176,707	\$ 409,108	\$ 415,741	\$ 630,088	\$ 1,016,118	\$ 1,158,110	\$ 1,434,108	\$ 1,562,007	\$ 1,693,413	\$ 2,038,134	\$ 2,594,229	\$ 2,647,001	\$ 2,838,793	\$ 3,900,077	\$ 4,132,957
Cost of Sales	\$ 66,777	\$ 187,089	\$ 245,839	\$ 299,299	\$ 479,519	\$ 469,707	\$ 722,351	\$ 752,254	\$ 747,330	\$ 965,876	\$ 1,261,027	\$ 1,175,841	\$ 1,196,282	\$ 1,538,595	\$ 1,678,140
Gross profit	\$ 109,930	\$ 222,019	\$ 169,902	\$ 330,789	\$ 536,599	\$ 688,403	\$ 711,757	\$ 809,753	\$ 946,083	\$ 1,072,258	\$ 1,333,202	\$ 1,471,160	\$ 1,642,511	\$ 2,361,482	\$ 2,454,817
Plant Operation and Maintenance	\$ 19,087	\$ 91,585	\$ 95,244	\$ 98,149	\$ 114,689	\$ 138,289	\$ 143,305	\$ 191,350	\$ 212,842	\$ 289,346	\$ 310,795	\$ 289,127	\$ 225,115	\$ 134,380	\$ 218,812
Depreciation	\$ 68,531	\$ 114,823	\$ 127,777	\$ 146,220	\$ 212,246	\$ 293,444	\$ 273,586	\$ 309,667	\$ 430,542	\$ 564,686	\$ 693,517	\$ 795,568	\$ 886,925	\$ 1,064,736	\$ 1,206,818
General and Administrative	\$ 98,268	\$ 145,543	\$ 172,968	\$ 140,987	\$ 173,957	\$ 146,916	\$ 185,574	\$ 188,783	\$ 309,926	\$ 445,511	\$ 361,409	\$ 348,892	\$ 497,248	\$ 405,632	\$ 587,399
Total - Operating Expenses	\$ 185,886	\$ 351,951	\$ 395,989	\$ 385,356	\$ 500,892	\$ 578,649	\$ 602,465	\$ 689,800	\$ 953,310	\$ 1,299,543	\$ 1,365,721	\$ 1,433,587	\$ 1,609,288	\$ 1,604,748	\$ 2,013,029
Income (loss) before other expenses	\$ (75,956)	\$ (129,932)	\$ (226,087)	\$ (54,567)	\$ 35,707	\$ 109,754	\$ 109,292	\$ 119,953	\$ (7,227)	\$ (227,285)	\$ (32,519)	\$ 37,573	\$ 33,223	\$ 756,734	\$ 441,788
Contributions		\$ 60,136	\$ 259,458	\$ 38,804	\$ 63,416	\$ 117,389	\$ 120,875	\$ 146,532	\$ 174,480	\$ 211,010	\$ 225,615	\$ 232,648	\$ 260,629	\$ 357,676	\$ 571,832
Finance income		\$ 23,432	\$ 22,037	\$ 24,530	\$ 17,321	\$ 5,111	\$ 11,171	\$ 15,742	\$ 25,121	\$ 32,071	\$ 34,429	\$ 27,172	\$ 27,691	\$ 42,975	\$ 65,426
Finance costs	\$ (111,951)	\$ (207,481)	\$ (194,850)	\$ (34,141)	\$ (123,277)	\$ (125,421)	\$ (128,876)	\$ (131,322)	\$ (139,585)	\$ (157,986)	\$ (214,870)	\$ (253,282)	\$ (302,870)	\$ (357,790)	\$ (498,448)
Subtotal	\$ (111,951)	\$ (123,913)	\$ 86,645	\$ 29,193	\$ (42,540)	\$ (2,921)	\$ 3,170	\$ 30,952	\$ 60,016	\$ 85,095	\$ 45,174	\$ 6,538	\$ (14,550)	\$ 42,861	\$ 138,810
Income before non-recurring expenses	\$ (187,907)	\$ (253,845)	\$ (139,442)	\$ (25,374)	\$ (6,833)	\$ 106,833	\$ 112,462	\$ 150,905	\$ 52,789	\$ (142,190)	\$ 12,655	\$ 44,111	\$ 18,673	\$ 799,595	\$ 580,598
Non-recurring expenses															\$ (1,030,721)
Net Income and Comprehensive Income	\$ (187,907)	\$ (253,845)	\$ (139,442)	\$ (25,374)	\$ (6,833)	\$ 106,833	\$ 112,462	\$ 150,905	\$ 52,789	\$ (142,190)	\$ 12,655	\$ (986,610)	\$ 18,673	\$ 799,595	\$ 580,598
Cash Dividends															
Total Net Accumulated Surplus (loss)	\$ (277,787)	\$ (531,632)	\$ (671,074)	\$ (696,448)	\$ (703,281)	\$ (596,449)	\$ (483,987)	\$ (333,082)	\$ (280,293)	\$ (422,483)	\$ (409,828)	\$ (1,396,438)	\$ (1,377,765)	\$ (578,170)	\$ 2,428
Sales (kW.hr)	1,175,900	3,630,109	4,981,300	6,828,400	11,063,030	14,120,569	18,737,975	22,847,087	23,945,719	27,921,503	31,254,231	32,401,971	37,787,274	49,502,564	53,625,648

**Summary of LEC Statistics**  
**As of December 31, 2019**

• Total square footage of buildings served:	6,576,117 square feet
• Square footage of new buildings connected in 2019:	874,105 square feet
• Total number of customer accounts served:	93
○ Residential Buildings	41
○ Mixed Residential / Commercial	20
○ Commercial (including 2 hotels)	19
○ Institution	7
○ Cooling	6
• New customer accounts connected in 2019:	13
• Total number of residential suites connected:	5,479
• New residential suites connected in 2019:	560
• Total number of boilers installed in LEC Mini-Plants:	30
• Number of new boilers installed in 2019:	2
• Trench kilometers of distribution system:	12.6 kilometers
• Kilowatt-hours of heating delivered to customers in 2019:	59,275,173 kW.h
• Kilowatt-hours of cooling delivered to customers in 2019:	881,670 kW.h
• Total Heating Capacity	28 MW