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lonsdale energy corp.

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

REPORT

To: Mayor Darrell Mussatto and Members of Council

From: Ben Themens, Director, LEC

SUBJECT: 2016 ANNUAL GENERAL MEETING

Date: May 25, 2016

RECOMMENDATION:

PURSUANT to the report of the Director of Lonsdale Energy Corp., dated May 25, 2016, entitled, "2016 Annual General Meeting":

THAT the 2015 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, 2015, 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 – 2015 Years of Operation
4. Summary of LEC Statistics, as of December 31, 2015
5. LEC Projected Cash Balance Net of CNV Loan

PURPOSE:

This report provides information concerning Lonsdale Energy Corp. (LEC) 2015 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:

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 its customers. This is the fifth year that LEC's statements satisfy the reporting requirements of the International Financial Reporting Standards (IFRS).

2015 has once again been a busy year for LEC. The following buildings were added to the LEC network in 2015:

• First Quay	213 West 1st Street
• Tap & Barrel / Copper Shop	8 Lonsdale Avenue
• Tap & Barrel / Copper Shop (Cooling)	8 Lonsdale Avenue
• Shore 3	723 West 3rd Street
• Shore 4	719 West 3rd Street

Following the addition of the five new connections to the system, LEC had 60 service accounts by the end of 2015, serving over 3,400 households and nearly 4.0 million sq. ft. of properties including commercial and institutional premises. Attachment 4 provides additional statistics on LEC.

The most significant issue resolved in 2015 was the settlement of the Corix agreement following its expiration on December 31, 2013. After the parties were unable to reach an agreement on the purchase price of the equipment, Corix commenced arbitration proceedings in the fall of 2014 to determine the purchase price. The appointed arbitrator rendered a partial award on June 30, 2015 and a final award on September 21, 2015. Those awards established a net purchase price for the equipment payable to Corix by LEC of $1,933,551. As an amount of $1,564,957 had been recognized in previous years by LEC, this net price resulted in an additional amount of $368,594 having to be recognized in LEC's 2015 financial statements. This amount has been included in the capital costs and depreciated as of January 1, 2015.

In addition, LEC recognized $1,030,721 of non-recurring expenses, made up of interest and legal charges as well as loss on disposal of property and equipment related to the settlement of the agreement. The agreement is now finalized and no further amounts related to the agreement are included in the liabilities of LEC's statements.

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 of North Vancouver. LEC is reporting a loss of $986,610 for the year ended December 31, 2015, which includes the above-mentioned non-recurring expenses. The income before the non-recurring expenses is $44,111, which is consistent with staff's guidance from the previous year. A historical summary of LEC's financial results is provided in Attachment 3.

Aside from the impact of the above-mentioned arbitration, two main factors impact this result. First, in addition of continuing the start-up of a new service area (Harbourside / Marine Drive), LEC has continued to add assets, including the replacement of obsolete equipment and software as well as expanded its customer network. These additions have increased depreciation by $100,000. While the new equipment and distribution system only serve a limited number of customers in the early years, they rapidly become profitable as customers are added to the network.

Second, natural gas rates are currently at historic lows. The Commodity Charge invoiced to the customers is designed to align with FortisBC's Rate 3. Whenever the Fortis rate fluctuates, LEC's Commodity Charge is adjusted in line with the fluctuation. During the latter 9 months of 2015, LEC's Commodity Charge was only $0.0332 per kWh. While LEC increased its energy sales to customers by 1.15 million kWh and added five new customers to the system, total revenue increased by only $53,000 in 2015. That is, LEC's additional revenue gained by adding new customers has been partially offset by decreased Commodity Charge revenue due to low natural gas prices. It is important to note that the reduction in Commodity Charge revenue was matched by a reduction in the expense associated with cost of gas and that consequently, the impact on the company's bottom line was mitigated. The company expects the natural gas rates to remain at these historic lows for 2016, and perhaps even out to 2018.

The year 2016 promises to be another busy year for LEC. Nine new service accounts are forecasted to be added to the network in all three service areas, bringing the total number served to 69. One new boiler will be added to the Lower Lonsdale Service Area in order to meet increased forecasted demand. Permanent cooling service is currently being installed at the Shipyards precinct, replacing the temporary infrastructure currently being used. The equipment is being installed in Mini-Plant 5 and will be ready in the coming weeks. The design and engineering of Mini-Plant 8, located in the basement of Onni's Centreview development at 13th and Lonsdale, will be getting underway soon. The plant is forecasted to be ready in early 2017. Council has also recently approved LEC's plans to service the Moodyville area. Planning and engineering for this project will also be underway soon.

LEC has installed a new SCADA or network automation system in the Lower Lonsdale Service Area. Staff will be evaluating the timing on installing the same software in the Central Lonsdale and Harbourside / Marine Drive Service Areas. Initial results are very encouraging. The control system not only enhances the controls of the network but also provides abundant and valuable performance data which will allow for better customer service and improved system efficiency.

A feasibility study to investigate a potential connection to recover heat from a pet crematorium in the Harbourside / Marine Drive Service Area has been completed and reviewed. The company applied for funding through the Federation of Canadian Municipalities Green Municipal Fund, and was accepted in principle. LEC is currently finalizing the funding agreement and planning the next steps of this project.

LEC is also continuing to work with Metro Vancouver to evaluate the opportunity to recover heat at the future wastewater treatment plant or from a trunk sewer in the Harbourside area. A decision on whether to proceed with this heat recovery project will be need to be made in winter 2016/2017.

LEC and the City continue examining the possibility of using other energy sources including biomass. Some of the options being considered would drastically reduce LEC's greenhouse gas emission. The reduction of the use of natural gas boilers as a source of energy is increasingly becoming a priority for LEC. However, these projects have significant capital and operating costs which makes their financial viability challenging considering current low natural gas prices. LEC will complete rigorous financial analyses on these projects before making any investment recommendations.

At this time, LEC remains cautiously optimistic that it will be able to generate a small profit in 2016. The company is currently working on a rate review, and will be submitting a request for rate increase in the near future. The increased rates will help fund lower GHG energy sources and reimburse its CNV loan, while maintaining LEC's cost advantage. In 2016, LEC forecasts a reduction of the pace of expansion of the distribution system which combined with the continued addition of new customers and increased efficiencies generated from recent mini-plant upgrades are expected to contribute to the profitability of LEC. It is important to note that this forecast is based on the use of existing natural gas boiler technology to produce most of the heat delivered by LEC.

The legislation requires that each year a 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 is 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 KPMG LLP as auditors of the Company until the next annual reference date or until a successor is appointed. The City and LEC have issued a Request For Proposal of Professional Audit Services for the audit of the 2016 to 2020 Financial Statements. Depending on the results of the selection process, the name of the auditors could be changed through an amending consent resolution in the coming weeks.

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.

Council adopted a resolution at the December 8, 2014 Regular Council Meeting appointing Councillor Rod C. Clark to the LEC Board. The proposed attached 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
Ken Tollstam	Chairman of the Board and President
Rod C. Clark	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 residents' broader interests.

Amount Due to the City

As at December 16, 2013, the City converted the amounts due from LEC into a five-year demand term loan, maturing on December 16, 2018, bearing interest at 2.1% per annum.

Essentially, this amount consists of expenses incurred by the City for the construction of the LEC distribution network since 2009. Expenses for construction prior to that year have been reimbursed to the City. On August 4, 2015 and November 26, 2015, LEC borrowed $2,000,000 and $611,966 respectively from the City, bearing the same interest rate and terms as the above loan.

In 2015, LEC paid $247,282 in interest to the City. Administrative services as well as maintenance and operation activities provided by the City are reimbursed on a quarterly basis.

In June 2016, LEC will complete the fourth of 10 payments to reimburse the FCM/MFA $2 million loan which will then have an outstanding balance of approximately $1.3 million.

LEC still has approximately $300,000 in cash. This amount should be considered in the context that as stipulated in note 5 of the statements, LEC had accumulated capital assets totaling $23.8 million ($20.0 million net book value) over the 12 years ending December 31, 2015.

The current balances of the CNV Loans are as follows:

Date Authorized by Council	Amount Authorized by Council	Amount Currently Borrowed	Loan Purpose
December 16, 2013	$11,500,000	$11,181,703	$11.5 M for distribution system construction
	$500,000	$250,000	$0.5 M for working capital
July 13, 2015	$2,000,000	$2,000,000	Corix Agreeement Expiration Settlement
November 2, 2015	$611,966	$611,966	Corix Agreeement Expiration Settlement
January 25, 2016	$1,600,000	$0	Construction of mini-plant 8
April 4, 2016	$2,300,000	$0	Connection of Moodyville
April 4, 2016	$600,000	$0	Connection of 160 East 6th
	$19,111,966	$14,043,669	

In the report to Council dated March 30, 2016 titled "Connection of Moodyville Neighbourhood", the company provided a graph of its cash balance net of CNV loans (Attachment 5). With this in mind, LEC will start formulating a payback plan to the City for the Loan. The timing of starting the payback and magnitude of the payment amounts will ultimately depend on the timing of upcoming major projects, such as the connection to Moodyville and the Until We Meet Again heat recovery and Keith Road interconnection. According to the information provided in the Graph, the company could potentially initiate the payback plan in the first quarter of 2018.

FINANCIAL IMPLICATIONS:

Discussed throughout the report.

INTER-DEPARTMENTAL IMPLICATIONS

LEC works in constant cooperation with City departments. The construction of underground distribution network is assigned to the Engineering, Parks and Environment department and LEC is involved in the review of rezoning and building permit applications of buildings with a floor area exceeding 1,000 square meters. The

City Finance department is also involved in the invoicing of all City charges recoverable from LEC.

CONFIDENTIALITY OF THE INFORMATION:

In the past, LEC recommended that its Financial Statements remain confidential. This was mainly due to a confidentiality clause contained in the Corix agreement that restricts the information that LEC can make publicly available. The clause is in effect until December 31, 2018, 5 years after the expiry of the Corix agreement. Until then, staff recommend that the Financial Statements of previous years remain confidential.

The 2015 LEC Financial Statements contain limited Corix related information. Staff believe that these statements can be made publicly available.

RESPECTFULLY SUBMITTED BY:

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

REVIEWED BY:

A.K. Tollstam, B.Comm, CA
President, LEC

Attachment No. 1

Financial Statements of

LONSDALE ENERGY CORP.

Year ended December 31, 2015

KPMG LLP
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Canada
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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Lonsdale Energy Corp.

We have audited the accompanying financial statements of Lonsdale Energy Corp., which comprise the statement of financial position as at December 31, 2015, the statements of comprehensive income (loss), changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility 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.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Lonsdale Energy Corp. as at December 31, 2015 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants

May 11, 2016

Vancouver, Canada

LONSDALE ENERGY CORP.

Statement of Financial Position

December 31, 2015, with comparative information for 2014

	Note	2015	2014
Assets			
Current assets:			
Cash		$ 421,006	$ 1,370,086
Accounts receivable	4	489,824	521,210
Prepaid expenses		41,914	97,590
		952,744	1,988,886
Plant and equipment	5	20,010,868	18,759,916
Supplies for the distribution system	5	469,016	469,971
Intangible assets	6	349,405	281,443
Other assets	7(c)	20,000	20,000
		$ 21,802,033	$ 21,520,216
Liabilities and Shareholder's Equity			
Current liabilities:			
Accounts payable and accrued liabilities		$ 365,759	$ 506,858
Due to the City of North Vancouver	7(a)	268,069	161,050
Security deposits		250,000	175,000
Current portion of loan from Green Municipal Investment Fund	7(c)	187,382	180,175
Current portion of deferred contributions	9	236,344	233,684
Current portion of obligation under finance lease	8	-	1,564,957
		1,307,554	2,821,724
Loan from City of North Vancouver	7(b)	13,650,984	10,664,447
Loan from Green Municipal Investment Fund	7(c)	1,292,616	1,479,998
Deferred contributions	9	4,835,584	4,852,142
Shareholder's equity:			
Share capital	10	2,000,010	2,000,010
Contributed surplus		111,723	111,723
Deficit		(1,396,438)	(409,828)
		715,295	1,701,905
Commitments and contingencies (note 12)			
		$ 21,802,033	$ 21,520,216

See accompanying notes to financial statements.

Approved on behalf of the Board:

Director

Director

LONSDALE ENERGY CORP.

Statement of Comprehensive Income (Loss)

Year ended December 31, 2015, with comparative information for 2014

	Note	2015	2014
Revenue		$ 2,647,001	$ 2,594,229
Cost of sales		1,175,841	1,261,027
		1,471,160	1,333,202
Operating expenses:			
Plant operation and maintenance		289,127	310,795
Depreciation		795,568	693,517
General and administrative		348,892	361,409
		1,433,587	1,365,721
Income before under noted items		37,573	(32,519)
Contributions and financing costs:			
Contributions	9	232,648	225,615
Finance income		27,172	34,429
Finance costs		(253,282)	(214,870)
		6,538	45,174
Income before other expenses		44,111	12,655
Legal settlement and related expenses	8	(1,030,721)	-
Net income (loss) and comprehensive income (loss)		$ (986,610)	$ 12,655

See accompanying notes to financial statements.

LONSDALE ENERGY CORP.

Statement of Changes in Equity

Year ended December 31, 2015, with comparative information for 2014

	Share capital	Contributed surplus	Deficit	Shareholder's equity
Balance, December 31, 2013	$ 2,000,010	$ 111,723	$ (422,483)	$ 1,689,250
Net income and comprehensive income	-	-	12,655	12,655
Balance, December 31, 2014	2,000,010	111,723	(409,828)	1,701,905
Net loss and comprehensive loss	-	-	(986,610)	(986,610)
Balance, December 31, 2015	$ 2,000,010	$ 111,723	$ (1,396,438)	$ 715,295

See accompanying notes to financial statements.

LONSDALE ENERGY CORP.

Statement of Cash Flows

Year ended December 31, 2015, with comparative information for 2014

		2015		2014
Cash provided by (used in)				
Operations:				
Net income (loss)	$	(986,610)	$	12,655
Adjustments for:				
Depreciation		795,568		693,517
Recognition of deferred contributions		(232,648)		(225,615)
Net finance cost		226,110		180,441
Loss on disposal of property and equipment (note 8)		39,015		-
Change in non-cash operating working capital:				
Accounts receivable		31,386		176,349
Prepaid expenses		55,676		(65,618)
Other assets		-		3,616
Accounts payable and accrued liabilities		(141,099)		132,210
Security deposits		75,000		(100,000)
		(137,602)		807,555
Interest paid		(253,282)		(214,870)
Net cash from operating activities		(390,884)		592,685
Investments:				
Purchase of plant and equipment (including supplies for the distribution system)		(2,073,984)		(2,304,463)
Purchase of intangible assets		(78,558)		(281,443)
Interest received		27,172		34,429
Net cash used in investing activities		(2,125,370)		(2,551,477)
Financing:				
Contributions received		218,750		373,238
Due to the City of North Vancouver		3,093,556		1,134,752
Principal payments on obligation under finance lease		(1,564,957)		-
Principal payments on Green Municipal Investment Fund loan		(180,175)		(173,245)
Net cash from financing activities		1,567,174		1,334,745
Decrease in cash		(949,080)		(624,047)
Cash, beginning of year		1,370,086		1,994,133
Cash, end of year	$	421,006	$	1,370,086

See accompanying notes to financial statements.

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.

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 May 11, 2016.

(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.

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) Use of estimates and judgments:

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 critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in the following notes:

Note 8 - lease classification (note 3(c))

Note 9 - recognition of deferred contributions (note 3(f))

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 4 - valuation of accounts receivable (note 14)

Note 5 - useful lives of plant and equipment (note 3(i))

Note 8 - determination of minimum finance lease payments and contingencies

3. 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.

3. Significant accounting policies (continued):

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

(*i*) Recognition and measurement (continued):

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.

(*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. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term.

3. Significant accounting policies (continued):

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

(*iii*) Depreciation (continued):

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%
Generation equipment	5%

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

(b) Intangible assets:

Intangible assets are comprised of purchased software. The software is integral to the functionality of related equipment. Intangible assets are recognized at cost, net of accumulated amortization and accumulated impairment losses, if any. Intangible assets, less their estimated residual values, are amortized on a straight-line basis. The estimated depreciation rate is 10% per annum.

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) Leased assets:

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases where the leased assets are not recognized in the Company's statement of financial position.

3. Significant accounting policies (continued):

(d) Revenue recognition:

Revenue is based on meter readings and is 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.

(e) Income taxes:

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. Accordingly, no provision for such taxes has been made in the accounts.

(f) Government grants:

Government grants are recognized initially as deferred income 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 over the useful life of the asset when put into use.

(g) Finance income and finance costs:

Finance income comprises 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.

3. Significant accounting policies (continued):

(h) Financial instruments:

(*i*) Financial assets:

The Company initially recognizes loans and receivables on the date that they are originated. All other financial assets 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 asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

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

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables are comprised of accounts receivable.

Cash comprise cash balances and call deposits.

(*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 or cancelled or expire.

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

3. Significant accounting policies (continued):

(h) Financial instruments (continued):

(*ii*) Financial liabilities (continued):

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.

(i) Impairment:

(*i*) Financial assets (including receivables):

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy.

The Company considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

3. **Significant accounting policies (continued):**

(i) Impairment (continued):

(*i*) Financial assets (including receivables) (continued):

In assessing collective impairment the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(*ii*) Non-financial assets:

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").

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.

3. **Significant accounting policies (continued):**

(j) 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*) Amendments to IAS 16 *Property, Plant and Equipment,* and IAS 38 *Intangible Assets:*

In May 2014 the IASB issued amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets.*

The amendments made to IAS 16 explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. This is because such methods reflect factors other than the consumption of economic benefits embodied in the asset.

The amendments in IAS 38 introduce a rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate. This presumption could be overcome only when revenue and consumption of the economic benefits of the intangible asset are highly correlated or when the intangible asset is expressed as a measure of revenue.

The Company intends to adopt the amendments to IAS 16 and IAS 38 in its financial statements for the annual period beginning on January 1, 2016. The Company does not expect the amendments to have a material impact on the financial statements.

(*ii*) IFRS 15 *Revenue from Contracts with Customers:*

On May 28, 2014 the IASB issued IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15"). The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. IFRS 15 will replace IAS 11, *Construction Contracts,* IAS 18, *Revenue,* IFRIC 13, *Customer Loyalty Programmes,* IFRIC 15, *Agreements for the Construction of Real Estate,* IFRIC 18, *Transfer of Assets from Customers,* and SIC 31, *Revenue – Barter Transactions Involving Advertising Services.*

The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much, and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized.

The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs.

The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

3. Significant accounting policies (continued):

(j) New standards and interpretations not yet adopted (continued):

(*iii*) IFRS 9 *Financial Instruments:*

On July 24, 2014 the IASB issued the complete IFRS 9, *Financial Instruments* ("IFRS 9 (2014)").

The mandatory effective date of IFRS 9 (2014) is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight.

IFRS 9 (2014) also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. Special transitional requirements have been set for the application of the new general hedging model.

The Company intends to adopt IFRS 9 (2014) in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

(*iv*) IFRS 16 *Leases:*

On January 13, 2016 the IASB issued IFRS 16, Leases ("IFRS 16"). The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17, Leases ("IAS 17").

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.

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

The Company intends to adopt IFRS 16 in its consolidated financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

3. Significant accounting policies (continued):

(j) New standards and interpretations not yet adopted (continued):

(v) Disclosure Initiative: Amendments to IAS 1

In December 2014 the IASB issued amendments to IAS 1 Presentation of Financial Statements as part of its major initiative to improve presentation and disclosure in financial reports (the "Disclosure Initiative"). The amendments are effective for annual periods beginning on or after January 1, 2016. Early adoption is permitted.

These amendments will not require any significant changes to current practice, but should facilitate improved financial statement disclosures.

The Limited Partnership intends to adopt these amendments in its consolidated financial statements for the annual period beginning on January 1, 2016. The extent of the impact of adoption on the amendments has not yet been determined.

4. Accounts receivable:

	2015	2014
Trade receivables	$ 467,579	$ 485,708
Sales tax receivable	22,245	35,502
	$ 489,824	$ 521,210

Included in trade receivables is $2,708 (2014 - $4,688) due from the City pertaining to commodity charges for the City's energy usage. 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:

	2015	2014
Current	$ 457,718	$ 477,298
Past due 0-30 days	-	7,855
Past due 30-90 days	9,861	-
Past due greater than 90 days	-	555
	$ 467,579	$ 485,708

There was no impairment loss or provision related to the collectability of accounts receivable as at December 31, 2015 and 2014.

5. Plant and equipment:

	Distribution system	General equipment	Total
Cost			
Balance as at December 31, 2014	$ 12,750,100	$ 9,061,325	$ 21,811,425
Additions	549,485	1,525,454	2,074,939
Disposal	-	(86,700)	(86,700)
Balance as at December 31, 2015	$ 13,299,585	$ 10,500,079	$ 23,799,664
Accumulated depreciation			
Balance as at December 31, 2014	$ 1,077,880	$ 1,973,629	$ 3,051,509
Depreciation	303,144	481,828	784,972
Disposal	-	(47,685)	(47,685)
Balance as at December 31, 2015	$ 1,381,024	$ 2,407,772	$ 3,788,796
Net book value			
At December 31, 2014	$ 11,672,220	$ 7,087,696	$ 18,759,916
At December 31, 2015	11,918,561	8,092,307	20,010,868

There was one disposal in 2015, relating to venting in Mini-Plant #1resulting in a loss on disposal of $39,015 (note 8).

Included in plant and equipment is $127,461 (2014 - $127,461) of assets that are not being amortized related to the construction of the distribution system in Central Lonsdale (note 9(c)).

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, 2015.

6. Intangible assets

Cost		
Balance, at December 31, 2014	$	281,443
Additions		78,558
Balance, at December 31, 2015	$	360,001
Accumulated Depreciation		
Balance, at December 31, 2014	$	-
Depreciation		10,596
Balance, at December 31, 2015	$	10,596
Net book value		
At December 31, 2014	$	281,443
At December 31, 2015		349,405

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.

As at December 31, 2015, the implementation of the control systems were still in progress and accordingly, the system was not ready for use and no amortization had been recognized in 2015. The carrying value of the control system is $260,207 (2014 - $201,856).

The new financial reporting system was put into service in March 2015 and is being amortized over its estimated useful life of 10 years.

7. Due to the City of North Vancouver:

(a) Due to the City of North Vancouver:

The amount due to the City of $268,069 (2014 - $161,050) is used to cover operating and financing expenses incurred by the City on behalf of the Company. The amounts outstanding as at 2015 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.

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

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

(b) Loans from the City of North Vancouver:

		2015		2014
Demand promissory note *(i)*	$	11,039,018	$	10,664,447
Demand promissory note *(ii)*		2,611,966		-
	$	13,650,984	$	10,664,447

(i) The loan from the City is comprised of a five-year demand term loan maturing on December 16, 2018, bearing interest at 2.1% per annum. Additional funding is available to the Company under the terms of the agreement to a maximum of $12,000,000.

(ii) On August 4, 2015 and November 26, 2015, the Company borrowed an additional $2,000,000 and $611,966, respectively from the City. The loans bear interest at 2.1% per annum.

Although the term loans are due on demand, the amounts have been classified as a non-current liability as the City has not indicated its intention to call the loan within the next fiscal year and the Company has provided reimbursement schedules to the City (at City Council meetings of January 25, 2016 and April 4, 2016) that support this classification

The interest expense of $247,282 (2014 - $208,870) related to the due to the City of North Vancouver are included in finance costs in the Statement of Comprehensive Income (Loss).

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.

(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.

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

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

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, 2015, the City and Company were in compliance with these covenants.

Future principal repayments, including actuarial adjustments of $313,925 (2014 - $327,518) on this loan over the next five years and thereafter, are as follows:

2016	$	187,382
2017		194,877
2018		202,672
2019		210,779
2020		219,210
Thereafter		465,078
	$	1,479,998

The interest expense of $6,000 (2014 - $6,000) is included in finance costs in the Statement of Comprehensive Income (loss).

8. Obligation under finance lease:

Under the terms of an agreement (the "Agreement") between the Company and Corix Utilities Inc. ("Corix"), Corix provided, installed and maintained the boilers, central control system and energy meters (the "Equipment") that form part of the Company's hydronic heat distribution system in the Lower Lonsdale Service Area. Although Corix had legal title to this Equipment, the Agreement provided for the Company to make payments to Corix that guaranteed a minimum return on capital for Corix. As a result, the Company treated its ongoing liability under the Agreement as a finance lease. In addition, at the conclusion of the Agreement, the Company was required to purchase the Equipment, based on a formula contained in the Agreement. The Agreement expired on December 31, 2013.

8. Obligation under finance lease (continued):

As of that date, the Company's estimated total obligation to Corix, applying a finance lease treatment, was $1,564,957. This amount was classified as current in the Company's financial statement for the year ending December 31, 2014.

After the parties were unable to reach an agreement on the purchase price of the Equipment, as required by the Agreement, Corix commenced arbitration proceedings in the fall of 2014 to determine the purchase price. The appointed arbitrator rendered a partial award on June 30, 2015 and a final award on September 21, 2015. Those awards established a net purchase price for the Equipment payable to Corix by the Company of $1,933,551. This net price resulted in an additional amount of $368,594 having to be recognized in the Company's financial statements. The additional purchase price related to equipment installed by Corix and not in use during the term of Agreement and accordingly, the Company had not previously recognized the asset or obligation on the financial statements. As a result, this amount has been included in the Company's capital costs and depreciated as of January 1, 2015.

In addition to the above amounts, the Company has recognized non-recurring expenses of $1,030,721, made up of interest and legal charges and loss on disposal of property and equipment related to the settlement of the Agreement. Issues in respect of the Agreement are now concluded and no further amounts related to the Agreement are included in the Company's liabilities as at December 31, 2015.

9. Deferred contributions:

	2015	2014
(a) Green Municipal Investment Fund Project Grant	$ 1,323,944	$ 1,406,902
(b) Gas Tax Agreement – Innovation Fund	870,834	895,232
(c) Infrastructure Stimulus Fund Grant	83,332	83,332
(d) Solar Water Installation	191,242	204,902
(e) Contributions from developers and new customers	2,567,095	2,457,248
(f) Contributions from utility company	35,481	38,210
	5,071,928	5,085,826
Current portion	(236,344)	(233,684)
Non-current portion	$ 4,835,584	$ 4,852,142

9. Deferred contributions (continued):

(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:

	2015	2014
Deferred contribution - FCM Grant, beginning of year	$ 1,406,902	$ 1,491,589
Revenue recognized from grant	(82,958)	(84,687)
Deferred contribution - FCM Grant, end of year	$ 1,323,944	$ 1,406,902

(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.

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

	2015	2014
Deferred contribution - Gas Tax Grant, beginning of year	$ 895,232	$ 919,576
Revenue recognized from grant	(24,398)	(24,344)
Deferred contribution - Gas Tax Grant, end of year	$ 870,834	$ 895,232

9. Deferred contributions (continued):

(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 covered under the grant is available for use. As at December 31, 2015, the section of the distribution system was not in use. As a result, no amount has been recognized as revenue during the year.

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

	2015	2014
Deferred contribution - Infrastructure grant, beginning and end of year	$ 83,332	$ 83,332

(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.

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:

	2015	2014
Deferred contribution - Solar Water Installation, beginning of year	$ 204,902	$ 218,562
Revenue from contributions recognized	(13,660)	(13,660)
Deferred contribution - Solar Water Installation, end of year	$ 191,242	$ 204,902

9. Deferred contributions (continued):

(e) Contributions from developers and new customers:

The Company recognizes as a contribution from developers the amounts reimbursed by developers to the Company. 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 5% per year from the date of connection of the building.

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

	2015	2014
Deferred contribution from developers and new customers, beginning of year	$ 2,457,248	$ 2,184,204
Contributions	218,750	373,238
Revenue recognized from contributions	(108,903)	(100,194)
Deferred contribution, end of year	$ 2,567,095	$ 2,457,248

(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:

	2015	2014
Deferred contribution from utility company, beginning of year	$ 38,210	$ 40,940
Revenue recognized from contributions	(2,729)	(2,730)
Deferred contribution from utility company, end of year	$ 35,481	$ 38,210

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, 2015, a total of 2,001,000 (2014 - 2,001,000) shares were issued and outstanding to the Company's sole shareholder, the City.

There were no changes in share capital during the year.

11. Related parties:

Included in these financial statements are transactions with various Crown corporations, ministries, agencies, boards and commissions related to the Company by virtue of common control by the City, the Province of British Columbia or the Government of Canada. The Company has applied the modified disclosure requirements under IAS 24, *Related Party Disclosures*, which is only applicable for government-related entities.

The City has incurred expenses, including sales taxes, on behalf of the Company in the year of approximately $760,805 (2014 - $1,412,386) by providing staff, purchasing material and installing and operating the distribution system for the Company's benefit. Of this amount $335,936 (2014 - $1,034,568) has been capitalized to plant and equipment. Specifically, City staff have been involved in designing, purchasing materials for and installing and operating the distribution system; as well as coordinating the design and installation of heating equipment with various providers. These costs have been charged to the Company by the City on a cost recovery basis. Included in revenue for 2015 is $166,668 (2014 - $140,168) for heating 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 president, executive director, mechanical system specialist, and accountant. 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, 2015, key management personnel compensation of $295,532 (2014 - $282,897) 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. Commitments and contingencies:

(a) As at December 31, 2015, the Company has approximately $341,482 (2014 - $471,267) 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 7(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.

13. 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, 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 Green Municipal Investment Fund at year end is $1,372,826 (2014 - $1,520,977).

14. 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.

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.

14. Financial risk management (continued):

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, 2015, there is no receivable exceeding 90 days (2014 - $555).

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 but no specified terms of repayment.

As at December 31, 2015, 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, 2015	Carrying amount	Total contractual cash flows	Less than one year	1 to 5 years	More than 5 years
Loan from Green Municipal Investment Fund	$ 1,479,998	$ 1,518,995	$ 193,382	$ 1,085,515	$ 240,098
Loan from City of North Vancouver	13,650,984	13,937,654	286,670	13,650,984	-

14. Financial risk management (continued):

Liquidity risk (continued):

As at December 31, 2014	Carrying amount	Total contractual cash flows	Less than one year	1 to 5 years	More than 5 years
Loan from Green Municipal Investment Fund	$ 1,660,173	$ 1,705,173	$ 186,175	$ 1,038,921	$ 480,077
Loan from City of North Vancouver	10,664,447	10,888,400	223,953	10,664,447	-

Market risk:

Market risk is the risk that changes in market prices, such as 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.

15. 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.

16. Subsequent event

On January 25, 2016, the City approved to provide an additional $1.6 million loan to the Company for the construction of a new mini-plant in 2016. On April 4, 2016, the City approved to provide an additional $2.9 million loan to the Company for the construction of the network to the Moodyville neighbourhood as well as a section of the distribution system to 160 East 6th Street.

Attachment No. 2

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, 2015, 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:

   Ken Tollstam		Ben Themens		Rod Clark

5. KPMG 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, 2016 be and is hereby selected as the annual reference date for the Company for its current annual reference period.

DATED as of May 30, 2016.

THE CORPORATION OF THE CITY OF NORTH VANCOUVER

____
Mayor Darrell Mussatto

____
Karla Graham, City Clerk

Lonsdale Energy Corp.

Historical Data for 2004 -2015 Years of Operations

Income Statement line description	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
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
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
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
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
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
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
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
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
Contributions		$ 60,136	$ 259,458	$ 38,804	$ 63,416	$ 117,389	$ 120,875	$ 146,532	$ 174,480	$ 211,010	$ 225,615	$ 232,648
Finance income		$ 23,432	$ 22,037	$ 24,530	$ 17,321	$ 5,111	$ 11,171	$ 15,742	$ 25,121	$ 32,071	$ 34,429	$ 27,172
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)
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
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
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)
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)
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

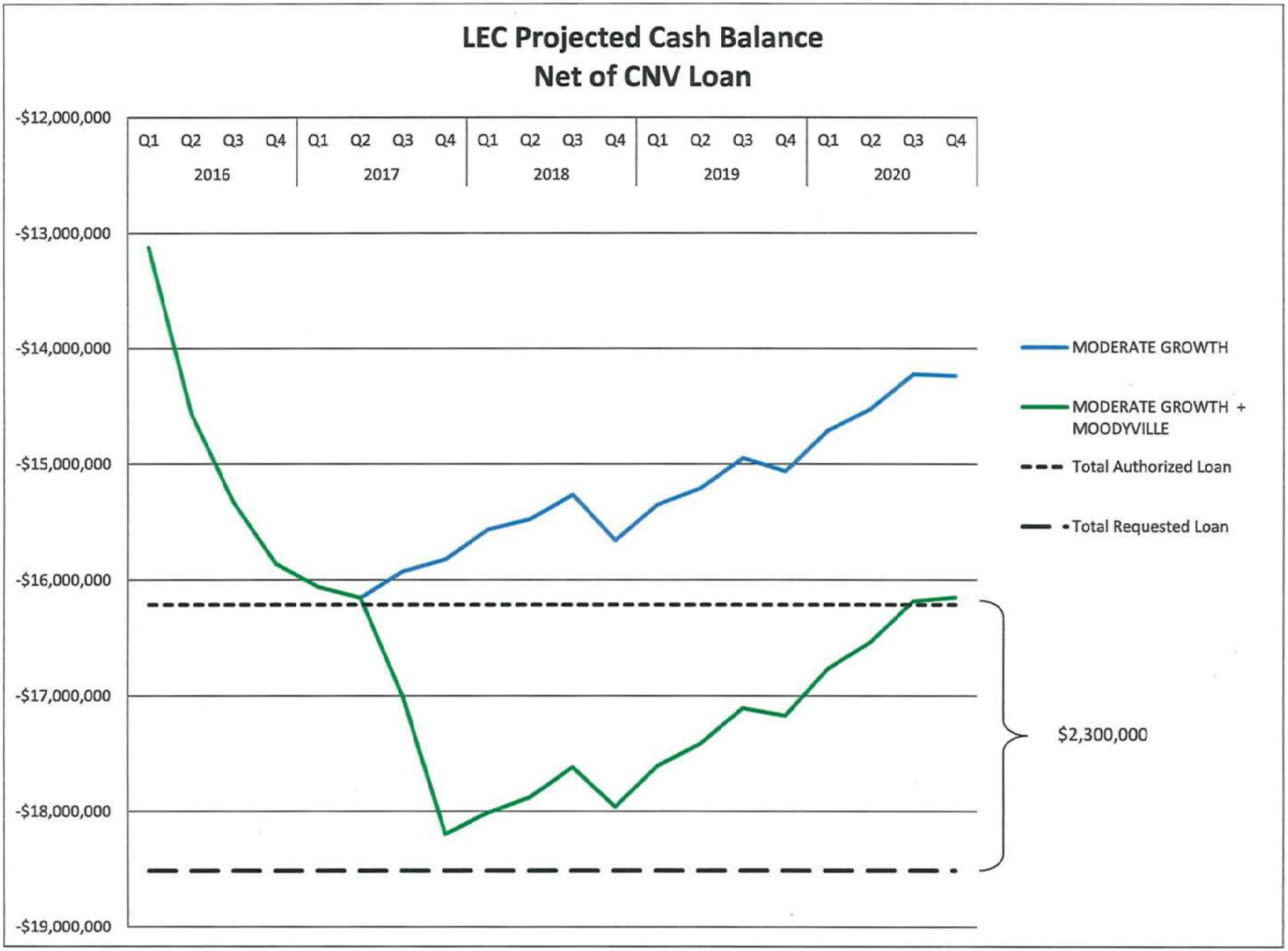
Attachment No. 3

Attachment No. 4

Summary of LEC Statistics
As of December 31, 2015

• Total square footage of buildings served:		3,996,341	square feet
• Square footage of new buildings connected in 2015:		190,272	square feet
• Total number of buildings served:		60	
o Residential Buildings	29		
o Mixed Residential / Commercial	12		
o Commercial	13		
o Institution	5		
o Hotel	1		
• New buildings connected in 2015:		5	
• Total number of residential suites connected:		3,440	
• New residential suites connected in 2015		204	
• Total number of boilers installed in LEC Mini-Plants:		22	
• Number of new boilers installed in 2015:		2	
• Trench meters of distribution system:		8,250	meters
• Kilowatt-hours of heating delivered to customers in 2015:		32,088,581	kW.h
• Kilowatt-hours of cooling delivered to customers in 2015:		313,390	kW.h

Attachment No. 5



Assumes that all Moodyville work is completed by Q1 2018 and full revenue generation starts in January 2018.