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REPORT

To: Mayor Darrell Mussatto and Members of Council
From: Ben Themens, Director, LEC
SUBJECT: 2017 ANNUAL GENERAL MEETING
Date: July 12, 2017

RECOMMENDATION:

PURSUANT to the report of the Director of Lonsdale Energy Corp., dated July 12, 2017, entitled, "2017 Annual General Meeting":

THAT the 2016 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, 2016, 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 – 2016 Years of Operation
4. Summary of LEC Statistics, as of December 31, 2016

PURPOSE:

This report provides information concerning Lonsdale Energy Corp. (LEC) 2016 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 sixth year that LEC's statements satisfy the reporting requirements of the International Financial Reporting Standards (IFRS).

2016 has been a very busy year for LEC. The following buildings were added to the LEC network in 2016:

- Trophy at the Pier 199 Victory Ship Way
- The Anchor 131 E 3rd Street
- First Street West 123 W 1st Street
- Polygon West Quay Homes 255 W 1st Street
- Decato 2340 Western Avenue
- North Lake Ventures 143 E 21st Street
- Kia Dealership 843 W 1st Street

Following the addition of the seven new connections to the system, LEC had 67 buildings connected by the end of 2016, serving approximately 4,000 households and just over 4.6 million sq. ft. of properties including commercial and institutional premises. Attachment 4 provides additional statistics on LEC.

In addition to the new connections LEC completed the construction of a cooling mini-plant and cooling distribution system network costing more than \$700,000; replaced and upgraded the control systems in all Lower Lonsdale mini-plants costing approximately \$300,000; and began construction of Mini-Plant 8 in the Centreview development at 13th and Lonsdale. Mini-Plant 8 began operations in May of 2017.

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 modest profit of \$18,673 for the year ended December 31, 2016. It should be noted that LEC also incurred significant one-time expenses at the end of 2016 including two unanticipated natural gas price one-week spike during a cool weather period in December. A historical summary of LEC's financial results is provided in Attachment 3.

The company's financial statements include 2015 information for comparative purposes. It should be noted that in 2015, the Statement of Comprehensive Income (Loss) included a large one-time expense concerning "Legal settlement and related expenses". This settlement was a result of arbitration proceedings in the fall of 2015 to settle the

purchase price of equipment payable to Corix by LEC. After the conclusion of the proceedings 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 was finalized in 2015 and no further amounts related to the agreement are included in the 2016 financial statements.

The Commodity Charge invoiced to the customers is designed to align with FortisBC's Rate 3 for natural gas. Whenever the Fortis rate fluctuates, LEC's Commodity Charge is adjusted in line with the fluctuation. Natural gas rates continued to operate at historic lows in 2016. On April 1, 2016 LEC's Commodity Charge was adjusted to \$0.02747 per kWh, its lowest price in the past decade. Although the company increased its energy sales through the addition of new customers, it 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. In November a new two rate structure was introduced as well as a rate increase. The new two rate structure allows for higher commodity charge but a reduced Meter Charge for customers with low heating demand. The company expects the natural gas rates to remain low in 2017 and 2018, however the newly implemented rates allocates costs more adequately and will minimize potential losses of Commodity Charge revenue.

2017 promises to be another busy year for LEC. Seven new buildings are forecasted to be added to the network in all three service areas bringing the total number served to 74. Mini-Plant 8 has been completed adding a new plant and three new boilers to the Central Lonsdale service area. The company will be interconnecting the Central Lonsdale and Harbourside / Marine Drive service areas through district energy piping along West Keith Road. LEC will also begin design and procurement to extend its distribution network to connect the new Moodyville service area.

LEC has upgraded the network automation system in the Lower Lonsdale Service Area, including 4 of its mini-plants. Mini-Plant 8 is also equipped with up-to-date technology. Staff will be evaluating the timing on installing the same software in its three remaining mini-plants in the Central Lonsdale and Harbourside / Marine Drive Service Areas. The upgrade is expected to be completed by early 2018. 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.

LEC is 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 install heat recovery equipment and a one-kilometre distribution pipe to link the Harbourside area with the future wastewater treatment plant will need to be made by fall 2017. This project would significantly reduce LEC's greenhouse gas emissions.

LEC and the City continue examining the possibility of using other energy sources including biomass. These options would also drastically reduce LEC's greenhouse gas emissions. The reduction of the use of natural gas boilers as a source of energy is

increasingly becoming a priority for LEC. However, alternative energy 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.

LEC is optimistic that it will be able to generate a significantly larger profit in 2017. The company completed a rate increase in November of 2016, the increase also included providing customers with more flexibility between a two rate system, and an increase in connection fees from \$60/kW to \$75/kW. The increased rates will help fund lower GHG energy sources and reimburse CNV loans, while maintaining LEC's cost advantage. In early 2017, LEC also adjusted its application fee from \$100 per permit to 0.15% of the assigned construction value of the permit. This more accurately reflects the funding required for LEC work related to the review of developments and building permit applications. Plant upgrades, control upgrades and automation software are also expected to contribute to the profitability of LEC through increased efficiency of its system. It is important to note that unfortunately, this forecast still assumes 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 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.

Council adopted a resolution at the December 8, 2014 Regular Council Meeting appointing Councillor Rod C. Clark 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:

<u>Name</u>	<u>Office</u>
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. The loan agreement authorized LEC to borrow up to \$12 million from this source. 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 to provide for the legal settlement of the purchase price of equipment payable to Corix by LEC. In 2016, LEC received authorization to borrow up to \$7,750,000 from the City, bearing the same interest rate and terms, for construction of a new mini-plant and additional construction of the LEC distribution network. As of December 31, the amount owed to the City against the above loans totaled \$14,615,154.

On June 12, 2017 Council approved additional funding of \$2,300,000 for the 2017-2018 LEC Construction Program, once again bearing the same interest rate and terms as the original December 16, 2013 loan. Also in June 2017, LEC completed the fifth of 10 payments to reimburse the FCM/MFA \$2 million loan which currently has an outstanding balance of approximately \$1.1 million.

In 2016, LEC paid \$296,870 in interest to the City. In addition to interest charges, 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 \$190,000 in cash. This is impressive since until recently, LEC funded many capital expenditures using working capital. For instance, in 2016, LEC funded the completion of a cooling mini-plant, cooling distribution system, and control system upgrades of all four Lower Lonsdale mini-plants from its operating revenue. As a result of using operating revenue to fund capital expansions and major upgrades, the amount of outstanding loans should be considered in the context that as stipulated in note 5 of the statements, LEC had accumulated capital assets totaling more than \$27.0 million (\$22.4 million net book value) over the 13 years ending December 31, 2016.

In a report to Council dated June 6, 2017 titled "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. To enhance transparency, LEC will be borrowing funds to fund future projects so that operating revenue is targeted toward the payment of interest and principal of existing loans. The

report provided a loan repayment schedule which indicated that the company intends to allocate \$1 million to this purpose in 2017.

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. The construction of some of the underground distribution network is assigned to the Engineering, Parks and Environment department (EPE) and when it is not, EPE is consulted to ensure good coordination between LEC and the City for the protection and management of City assets. 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, 2016



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Independent Auditor's Report

To the Shareholder of Lonsdale Energy Corp.

We have audited the accompanying financial statements of the Lonsdale Energy Corp., which comprise the Statement of Financial Position as at December 31, 2016, and the Statements of Comprehensive Income (Loss), Changes in Equity and Cash Flows for the year then ended, and 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.

Auditor's 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 the auditor's 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, the auditor considers 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 the Lonsdale Energy Corp. as at December 31, 2016 and the results of its operations, changes in equity and cash flows for the year ended in accordance with International Financial Reporting Standards.

Other Matter

The financial statements of the Lonsdale Energy Corp. for the year ended December 31, 2015 were audited by other auditors who expressed an unmodified opinion on those financial statements in their report dated May 11, 2016.

BDO Canada LLP

Chartered Professional Accountants

Vancouver, British Columbia
July 10, 2017

LONSDALE ENERGY CORP.

Statement of Financial Position

December 31, 2016, with comparative information for 2015

	Note	2016	2015
Assets			
Current Assets:			
Cash		\$ 190,150	\$ 421,006
Accounts receivable	4	810,874	489,824
Prepaid expenses		50,471	41,914
		1,051,495	952,744
Plant and equipment	5	22,357,033	20,010,868
Supplies for the distribution system	5	296,802	469,016
Software assets	6	390,276	349,405
Debt Reserve Fund	7(c)	20,000	20,000
		\$ 24,115,606	\$ 21,802,033
Liabilities and Shareholder's Equity			
Current liabilities:			
Accounts payable and accrued liabilities		\$ 739,086	\$ 365,759
Due to the City of North Vancouver	7(a)	332,096	268,069
Current portion of Loan from City of North Vancouver	7(a)	430,000	-
Security deposits		212,500	250,000
Current portion of loan from Green Municipal Investment Fund	7(c)	194,877	187,382
Current portion of deferred contributions	9	263,089	236,344
		2,171,648	1,307,554
Loan from City of North Vancouver	7(b)	14,615,154	13,650,984
Loan from Green Municipal Investment Fund	7(c)	1,097,739	1,292,616
Deferred contributions	9	5,497,097	4,835,584
		23,381,638	21,086,738
Shareholder's equity:			
Share capital	10	2,000,010	2,000,010
Contributed surplus		111,723	111,723
Deficit		(1,377,765)	(1,396,438)
		733,969	715,295
Commitments and contingencies (note 12)			
		\$ 24,115,606	\$ 21,802,033

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, 2016, with comparative information for 2015

	<i>Note</i>	2016	2015
Revenue		\$ 2,838,793	\$ 2,647,001
Cost of sales		1,196,282	1,175,841
		<u>1,642,511</u>	<u>1,471,160</u>
Operating expenses:			
Plant operation and maintenance		225,115	289,127
Depreciation		886,925	795,568
General and administrative		497,247	348,892
		<u>1,609,287</u>	<u>1,433,587</u>
Income before under noted items		33,224	37,573
Contributions and financing costs:			
Contributions	9	260,629	232,648
Finance income		27,690	27,172
Finance costs		(302,870)	(253,282)
		<u>(14,551)</u>	<u>6,538</u>
Income before other expenses		18,673	44,111
Legal settlement and related expenses	8	-	(1,030,721)
Net income (loss) and comprehensive income (loss)		<u>\$ 18,673</u>	<u>\$ (986,610)</u>

See accompanying notes to financial statements.

LONSDALE ENERGY CORP.

Statement of Changes in Equity

Year ended December 31, 2016, with comparative information for 2015

	Share capital	Contributed surplus	Deficit	Shareholder's equity
Balance, December 31, 2014	\$ 2,000,010	\$ 111,723	\$ (409,828)	\$ 1,701,905
Net income and comprehensive income	-	-	(986,610)	(986,610)
Balance, December 31, 2015	2,000,010	111,723	(1,396,438)	715,295
Net loss and comprehensive loss	-	-	18,673	18,673
Balance, December 31, 2016	\$ 2,000,010	\$ 111,723	\$ (1,377,765)	\$ (733,968)

See accompanying notes to financial statements.

LONSDALE ENERGY CORP.

Statement of Cash Flows

Year ended December 31, 2016, with comparative information for 2015

	2016	2015
Cash provided by (used in)		
Operations:		
Net income (loss)	\$ 18,673	\$ (986,610)
Adjustments for:		
Depreciation	886,925	795,568
Recognition of deferred contributions	(260,629)	(232,648)
Net finance cost	275,179	226,110
Loss on disposal of property and equipment (note 8)	-	39,015
Change in non-cash operating working capital:		
Accounts receivable	(321,050)	31,386
Prepaid expenses	(8,557)	55,676
Supplies for distribution system	172,213	-
Accounts payable and accrued liabilities	373,326	(141,099)
Security deposits	(37,500)	75,000
	1,098,580	(137,602)
Interest paid	(302,870)	(253,282)
Net cash from operating activities	795,710	(390,884)
Investments:		
Purchase of plant and equipment (including supplies for the distribution system)	(3,204,394)	(2,073,984)
Purchase of intangible assets	(69,567)	(78,558)
Interest received	27,691	27,172
Net cash used in investing activities	(3,246,269)	(2,125,370)
Financing:		
Contributions received	948,888	218,750
Due to the City of North Vancouver	1,458,197	3,093,556
Principal payments on obligation under finance lease	-	(1,564,957)
Principal payments on Green Municipal Investment Fund loan	(187,382)	(180,175)
Net cash from financing activities	2,219,704	1,567,174
Decrease in cash	(230,856)	(949,080)
Cash, beginning of year	421,006	1,370,086
Cash, end of year	\$ 190,150	\$ 421,006

See accompanying notes to financial statements.

LONSDALE ENERGY CORP.

Notes to Financial Statements

Year ended December 31, 2016

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 July 10, 2017.

(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, 2016

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.

LONSDALE ENERGY CORP.

Notes to Financial Statements (continued)

Year ended December 31, 2016

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.

LONSDALE ENERGY CORP.

Notes to Financial Statements (continued)

Year ended December 31, 2016

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) 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) 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.

LONSDALE ENERGY CORP.

Notes to Financial Statements (continued)

Year ended December 31, 2016

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.

LONSDALE ENERGY CORP.

Notes to Financial Statements (continued)

Year ended December 31, 2016

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 is comprised of 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, security deposits, loan from City of North Vancouver, loan from the Green Municipal Investment Fund.

LONSDALE ENERGY CORP.

Notes to Financial Statements (continued)

Year ended December 31, 2016

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.

LONSDALE ENERGY CORP.

Notes to Financial Statements (continued)

Year ended December 31, 2016

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.

LONSDALE ENERGY CORP.

Notes to Financial Statements (continued)

Year ended December 31, 2016

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) *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.

(ii) *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.

LONSDALE ENERGY CORP.

Notes to Financial Statements (continued)

Year ended December 31, 2016

3. Significant accounting policies (continued):

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

(ii) IFRS 9 *Financial Instruments* (continued):

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.

(iii) 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.

4. Accounts receivable:

	2016	2015
Trade receivables	\$ 810,751	\$ 467,579
Sales tax receivable	123	22,245
	<u>\$ 810,874</u>	<u>\$ 489,824</u>

Included in trade receivables is \$945 (2015 - \$2,708) 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.

LONSDALE ENERGY CORP.

Notes to Financial Statements (continued)

Year ended December 31, 2016

4. Accounts receivable (continued):

The aging of trade receivables at the reporting date was:

	2016	2015
Current	\$ 579,820	\$ 457,718
Past due 0-30 days	189,564	-
Past due 30-90 days	9,629	9,861
Past due greater than 90 days	31,738	-
	<u>\$ 810,751</u>	<u>\$ 467,579</u>

There was no impairment loss or provision related to the collectability of accounts receivable as at December 31, 2016 and 2015.

5. Plant and equipment:

	Distribution system	General equipment	Total
<u>Cost</u>			
Balance as at December 31, 2015	\$ 13,299,585	\$ 10,547,763	\$ 23,847,348
Additions	1,062,267	2,142,127	3,204,394
Disposal	-	-	-
Balance as at December 31, 2016	<u>\$ 14,361,852</u>	<u>\$ 12,689,890</u>	<u>\$ 27,051,742</u>
<u>Accumulated depreciation</u>			
Balance as at December 31, 2015	\$ 1,381,024	\$ 2,455,457	\$ 3,836,481
Depreciation	312,371	545,857	858,228
Disposal	-	-	-
Balance as at December 31, 2016	<u>\$ 1,693,395</u>	<u>\$ 3,001,314</u>	<u>\$ 4,694,709</u>
<u>Net book value</u>			
At December 31, 2015	\$ 11,918,561	\$ 8,092,307	\$ 20,010,868
At December 31, 2016	<u>12,668,457</u>	<u>9,688,576</u>	<u>22,357,033</u>

LONSDALE ENERGY CORP.

Notes to Financial Statements (continued)

Year ended December 31, 2016

5. Plant and equipment (continued):

Included in plant and equipment is \$127,461 (2015 - \$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, 2016. In addition, they are not being amortized.

6. Software assets

Cost

Balance, at December 31, 2015	\$	360,001
Additions		69,567
Balance, at December 31, 2016	\$	429,568

Accumulated Depreciation

Balance, at December 31, 2015	\$	10,596
Depreciation		28,696
Balance, at December 31, 2016	\$	39,292

Net book value

At December 31, 2015	\$	349,405
At December 31, 2016		390,276

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.

LONSDALE ENERGY CORP.

Notes to Financial Statements (continued)

Year ended December 31, 2016

7. Due to the City of North Vancouver:

(a) Due to the City of North Vancouver:

The amount due to the City of \$332,096 (2015 - \$268,069) is used to cover operating and financing expenses incurred by the City on behalf of the Company. The amounts outstanding as at 2016 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.

In addition to the amount due to the City, \$430,000 of the principal loan amount is included in the current liabilities this amount is expected to be reimbursed by the Company within one year.

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:

	2016	2015
Demand promissory note (i)	\$ 11,553,188	\$ 11,039,018
Demand promissory note (ii)	2,611,966	2,611,966
Demand promissory note (iii)	450,000	-
	<u>\$ 14,615,154</u>	<u>\$ 13,650,984</u>

(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.

(iii) On November 18, 2016 the Company was authorized to borrow an additional \$1,600,000 from the City. The loan bears interest at 2.1% per annum. As at December 31, 2016, an amount of \$450,000 had been drawn by the Company on this loan.

Although the term loans are due on demand, with the exception of an amount of \$430,000, 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 a reimbursement schedule to the City, which was accepted by Council that supports this classification.

The interest expense of \$296,870 (2015 - \$247,282) 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.

LONSDALE ENERGY CORP.

Notes to Financial Statements (continued)

Year ended December 31, 2016

7. 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, 2016, the City and Company were in compliance with these covenants.

Future principal repayments, including actuarial adjustments of \$293,125 (2015 - \$313,925) on this loan over the next six years are as follows:

2017	\$	194,877
2018		202,672
2019		210,780
2020		219,210
2021		227,979
2022		237,098
	\$	1,292,616

The interest expense of \$6,000 (2015 - \$6,000) is included in finance costs in the Statement of Comprehensive Income (loss).

LONSDALE ENERGY CORP.

Notes to Financial Statements (continued)

Year ended December 31, 2016

8. Legal settlement and related expenses:

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.

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 recognized a non-recurring expense of \$1,030,721 in 2015, 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, 2016.

LONSDALE ENERGY CORP.

Notes to Financial Statements (continued)

Year ended December 31, 2016

9. Deferred contributions:

	2016	2015
(a) Green Municipal Investment Fund Project Grant	\$ 1,232,116	\$ 1,323,944
(b) Gas Tax Agreement – Innovation Fund	846,436	870,834
(c) Infrastructure Stimulus Fund Grant	83,332	83,332
(d) Solar Water Installation	177,582	191,242
(e) Contributions from developers and new customers	3,387,968	2,567,095
(f) Contributions from utility company	32,752	35,481
	5,760,186	5,071,928
Current portion	(263,089)	(236,344)
Non-current portion	\$ 5,497,097	\$ 4,835,584

(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:

	2016	2015
Deferred contribution - FCM Grant, beginning of year	\$ 1,323,944	\$ 1,406,902
Revenue recognized from grant	(91,828)	(82,958)
Deferred contribution - FCM Grant, end of year	\$ 1,232,116	\$ 1,323,944

(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.

LONSDALE ENERGY CORP.

Notes to Financial Statements (continued)

Year ended December 31, 2016

9. Deferred contributions (continued):

(b) Gas Tax Agreement – Innovation Fund (continued):

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:

	2016	2015
Deferred contribution - Gas Tax Grant, beginning of year	\$ 870,834	\$ 895,232
Revenue recognized from grant	(24,398)	(24,398)
Deferred contribution - Gas Tax Grant, end of year	\$ 846,436	\$ 870,834

(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. As at December 31, 2016, 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:

	2016	2015
Deferred contribution - Infrastructure grant, beginning and end of year	\$ 83,332	\$ 83,332

LONSDALE ENERGY CORP.

Notes to Financial Statements (continued)

Year ended December 31, 2016

9. Deferred contributions (continued):

(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:

	2016	2015
Deferred contribution - Solar Water Installation, beginning of year	\$ 191,242	\$ 204,902
Revenue from contributions recognized	(13,661)	(13,660)
Deferred contribution - Solar Water Installation, end of year	\$ 177,581	\$ 191,242

(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. This amount includes compensation of \$98,493 received in 2016 from the City for service connection rebates granted to rental buildings.

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

	2016	2015
Deferred contribution from developers and new customers, beginning of year	\$ 2,567,095	\$ 2,457,248
Contributions	951,348	218,750
Revenue recognized from contributions	(130,475)	(108,903)
Deferred contribution, end of year	\$ 3,387,968	\$ 2,567,095

LONSDALE ENERGY CORP.

Notes to Financial Statements (continued)

Year ended December 31, 2016

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:

	2016	2015
Deferred contribution from utility company, beginning of year	\$ 35,481	\$ 38,210
Revenue recognized from contributions	(2,729)	(2,729)
Deferred contribution from utility company, end of year	\$ 32,752	\$ 35,481

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, 2016, a total of 2,001,000 (2015 - 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:

The City has incurred expenses, including sales taxes, on behalf of the Company in the year of approximately \$912,653 (2015 - \$760,805) by providing staff, purchasing material and installing and operating the distribution system for the Company's benefit. Of this amount \$413,360 (2015 - \$335,936) 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 2016 is \$179,685 (2015 - \$166,668) for heating services rendered by the Company to the City.

LONSDALE ENERGY CORP.

Notes to Financial Statements (continued)

Year ended December 31, 2016

11. Related parties (continued):

Included in the services provided to the Company by the City is key management personnel compensation, comprised of the president, executive director, project engineer, engineering 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, 2016, key management personnel compensation of \$415,447 (2015 - \$295,532) 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, 2016, the Company has approximately \$1,481,002 (2015 - \$341,482) in open purchase and work orders relating to plant and equipment. Two large purchase orders were issued near the end of 2016 for the construction of a miniplant (\$563,838) and materials for distribution system expansion (\$540,570).
- (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.

LONSDALE ENERGY CORP.

Notes to Financial Statements (continued)

Year ended December 31, 2016

13. Fair values (continued):

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 \$1,199,022 (2015 - \$1,372,826).

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.

LONSDALE ENERGY CORP.

Notes to Financial Statements (continued)

Year ended December 31, 2016

14. Financial risk management (continued):

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, 2016, receivables totaling \$31,737 (2015 - \$0) exceeded 90 days but were still considered collectable. Subsequently these were collected in early 2017.

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.

LONSDALE ENERGY CORP.

Notes to Financial Statements (continued)

Year ended December 31, 2016

14. Financial risk management (continued):

As at December 31, 2016, 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, 2016	Carrying amount	Total contractual cash flows	Less than one year	1 to 5 years	More than 5 years
Loan from Green Municipal Investment Fund	\$ 1,292,616	\$ 1,325,616	\$ 200,877	\$ 1,124,739	\$ -
Loan from City of North Vancouver	15,045,154	15,045,154	-	15,045,154	-

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	-

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.

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, 2016, 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. 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, 2017 be and is hereby selected as the annual reference date for the Company for its current annual reference period.

DATED as of July 17, 2017.

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

Mayor Darrell Mussatto

Karla Graham, City Clerk

Lonsdale Energy Corp.
Historical Data for 2004 - 2016 Years of Operations

Income Statement line description	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
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	\$ 2,836,793
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
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
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
Depreciation	\$ 68,531	\$ 114,823	\$ 127,777	\$ 146,220	\$ 212,246	\$ 293,444	\$ 273,586	\$ 309,667	\$ 430,542	\$ 564,686	\$ 699,517	\$ 795,568	\$ 886,925
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
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
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
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
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
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)
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)
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
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
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)
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

Summary of LEC Statistics
As of December 31, 2016

• Total square footage of buildings served:	4,603,666	square feet
• Square footage of new buildings connected in 2016:	612,847	square feet
• Total number of buildings served:	67	
○ Residential Buildings	32	
○ Mixed Residential / Commercial	15	
○ Commercial	14	
○ Institution	5	
○ Hotel	1	
• New buildings connected in 2016:	7	
• Total number of residential suites connected:	3,973	
• New residential suites connected in 2016:	530	
• Total number of boilers installed in LEC Mini-Plants:	23	
• Number of new boilers installed in 2016:	1	
• Trench meters of distribution system:	8,450	meters
• Kilowatt-hours of heating delivered to customers in 2016:	37,470,064	kW.h
• Kilowatt-hours of cooling delivered to customers in 2016:	310,210	kW.h