Moved by Councillor Keating, seconded by Councillor Buchanan

**THAT** Items 16, 17, 18, 19, 20 and 21 be brought forward for consideration.

**CARRIED UNANIMOUSLY**

## REPORTS OF COMMITTEES, COUNCIL REPRESENTATIVES AND STAFF

### 16. 2018 Annual General Meeting – File: 11-5500-06-0001/1

Report: Director, Lonsdale Energy Corp., April 18, 2018

Moved by Councillor Clark, seconded by Councillor Keating

**PURSUANT** to the report of the Director, Lonsdale Energy Corp., dated April 18, 2018, entitled “2018 Annual General Meeting”:

**THAT** the 2017 Financial Statements of Lonsdale Energy Corp. be received and filed;

**THAT** the proposed Unanimous Consent Resolutions of the Shareholders of Lonsdale Energy Corp. be endorsed;

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

**CARRIED UNANIMOUSLY**

| Director | President |
|---|---|

lonsdale energycorp.

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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: 2018 ANNUAL GENERAL MEETING

Date: April 18, 2018

## RECOMMENDATION:

**PURSUANT** to the report of the Director of Lonsdale Energy Corp., dated April 18, 2018, entitled, "2018 Annual General Meeting":

**THAT** the 2017 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, 2017, 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 – 2017 Years of Operation
4. Summary of LEC Statistics, as of December 31, 2017

## PURPOSE:

This report provides information concerning Lonsdale Energy Corp. (LEC) 2017 activities and presents the audited Financial Statements for that year. It recommends that a resolution be adopted by the City of North Vancouver, sole shareholder of LEC, in lieu of holding an annual general meeting.

## DISCUSSION:

***Review of 2017***

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. LEC's statements comply with the International Financial Reporting Standards (IFRS).

The following buildings were added to the LEC network in 2017:

| | |
|---|---|
| • The Pipe Shop | 115 Victory Ship Way |
| • Polygon Gallery (Heating & Cooling) | 101 Carrie Cates Court |
| • Centreview – Residential Premises | 1308 Lonsdale Avenue |
| • Centreview – Commercial Premises | 1308 Lonsdale Avenue |
| • Marine + Fell | 725 Marine Drive |
| • The Stevens | 1549 St. Georges Avenue |

With the addition of these six new premises and seven new energy transfer stations to LEC's district energy system, LEC had 75 energy transfer stations delivering energy in 72 premises at the end of 2017. LEC's network services approximately 5.2 million sq. ft. of properties including 4,410 households, as well as various commercial and institutional premises. **Attachment 4** provides additional statistics on LEC.

The Centreview building includes LEC's Mini-Plant 8 which was constructed in the building's underground parkade. The mini-plant was completed in May 2017 and is LEC's largest mini-plant. The plant construction was completed at an approximate cost of $1,200,000 and the mechanical room was designed to hold an additional 3 boilers which may be added in the future based on the required load of Central Lonsdale.

In addition to the new connections and construction of Mini-Plant 8, LEC completed the construction of distribution system piping on West Keith Road, inter-connecting the Central Lonsdale and Harbourside service areas at a cost of approximately $1,800,000; replaced and upgraded the control systems in the Harbourside mini-plant at approximately $93,000; entered into an agreement with the Greater Vancouver Sewerage and Drainage District (GVS&DD) to recover heat from the North Shore Wastewater Treatment Plant (NSWWTP); and began construction of distribution piping on St. Georges Avenue to inter-connect the Central Lonsdale and Lower Lonsdale service area.

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. LEC is reporting a profit of $799,595 for the year ended December 31, 2017. This is a significant increase from the prior year's profit of $18,673. A historical summary of LEC's financial results is provided in **Attachment 3**.

The following factors contributed to this substantial increase in profits:

- introduction of new customers in 2017 and late 2016, particularly the Centreview buildings, LEC's largest customers to date;
- first rate increase in three years;
- revision of the Application Fee structure;
- efficiency improvements resulting from plant controls and automation upgrades;
- management enhancements of natural gas purchases; and
- lower operating expenses resulting from increased capital activities in 2017.

LEC changed its rate structure to a two rate system in November 2016, which allows for a higher Commodity Charge, but a reduced Meter Charge for customers with low heating demand. While still extremely competitive compared to conventional energy sources, rates were adjusted in November 2016 to allow for timely reimbursements of City loans.

In addition to changes to the rates used for regular customer billing, the company implemented a new rate structure for its Application Fee and increased its Connection Fee. Until March 6, 2017, LEC charged developers an Application Fee of $100 per building. Following the implementation of Bylaw No. 8545, LEC began charging 0.15% of the assigned construction value of the building permit. This structure more accurately aligns with the cost incurred for the review of developments, building permit applications, and building performance. The company's Connection Fee was also increased from $60/kW to $75/kW in November 2016.

The Commodity Charge invoiced to the customers is designed to align with FortisBC Energy Inc.'s (FortisBC) Rate 3 for natural gas. Whenever FortisBC's rate fluctuates, LEC's Commodity Charge is adjusted in line with the fluctuation. It is important to note that an increase or reduction in Commodity Charge revenue will be matched by an increase or reduction in the expenses associated with gas purchase. However, LEC can further mitigate potential losses and capitalize on savings opportunities by increasing efficiency, redistributing gas production between its plants and monitoring natural gas market. As a result of rate increases, increased operational efficiencies due to controls upgrades and improved management of natural gas purchases, LEC was able to generate gas procurement savings in 2017.

### *Outlook for 2018*

2018 will be a very busy year for LEC. Two buildings have already been connected to LEC's network and an additional ten buildings are forecasted to be added by the end of the year, bringing the total number of buildings served to 84. The company completed construction of its distribution system along St. Georges Avenue to 160 E 6th Street in February 2018; this section is an important link to provide for the inter-connection of the Central Lonsdale and Lower Lonsdale service areas along St. Georges Avenue. The inter-connection of these service areas is expected to be completed in late 2018 / early 2019. The distribution system on East 18th Street from Lonsdale to 154 East 18th Street was completed in March 2018. LEC has also began construction of distribution system piping on 3rd Street to connect the Moodyville service area, which is expected to be completed in September 2018. LEC's cooling plant is also undergoing a significant capacity increase to allow future service of the Shipyard ice rink and Lot 5 buildings.

LEC has completed the upgrade of the network automation system in the Lower Lonsdale and Harbourside service areas. The new automation technology has also been installed in the newly constructed Mini-Plant 8. Only two mini-plants in the Central Lonsdale service area remain without updated automation technology. The upgrade of LEC's controls at the 2121 Lonsdale Avenue mini-plant is reaching completion and an upgrade of the City Hall mini-plant is scheduled for the summer of 2018. This will mark the completion of the automation and controls upgrade for the LEC district energy system. The control system not only enhances the controls of the network, but also provides abundant valuable performance data which allows for better customer service and improved system efficiency.

While LEC is always aiming to maintain its cost advantage vis-à-vis stand-alone in-building technologies, LEC is optimistic that it will be able to generate a significant profit again in 2018. Profits will continue to be used to reimburse LEC's debt obligations to the City and fund lower Greenhouse Gas (GHG) energy sources. It is important to note that this forecast still assumes the use of existing natural gas boiler technology to produce most of the heat delivered by LEC, however with the signed agreement with the GVS&DD, it is expected that the NSWWTP will deliver 20,000 to 30,000 MWh by 2021, equivalent to half to two-thirds of LEC's heat source. As per LEC's report presented at the July 24, 2017 Council meeting, LEC is implementing annual 5% Capacity Charge increases over a period of five years to fund the additional costs of the future NSWWTP.

***Alternative Energy Sources***

On October 5, 2017, LEC entered into a Thermal Energy Sale and Purchase Agreement with GVS&DD. Under the agreement, GVS&DD is to recover heat from the treated sewerage effluent which is to be distributed through LEC's district energy system. The GHG reduction resulting from the heat recovery will allow LEC to supply a considerably larger amount of carbon-free energy to its customers (20,000-30,000 MWh). LEC received Council approval on July 24, 2017 for a loan of $3.6 million to fund the capital cost of the distribution system to link the Harbourside service area with the future NSWWTP. Upon completion, while GVS&DD will be responsible for the operation and maintenance of the heat recovery facility, LEC will be obligated to reimburse those costs including the cost of electricity.

On December 14, 2017 LEC entered into a Senior Energy Specialist Agreement with FortisBC. The agreement provides funding for the hiring of an engineer to review the feasibility of implementing a hydrogen injection facility to provide an additional source of alternative energy to LEC.

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, particularly when considering current and historically low natural gas prices. LEC will complete rigorous financial analysis on these projects before making any investment recommendations.

***Annual General Meeting***
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:

| 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 of North Vancouver***
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 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 Mini-Plant 8 and additions to the LEC distribution network. In 2017, Council approved additional funding of $2,300,000 for the 2017-2018 LEC Construction Program, $3,600,000 for the connection of the heat recovery plant at the NSWWTP, and $1,200,000 for expansion of the cooling capacity at Mini-Plant 5 for the servicing of Lot 5. Once again these loans bear the same interest rate and terms as the original December 16, 2013 loan. As of December 31 2017, the amount owed to the City against the above loans was $19,241,926.

On June 29, 2012 the City received a loan of $2,000,000 under the Green Municipal Investment Fund Project Loan through the Municipal Finance Authority ("MFA") to finance eligible capital costs. The loan currently has an outstanding balance of approximately $1.1 million.

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 is borrowing funding for future capital 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 intended to allocate $1 million to this purpose in 2017.

On November 29, 2017, LEC made a payment of $450,000 on the principal of its loan to the City. In 2017, LEC also paid $351,790 in interest to the City based on the terms of its outstanding loans. Including the payment made to MFA of $194,877, LEC made total loan and interest repayments of $996,667 in 2017, fulfilling its intended goal on the repayment schedule provided on June 6, 2017. In addition to these payments, administrative services as well as maintenance and operation activities provided by the City are reimbursed on a quarterly basis.

At year-end, LEC had approximately $1,683,000 in cash. This amount includes approximately $1,390,000 of cash disbursements from the above mentioned loans. The latter amount is to be used solely on capital projects specified in the loan agreements. The difference of $293,000 reflects LEC's available working capital as of December 31, 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. All LEC projects are reviewed by the Engineering, Parks and Environment department to ensure good coordination between LEC and the City. The

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, 2017

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BDO Canada LLP
600 Cathedral Place
925 West Georgia Street
Vancouver BC V6C 3L2 Canada

# 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, 2017, and the Statements of Comprehensive Income, 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, 2017 and the results of its operations, changes in equity and cash flows for the year ended in accordance with International Financial Reporting Standards.

*BDO Canada LLP*

Chartered Professional Accountants

Vancouver, British Columbia
April 16, 2018

# LONSDALE ENERGY CORP.

Statement of Financial Position

December 31, 2017, with comparative information for 2016

| | Note | 2017 | 2016 |
|---|---|---|---|
| **Assets** | | | |
| Current Assets: | | | |
| Cash | | $ 1,683,050 | $ 190,150 |
| Accounts receivable | 4 | 1,018,278 | 810,874 |
| Prepaid expenses | | 62,334 | 50,471 |
| | | 2,763,662 | 1,051,495 |
| Plant and equipment | 5 | 26,014,057 | 22,357,033 |
| Supplies for the distribution system | 5 | 503,279 | 296,802 |
| Software assets | 6 | 437,713 | 390,276 |
| Debt Reserve Fund | 7(c) | 20,000 | 20,000 |
| | | $ 29,738,711 | $ 24,115,606 |
| **Liabilities and Shareholder's Equity** | | | |
| Current liabilities: | | | |
| Accounts payable and accrued liabilities | | $ 818,167 | $ 739,086 |
| Due to the City of North Vancouver | 7(a) | 416,440 | 332,096 |
| Current portion of Loan from City of North Vancouver | 7(a) | 472,328 | 430,000 |
| Security deposits | | 262,500 | 212,500 |
| Current portion of loan from Green Municipal Investment Fund | 7(c) | 202,672 | 194,877 |
| Current portion of deferred contributions | 8 | 356,652 | 263,089 |
| | | 2,528,759 | 2,171,648 |
| Loan from City of North Vancouver | 7(b) | 18,769,598 | 14,615,154 |
| Loan from Green Municipal Investment Fund | 7(c) | 895,067 | 1,097,739 |
| Deferred contributions | 8 | 6,011,724 | 5,497,097 |
| | | 28,205,148 | 23,381,638 |
| Shareholder's equity: | | | |
| Share capital | 9 | 2,000,010 | 2,000,010 |
| Contributed surplus | | 111,723 | 111,723 |
| Deficit | | (578,170) | (1,377,765) |
| | | 1,533,563 | 733,968 |
| Commitments and contingencies (note 11) | | | |
| | | $ 29,738,711 | $ 24,115,606 |

See accompanying notes to financial statements.

Approved on behalf of the Board:

_______________ Director _______________ Director

# LONSDALE ENERGY CORP.

Statement of Comprehensive Income

Year ended December 31, 2017, with comparative information for 2016

| | *Note* | 2017 | 2016 |
|---|---|---|---|
| Revenue | | $ 3,900,077 | $ 2,838,793 |
| Cost of sales | | 1,538,595 | 1,196,282 |
| | | 2,361,482 | 1,642,511 |
| Operating expenses: | | | |
| Plant operation and maintenance | | 134,380 | 225,115 |
| Depreciation | | 1,064,736 | 886,925 |
| General and administrative | | 405,632 | 497,247 |
| | | 1,604,748 | 1,609,287 |
| Contributions and financing costs: | | | |
| Contributions | 8 | 357,676 | 260,629 |
| Finance income | | 42,975 | 27,690 |
| Finance costs | | (357,790) | (302,870) |
| | | 42,861 | (14,551) |
| Net income and comprehensive income | | $ 799,595 | $ 18,673 |

See accompanying notes to financial statements.

# LONSDALE ENERGY CORP.

Statement of Changes in Equity

Year ended December 31, 2017, with comparative information for 2016

| | Share capital | Contributed surplus | Deficit | Shareholder's equity |
|---|---|---|---|---|
| Balance, December 31, 2015 | $ 2,000,010 | $ 111,723 | $ (1,396,438) | $ 715,295 |
| Net income and comprehensive income | - | - | 18,673 | 18,673 |
| Balance, December 31, 2016 | 2,000,010 | 111,723 | (1,377,765) | 733,968 |
| Net loss and comprehensive loss | - | - | 799,595 | 799,595 |
| Balance, December 31, 2017 | $ 2,000,010 | $ 111,723 | $ (578,170) | $ 1,533,563 |

See accompanying notes to financial statements.

# LONSDALE ENERGY CORP.
Statement of Cash Flows

Year ended December 31, 2017, with comparative information for 2016

| | 2017 | 2016 |
|---|---|---|
| Cash provided by (used in) | | |
| Operations: | | |
| Net income | $ 799,595 | $ 18,673 |
| Adjustments for: | | |
| Depreciation | 1,064,736 | 886,925 |
| Recognition of deferred contributions | (356,652) | (260,629) |
| Net finance cost | 314,815 | 275,179 |
| Loss on disposal of property and equipment | - | - |
| Change in non-cash operating working capital: | | |
| Accounts receivable | (207,403) | (321,050) |
| Prepaid expenses | (11,863) | (8,557) |
| Supplies for distribution system | (206,478) | 172,213 |
| Accounts payable and accrued liabilities | 79,083 | 373,326 |
| Security deposits | 50,000 | (37,500) |
| | 1,525,833 | 1,098,580 |
| Interest paid | (357,790) | (302,870) |
| Net cash from operating activities | 1,168,043 | 795,710 |
| Investments: | | |
| Purchase of plant and equipment (including supplies for the distribution system) | (4,670,060) | (3,204,394) |
| Purchase of software assets | (99,137) | (69,567) |
| Interest received | 42,975 | 27,691 |
| Net cash used in investing activities | (4,726,222) | (3,246,269) |
| Financing: | | |
| Contributions received | 964,841 | 948,888 |
| Due to the City of North Vancouver | 4,281,115 | 1,458,197 |
| Principal payments on Green Municipal Investment Fund loan | (194,877) | (187,382) |
| Net cash from financing activities | 5,051,079 | 2,219,704 |
| Increase (decrease) in cash | 1,492,900 | (230,856) |
| Cash, beginning of year | 190,150 | 421,006 |
| Cash, end of year | $ 1,683,050 | $ 190,150 |

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. Under Section 149(1)(d) of the Income Tax Act, the Company is exempt from income and capital taxes by virtue of the fact that it is a wholly owned subsidiary of the City.

**2. Basis of presentation:**

(a) Statement of compliance:

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

The financial statements were authorized for issue by the Board of Directors on April 16, 2018.

(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) Critical judgements and significant estimates:

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

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

Information about 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 - 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 13)

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

Note 6 - useful lives of software assets (note 3(b))

**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.

**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) 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.

(d) Government grants:

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

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

(e) 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.

(f) 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. All financial liabilities are classified as other financial liabilities, and are carried at amortized cost.

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.

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

(f) Financial instruments (continued):

(*ii*) Financial liabilities:

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

The Company derecognizes a financial liability when its contractual obligations are discharged 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.

*Other financial liabilities*

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

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

(*iii*) Share capital:

*Common shares*

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

(g) Impairment:

(*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.

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

(g) Impairment (continued):

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

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.

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.

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

(g) Impairment (continued):

(*ii*) Non-financial assets (continued):

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

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. The impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(h) New standards and interpretations not yet adopted:

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

*(i)* 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 Company does not expect the adoption of the standard to have a material impact on the Company's financial statements.

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

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

*(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.

The Company intends to adopt IFRS 9 (2014) in its financial statements for the annual period beginning on January 1, 2018. The Company does not expect the adoption of the standard to have a material impact on the Company’s financial statements.

*(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 Company does not expect the adoption of the standard to have a material impact on the Company’s financial statements.

## 4. Accounts receivable:

| | 2017 | 2016 |
|---|---|---|
| Trade receivables | $ 930,856 | $ 810,751 |
| Sales tax receivable | 87,422 | 123 |
| | $ 1,018,278 | $ 810,874 |

Included in trade receivables is $1,918 (2016 - $945) 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:

| | 2017 | 2016 |
|---|---|---|
| Current | $ 715,272 | $ 579,820 |
| Past due 30-60 days | 187,757 | 189,564 |
| Past due 60-90 days | 27,827 | 9,629 |
| Past due greater than 90 days | - | 31,738 |
| | $ 930,856 | $ 810,751 |

There was no impairment loss or provision related to the collectability of accounts receivable as at December 31, 2017 and 2016.

## 5. Plant and equipment:

| | Distribution system | General equipment | Total |
|---|---|---|---|
| *Cost* | | | |
| Balance as at December 31, 2016 | $ 14,361,852 | $ 12,689,890 | $ 27,051,742 |
| Additions | 3,178,103 | 1,491,957 | 4,670,060 |
| Disposal | - | - | - |
| Balance as at December 31, 2017 | $ 17,539,955 | $ 14,181,847 | $ 31,721,802 |
| *Accumulated depreciation* | | | |
| Balance as at December 31, 2016 | $ 1,693,395 | $ 3,001,314 | $ 4,694,709 |
| Depreciation | 346,447 | 666,589 | 1,013,036 |
| Disposal | - | - | - |
| Balance as at December 31, 2017 | $ 2,039,842 | $ 3,667,903 | $ 5,707,745 |
| *Net book value* | | | |
| At December 31, 2016 | $ 12,668,457 | $ 9,688,576 | $ 22,357,033 |
| At December 31, 2017 | 15,500,113 | 10,513,944 | 26,014,057 |

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, 2017. In addition, they are not being amortized.

## 6. Software assets

| | | |
|---|---|---|
| *Cost* | | |
| Balance, at December 31, 2016 | $ | 429,568 |
| Additions | | 99,137 |
| Balance, at December 31, 2017 | $ | 528,705 |
| *Accumulated Depreciation* | | |
| Balance, at December 31, 2016 | $ | 39,292 |
| Depreciation | | 51,700 |
| Balance, at December 31, 2017 | $ | 90,992 |
| *Net book value* | | |
| At December 31, 2016 | $ | 390,276 |
| At December 31, 2017 | | 437,713 |

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

In 2017, the company undertook further controls upgrades for the Harbourside service area, as well as preliminary work on the Central Lonsdale service area. The control system in Harbourside was put into service in September 2017, the Central Lonsdale system has not been put into service.

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

(a) Due to the City of North Vancouver:

The amount due to the City of $416,440 (2016 - $332,096) is used to cover operating and financing expenses incurred by the City on behalf of the Company. The amounts outstanding as at 2017 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.

**7. Due to the City of North Vancouver:**

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

In addition to the amount due to the City, $472,328 (2016 - $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. In 2016, $450,000 was reimbursed to the City in payment of the principal of a City loan.

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

(b) Loans from the City of North Vancouver:

| | 2017 | 2016 |
|---|---|---|
| Demand promissory note *(i)* | $ 11,549,960 | $ 11,983,188 |
| Demand promissory note *(ii)* | 2,611,966 | 2,611,966 |
| Demand promissory note *(iii)* | 1,205,000 | 450,000 |
| Demand promissory note *(iv)* | 2,325,000 | |
| Demand promissory note *(v)* | 625,000 | |
| Demand promissory note *(vi)* | 600,000 | |
| Demand promissory note *(vii)* | 165,000 | |
| Demand promissory note *(viii)* | 160,000 | |
| Demand promissory note *(ix)* | - | |
| | $ 19,241,926 | $ 15,045,154 |

*(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, 2017, an amount of $1,205,000 had been drawn by the Company on this loan.

*(iv)* On September 19, 2016 the Company was authorized to borrow an additional $3,250,000 from the City. The loan bears interest at 2.1% per annum. As at December 31, 2017, an amount of $2,325,000 had been drawn by the Company on this loan.

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

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

*(v)* On June 12, 2017 the Company was authorized to borrow an additional $2,300,000 from the City. The loan bears interest at 2.1% per annum. As at December 31, 2017, an amount of $625,000 had been drawn by the Company on this loan.

*(vi)* On April 4, 2016 the Company was authorized to borrow an additional $600,000 from the City. The loan bears interest at 2.1% per annum. As at December 31, 2017, an amount of $600,000 had been drawn by the Company on this loan.

*(vii)* On April 4, 2016 the Company was authorized to borrow an additional $2,300,000 from the City. The loan bears interest at 2.1% per annum. As at December 31, 2017, an amount of $165,000 had been drawn by the Company on this loan.

*(viii)* On September 18, 2017 the Company was authorized to borrow an additional $1,200,000 from the City. The loan bears interest at 2.1% per annum. As at December 31, 2017, an amount of $160,000 had been drawn by the Company on this loan.

*(ix)* On July 24, 2017 the Company was authorized to borrow an additional $3,600,000 from the City. The loan bears interest at 2.1% per annum. As at December 31, 2017, no amount had been drawn by the Company on this loan.

Although the term loans are due on demand, with the exception of an amount of $472,328, 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 $351,790 (2016 - $296,870) related to the due to the City of North Vancouver are included in finance costs in the Statement of Comprehensive Income.

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

(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) Loans 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, 2017, the City and Company were in compliance with these covenants.

Future principal repayments, including actuarial adjustments of $264,829 (2016 - $293,125) on this loan over the next five years are as follows:

| | | |
|---|---|---|
| 2018 | $ | 202,672 |
| 2019 | | 210,780 |
| 2020 | | 219,210 |
| 2021 | | 227,979 |
| 2022 | | 237,098 |
| | $ | 1,097,739 |

The interest expense of $6,000 (2016 - $6,000) is included in finance costs in the Statement of Comprehensive Income.

**8. Deferred contributions:**

| | | 2017 | | 2016 |
|---|---|---|---|---|
| (a) Green Municipal Investment Fund Project Grant | $ | 1,150,298 | $ | 1,232,116 |
| (b) Gas Tax Agreement – Innovation Fund | | 822,038 | | 846,436 |
| (c) Infrastructure Stimulus Fund Grant | | 83,103 | | 83,332 |
| (d) Solar Water Installation | | 163,921 | | 177,582 |
| (e) Contributions from developers and new customers | | 4,118,994 | | 3,387,968 |
| (f) Contributions from utility company | | 30,022 | | 32,752 |
| | | 6,368,376 | | 5,760,186 |
| Current portion | | (356,652) | | (263,089) |
| Non-current portion | $ | 6,011,724 | $ | 5,497,097 |

## 8. 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:

| | 2017 | 2016 |
|---|---|---|
| Deferred contribution - FCM Grant, beginning of year | $ 1,232,116 | $ 1,323,944 |
| Revenue recognized from grant | (81,818) | (91,828) |
| Deferred contribution - FCM Grant, end of year | $ 1,150,298 | $ 1,232,116 |

(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:

| | 2017 | 2016 |
|---|---|---|
| Deferred contribution - Gas Tax Grant, beginning of year | $ 846,436 | $ 870,834 |
| Revenue recognized from grant | (24,398) | (24,398) |
| Deferred contribution - Gas Tax Grant, end of year | $ 822,038 | $ 846,436 |

**8. 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 completed under the grant is available for use. Depreciation of this section of the distribution system started to be recognized as of November 1, 2017 resulting in the commencement of revenue recognition.

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

| | 2017 | 2016 |
|---|---|---|
| Deferred contribution - Infrastructure grant, beginning and end of year | $ 83,332 | $ 83,332 |
| Revenue recognized from grant | (229) | |
| Deferred contribution – Infrastructure Stimulus Fund Grant, end of year | $ 83,103 | $ 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:

| | 2017 | 2016 |
|---|---|---|
| Deferred contribution - Solar Water Installation, beginning of year | $ 177,581 | $ 191,242 |
| Revenue from contributions recognized | (13,660) | (13,661) |
| Deferred contribution - Solar Water Installation, end of year | $ 163,921 | $ 177,581 |

## 8. 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. This amount includes compensation of $98,493 and $23,676 received in 2016 and 2017 respectively, from the City for service connection rebates granted to rental buildings.

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

| | 2017 | 2016 |
|---|---|---|
| Deferred contribution from developers and new customers, beginning of year | $ 3,387,968 | $ 2,567,095 |
| Contributions | 964,843 | 951,348 |
| Revenue recognized from contributions | (233,817) | (130,475) |
| Deferred contribution, end of year | $ 4,118,994 | $ 3,387,968 |

(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:

| | 2017 | 2016 |
|---|---|---|
| Deferred contribution from utility company, beginning of year | $ 32,752 | $ 35,481 |
| Revenue recognized from contributions | (2,730) | (2,729) |
| Deferred contribution from utility company, end of year | $ 30,022 | $ 32,752 |

## 9. Share capital:

The authorized capital of the Company consists of an unlimited number of voting common shares without par value. As of December 31, 2017, a total of 2,000,010 (2016 - 2,000,010) shares were issued and outstanding to the Company's sole shareholder, the City.

There were no changes in share capital during the year.

## 10. Related parties:

The City has incurred expenses, including sales taxes, on behalf of the Company in the year of approximately $993,545 (2016 - $912,653) by providing staff, purchasing material and installing and operating the distribution system for the Company's benefit. Of this amount $393,117 (2016 - $413,360) has been capitalized to plant and equipment. Specifically, City staff has been involved in designing, purchasing materials for and installing and operating components of the distribution system. These costs have been charged to the Company by the City on a cost recovery basis. Included in revenue for 2017 is $207,941 (2016 - $179,685) for heating and cooling services rendered by the Company to the City.

Included in the services provided to the Company by the City is key management personnel compensation, comprised of the president, executive director, deputy director, two project engineers, construction manager, 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, 2017, key management personnel compensation of $479,422 (2016 - $415,447) 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.

## 11. Commitments and contingencies:

(a) As at December 31, 2017, the Company has approximately $1,467,528 (2016 - $1,481,002) in open purchase and work orders relating to plant and equipment. One large purchase orders was issued near the end of 2017 for distribution system materials ($455,190).

(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.

(c) On October 5, 2017, the Company entered in an agreement with Greater Vancouver Sewerage and Drainage District for the purchase of thermal energy from the new North Shore wastewater treatment plant currently under construction. Under the agreement, as of mid-2021, the Company will be obligated to purchase minimal quantities of energy from the new plant. The cost of this future energy is based on the plant's operating and maintenance and future BC Hydro electricity rates.

## 12. 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 $1,081,634 (2016 - $1,199,022).

## 13. 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

## 13. Financial risk management (continued):

*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.

*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, 2017, no receivables (2016 - $31,737) exceeded 90 days.

## 13. Financial risk management (continued):

*Liquidity risk:*

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

The financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities in the normal course of business. The Company anticipates that its cash flows from operations and current grant agreements will be sufficient to satisfy its current obligations. The City provides financing to the Company through its formal related party loan which has a specified rate of interest but no specified terms of repayment.

As at December 31, 2017, 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, 2017 | Carrying amount | Total contractual cash flows | Less than one year | 1 to 5 years | More than 5 years |
|---|---|---|---|---|---|
| Loan from Green Municipal Investment Fund | $ 1,097,739 | $ 1,124,739 | $ 208,672 | $ 916,066 | $ - |
| Loan from City of North Vancouver | 19,241,926 | 19,241,926 | - | 19,241,926 | - |

| 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 | - |

## 13. Financial risk management (continued):

*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. The loan from City of North Vancouver is maturing on December 16, 2018 and the Company is cognizant that the interest rate may be adjusted in line with market pricing at that time.

## 14. 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, 2017, 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, 2018 be and is hereby selected as the annual reference date for the Company for its current annual reference period.

DATED as of April 23, 2018.

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

________________________________
Mayor Darrell Mussatto

________________________________
Karla Graham, City Clerk

## Historical Data for 2004 - 2017 Years of Operations

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

**Summary of LEC Statistics**

**As of December 31, 2017**

- Total square footage of buildings served: 5,182,379 square feet
- Square footage of new buildings connected in 2017: 578,713 square feet
- Total number of customer accounts served: 75
    - Residential Buildings 33
    - Mixed Residential / Commercial 16
    - Commercial 16
    - Institution 6
    - Cooling 3
    - Hotel 1
- New customers connected in 2017: 7
- Total number of residential suites connected: 4,410
- New residential suites connected in 2017: 437
- Total number of boilers installed in LEC Mini-Plants: 26
- Number of new boilers installed in 2017: 3
- Trench meters of distribution system: 9,502 meters
- Kilowatt-hours of heating delivered to customers in 2017: 49,502,5624 kW.h
- Kilowatt-hours of cooling delivered to customers in 2017: 426,090 kW.h