City of Richmond

Report to Committee

To:	Finance Committee	**Date:**	April 13, 2022
From:	John Irving, P.Eng., MPA General Manager, Engineering and Public Works Chief Executive Officer, Lulu Island Energy Company Jerry Chong, CPA, CA Acting General Manager, Finance and Corporate Services Chief Financial Officer, Lulu Island Energy Company	**File:**	01-0060-20-LIEC1/2022-Vol 01
Re:	**2021 Financial Statements for the Lulu Island Energy Company**		

Staff Recommendation

That the Lulu Island Energy Company report titled "2021 Financial Statements for the Lulu Island Energy Company", dated April 13, 2022, from the Chief Executive Officer and Chief Financial Officer, be received for information.

John Irving, P.Eng., MPA
General Manager, Engineering and Public Works
Chief Executive Officer,
Lulu Island Energy Company
(604-276-4140)

Jerry Chong, CPA, CA
Acting General Manager, Finance and Corporate Services
Chief Financial Officer,
Lulu Island Energy Company
(604-276-4064)

REPORT CONCURRENCE	
CONCURRENCE OF GENERAL MANAGER	
REVIEWED BY SMT	INITIALS: SL
APPROVED BY CAO	

Richmond

6880091

6911 NO. 3 ROAD
RICHMOND, BC V6Y 2C1

Report

DATE: March 30, 2022

TO: Board of Directors

FROM: Jerry Chong, CPA, CA, Chief Financial Officer

Re: **2021 Financial Statements for the Lulu Island Energy Company**

Staff Recommendation

That the audited financial statements of the Lulu Island Energy Company (LIEC) for the year ending December 31, 2021, be approved, and that any two LIEC directors be authorized to sign the financial statements on behalf of the board.

Origin

Section 11.3 of the LIEC Articles of Incorporation requires that an auditor be appointed and that audited financial statements be prepared at the end of each fiscal year. It also requires that the audited financial statements be presented annually at an open City of Richmond Council meeting within 150 days of LIEC's fiscal year end. This report presents the 2021 audited financial statements for the LIEC Board's approval. See Attachment 1 for a brief overview of the District Energy Utility service areas.

Analysis

The preparation of financial statements is the responsibility of management. As a Government Business Enterprise (GBE), LIEC's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

LIEC's audited financial statements consist of:

- Statement of Financial Position – summary of assets, liabilities and shareholder's equity;
- Statement of Comprehensive Income – summary of revenues, expenses, other activities and net income for the year;
- Statement of Changes in Equity – summary of changes in share capital, contributed surplus and accumulated surplus for the year;
- Statement of Cash Flows – summary of the sources and uses of cash in the year; and
- Notes to the financial statements – summary of additional information pertaining to operations and financial position.

The financial statements have been audited by the independent firm KPMG LLP. Their report precedes the financial statements in Attachment 3.

In 2020, the Covid-19 outbreak was declared a pandemic by the World Health Organization. The services that LIEC provides have been classified as essential services in British Columbia during the pandemic. In 2021, LIEC did not experience any delays with payments from customers in comparison to 2020. Staff will continue to monitor the on-going impact of Covid-19 on its cash and budget forecasts and adjust its operations, as required, to ensure its ability to fulfill its obligations and continue its operations.

Financial Position

Table 1: Summary of assets, liabilities and shareholder's equity

	2021	2020	$ Changes	% Change
Current Assets	$ 17,431,735	$ 15,653,350	$ 1,778,385	11%
Non-current Assets	38,905,146	37,359,845	1,545,301	4%
Total Assets	$ 56,336,881	$ 53,013,195	$ 3,323,686	6%
Current Liabilities	$ 6,321,761	$ 4,949,578	$ 1,372,183	28%
Non-current Liabilities	16,367,580	15,327,117	1,040,463	7%
Shareholder's Equity	33,647,540	32,736,500	911,040	3%
Total Liabilities and Shareholder's Equity	$ 56,336,881	$ 53,013,195	$ 3,323,686	6%

The statement of financial position distinguishes current and non-current assets and liabilities. Current assets and liabilities are those expected to be recovered within 12 months; non-current assets and liabilities are those where the recovery is expected to occur more than 12 months from the reporting date. LIEC's overall financial position improved by $3,323,686 in 2021 with total assets of $56,336,881 (2020 - $53,013,195).

Total assets are comprised of current assets (cash, investments, and receivables) totaling $17,431,735 (2020 – $15,653,350) and non-current assets (plant and equipment) of $38,905,146 (2020 - $37,359,845). The current assets increased by $1,778,385 mainly due to advanced payments received from developers for future building connections and net cash flows generated from operations. LIEC investments are similar to 2020 as the risk adjusted interest rates from the company's bank were deemed a better option than short-term investments. Non-current assets increased by $1,545,301, bringing the total to $38,905,146. The increase is the net result of capital additions in the year offset by amortization expense.

LIEC's current liabilities of $6,321,761 (2020 - $4,949,578) consists of outstanding invoices and payables due within 12 months. The increase of $1,372,183 is mainly due to the accrued liability from environmental remediation work related to a construction defect that caused a leak of water and propylene glycol heat transfer fluid mixture in the ADEU service area and timing of capital projects cash disbursement schedules. LIEC staff are working with Law to assess recovery options from parties at fault. LIEC's non-current liabilities consist of deferred contributions and concession liabilities. The non-current liabilities increased by $1,040,463 to $16,367,580 (2020 - $15,327,117), mainly due to increase in assets in the OVDEU area which in turn increased the concession liability. The deferred developers' contributions are recovering the cost of the service connection, including installation of the energy transfer station infrastructure. In accordance with IFRS, the contributions are recognized over the useful life of the equipment, which is 25 years from the date within which it becomes in service. Therefore, unrecognized contributions are deferred and recognized as non-current liabilities of the company. The concession liabilities are linked to the 30 year concession agreement between LIEC and Corix, where Corix designs, constructs, finances, and maintains the OVDEU's infrastructure. The concession liabilities are the anticipated cash outflow for future obligations under the agreement for the capital and operating costs of the assets.

The shareholder's equity represents the net worth of the company. It is equal to the total assets minus the total liabilities and measures the company's financial health. In 2021, LIEC's shareholder equity was $33,647,540 (2020 - $32,736,500).

Income Statement

	2021	2020	$ Changes	% Change
Revenues				
Metered Billings	$ 5,450,201	$ 4,609,628	$ 840,573	18%
Service fee	981,000	981,000	-	-%
	6,431,201	5,590,628	840,573	15%
Cost of Sales				
Contracts	771,619	641,757	129,862	20%
Utilities	1,016,861	806,198	210,663	26%
Amortization	1,335,399	1,148,758	186,641	16%
	3,123,879	2,596,713	527,166	20%
Gross Margin	**3,307,322**	**2,993,915**	**313,407**	**10%**
General and Administration Expenses				
Salaries and benefits	841,736	697,113	144,623	21%
Administration expenses	83,623	93,487	(9,864)	(11%)
Insurance	88,007	78,421	9,586	12%
Professional fees	29,763	26,127	3,636	14%
	1,043,129	895,148	147,981	17%
Net Income Before Other Items	2,264,193	2,098,767	165,426	8%
Contributions and Financing Expense				
Developer contributions	237,347	178,502	58,845	33%
Other income	49,521	24,628	24,893	101%
Other expense	(1,084,975)	(723,000)	(361,975)	50%
Net finance cost	(555,046)	(256,561)	(298,485)	116%
	(1,353,153)	(776,431)	(576,722)	74%
Net Income	**$ 911,040**	**$ 1,322,336**	**($411,296)**	**(31%)**

Earnings before interest, taxes and amortization (EBITA)				
Net income per above	$911,040	$1,322,336	($411,296)	(31%)
Net finance cost	555,046	256,561	298,485	116%
Amortization expense	1,335,399	1,148,758	186,641	16%
EBITA	$2,801,485	$2,727,655	$73,830	3%

The income statement provides a summary of the company's revenues, expenses and profits over the fiscal year of 2021. It reports the financial performance of the company.

Table 2: Percentage of revenue

	December 31, 2021	December 31, 2020
Percentage of Revenue		
Gross margin percentage	51%	54%
General and administration percentage	16%	16%
EBITA percentage (before non-recurring item)	60%	62%
Net income percentage (before non-recurring item)	31%	37%

Year-over-Year Change

The metered billings reflect the full year energy sales based on the actual customers' energy usage and consumption. Overall, the metered billings increased by $840,573 to $5,450,201 (2020 – $4,609,628) mainly due to:

- An increase of $324,658 in ADEU metered billings due to additional energy use and a full year of service of two buildings connected in 2020 (Spark and Berkeley House).
- An increase of $515,916 in OVDEU metered billings due to an annual utility rate increase and additional energy use because of a new building connection (Landa) and a full year of service (ASPAC 12), which was connected late 2020.

The service fee of $981,000 (2020 - $981,000) is for LIEC's facilitation of advancing district energy opportunities in the City, which results in numerous benefits to the City and community of Richmond. The service fee covers staff and specialized consultants working on low carbon district energy initiatives. With or without LIEC, the City would need to fund these costs in order to successfully implement district energy initiatives for the City and position itself at the forefront of tackling local and global environmental challenges. The City identified district energy utilities as a leading strategy to achieve the City's GHG reduction goals. To date, it is estimated that LIEC's district energy systems has resulted in the reduction of over 9,983 tons of GHG emissions.

The cost of sales is the accumulated total expenses attributable to the metered billing revenue, which includes contract services, utilities (electricity and natural gas), and amortization expenses. The total contract expense increased by $129,862 to $771,619 (2020 - $641,757). This is mainly due to the new building connections that occurred near the end of 2020 and during 2021, which resulted in increased operational and maintenance expenses. Additionally, corrective maintenance expenses increased in 2021 due to out-of-warranty equipment that failed and had to be replaced.

Utility expenses increased by $210,663 to $1,016,861 (2020 - $806,198). This increase is due to continued growth at both the ADEU and OVDEU utilities. New building connections that occurred near the end of 2020 and during 2021 resulted in an increased use of electricity and natural gas required to run the generation and auxiliary equipment used to deliver energy to the buildings.

The amortization expense increased due to capital asset additions. Overall, the total cost of sales increased by $527,166 to $3,123,879 (2020 - $2,596,713).

The general and administration expenses are expenditures that LIEC incurs to engage in business development activities and includes salaries and benefits, administration expenses, insurance and professional fees. The administration expense includes a fee of $129,412 (2020 - $67,863), paid by LIEC to the City of Richmond for the support provided by the City. The general and administration expenses increased by $147,981 to $1,043,129 in 2021 (2020 - $895,148), mainly due to:

- Salaries and benefits – The increase by $144,623 to $841,736 (2020 - $697,113) of salaries and benefits is mainly due to LIEC alignment with the Administration Procedure 3001.01.
- Insurance – The premium is higher due to a general insurance rate increase and the additional capital assets insured.

Overall, general and administration expenses as a percentage of revenues are the same at 16% for 2021 compared to 2020.

The contributions and financing expense section represents other sources of revenue and expenses for the business. The current energy modeling review fees collected are higher than 2020 due to more building permits being reviewed. The net finance cost is the result of year-to-date finance costs on concession liabilities offset by interest income. The additional capital expenditure for OVDEU infrastructure has resulted in a higher balance of concession liability than the prior year. This section includes other expense costs that pertain to the unplanned environmental remediation work related to pipe construction defect, which resulted in a leak and subsequent clean up of the released heat transfer fluid in the Alexandra DEU service area. The prompt response and excellent spill management procedures resulted in the quick leak repair and expedient remediation of the spill. LIEC staff are working with Law and external legal counsel to assess cost recovery options from the external parties at fault.

LIEC's EBITA (earnings before interest, tax, and amortization), before the non-recurring item was 60% (2020 – 62%) used as a proxy to measure LIEC's financial performance, which is inline with last year.

Overall, LIEC's revenues exceeded expenses resulting in a net income of $911,040 (2020 - $1,322,336). However, compared to 2020, the net income has decreased by $411,296 due to the non-recurring event.

LIEC's financial sustainability and future growth must be taken into consideration when reviewing its EBITA and net income. LIEC's success is dependent upon developing in-house expertise and securing funds for future capital replacements as existing infrastructure components reach their end of life, as well as to cover expenses of unexpected and rare events such as the Alexandra DEU leak. Other important factors include the planning of future projects, which consists of research and development, and exploratory reviews of future technology and opportunities. The net income will be set aside in LIEC's equity to build a reserve fund for future capital replacement and to ensure long-term rate stability for ratepayers.

Budget Variance
(See Attachment 2 for 2021 budget to actual comparison)

Revenues

The metered billings are the total energy sales of both ADEU and OVDEU service areas. The metered billings revenue is $2,744,222 from the ADEU and $2,705,979 from the OVDEU. Overall, 2021 actual revenues of $5,450,201 are slightly under budget due to delays in new building connections and projected occupancy levels.

Cost of Sales

The cost of sales includes contract services, utilities (electricity and natural gas) and amortization expenses. The contract expense is below budget by 18% mainly due to less unscheduled repairs, lower utility expense than projected and delay in new building connections.

The utility expenses are based on actual customers' energy usage and consumption of electricity and natural gas. Overall, the utility expenses are below the budget by 19% mainly due to:

- Electricity used to run pumps and peaking equipment at ADEU was lower than projected due to moderate weather conditions. Similarly, air-source heat pumps that service the Central at Garden City development in Area A did not operate at maximum heating and cooling capacity throughout the year, resulting in lower than expected electricity use.
- Natural gas, used to provide peak heating capacity at ADEU, was lower than expected due to moderate winter conditions. ADEU was able to meet nearly 93% of the total energy demand using renewable sources, resulting in lower than expected natural gas consumption. Similarly, at Smart Centres air-source heat pumps were able to meet most heating demand without the use of natural gas as outdoor air temperatures rarely went below freezing conditions.
- In 2021, electricity in the OVDEU was lower than budget due to a late connection of Landa; Landa was budgeted to connect in 2020 but was not operational until mid-year 2021. Electricity use forecasts for 2021 were based on historical usage figures and the assumption that electricity use can be approximated as a 3% of proration of natural gas use. In 2021, actual electrical consumption was closer to 2% of natural gas proration. In addition, lower power consumption due to more efficient boilers in IEC #3 and #1 has resulted in efficiency of equipment.
- Natural gas is used to provide all heating capacity at the OVDEU, which was within 2% of the 2021 budget. In 2021, natural gas was used to provide all heating capacity at the OVDEU, of which usage was within 2% of the 2021 annual budget. This variance can be attributed to an overall increase in consumption due to a continued increase in home occupancy this year due to the Covid-19 pandemic (hence creating more demand). This increase was partially mitigated by a several month delay in occupancy of a scheduled customer connection (Landa Cascade City).

The amortization expense is lower than budgeted mainly due to the timing of new capital asset additions. Overall, the cost of sales is below the budget by 15%.

General and Administration Expenses

The general and administration expenses are expenditures that LIEC incurs to engage in business development activities and includes salaries and benefits, administration expense, professional fees, insurance expense, etc. Administration expense and professional fees were lower in 2021 as staff have not participated in as many training opportunities due to Covid-19 uncertainty. LIEC still carried on with business as usual during the pandemic providing uninterrupted service to its customers. The total general and administration expense of $1,043,129 is under budget by 11%.

Contributions and Financing Expense

The Contributions and Financing Expense section represents other sources of income and costs. Other income is made up of energy model review fees and amortized grant. The Net Finance Cost on concession liabilities are lower than what was budgeted due to the timing of assets placed into service. The Net Finance Cost is offset by the interest income. The Other Expense is a result of the unplanned and non-recurring expenses related to the pipe construction defect that resulted in a leak and related clean up of the released heat transfer fluid in the Alexandra DEU service area. Due to the prompt response and excellent spill management procedures, the leak was repaired immediately and the spill was remediated expeditiously; however, area monitoring needs to continue pursuant to provincial regulatory requirements. LIEC staff are working with Law and external legal counsel to assess cost recovery options from the external parties at fault.

Despite the unforeseen expenses caused by the leak and related clean up efforts in the Alexandra DEU service area (which offset cost savings accumulated throughout the year), LIEC's overall financial performance exceeded budget.

Financial Impact

None.

Conclusion

The Auditor's Report states that these financial statements present fairly, in all material respects, the financial position of Lulu Island Energy Company Ltd. as of December 31, 2021, and its financial performance, and its cash flows for the year ended in accordance with International Financial Reporting standards.

Helen Zhao
Controller
Lulu Island Energy Company
(604-276-4053)

Attachment 1: District Energy in Richmond
Attachment 2: 2021 Amended Budget and Actual Comparison
Attachment 3: 2021 Audited Financial Statements

District Energy in Richmond

LIEC, a corporation wholly-owned by the City of Richmond, was established to provide district energy services for the City to reduce community greenhouse gas emissions (GHGs) in Richmond. Under direction from Council, and following receipt of the necessary approval from the Inspector of Municipalities, the incorporation of LIEC was completed in August 2013.

In June 2014, the City and LIEC executed a District Energy Utilities Agreement assigning LIEC the function of establishing and operating district energy systems as well as providing thermal energy services on behalf of the City.

LIEC currently owns and operates the Alexandra District Energy Utility (ADEU), Oval Village District Energy Utility (OVDEU), City Centre District Energy Utility (CCDEU) and continues to advance new district energy opportunities. All neighbourhoods within ADEU, OVDEU and CCDEU service areas are experiencing rapid development and LIEC has been growing to meet this increased energy demand, while maintaining exceptional reliability and quality of service.

ADEU provides heating and cooling services to residential and commercial buildings in the ADEU service area, comprised of over 2,200 residential units and over 2.4 million square feet of serviced floor area. While some electricity is consumed for pumping and equipment operations, most of this energy is renewable. This energy is produced locally from geo-exchange fields in the greenway corridor and West Cambie Park, as well as highly efficient air-source heat pumps.

The OVDEU system is managed through a 30-year concession agreement where Corix Utilities Inc. (Corix) designs, constructs, finances, and maintains the infrastructure with LIEC maintaining the ownership of the infrastructure assets. There are 11 residential buildings connected to the OVDEU system with over 2,500 residential units and 2.9 million square feet of floor area receiving energy from the utility. Energy is currently supplied from three interim energy centres with natural gas boilers, which combined, provide 15 MW of heating capacity. LIEC received a $6.2 million grant from the CleanBC Communities Fund for the design and construction of the sewer heat recovery technology and a permanent energy centre for OVDEU. The project has been initiated; once completed (estimated 2025), the system will be able to produce up to 80% of low-carbon energy from the Gilbert Trunk sanitary sewer force main.

Early in 2022, LIEC obtained ownership of the first onsite low carbon energy plant in the City Centre District Energy Utility (CCDEU) service area. The onsite energy plant provides heating and cooling services to a commercial and residential development comprising of over 630,000 ft2 and 550 residential units. The energy plant is designed to decrease GHGs by over 70% compared to conventional natural gas boiler-based systems. Negotiations for the development of the overall CCDEU service area continued to advance at an accelerated pace. Once fully developed, the CCDEU could reduce 45,000 tonnes of GHGs annually.

2021 Amended Budget and Actual Comparison

	Amended Budget	Actual	$ Changes	% Change
Revenues				
Metered Billings	$ 5,607,751	$ 5,450,201	($157,550)	(3%)
Service fee	981,486	981,000	(486)	-%
	6,589,237	6,431,201	(158,036)	(2%)
Cost of Sales				
Contracts	940,081	771,619	(168,462)	(18%)
Utilities	1,250,019	1,016,861	(233,158)	(19%)
Amortization	1,470,000	1,335,399	(134,601)	(9%)
	3,660,100	3,123,879	(536,221)	(15%)
Gross margin	**2,929,137**	**3,307,322**	**378,185**	**13%**
General and Administration Expenses				
Salaries and benefits	847,893	841,736	(6,157)	(1%)
Administration expenses	139,198	83,623	(55,575)	(40%)
Insurance	115,000	88,007	(26,993)	(23%)
Professional Fees	74,540	29,763	(44,777)	(60%)
	1,176,631	1,043,129	(133,502)	(11%)
Net income before other items	1,752,506	2,264,193	511,687	29%
Contributions and Financing expense				
Developer contributions	312,871	237,347	(75,524)	(24%)
Other income	39,000	49,521	10,521	27%
Other expense	(1,084,975)	(1,084,975)	-	-%
Net finance cost	(662,982)	(555,046)	67,936	(11%)
	(1,356,086)	(1,353,153)	2,933	-%
Net Income	**$ 396,420**	**$ 911,040**	**$514,620**	**130%**

Earnings before interest, taxes and amortization (EBITA)

Net income per above	$396,420	$911,040	$514,620	130%
Net Financing cost	622,982	555,046	(67,936)	(11%)
Amortization expense	1,470,000	1,335,399	(134,601)	(9%)
EBITA	$2,489,402	$2,801,485	$312,083	13%

2021 Audited Financial Statements

Financial Statements
(Expressed in Canadian dollars)

LULU ISLAND ENERGY COMPANY LTD.

And Independent Auditors' Report thereon

Year ended December 31, 2021

KPMG LLP
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada
Telephone (604) 691-3000
Fax (604) 691-3031

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the Lulu Island Energy Company:

Opinion

We have audited the financial statements of Lulu Island Energy Company Ltd. (the "Entity"), which comprise:

- the statement of financial position as at December 31, 2021
- the statement of net income and other comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants

Vancouver, Canada
April 12, 2022

LULU ISLAND ENERGY COMPANY LTD.

Statement of Financial Position

December 31, 2021, with comparative information for 2020

	2021	2020
Assets		
Current assets:		
Cash and cash equivalents	$ 11,707,794	$ 8,604,504
Accounts receivable (note 6)	1,676,423	3,034,510
Investments (note 7)	4,047,518	4,014,336
	17,431,735	15,653,350
Non-current assets:		
Plant and equipment (note 9)	38,905,146	37,359,845
	$ 56,336,881	$ 53,013,195
Liabilities and Shareholder's Equity		
Current liabilities:		
Accounts payable and accrued liabilities (note 8)	$ 2,671,416	$ 1,790,919
Current portion of deferred contributions (note 10)	337,732	522,932
Current portion of concession liability (note 11)	3,312,613	2,635,727
	6,321,761	4,949,578
Non-current liabilities:		
Deferred developer contributions (note 10)	7,415,806	6,829,428
Concession liability (note 11)	8,951,774	8,497,689
	16,367,580	15,327,117
Shareholder's equity:		
Share capital and contributed surplus (note 15)	27,397,115	27,397,115
Retained earnings	6,250,425	5,339,385
	33,647,540	32,736,500
Commitments and contingencies (note 13)		
	$ 56,336,881	$ 53,013,195

See accompanying notes to financial statements.

Approved on behalf of the Board:

_______________ Director _______________ Director

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LULU ISLAND ENERGY COMPANY LTD.

Statement of Net Income and Other Comprehensive Income

Year ended December 31, 2021, with comparative information for 2020

	2021	2020
Revenue (note 14)	$ 6,431,201	$ 5,590,628
Cost of sales:		
Operating expenses	1,788,480	1,447,955
Depreciation	1,335,399	1,148,758
	3,123,879	2,596,713
Gross profit	3,307,322	2,993,915
General and administrative expenses	1,043,129	895,148
Income before undernoted items	2,264,193	2,098,767
Developer contributions, other income (expenses) and net finance cost:		
Developer contributions (note 10)	237,347	178,502
Other income (note 14)	49,521	24,628
Other expenses (note 8)	(1,084,975)	(723,000)
Net finance cost (note 5)	(555,046)	(256,561)
	(1,353,153)	(776,431)
Net income and other comprehensive income	$ 911,040	$ 1,322,336

See accompanying notes to financial statements.

LULU ISLAND ENERGY COMPANY LTD.

Statement of Changes in Equity

Year ended December 31, 2021, with comparative information for 2020

	Share capital (note 15)	Contributed surplus (note 15)	Retained earnings	Shareholder's equity
Balance, January 1, 2020	$ 5	$ 27,397,110	$ 4,017,049	$ 31,414,164
Net income and other comprehensive income	-	-	1,322,336	1,322,336
Balance, December 31, 2020	5	27,397,110	5,339,385	32,736,500
Net income and other comprehensive income	-	-	911,040	911,040
Balance, December 31, 2021	$ 5	$ 27,397,110	$ 6,250,425	$ 33,647,540

See accompanying notes to financial statements.

LULU ISLAND ENERGY COMPANY LTD.

Statement of Cash Flows

Year ended December 31, 2021, with comparative information for 2020

		2021		2020
Cash provided by (used in):				
Cash flows provided by (used in) operating activities:				
Net income and other comprehensive income	$	911,040	$	1,322,336
Adjustments for:				
Depreciation		1,335,399		1,148,758
Recognition of deferred contributions		(237,347)		(178,502)
Other income		(12,978)		-
Finance expense on concession liability		672,135		426,147
Changes in non-cash operating working capital:				
Accounts receivable		1,358,087		(1,731,813)
Accounts payable and accrued liabilities		880,497		1,013,427
Net cash provided by operating activities		4,906,833		2,000,353
Cash flows provided by (used in) investing activities:				
Additions to plant and equipment		(1,460,215)		(1,858,630)
Deferred developer contributions		638,525		1,347,638
Cash receipts from sales of investments		4,014,336		5,592,923
Cash payments to acquire investments		(4,047,518)		(4,014,336)
Net cash provided by (used in) investing activities		(854,872)		1,067,595
Cash flows provided by (used in) financing activities:				
Concession liability (note 11)		(948,671)		(696,546)
Net cash used in financing activities		(948,671)		(696,546)
Increase in cash and cash equivalents		3,103,290		2,371,402
Cash and cash equivalents, beginning of year		8,604,504		6,233,102
Cash and cash equivalents, end of year	$	11,707,794	$	8,604,504
Non-cash transactions:				
Additions to plant and equipment	$	(1,370,459)	$	(3,115,250)
Concession liability		1,370,459		3,115,250

See accompanying notes to financial statements.

1. Incorporation and nature of business:

The Lulu Island Energy Company Ltd. (the "Company") was incorporated on August 19, 2013 under the Business Corporations Act of British Columbia as a municipal corporation wholly-owned by the City of Richmond (the "City"). The address of the Company's registered office is 6911 No. 3 Road, Richmond, British Columbia, V6Y 2C1.

The business of the Company is to develop, manage and operate district energy utilities in the City, including, but not limited to, energy production, generation or exchange, transmission, distribution, maintenance, marketing and sale to customers, customer service, profit generation and financial management. The Company also provides advisory services for energy and infrastructure.

2. Basis of presentation:

(a) Statement of compliance:

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB").

These financial statements were approved and authorized for issue by the Board of Directors April 12, 2022.

(b) Basis of measurement:

These financial statements have been prepared on the historical cost basis and on a going concern basis.

(c) Functional and presentation currency:

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

(d) Use of estimates and judgments:

The preparation of financial statements in conformity with IFRS requires management to make 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.

2. Basis of presentation (continued):

(d) Use of estimates and judgments (continued):

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 10 - recognition of deferred developer contributions.

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 8 - accrued liabilities for distribution pipe leak; and

Note 9 - useful lives of plant and equipment.

3. Significant accounting policies:

The accounting policies set out below have been applied consistently to all years presented in these financial statements, unless otherwise indicated.

(a) Plant and equipment:

(*i*) Recognition and measurement:

Plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes amounts that are directly attributable to acquisition, construction, development, or betterment of the asset, after deducting trade discounts and rebates. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the assets to a working condition for their intended use and borrowing costs on qualifying assets.

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 and loss.

3. Significant accounting policies (continued):

(a) Plant and equipment (continued):

(*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 cost 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 of plant and equipment commences when the asset is deemed available for use and is recognized in profit and loss on a straight-line basis over the estimated useful lives of each part of an item of plant and equipment as follows:

Asset	Useful life - years
Energy plant center	75
Distribution piping	50
General equipment	25

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

(b) Revenue recognition:

The Company recognizes revenue for the provision of energy and supply of other services. Revenue for the provision of energy is based on meter readings and is billed on a cyclical basis. Revenue is accrued for energy delivered but not yet billed. Revenue for other services is recognized upon completion of service. Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when payment is made. Revenue is measured at the fair value of the consideration received or receivable.

(c) Concession projects:

Concession projects are delivered by partners selected to design, build, finance, and maintain the assets which are owned by the Company. The cost of the assets under construction are recorded at cost, based on construction progress billings and also includes other costs, if any, incurred directly by the Company.

3. Significant accounting policies (continued):

(c) Concession projects (continued):

When deemed available for use, the project assets are amortized over their estimated useful lives. An obligation for the cost of capital and financing received to date, net of repayments, is recorded under concession liabilities (note 11).

(d) 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 financial statements.

(e) Cash and cash equivalents:

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. At December 31, 2021 and 2020, all cash and cash equivalents related to cash balances.

(f) Finance income and finance cost:

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 the concession liability. Finance 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.

(g) Financial instruments:

(*i*) Classification and measurement of financial assets and financial liabilities:

Under IFRS 9, *Financial Instruments* ("IFRS 9"), on initial recognition, a financial asset is classified as measured at: amortized cost, fair value through other comprehensive income ("FVOCI") - debt instrument, FVOCI - equity instrument, or fair value through profit or loss ("FVTPL"). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as FVTPL: it is held within a business model whose objective is to hold assets to collect contractual cash flows; and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3. Significant accounting policies (continued):

(g) Financial instruments (continued):

(*i*) Classification and measurement of financial assets and financial liabilities (continued):

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

The following accounting policies apply to subsequent measurement of financial assets:

- Financial assets at FVTPL: these assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.
- Financial assets at amortized cost: these assets are subsequently measured at amortized costs using the effective interest method. The amortized cost is reduced by impairment losses (see note 3(h)(i)). Interest income and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.
- Debt investments at FVOCI: these assets are subsequently measured at fair value. Interest income calculated using the effective interest method and impairment are recognized in profit or loss. Other net gains are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

3. Significant accounting policies (continued):

(g) Financial instruments (continued):

(*i*) Classification and measurement of financial assets and financial liabilities (continued):

The following accounting policies apply to subsequent measurement of financial assets (continued):

- Equity investments at FVOCI: these assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

Financial liabilities are initially recognized at amortized cost. Subsequent to initial recognition financial liabilities are measured at amortized cost using the effective interest method.

The following table shows the measurement categories for each class of the Company's financial assets and financial liabilities:

Financial assets:	
Cash and cash equivalents	Amortized cost
Accounts receivable	Amortized cost
Investments	Amortized cost
Financial liabilities:	
Accounts payable and accrued liabilities	Amortized cost
Concession liability	Amortized cost

(*ii*) Measurement categories:

The following table shows the carrying values of assets and liabilities for each of these categories at December 31, 2021 and 2020. Unless otherwise noted, the fair values on the instruments approximate their carrying amount due to their short-term nature and/or due to application of market rates of interest.

	2021	2020
Financial assets:		
Financial assets at amortized cost:		
Cash and cash equivalents	$ 11,707,794	$ 8,604,504
Accounts receivable	1,676,423	3,034,510
Investments	4,047,518	4,014,336
	$ 17,431,735	$ 15,653,350
Financial liabilities:		
Financial liabilities at amortized cost:		
Accounts payable and accrued liabilities	$ 2,671,416	$ 1,790,919
Concession liability	12,264,387	11,133,416
	$ 14,935,803	$ 12,924,335

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

(h) Impairment:

(*i*) Financial assets:

The 'expected credit loss' ("ECL") impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments.

The financial assets at amortized cost consist of cash and cash equivalents, accounts receivable and investments.

Under IFRS 9, loss allowances are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12-months after the reporting date; and
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Company measures loss allowances at an amount equal to lifetime ECLs. The Company has elected to measure loss allowances for trade receivables, including amounts due from the City, at an amount equal to lifetime ECLs.

Measurement of ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive).

(*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").

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.

3. Significant accounting policies (continued):

(h) Impairment (continued):

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

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

(i) Pension benefits:

The Company and its employees participate in the Municipal Pension Plan, a multi-employer defined benefit plan. Defined contribution plan accounting is applied to this plan because separate information for the Company is unable to be provided to apply defined benefit accounting. The expenses associated with this plan are equal to the actual contributions required by the Company during the reporting period.

(j) Standards issued but not yet effective:

A number of new standards are effective for annual periods beginning after January 1, 2022 and earlier application is permitted; however, the Company has not early adopted the new or amended standards in preparing these financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the financial statements;

- Amendments to IAS 1, *Classification of Liabilities as Current or Non-Current*, effective periods beginning on or after January 1, 2023.
- Amendments to IAS 16, *Property, Plant and Equipment*, effective periods beginning on or after January 1, 2022.
- Amendments to IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, on onerous contracts effective periods beginning on or after January 1, 2022.

4. Personnel expenses:

	2021	2020
Wages and salaries	$ 834,736	$ 666,115
Other payroll expenses	7,000	31,000
	$ 841,736	$ 697,115

5. Net finance cost:

	2021	2020
Finance income:		
Investment interest	$ 51,182	$ 105,529
Bank interest	63,729	62,676
Other	2,178	1,381
	117,089	169,586
Finance cost:		
Finance expense on concession liability (note 11)	(709,183)	(548,486)
Less: Finance cost capitalized to plant and equipment (note 9)	37,048	122,339
	(672,135)	(426,147)
Net finance cost	$ (555,046)	$ (256,561)

6. Accounts receivable:

	2021	2020
Trade receivables	$ 184,909	$ 1,703,753
Unbilled trade receivables	1,491,514	1,330,757
	$ 1,676,423	$ 3,034,510

7. Investments:

Investments represent cash term deposits as follows:

Purchase date	Maturity date	Interest rate	2021	2020
July 15, 2021	July 15, 2022	1.50%	$ 2,033,628	$ -
October 28, 2021	October 28, 2022	1.50%	2,013,890	-
June 29, 2020	June 29, 2021	0.90%	-	2,005,213
October 28, 2020	October 28, 2021	1.40%	-	2,009,123
			$ 4,047,518	$ 4,014,336

8. Accounts payable and accrued liabilities:

In 2020, the Company identified a distribution pipe leakage of heat transfer fluid at one of the Company's service areas. During the year ended December 31, 2021, the Company continued to repair, remediate and monitor the service area and recognized expenses, including legal expenses, of $1,084,975 (2020 - $723,000) in other expenses, of which $596,585 (2020 - $723,000) is included in accounts payable and accrued liabilities. Management believes the Company has adequately provided for the remediation costs and intends to seek compensation for such costs from the third parties involved.

9. Plant and equipment:

	Energy plant center	General equipment	Distribution piping	Total
Cost:				
Balance as at January 1, 2020	$ 5,031,915	$ 22,419,284	$ 9,387,971	$ 36,839,170
Additions	-	2,266,536	2,829,683	5,096,219
Balance as at December 31, 2020	5,031,915	24,685,820	12,217,654	41,935,389
Additions	-	1,955,387	925,313	2,880,700
Balance as at December 31, 2021	$ 5,031,915	$ 26,641,207	$ 13,142,967	$ 44,816,089
Accumulated depreciation:				
Balance as at January 1, 2020	$ 201,276	$ 2,722,373	$ 503,137	$ 3,426,786
Depreciation	67,092	915,611	166,055	1,148,758
Balance as at December 31, 2020	268,368	3,637,984	669,192	4,575,544
Depreciation	67,092	1,045,148	223,159	1,335,399
Balance as at December 31, 2021	$ 335,460	$ 4,683,132	$ 892,351	$ 5,910,943
Net book value:				
At January 1, 2020	$ 4,830,639	$ 19,696,911	$ 8,884,834	$ 33,412,384
At December 31, 2020	4,763,547	21,047,836	11,548,462	37,359,845
At December 31, 2021	4,696,455	21,958,075	12,250,616	38,905,146

Included in plant and equipment is $1,951,975 (2020 - $3,591,015) of assets under construction being $1,070,537 (2020 - $449,647) general equipment and $881,438 (2020 - $3,141,368) distribution piping. For the year ended December 31, 2021, capitalized borrowing costs related to the construction of the general equipment and distribution system in the year amounted to $37,048 (2020 - $122,339).

10. Deferred developer contributions:

The Company defers contribution amounts received from developers related to the cost of initial connection and assets, including installation of the energy transfer station. The developer contributions are recognized over the useful life of the associated general equipment from the date the respective asset is deemed available to use.

The following table summarizes the amounts recognized as at year end:

	2021	2020
Deferred developer contributions, beginning of year	$ 7,352,360	$ 6,183,224
Developer contributions received (net of refunds)	638,525	1,347,638
Recognized revenue from developer contributions	(237,347)	(178,502)
	7,753,538	7,352,360
Less: current portion of deferred developer contributions	337,732	522,932
Non-current deferred developer contributions	$ 7,415,806	$ 6,829,428

11. Oval Village District Energy Utility ("OVDEU") Concession Agreement:

On October 30, 2014, the Company and the OVDEU developer (the "Concessionaire") entered into a 30-year Concession Agreement, where the Concessionaire will design, construct, finance, operate and maintain the infrastructure for the district energy utility at the Oval Village community. The total estimated concession liability to finance the construction of the OVDEU at full build out is $41,414,000 (2020 - $39,126,000) and will be accrued over time as the services are rendered.

The Concession Agreement is payable monthly in accordance with the Concession Agreement terms. Required concession liability payment obligations are disclosed in note 13.

OVDEU Concession Agreement liability:

	2021	2020
Concession Agreement liability - capital	$ 10,983,397	$ 9,884,744
Concession Agreement liability - non-capital	1,280,990	1,248,672
	12,264,387	11,133,416
Less: current capital portion of concession liability	1,965,760	1,465,969
Less: current non-capital portion of concession liability	1,346,853	1,169,758
	3,312,613	2,635,727
Non-current portion of concession liability	$ 8,951,774	$ 8,497,689

11. Oval Village District Energy Utility ("OVDEU") Concession Agreement (continued):

The average finance cost on the concession liability is 5.24% for the year ended December 31, 2021 (2020 - 5.21%).

The concession liability is repayable as follows:

2022	$	3,312,613
2023		1,809,353
2024		2,715,647
2025		2,824,273
2026 and thereafter		1,602,501
Total	$	12,264,387

The following tables summarizes the changes in the concession liability due to financing cash flows and liability related charges:

Balance January 1, 2021	$	11,133,416
Additions		1,370,459
Finance expense (note 5)		709,183
Net repayment		(948,671)
Balance December 31, 2021	$	12,264,387

12. Limited Guarantee Agreement:

On October 30, 2014, the Concessionaire and the City entered into a Limited Guarantee Agreement. The City is the Guarantor and guarantees the performance of some of the Company's obligations under the Concession Agreement to a maximum of $18.2 million (2020 - $18.2 million).

13. Commitments and contingencies:

(a) Concession project commitments:

Payments to the Concessionaire under the Concession Agreement are based on the Concessionaire's Annual Revenue Requirement, which is based on the utility cost of service rate-setting principles in British Columbia utilizing forward test years. The Annual Revenue Requirement is a combination of Capital and Operating charges. The Capital charge is comprised of capital expenditures and depreciation, and Operating charge is comprised of services costs, financing costs, income and other taxes and return on equity.

13. Commitments and contingencies (continued):

(a) Concession project commitments (continued):

The information presented below shows the expected committed cash outflow for the next year under the Concession Agreement for the capital and operating costs of the assets. As construction progresses the asset values are recorded as plant and equipment and the corresponding liabilities are recorded as concession agreement liabilities as disclosed in note 11.

	Capital commitment	Operating commitment	Total commitment
2022	$ 1,965,760	$ 1,346,853	$ 3,312,613

(b) Distribution pipe leakage:

An accrual has been recognized in accounts payable and accrued liabilities for the damages that resulted from a distribution pipe leakage at one of the Company's service areas (note 8). Management believes the Company has adequately provided for the remediation costs and intends to seek compensation for such costs from the third parties involved. It is not permissible at this time to accrue the estimated financial effect of any recovery of expenses from the other parties involved or the Company's insurer.

14. Related party transactions:

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

(a) Due from City of Richmond:

During 2021, the Company received and recognized in revenues $981,000 (2020 - $981,000) for its services of advancing district energy opportunities in the City. Staff and advanced design activities on low carbon district energy initiatives are covered by this fee. With or without the Company, the City would need to fund these costs in order to successfully implement district energy initiatives for the City and position itself at the forefront of tackling local and global environmental challenges our world faces.

In addition, included in revenue for 2021 is $34,926 (2020 - $37,294) for district energy utility services rendered by the Company to the City.

During 2021, the Company received and recognized energy model review fees into other income of $36,543 (2020 - $24,628) relating to district energy permit fees collected by the City for in-building district energy related equipment reviews performed by the Company.

14. Related party transactions (continued):

(a) Due from City of Richmond (continued):

During 2021, $156,854 (2020 - $165,125) of salary and benefit expenses were charged to the City for costs incurred due to Company staff being assigned to perform project management duties for the City projects. These costs have been charged to the City on a cost recovery basis and are included as a reduction to general and administrative expenses.

The total amount due from the City as a result of the above transactions as at December 31, 2021 is $151,454 (2020 - $323,020) and is included within accounts receivable.

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. The amount is non-interest bearing and repayable on demand.

(b) Key management personnel:

A fee of $129,412 (2020 - $67,863), included in general and administrative expenses, was paid to the City for the day-to-day support that the Company received from City staff during the year. These costs have been charged to the Company on a cost recovery basis and include an element of re-charge for City key management personnel.

15. Share capital:

At December 31, 2021, the authorized share capital comprised 10,000 (2020 - 10,000) common shares without par value.

As at December 31, 2021, the Company has issued 450 common shares (2020 - 450) at $0.01 per share totaling $4.50 (2020 - $4.50) and contributed surplus of $27,397,110 (2020 - $27,397,110).

16. Fair values:

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

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities; and
- Level 2 - inputs other than quoted prices that are observable for asset or liability, either directly or indirectly; and
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of 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.

16. Fair values (continued):

(a) Financial assets and liabilities not measured at fair value:

The carrying amounts for cash and cash equivalents, accounts receivable, investments and accounts payable and accrued liabilities approximate their fair values due to their short-term nature.

(b) Non-current financial liabilities:

Subsequent to initial recognition the concession liability is accounted for at amortized cost using the effective interest method. The carrying amount of the concession liability approximates its fair value due to the nature of liabilities accrued and benchmark market rate of interest rate applied (Level 3 inputs).

17. Financial risk management and financial instruments:

(a) Overview

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

- Credit risk;
- Liquidity risk; and
- Market risk (interest rate risk).

(b) Risk management framework:

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The management reports regularly to the Board of Directors on its activities.

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. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

(c) 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. Such risks arise principally from certain financial assets held by the Company consisting of its cash and cash equivalents, trade accounts receivables and other investments. The Company assesses these financial assets on a continuous basis for any amounts that are not collectible or realizable. It is management's opinion that the Company is not exposed to significant credit risk from its financial instruments.

17. Financial risk management and financial instruments (continued):

(c) Credit risk (continued):

(*i*) Trade and unbilled trade receivables:

The Company trades mainly with recognized and creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant.

The Company establishes an allowance for doubtful accounts that represents its estimate of incurred losses in respect of trade and other receivables based upon factors surrounding the credit risk of specific accounts, historical trends and other information.

The sale of energy utilities is made to end-user customers in the City's geographic region. On the basis of the Company's collective experience, management considers the credit risk associated with trade receivables to be low.

(*ii*) Due from the City:

The credit risk on amounts due from the City is considered to be low as the City is a Crown entity incorporated under the Local Government Act of British Columbia.

(*iii*) Cash and investments:

Credit risk arising from other financial assets of the Company comprises cash and investments. The Company's exposure to credit risk arises from default of the counterparties. The Company manages credit risk through depositing cash and only investing in cash term deposits with established financial institutions which are considered to be low.

(d) 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 continually monitoring actual and forecasted cash flows from operations and anticipated investing and financing activities 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 Company's terms of business require amounts to be paid from customers within 30-days of the date of invoice. The accounts payable and accrued liabilities and due from the City are in the normal course of operations and paid within the following fiscal year. The commitments under the concession liability are disclosed in note 13.

The information presented below shows the undiscounted contractual maturities of the concession liability, including estimated interest payments.

17. Financial risk management and financial instruments (continued):

(d) Liquidity risk (continued):

	Carrying amount	Contractual cash flow	Less than 1 year	1 - 2 years	2 - 5 years
December 31, 2021	$ 12,264,387	$ 13,821,248	$ 3,397,805	$ 1,952,570	$ 8,470,873
December 31, 2020	11,133,416	12,685,549	2,703,511	1,708,510	8,273,528

(e) 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 is the risk that the fair value of future cash flow of a financial instrument will fluctuate because of changes in the market interest rate.

The Company is exposed to interest rate risk associated with the concession liability (note 11) as this is subject to an annual determination of financing interest rate for new and renewing debt portion of financing. The Company manages this risk through the annual 5-year capital plan submission provided by the Concessionaire in accordance with the Concession Agreement.

18. Capital management:

The Company's objective when managing capital is to maintain a strong capital base to sustain future development of the business, so that it can provide return for the shareholder and benefits for other stakeholders.

The Company considers the items included in shareholder's equity and the concession liability as capital. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may request additional investment from its shareholder. The Company is not required to meet any debt covenants. The Company is not subject to externally imposed capital requirements.

There were no changes in the Company's approach to capital management during the year (2020 - no changes).

19. Pension plan:

The Company and its employees contribute to the Municipal Pension Plan (a jointly trusteed pension plan). The Board of Trustees, representing plan members and employers, is responsible for administering the plan, including investment of assets and administration of benefits. The plan is a multi-employer defined benefit pension plan. Basic pension benefits are based on a formula.

19. Pension plan (continued):

As at December 31, 2020, the plan has about 220,000 active members and approximately 106,000 retired members. Active members include approximately 42,000 contributors from local governments.

Every three years, an actuarial valuation is performed to assess the financial position of the plan and adequacy of plan funding. The actuary determines an appropriate combined employer and member contribution rate to fund the plan. The actuary's calculated contribution rate is based on the entry-age normal cost method, which produces the long-term rate of member and employer contributions sufficient to provide benefits for average future entrants to the plan. This rate may be adjusted for the amortization of any actuarial funding surplus and will be adjusted for the amortization of any unfunded actuarial liability.

The most recent valuation for the Municipal Pension Plan as at December 31, 2018, indicated a $2,866 million funding surplus for basic pension benefits on a going concern basis. The next valuation will be at December 31, 2021, with results available in 2022.

The Company paid $86,323 (2020 - $84,498) for employer contributions to the Plan in 2021.

Employers participating in the plan record their pension expense as the amount of employer contributions made during the fiscal year (defined contribution pension plan accounting). This is because the plan records accrued liabilities and accrued assets for the plan in aggregate, resulting in no consistent and reliable basis for allocating the obligation, assets and cost to individual employers participating in the plan.