City of Richmond

Report to Committee

To:	Finance Committee	**Date:**	April 1, 2020
From:	John Irving, P.Eng., MPA General Manager, Engineering & Public Works and Chief Executive Officer, Lulu Island Energy Company Jerry Chong, CPA, CA Director, Finance and Chief Financial Officer, Lulu Island Energy Company	**File:**	10-0060-20/2020-Vol 01
Re:	**2019 Financial Statements for the Lulu Island Energy Company**		

Staff Recommendation

That the Lulu Island Energy Company report titled "2019 Financial Statements for the Lulu Island Energy Company" dated April 1, 2020 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
Director, Finance and
Chief Financial Officer,
Lulu Island Energy Company
(604-276-4064)

Att. 1

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

Richmond

LuluIsland
ENERGY COMPANY

6911 NO. 3 ROAD
RICHMOND, BC V6Y 2C1

Report

DATE: March 2, 2020

TO: Board of Directors

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

Re: **2019 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, 2019, be approved, and that any two LIEC directors be authorized to sign the financial statements to confirm that approval.

Origin

Section 11.3 of the LIEC Articles 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 are presented annually at an open City of Richmond Council meeting within 150 days of LIEC's fiscal year end. This report presents the 2019 audited financial statements for the LIEC Board's approval.

Background

LIEC, a corporation wholly-owned by the City of Richmond, was established to provide district energy services for the City to reduce community 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 Utilities (ADEU), Oval Village District Energy Utilities (OVDEU), and continues to advance new district energy opportunities. Both the Alexandra and the Oval Village neighbourhoods are experiencing rapid redevelopment 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, comprising over 1,735 residential units and over 1.9 million square feet of serviced floor area. While some electricity is consumed for pumping and equipment operations, nearly 100% 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 infrastructure with LIEC maintaining the ownership of the utility. There are nine residential buildings connected to the OVDEU system with over 1,990 residential units and 2.2 million square feet of floor area receiving energy from the utility. Energy is currently supplied from the two interim energy centres with natural gas boilers which combined provide 11 MW of heating capacity. When enough buildings are connected to the system (est. 2025), a permanent energy centre will be built which will harness low carbon energy from the Gilbert Trunk sanitary force main sewer.

The ADEU and OVDEU service areas' operations, assets and liabilities are administered by LIEC. All capital and operating costs are recovered through revenue from meter billings, ensuring that the business is financially self-sustaining.

The purpose of this report is to present the 2019 Financial Statements to the Board for approval. If approved by the Board, staff will present LIEC's 2019 Financial Statements to Council for information purposes, in conjunction with the City's reporting process.

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 2.

Financial Position

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

	2019	2018	$ Changes	% Change
Current Assets	$ 13,128,722	$ 10,838,195	$ 2,290,527	21%
Non-current Assets	33,412,384	32,360,749	1,051,635	3%
Total Assets	$ 46,541,106	$ 43,198,944	$ 3,342,162	8%
Current Liabilities	$ 3,421,581	$ 1,922,526	$ 1,499,055	78%
Non-current Liabilities	11,705,361	11,496,652	208,709	2%
Shareholder's Equity	31,414,163	29,779,765	1,634,398	5%
Total Liabilities and Shareholder's Equity	$ 46,541,106	$ 43,198,944	$ 3,342,162	8%

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 $3,342,162 in 2019 with total assets of $46,541,106 (2018 - $43,198,944).

Total assets are comprised of current assets (cash, investments, and receivables) totaling $13,128,722 (2018 – $10,838,195) and non-current assets (plant and equipment) of $33,412,384 (2018 - $32,360,749). The current assets increased by $2,290,527 mainly due to advanced payments received from developers for future building connections and net cash flows generated from operations. The interest rate on cash balance is higher than term deposit rate; therefore, capital is kept as cash rather than invested. Non-current assets increased by $1,051,635, bringing the total to $33,412,384. The increase is the net result of capital additions in the year offset by amortization expense.

LIEC's current liabilities of $3,421,581 (2018 -$1,992,526) consist of outstanding invoices and payables due within 12 months. The increase of $1,499,055 is mainly due to timing of capital projects cash disbursement schedules. LIEC's non-current liabilities consist of deferred contributions and concession liabilities. The non-current liabilities increased by $208,709 to $11,705,361 (2018 - $11,496,652), mainly due to developer contributions for capital projects. The deferred developers' contributions are recovering the cost of the service connection, including installation of the energy transfer station infrastructure over time. In accordance with IFRS, the contributions are recognized over the useful life of equipment at 25 years from the available to use date. 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 2019, LIEC's shareholder equity was $31,414,163 (2018 - $29,779,765), which indicates that the company's value has increased by $1,634,198, showing good financial health of the company.

Income Statement

	2019	2018	$ Changes	% Change
Revenues				
Metered Billings	$ 3,808,872	$ 3,419,028	$389,844	11%
Service fee	962,241	934,215	28,026	3%
	4,771,113	4,353,243	417,870	10%
Cost of Sales				
Contracts	515,606	501,682	13,924	3%
Utilities	702,670	627,270	75,400	12%
Amortization	1,076,097	1,045,228	30,869	3%
	2,294,373	2,174,180	120,193	6%
Gross Margin	**2,476,740**	**2,179,063**	**297,677**	**14%**
General and Administration Expenses				
Salaries and benefits	745,215	615,338	129,877	21%
Administration expenses	94,248	90,676	3,572	4%
Insurance	70,639	65,761	4,878	7%
Professional fees	20,587	31,346	(10,759)	(34%)
	930,689	803,121	127,568	14%
Net Income Before Other Items	1,546,051	1,375,942	170,109	12%
Contributions and Financing Expense				
Developer contributions	119,764	106,761	13,003	12%
Energy modeling review fee	156,740	151,083	5,657	4%
Net finance cost	(188,157)	(143,154)	(45,003)	31%
	88,347	114,690	(26,343)	(23%)
Net Income	**$ 1,634,398**	**$ 1,490,632**	**$143,766**	**10%**

Earnings before interest, taxes and amortization (EBITA)				
Net income per above	1,634,398	1,490,632	143,766	10%
Net finance cost	188,157	143,154	45,003	31%
Amortization expense	1,076,097	1,045,288	30,869	3%
EBITA	2,898,652	2,679,014	219,638	8%

The income statement provides a summary of the company's revenues, expenses and profits over the fiscal year of 2019. It reports the financial performance of the company.

Table 2: Percentage of revenue

	December 31, 2019	December 31, 2018
Percentage of Revenue		
Gross margin percentage	52%	50%
General and administration percentage	20%	19%
Net income percentage	34%	34%
EBITA percentage	61%	61%

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 $389,844 to $3,808,872 (2018 – 3,805,116) mainly due to:

- An increase of $236,038 in ADEU metered billings due to an annual utility rate increase and additional energy use as a result of a new building connection (Trafalgar); and
- An increase of $153,806 in OVDEU metered billings due to an annual utility rate increase and additional energy use as a result of a new building connection (River Park Place 2).

The service fee of $962,241 (2018 - $934,215) is for LIEC services of advancing district energy opportunities in the City, which results in numerous benefits to the City and Richmond community. Staff and specialty consultants working on low carbon district energy initiatives are covered by the service fee. 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 (DEUs) as a leading strategy to achieve the City's GHG reduction goals. To date, it is estimated that LIEC District Energy system has resulted in a reduction of over 5,000 tonnes of GHG emissions.

The cost of sales is the accumulated total of 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 $13,924 to $515,606 (2018 - $501,682). The addition of two new building connections resulted in a cost increase as associated operational and maintenance activities were needed to service the new connections.

Utility expenses increased by $75,400 to $702,670 (2018 - $627,270). This increase is due to utility rate increases and increased energy sales to customers. Additional energy demand and higher occupancy levels resulted in an increased use of electricity and natural gas to run distribution pumps, geo-field pumps, auxiliary equipment, cooling towers and boilers which are used to deliver energy to the customers' buildings.

The amortization expense increased due to capital asset additions. Overall, the total cost of sales increased by $120,193 to $2,294,373 (2018 - $2,174,180).

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 $61,417 (2018 - $59,758), paid by LIEC to the City of Richmond for the support provided by the City. The general and administration expenses increased by $127,568 to $930,689 (2018 - $803,121) over 2018, mainly due to:

- Salaries and benefits – The increase of salaries and benefits is due to the accrual of post-employment obligations, fringe benefits as a result of the new Employer Health Tax, and the addition of a new employee. The post-employment obligation expense is new for this year. Every three years a comprehensive evaluation of post-employment obligation is performed by a third party; the last evaluation was performed in 2016. The increase amount of post-employment obligation for 2019 is $89,985, which is mainly due to the growth of the company and additional employees since 2016. The Employer Health Tax of $14,665 is also a new cost for this fiscal year.
- Insurance – The premium is higher due to a general insurance rate increase and the additional capital assets being insured; and

Overall, general and administration expenses as a percentage of revenues are in line at 20% for 2019 compared to 19% for 2018.

The contributions and financing expense section represents other sources of revenue and the financing expense for the business. The current energy modeling review fees collected are higher than 2018 due to more buildings applying for permits and therefore paying more fees. 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. Overall, the net finance cost is higher than 2018 mainly due to a one-time credit received in 2018 as a result of successful negotiation with OVDEU concessionaire.

LIEC's EBITA (earnings before interest, tax, and amortization), used as a proxy to measure LIEC's financial performance, increased by 8% compared to 2018. EBITA as a percentage of revenue is 61% for both 2019 and 2018.

Overall, LIEC's revenues exceeded expenses resulting in a net income of $1,634,398 (2018 - $1,490,632). The net income as a percentage of revenue is 34% for both years. Compared to 2018, the net income has increased by $143,766 showing positive financial results of operations.

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. 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 rate payers.

Budget Variance
(See Attachment 1 for 2019 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 $2,057,019 from the ADEU and $1,751,853 from the OVDEU. Overall, 2019 actual revenues of $3,808,872 are in line with the projected revenues.

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 31% mainly due to less unscheduled repairs and maintenance. In 2019 corrective maintenance expenses were kept at a minimum and service calls were significantly reduced from the previous year.

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 22% mainly due to:

- Electricity used to provide peak cooling demand, run distribution and geo-exchange pumps at ADEU was lower than expected due to late connections of new buildings and moderate weather conditions. Similarly, air-source heat pumps at Smart Centres did not have to operate at maximum heating and cooling capacity throughout the year, resulting in lower than expected electricity use.
- Late connections of new buildings and moderate weather conditions also resulted in lower use of natural gas which is used to provide peak heating capacity at ADEU. ADEU was able to meet practically all heating demand using renewable sources, resulting in lower than expected natural gas consumption. Similarly, 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.
- Electricity used to run distribution pumps and auxiliary equipment at each of the OVDEU interim energy centres was lower than expected due to the late connection of a new building, moderate weather conditions and operational improvements to major equipment items.
- Natural gas used to provide heating capacity at the OVDEU was in line with the budget. Overall moderate weather conditions were offset by several high peak winter demand periods.

The amortization expense is lower than budgeted mainly due to the timing of new capital asset additions. Overall, the cost of sales of $2,294,373 is below the budget by 18%.

General and Administration Expenses

The general and administration expenses are expenditures that LIEC incurs to engage in business development activities and include salaries and benefits, administration expense, professional fees, insurance expense, etc. The increase of salaries and benefits is due to the accrual of post-employment obligations, which is new for this year. Every three years a comprehensive evaluation of post-employment obligation is performed by a third party; the last evaluation was performed in 2016. The budget was based on prior year results and the actual for post-employment obligations are higher than budged balance due to the growth of the company. Overall, there is a favourable variance with respect to expenses. The total general and administration expense of $930,689 is below the budget by 1%.

Contributions and Financing Expense

The contributions and financing expense section represents other sources of income and costs:

- Developers' contributions – this revenue refers to all the distribution piping, energy transfer stations and construction costs inside the property line of connected developments. These costs are paid by developers. LIEC owns these capital assets, and recognizes contributions over the useful life of the equipment.
- Energy modeling review fee – the amount of the review fee is to cover district energy review costs and is based on the overall construction value of the project;
- Net finance cost – the net result of the finance cost on concession liabilities in the year offset by interest income. The finance cost on concession liabilities is in line with the budget. The interest income is greater than the budget due to higher interest earned on cash received from developers for future connections. The net finance cost is offset by the interest income.

LIEC's overall financial performance exceeded the budget. Although LIEC is still in start-up phase, the financial statements show that LIEC's financial position is very good.

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, 2019, and its financial performance, and its cash flows for the year ended in accordance with International Financial Reporting standards.

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

Attachment 1: 2019 Budget and Actual Comparison
Attachment 2: 2019 Audited Financial Statements

Attachment 1: 2019 Budget and Actual Comparison

	Budget	Actual	$ Changes	% Change
Revenues				
Metered Billings	$ 3,805,115	$3,808,872	$ 3,757	0%
Service fee	962,241	962,241	-	0%
	4,767,356	4,771,113	3,757	0%
Cost of Sales				
Contracts	751,809	515,606	(236,203)	(31%)
Utilities	896,938	702,670	(194,268)	(22%)
Amortization	1,163,066	1,076,097	(86,156)	(7%)
	2,811,813	2,294,373	(517,440)	(18%)
Gross margin	**1,955,543**	**2,476,740**	**521,197**	**27%**
General and Administration Expenses				
Salaries and benefits	669,053	745,215	76,162	11%
Administration expenses	136,121	94,248	(41,873)	(31%)
Insurance	70,000	70,639	639	1%
Professional Fees	65,000	20,587	(44,413)	(68%)
	940,174	930,689	(9,485)	(1%)
Net income before other items	1,015,369	1,546,051	530,682	52%
Contributions and Financing expense				
Developer contributions	106,761	119,764	13,003	12%
Energy modeling review fee	16,000	156,740	140,740	880%
Net finance cost	(429,339)	(188,157)	241,182	(56%)
	(306,578)	88,347	394,925	(129%)
Net Income	**$ 708,791**	**$ 1,634,398**	**$ 925,607**	**49%**

Earnings before interest, taxes and amortization (EBITA)				
Net income per above	708.791	1,634,398	925,607	131%
Net Financing cost	429,339	188,157	(241,182)	(56%)
Amortization expense	1,163,066	1,076,097	(86,969)	(7%)
EBITA	2,301,196	2,898,652	597,456	26%

Attachment 2 – 2019 Audited Financial Statements

Financial Statements
(Expressed in Canadian dollars)

LULU ISLAND ENERGY COMPANY LTD.

And Independent Auditors' Report thereon

Year ended December 31, 2019

KPMG LLP
Metro Tower I
4710 Kingsway, Suite 2401
Burnaby BC V5H 4M2
Canada
Telephone (604) 527-3600
Fax (604) 527-3636

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the City of Richmond

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, 2019
- 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, 2019, 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 International Financial Reporting Standards (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

Burnaby, Canada
April 1, 2020

LULU ISLAND ENERGY COMPANY LTD.

Statement of Financial Position

December 31, 2019, with comparative information for 2018

	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	$ 6,233,102	$ 1,640,019
Accounts receivable (note 6)	1,302,697	2,242,644
Investments (note 7)	5,592,923	6,955,532
	13,128,722	10,838,195
Non-current assets:		
Plant and equipment (note 8)	33,412,384	32,360,749
	$ 46,541,106	$ 43,198,944
Liabilities and Shareholder's Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 777,492	$ 414,437
Current portion of deferred developer contributions (note 9)	322,307	106,761
Current portion of concession liability (note 10)	2,321,782	1,401,328
	3,421,581	1,922,526
Non-current liabilities:		
Deferred developer contributions (note 9)	5,860,917	5,267,876
Concession liability (note 10)	5,844,444	6,228,776
	11,705,361	11,496,652
Shareholder's equity:		
Share capital and contributed surplus (note 13)	27,397,115	27,397,115
Retained earnings	4,017,049	2,382,651
	31,414,164	29,779,766
	$ 46,541,106	$ 43,198,944

See accompanying notes to financial statements.

Approved on behalf of the Board:

Director

DocuSigned by:

9352CB09CEDB448.

Director

LULU ISLAND ENERGY COMPANY LTD.

Statement of Net Income and Other Comprehensive Income

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

	2019	2018
Revenue (note 13)	$ 4,771,113	$ 4,353,243
Cost of sales:		
Operating expenses	1,218,276	1,128,952
Depreciation	1,076,097	1,045,228
	2,294,373	2,174,180
Gross profit	2,476,740	2,179,063
General and administrative expenses	930,689	803,121
Net income before undernoted items	1,546,051	1,375,942
Developer contributions, other income and net finance cost:		
Developer contributions (note 9)	119,764	106,761
Other income (note 13)	156,740	151,083
Net finance cost (note 5)	(188,157)	(143,154)
	88,347	114,690
Net income and comprehensive income	$ 1,634,398	$ 1,490,632

See accompanying notes to financial statements.

LULU ISLAND ENERGY COMPANY LTD.

Statement of Changes in Equity

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

	Share capital	Contributed surplus	Retained earnings	Shareholder's equity
Balance, January 1, 2018	$ 5	$ 27,397,110	$ 892,019	$ 28,289,134
Net income and comprehensive income	-	-	1,490,632	1,490,632
Balance, December 31, 2018	5	27,397,110	2,382,651	29,779,766
Net income and comprehensive income	-	-	1,634,398	1,634,398
Balance, December 31, 2019	$ 5	$ 27,397,110	$ 4,017,049	$ 31,414,164

See accompanying notes to financial statements.

LULU ISLAND ENERGY COMPANY LTD.

Statement of Cash Flows

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

	2019	2018
Cash provided by (used in):		
Operations:		
Net income	$ 1,634,398	$ 1,490,632
Adjustments for:		
Depreciation	1,076,097	1,045,228
Recognition of deferred contributions	(119,764)	(106,761)
Finance expense on concession liability	435,608	420,009
Changes in non-cash working capital:		
Accounts receivable	939,947	(754,727)
Accounts payable and accrued liabilities	363,055	157,855
Deferred developer contributions	928,351	1,852,960
Net change in cash from operating activities	5,257,692	4,105,196
Investments:		
Additions to plant and equipment	(1,429,609)	(1,065,437)
Change in investments	1,362,609	(1,438,794)
Net change in cash from investing activities	(67,000)	(2,504,231)
Financing:		
Concession liability (note 10)	(597,609)	(671,721)
Net change in cash from financing activities	(597,609)	(671,721)
Net change in cash	4,593,083	929,244
Cash and cash equivalents, beginning of year	1,640,019	710,775
Cash and cash equivalents, end of year	$ 6,233,102	$ 1,640,019

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:

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

The financial statements were approved and authorized for issue by the Board of Directors April 1, 2020.

(b) Basis of measurement:

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

(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 within twelve months from the reporting date and non-current assets and liabilities are those where the recovery 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 cost of sales and general and administrative expenses.

(d) Functional and presentation currency:

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

2. Basis of presentation (continued):

(e) 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.

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 9 - 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 - useful lives of plant and equipment

Note 12 - determination of the future minimum obligations and commitments for the concession liability.

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. The cost of self-constructed assets include 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.

3. Significant accounting policies (continued):

(a) Plant and equipment (continued):

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

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.

(*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.

3. Significant accounting policies (continued):

(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) Public-private partnership project:

Public-private partnership ("P3") projects are delivered by private sector partners selected to design, build, finance, and maintain the assets. 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.

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 10).

(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, 2019 and 2018, 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 borrowings and impairment losses recognized on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

3. Significant accounting policies (continued):

(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.

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.

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:

- 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.
- 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 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

3. Significant accounting policies (continued):

(g) Financial instruments (continued):

(*ii*) Measurement categories:

The following table shows the carrying values of assets and liabilities for each of these categories at December 31, 2019, and 2018. 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.

	2019	2018
Financial Assets:		
Financial assets at amortized cost:		
Cash and cash equivalents	$ 6,233,102	$ 1,640,019
Accounts receivable	1,302,697	2,242,644
Investments	5,592,923	6,955,532
	$ 13,128,722	$ 10,838,195
Financial Liabilities:		
Financial liabilities at amortized cost:		
Accounts payable and accrued liabilities	$ 777,492	$ 414,437
Concession liability	8,166,226	7,630,104
	$ 8,943,718	$ 8,044,541

(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 EFLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

3. Significant accounting policies (continued):

(h) Impairment (continued):

(*i*) Financial assets (continued):

The Company measures loss allowances at an amount equal to lifetime ECLs. The Company has elected to measure loss allowances for trade receivables and 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.

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.

3. Significant accounting policies (continued):

(j) Standards issued and effective:

IFRS 16 Leases:

The Company adopted IFRS 16 Leases on January 1, 2019, replacing IAS 17 Leases. The adoption of IFRS 16 Leases had no impact on the financial statements.

(k) Standards issued but not yet effective:

A number of new standards are effective for annual periods beginning after January 1, 2020 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 references to conceptual framework in IFRS standards
- Definition of a business (Amendments to IFRS 3)
- Definition of material (Amendments to IAS 1 and IAS 8)
- IFRS 17 Insurance contracts

4. Personnel expenses:

	2019	2018
Wages and salaries	$ 655,230	$ 611,625
Other payroll expenses	89,985	3,713
	$ 745,215	$ 615,338

5. Net finance cost:

	2019	2018
Finance income:		
Investment interest	$ 171,801	$ 149,435
Bank interest	74,663	29,520
Other	987	97,900
	247,451	276,855
Finance cost:		
Finance expense on concession liability (note 10)	(435,608)	(420,009)
Net finance cost	$ (188,157)	$ (143,154)

6. Accounts receivable:

	2019	2018
Trade receivables	$ 244,706	$ 1,375,799
Unbilled trade receivables	1,057,991	852,840
Sales tax receivable	-	14,005
	$ 1,302,697	$ 2,242,644

7. Investments:

Investments represent cash term deposits as follows:

Purchase date	Maturity date (interest rate)	2019
Feb 26, 2019	Feb 25, 2020 (3.15%)	$ 311,594
May 13, 2019	May 12, 2020 (2.75%)	2,129,752
Aug 23, 2019	Aug 22, 2020 (2.60%)	1,557,036
Nov 28, 2019	Nov 28, 2020 (2.60%)	1,594,541
		$ 5,592,923

8. Plant and equipment:

	Energy plant center	General equipment	Distribution piping	Total
Cost:				
Balance as at January 1, 2018	$ 5,031,915	$ 20,746,550	$ 7,559,784	$ 33,338,249
Additions	-	764,247	608,942	1,373,189
Balance as at December 31, 2018	5,031,915	21,510,797	8,168,726	34,711,438
Additions	-	908,487	1,219,245	2,127,732
Balance as at December 31, 2019	$ 5,031,915	$ 22,419,284	$ 9,387,971	$ 36,839,170
Accumulated depreciation:				
Balance as at January 1, 2018	$ 67,092	$ 1,050,139	$ 188,230	$ 1,305,461
Depreciation	67,092	828,882	149,254	1,045,228
Balance as at December 31, 2018	134,184	1,879,021	337,484	2,350,689
Depreciation	67,092	843,352	165,653	1,076,097
Balance as at December 31, 2019	$ 201,276	$ 2,722,373	$ 503,137	$ 3,426,786
Net book value:				
At January 1, 2018	$ 4,964,823	$ 19,696,411	$ 7,371,554	$ 32,032,788
At December 31, 2018	4,897,731	19,631,776	7,831,242	32,360,749
At December 31, 2019	4,830,639	19,696,911	8,884,834	33,412,384

8. Plant and equipment (continued):

Included in plant and equipment is $1,818,895 (2018 - $1,494,780) of assets under construction being $1,264,862 (2018 - $788,741) general equipment and $554,033 (2018 - $706,039) distribution piping. For the year ended December 31, 2019, capitalized borrowing costs related to the construction of the distribution system amounted to nil (2018 - nil).

9. Deferred developer contributions:

The Company defers contribution amounts received from developers related to the cost of initial connection, 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 building is deemed available to use.

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

	2019	2018
Deferred developer contributions, beginning of year	$ 5,374,637	$ 3,628,438
Developer contributions received	928,351	1,852,960
Recognized revenue from developer contributions	(119,764)	(106,761)
	6,183,224	5,374,637
Less: current portion of deferred developer contributions	322,307	106,761
Non-current deferred developer contributions	$ 5,860,917	$ 5,267,876

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

On October 30, 2014, the Corporation and the OVDEU developer ("the Concessionaire") entered into a 30 year Concession Agreement, which is a public-private partnership project ("P3"), 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 $38,686,000 (2018 - $38,344,000) 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 12.

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

OVDEU Concession Agreement liability:

	2019	2018
Concession Agreement liability - capital	$ 7,049,839	$ 6,605,178
Concession Agreement liability - non-capital	1,116,387	1,024,926
	8,166,226	7,630,104
Less: current capital portion of concession liability	1,265,563	609,742
Less: current non-capital portion of concession liability	1,056,219	791,586
	2,321,782	1,401,328
Non-current portion of concession liability	$ 5,844,444	$ 6,228,776

The average finance cost on the concession liability is 5.08% for the year ended December 31, 2019 (2018 - 5.08%).

The concession liability is repayable as follows:

2020	$ 2,321,782
2021	1,422,112
2022	1,984,998
2023	2,064,398
2024 and thereafter	372,936
Total	$ 8,166,226

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

Balance January 1, 2019	$ 7,630,104
Additions	698,123
Finance expense (note 5)	435,608
Net repayment	(597,609)
Balance December 31, 2019	$ 8,166,226

11. 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 (2018 - $18.2 million).

12. Commitments and contingencies:

Public-private partnership 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.

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 10.

	Capital commitment	Operating commitment	Total commitment
2019	$ 1,265,563	$ 1,056,219	$ 2,321,782

13. 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 2019, the Company received and recognized in revenues $962,241 (2018 - $934,215) 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 2019 is $35,185 (2018 - $33,482) for district energy utility services rendered by the Company to the City.

13. Related party transactions (continued):

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

During 2019, the Company received and recognized energy model review fees into other income of $156,740 (2018 - $151,083) relating to district energy permit fees collected by the City for in-building district energy related equipment reviews performed by the Company.

During 2019, $158,761 (2018 - $157,085) of salary and benefit expenses were charged to the City for the 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, 2019 is $136,168 (2018 - $1,375,799) 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

The Company did not enter into any transactions with key management personnel in the year ended December 31, 2019 (2018 - none).

No key management personnel are remunerated by the Company. A fee of $61,417 (2018 - $59,758), included in general and administration expenses, was paid to the City for the day-to-day support that the Company received from the City staff over 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.

14. Share capital:

At December 31, 2019, the authorized share capital comprised 10,000 (2018 - 10,000) common shares without par value.

As at December 31, 2019, the Company has issued 450 common shares (2018 - 450) at $0.01 per share totaling $4.50 (2018 - $4.50) and contributed surplus of $27,397,110 (2018 - $27,397,110).

15. 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 entirely in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

(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).

16. 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
- 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.

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

(b) Risk management framework (continued):

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.

(*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.

At December 31, 2019 and 2018 all trade and other receivables were neither past due (current) nor impaired and related to end-user customers in the City's geographic region.

(*ii*) Investments:

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

(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.

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

(d) Liquidity risk (continued):

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 12.

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

	Carrying amount	Contractual cash flow	Less than 1 year	1 - 2 years	2 - 5 years
December 31, 2019	$ 8,166,226	$ 9,163,315	$ 2,385,002	$ 1,541,473	$ 5,236,840
December 31, 2018	7,630,104	8,793,982	1,439,485	1,579,702	5,774,795

(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.

It is management's opinion that the Company is not exposed to significant market (interest rate) risk from its financial instruments.

17. 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 (2018 - no changes).

18. 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. As at December 31, 2018, the plan has about 205,000 active members and approximately 101,000 retired members. Active members include approximately 40,000 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 $76,337 (2018 - $63,598) for employer contributions to the Plan in 2019.

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.

19. Subsequent event:

Subsequent to December 31, 2019, the COVID-19 outbreak was declared a pandemic by the World Health Organization. The services that the company provides has been classified as essential services in British Columbia during COVID-19 pandemic. The pandemic presents uncertainty over the Company's future cash flows and may have an impact on the Company's future operations. Potential impacts on the Company's business could include stagnation and collection of revenue, decrease in profitability and delays in completing capital project work. As the situation is dynamic and the ultimate duration and magnitude of the impact on the economy are not known, an estimate of the financial effect on the Company is not practicable at this time.