City of Richmond

Report to Committee

To:	Finance Committee	**Date:**	April 9, 2021
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-LIEC1/2021-Vol 01
Re:	**2020 Financial Statements for the Lulu Island Energy Company**		

Staff Recommendation

That the Lulu Island Energy Company report titled "2020 Financial Statements for the Lulu Island Energy Company", dated March 8, 2021, from the 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	

6655282

Lulu Island ENERGY COMPANY

6911 NO. 3 ROAD
RICHMOND, BC V6Y 2C1

Report

DATE: March 8, 2021

TO: Board of Directors

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

Re: **2020 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, 2020, 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 2020 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 Greenhouse Gases (GHG) 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, comprised of over 2,200 residential units and over 2.3 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 the infrastructure with LIEC maintaining the ownership of the utility assets. There are 10 residential buildings connected to the OVDEU system with over 2,270 residential units and 2.7 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 recently 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 already been initiated; once completed (estimated 2023-2024), the system will be able to produce up to 80% of low-carbon energy from the Gilbert Trunk sanitary sewer force main.

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 economic impacts of the Covid-19 pandemic have been significant. Some residents may have experienced job or income loss, and some businesses may have been forced to suspend or close their operations. In consideration of this, LIEC gave to their customers a 90 day extension of Q2 bill payments, as directed by the Board and City Council. During the pandemic LIEC continued to provide service to its customers. The purpose of this report is to present the 2020 Financial Statements to the Board for approval. If approved by the Board, staff will present LIEC's 2020 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.

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 2020, LIEC experienced some delays with payments from customers compared to previous years. Management 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

	2020	2019	$ Changes	% Change
Current Assets	$ 15,653,350	$ 13,128,722	$ 2,524,628	19%
Non-current Assets	37,359,845	33,412,384	3,947,461	12%
Total Assets	$ 53,013,195	$ 46,541,106	$ 6,472,089	14%
Current Liabilities	$ 4,949,578	$ 3,421,581	$ 1,527,997	45%
Non-current Liabilities	15,327,117	11,705,361	3,621,756	31%
Shareholder's Equity	32,736,500	31,414,164	1,322,336	4%
Total Liabilities and Shareholder's Equity	$ 53,013,195	$ 46,541,106	$ 6,472,089	14%

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 $6,472,089 in 2020 with total assets of $53,013,195 (2019 - $46,541,106).

Total assets are comprised of current assets (cash, investments, and receivables) totaling $15,653,350 (2019 – $13,128,722) and non-current assets (plant and equipment) of $37,359,845 (2019 - $33,412,384). The current assets increased by $2,524,628 mainly due to advanced payments received from developers for future building connections and net cash flows generated from operations. LIEC investments have decreased slightly over 2019 as the interest rates and risk from the company's bank were deemed to be a better option. Non-current assets increased by $3,947,461, bringing the total to $37,359,845. The increase is the net result of capital additions in the year offset by amortization expense.

LIEC's current liabilities of $4,949,578 (2019 -$3,421,581) consists of outstanding invoices and payables due within 12 months. The increase of $1,527,997 is mainly due to the accrued liability from 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's non-current liabilities consist of deferred contributions and concession liabilities. The non-current liabilities increased by $3,621,756 to $15,327,117 (2019 - $11,705,361), 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 2020, LIEC's shareholder equity was $32,736,500 (2019 - $31,414,164), which indicates that the company's value has increased by $1,322,336, showing good financial health of the company.

Income Statement

	2020	2019	$ Changes	% Change
Revenues				
Metered Billings	$ 4,609,628	$ 3,808,872	$ 800,756	21%
Service fee	981,000	962,241	18,759	2%
	5,590,628	4,771,113	819,515	17%
Cost of Sales				
Contracts	641,757	515,606	126,151	24%
Utilities	806,198	702,670	103,528	15%
Amortization	1,148,758	1,076,097	72,661	7%
	2,596,713	2,294,373	302,340	13%
Gross Margin	**2,993,915**	**2,476,740**	**517,175**	**21%**
General and Administration Expenses				
Salaries and benefits	697,113	745,215	(48,102)	(6%)
Administration expenses	93,487	94,248	(761)	(1%)
Insurance	78,421	70,639	7,782	11%
Professional fees	26,127	20,587	5,540	27%
	895,148	930,689	(35,541)	(4%)
Net Income Before Other Items	2,098,767	1,546,051	552,716	36%
Contributions and Financing Expense				
Developer contributions	178,502	119,764	58,738	49%
Energy modeling review fee	24,628	156,740	(132,112)	(84%)
Other expense	(723,000)	-	(723,000)	(100%)
Net finance cost	(256,561)	(188,157)	(68,404)	36%
	(776,431)	88,347	(864,778)	
Net Income	**$ 1,322,336**	**$ 1,634,398**	**($312,062)**	**(19%)**

Earnings before interest, taxes and amortization (EBITA)				
Net income per above	$1,322,336	$1,634,398	($312,062)	(19%)
Net finance cost	256,561	188,157	68,404	36%
Amortization expense	1,148,758	1,076,097	72,661	7%
EBITA	$2,727,655	$2,898,652	($170,997)	(6%)

The income statement provides a summary of the company's revenues, expenses and profits over the fiscal year of 2020. It reports the financial performance of the company.

Table 2: Percentage of revenue

	December 31, 2020	December 31, 2019
Percentage of Revenue		
Gross margin percentage	54%	52%
General and administration percentage	16%	20%
EBITA percentage (before non-recurring item)	62%	61%
Net income percentage	24%	34%

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 $800,756 to $4,609,628 (2019 – $3,808,872) mainly due to:

- An increase of $362,545 in ADEU metered billings due to two new building connections in 2020 (Spark and Berkeley House) and a full year service for Westmark which was connected in late 2019.
- An increase of $438,211 in OVDEU metered billings due to an annual utility rate increase and additional energy use as a result of a new building connection (ASPAC 12) and a full year service for River Park Place 2 which was connected late 2019.

The service fee of $981,000 (2019 - $962,241) is for LIEC services of advancing district energy opportunities in the City, which results in numerous benefits to the City and Richmond community. 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 system has resulted in the reduction of over 6,700 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 $126,151 to $641,757 (2019 - $515,606). This is mainly due to the addition of three 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 $103,528 to $806,198 (2019 - $702,670). This increase is due to continued growth at both the ADEU and OVDEU Utilities. At the ADEU, there was two new customers connected. At the OVDEU, there was one new customer connected. Across both utilities, higher than normal customer energy demand was also seen due to higher occupancy levels as a result of the Covid-19 pandemic and people staying and working from home. This resulted in an increased use of electricity and natural gas required to run the generation and auxiliary equipment, 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 $302,340 to $2,596,713 (2019 - $2,294,373).

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 $67,863 (2019 - $61,417), paid by LIEC to the City of Richmond for the support provided by the City. The general and administration expenses decreased by $35,541 to $895,148 over 2019 (2019 - $930,689), mainly due to:

- Salaries and benefits – The decrease by $48,102 to $697,113 (2019 - $745,215) of salaries and benefits is mainly due to the hiring freeze that was enacted due to Covid-19 and a staff member was redeployed to the City's Community Ambassador Program.
- 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 lower at 16% for 2020 compared to 20% for 2019.

The contributions and financing expense section represents other sources of revenue and expenses for the business. The current energy modeling review fees collected are lower than 2019 due to less buildings 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 unforeseen construction defect, which resulted in a leak and subsequent clean up of the released heat transfer fluid in the Alexandra DEU service area.

LIEC's EBITA (earnings before interest, tax, and amortization), before the non-recurring item was 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 $1,322,336 (2019 - $1,634,398). However, compared to 2019, the net income has decreased by $312,062 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 recent Alexandra DEU. 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 1 for 2020 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 $2,419,565 from the ADEU and $2,190,063 from the OVDEU. Overall, 2020 actual revenues of $4,609,628 are slightly under budget due to delays with the ETS coming online due to the slow down in construction as a result of the pandemic.

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 19% mainly due to less unscheduled repairs and maintenance.

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 and run distribution and geo-exchange pumps at ADEU was lower than expected due to the delay in one of the new building connections and due to moderate weather conditions. Also, due to the lower energy demand, air-source heat pumps at Smart Centres did not operate at maximum heating and cooling capacity throughout the year, resulting in lower than planned electricity use.
- Natural gas used to provide peak heating capacity at ADEU was lower than expected due to the delay in one of the new buildings connections and due to moderate winter conditions. ADEU was able to meet nearly all heating 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 dropped below freezing conditions.
- Electricity used to power distribution pumps and auxiliary equipment at each of the OVDEU interim energy centres was lower than expected due to the later than planned commissioning of the new Interim Energy Centre (#3), the addition of high efficiency auxiliary boilers at the Carrera Energy centre, and other operational improvements to major equipment items.
- Natural gas used to provide heating at the OVDEU was over budget by 6% in 2020. This variance is attributed to the unforeseen Fortis BC rate increase and an increase in energy demand during the pandemic as the home occupancy increased compared to pre-pandemic levels (though this was partially mitigated by the milder winter and fall).

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 16%.

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 2020 as staff have not engaged in as many training opportunities as they would in a typically year and have put on hold any avoidable expenses due to Covid-19 uncertainty. LIEC still carried on with business as usual during this pandemic preforming the everyday tasks to ensure uninterrupted service to its customers and business development. The total general and administration expense of $895,148 is under budget by 15%.

Contributions and Financing Expense

The Contributions and Financing Expense section represents other sources of income and costs. Energy Modeling Review Fee collected are lower than 2019 due to less then projected buildings permit applications, while the Net Finance Cost on concession liabilities are shown lower than what was budgeted due to the implementation of a new accounting standard. The Net Finance Cost is offset by the interest income. The Other Expense is a result of the expenses related to the construction defect of the pipe that resulted in a leak and related clean up of the released heat transfer fluid in the Alexandra DEU service area.

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 was within 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, 2020, and its financial performance, and its cash flows for the year ended in accordance with International Financial Reporting standards.

Johana Vuletin
Senior Financial Accountant
Lulu Island Energy Company
(604-204-8699)

Attachment 1: 2020 Budget and Actual Comparison
Attachment 2: 2020 Audited Financial Statements

Attachment 1: 2020 Budget and Actual Comparison

	Budget	Actual	$ Changes	% Change
Revenues				
Metered Billings	$ 4,719,042	$ 4,609,628	($ 109,414)	(2%)
Service fee	981,486	981,000	(486)	-%
	5,700,528	5,590,628	(109,900)	(2%)
Cost of Sales				
Contracts	792,325	641,757	(150,568)	(19%)
Utilities	1,030,750	806,198	(224,552)	(22%)
Amortization	1,258,025	1,148,758	(109,267)	(9%)
	3,081,100	2,596,713	(484,387)	(16%)
Gross margin	**2,619,428**	**2,993,915**	**374,487**	**14%**
General and Administration Expenses				
Salaries and benefits	732,835	697,113	(35,722)	(5%)
Administration expenses	149,900	93,487	(56,413)	(38%)
Insurance	95,000	78,421	(16,579)	(17%)
Professional Fees	69,815	26,127	(43,688)	(63%)
	1,047,550	895,148	(152,402)	(15%)
Net income before other items	1,571,878	2,098,767	526,889	34%
Contributions and Financing expense				
Developer contributions	169,888	178,502	8,614	5%
Energy modeling review fee	51,000	24,628	(26,372)	(52%)
Other expense	-	(723,000)	(723,000)	(100%)
Net finance cost	(481,423)	(256,561)	224,862	(47%)
	(260,535)	(776,431)	(515,896)	
Net Income	**$ 1,311,343**	**$ 1,322,336**	**$ 10,993**	**1%**

Earnings before interest, taxes and amortization (EBITA)				
Net income per above	$1,311,343	$1,322,336	$ 10,993	1%
Net Financing cost	481,423	256,561	(224,862)	(47%)
Amortization expense	1,258,025	1,148,758	(109,267)	(9%)
EBITA	$3,050,791	$2,727,655	($323,136)	(11%)

Attachment 2 – 2020 Audited Financial Statements

Financial Statements
(Expressed in Canadian dollars)

LULU ISLAND ENERGY COMPANY LTD.

And Independent Auditors' Report thereon

Year ended December 31, 2020

KPMG LLP
Metro Tower I
4710 Kingsway, Suite 2401
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Canada
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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, 2020
- 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, 2020, 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.

Chartered Professional Accountants

Burnaby, Canada
April 9, 2021

LULU ISLAND ENERGY COMPANY LTD.

Statement of Financial Position

December 31, 2020, with comparative information for 2019

		2020		2019
Assets				
Current assets:				
Cash and cash equivalents	$	8,604,504	$	6,233,102
Accounts receivable (note 6)		3,034,510		1,302,697
Investments (note 7)		4,014,336		5,592,923
		15,653,350		13,128,722
Non-current assets:				
Plant and equipment (note 9)		37,359,845		33,412,384
	$	53,013,195	$	46,541,106
Liabilities and Shareholder's Equity				
Current liabilities:				
Accounts payable and accrued liabilities (note 8)	$	1,790,919	$	777,492
Current portion of deferred developer contributions (note 10)		522,932		322,307
Current portion of concession liability (note 11)		2,635,727		2,321,782
		4,949,578		3,421,581
Non-current liabilities:				
Deferred developer contributions (note 10)		6,829,428		5,860,917
Concession liability (note 11)		8,497,689		5,844,444
		15,327,117		11,705,361
Shareholder's equity:				
Share capital and contributed surplus (note 15)		27,397,115		27,397,115
Retained earnings		5,339,385		4,017,049
		32,736,500		31,414,164
Commitments and contingencies (note 13)				
Impact of COVID-19 (note 20)				
	$	53,013,195	$	46,541,106

See accompanying notes to financial statements.

Approved on behalf of the Board:

Director

Director

LULU ISLAND ENERGY COMPANY LTD.

Statement of Net Income and Other Comprehensive Income

Year ended December 31, 2020, with comparative information for 2019

	2020	2019
Revenue (note 14)	$ 5,590,628	$ 4,771,113
Cost of sales:		
Operating expenses	1,447,955	1,218,276
Depreciation	1,148,758	1,076,097
	2,596,713	2,294,373
Gross profit	2,993,915	2,476,740
General and administrative expenses	895,148	930,689
Income before undernoted items	2,098,767	1,546,051
Developer contributions, other income and net finance cost:		
Developer contributions (note 10)	178,502	119,764
Other income (note 14)	24,628	156,740
Other expenses (note 8)	(723,000)	-
Net finance cost (note 5)	(256,561)	(188,157)
	(776,431)	88,347
Net income and comprehensive income	$ 1,322,336	$ 1,634,398

See accompanying notes to financial statements.

LULU ISLAND ENERGY COMPANY LTD.

Statement of Changes in Equity

Year ended December 31, 2020, with comparative information for 2019

	Share capital	Contributed surplus	Retained earnings	Shareholder's equity
	(note 15)	(note 15)		
Balance, January 1, 2019	$ 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
Net income and comprehensive income	-	-	1,322,336	1,322,336
Balance, December 31, 2020	$ 5	$ 27,397,110	$ 5,339,385	$ 32,736,500

See accompanying notes to financial statements.

LULU ISLAND ENERGY COMPANY LTD.

Statement of Cash Flows

Year ended December 31, 2020, with comparative information for 2019

	2020	2019
Cash provided by (used in):		
Cash flows provided by (used in) operating activities:		
Net income	$ 1,322,336	$ 1,634,398
Adjustments for:		
Depreciation	1,148,758	1,076,097
Recognition of deferred contributions	(178,502)	(119,764)
Finance expense on concession liability	426,147	435,608
Changes in non-cash operating working capital:		
Accounts receivable	(1,731,813)	939,947
Accounts payable and accrued liabilities	1,013,427	363,055
Net cash provided by operating activities	2,000,353	4,324,341
Cash flows provided by (used in) investing activities:		
Additions to plant and equipment	(1,858,630)	(1,429,609)
Deferred developer contributions	1,347,638	928,351
Change in investments	1,578,587	1,362,609
Net cash provided by investing activities	1,067,595	861,351
Cash flows provided by (used in) financing activities:		
Concession liability (note 11)	(696,546)	(597,609)
Net cash used in financing activities	(696,546)	(597,609)
Increase in cash and cash equivalents	2,371,402	4,593,083
Cash and cash equivalents, beginning of year	6,233,102	1,640,019
Cash and cash equivalents, end of year	$ 8,604,504	$ 6,233,102

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 9, 2021.

(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 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. 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.

(*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.

3. Significant accounting policies (continued):

(a) Plant and equipment (continued):

(*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) 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 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.

3. Significant accounting policies (continued):

(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, 2020 and 2019, 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.

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.

3. Significant accounting policies (continued):

(g) Financial instruments (continued):

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

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.
- 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

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, 2020 and 2019. 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.

	2020	2019
Financial assets:		
Financial assets at amortized cost:		
Cash and cash equivalents	$ 8,604,504	$ 6,233,102
Accounts receivable	3,034,510	1,302,697
Investments	4,014,336	5,592,923
	$ 15,653,350	$ 13,128,722
Financial liabilities:		
Financial liabilities at amortized cost:		
Accounts payable and accrued liabilities	$ 1,790,919	$ 777,492
Concession liability	11,133,416	8,166,226
	$ 12,924,335	$ 8,943,718

(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.

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.

LULU ISLAND ENERGY COMPANY LTD.

3. Significant accounting policies (continued):

(j) Standards issued but not yet effective:

A number of new standards are effective for annual periods beginning after January 1, 2021 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.
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, and IFRS 16 related to *Interest Rate Benchmark Reform - Phase 2*, effective periods beginning on or after January 1, 2021.

4. Personnel expenses:

	2020	2019
Wages and salaries	$ 666,115	$ 655,230
Other payroll expenses	31,000	89,985
	$ 697,115	$ 745,215

5. Net finance cost:

	2020	2019
Finance income:		
Investment interest	$ 105,529	$ 171,801
Bank interest	62,676	74,663
Other	1,381	987
	169,586	247,451
Finance cost:		
Finance expense on concession liability (note 11)	(548,486)	(435,608)
Less: Finance cost capitalized to plant and equipment (note 9)	122,339	-
	(426,147)	(435,608)
Net finance cost	$ (256,561)	$ (188,157)

6. Accounts receivable:

		2020		2019
Trade receivables	$	1,703,753	$	244,706
Unbilled trade receivables		1,330,757		1,057,991
	$	3,034,510	$	1,302,697

7. Investments:

Investments represent cash term deposits as follows:

Purchase date	Maturity date (interest rate)		2020		2019
February 26, 2019	February 25, 2020 (3.15%)	$	-	$	311,594
May 13, 2019	May 12, 2020 (2.75%)		-		2,129,752
August 23, 2019	August 22, 2020 (2.60%)		-		1,557,036
November 28, 2019	November 28, 2020 (2.60%)		-		1594,541
June 29, 2020	June 29, 2021 (0.90%)		2,005,213		-
October 28, 2020	October 28, 2021 (1.40%)		2,009,123		-
		$	4,014,336	$	5,592,923

8. Accounts payable and accrued liabilities:

Subsequent to the balance sheet date, a distribution pipe leakage of heat transfer fluid was identified at one of the Company's service areas. Management assessed that the leakage was a result of a construction defect in the pipe which existed on the balance sheet date and has recognized a provision of $723,000 for the estimated known remediation expenditures and this is included in accounts payable and accrued liabilities.

The accrual of any possible obligation or contingent liabilities will be considered in future years once the risk of such obligation can be better assessed and the amount of such obligation can be reasonably estimated.

LULU ISLAND ENERGY COMPANY LTD.
Notes to Financial Statements (continued)

Year ended December 31, 2020

9. Plant and equipment:

	Energy plant center	General equipment	Distribution piping	Total
Cost:				
Balance as at January 1, 2019	$ 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
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
Accumulated depreciation:				
Balance as at January 1, 2019	$ 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
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
Net book value:				
At January 1, 2019	$ 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
At December 31, 2020	4,763,547	21,047,836	11,548,462	37,359,845

Included in plant and equipment is $3,591,015 (2019 - $1,818,895) of assets under construction being $449,647 (2019 - $1,264,862) general equipment and $3,141,368 (2019 - $554,033) distribution piping. For the year ended December 31, 2020, capitalized borrowing costs related to the construction of the general equipment and distribution system in the year amounted to $122,339 (2019 - nil).

10. 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:

	2020	2019
Deferred developer contributions, beginning of year	$ 6,183,224	$ 5,374,637
Developer contributions received (net of refunds)	1,347,638	928,351
Recognized revenue from developer contributions	(178,502)	(119,764)
	7,352,360	6,183,224
Less: current portion of deferred developer contributions	522,932	322,307
Non-current deferred developer contributions	$ 6,829,428	$ 5,860,917

11. 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 $39,126,000 (2019 - $38,686,000) 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.

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

OVDEU Concession Agreement liability:

	2020	2019
Concession Agreement liability - capital	$ 9,884,744	$ 7,049,839
Concession Agreement liability - non-capital	1,248,672	1,116,387
	11,133,416	8,166,226
Less: current capital portion of concession liability	1,465,969	1,265,563
Less: current non-capital portion of concession liability	1,169,758	1,056,219
	2,635,727	2,321,782
Non-current portion of concession liability	$ 8,497,689	$ 5,844,444

The average finance cost on the concession liability is 5.21% for the year ended December 31, 2020 (2019 - 5.08%).

The concession liability is repayable as follows:

2021	$ 2,635,727
2022	1,583,195
2023	2,236,856
2024	2,326,330
2025 and thereafter	2,351,308
Total	$ 11,133,416

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

Balance January 1, 2020	$ 8,166,226
Additions	3,115,250
Finance expense (note 5)	548,486
Net repayment	(696,546)
Balance December 31, 2020	$ 11,133,416

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 (2019 - $18.2 million).

13. Commitments and contingencies:

(a) 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 11.

	Capital commitment	Operating commitment	Total commitment
2021	$ 1,465,969	$ 1,169,758	$ 2,635,727

(b) Distribution pipe leakage:

A provision has been recognized for the damages that resulted from a distribution pipe leakage at one of the Company's service areas (note 8). While management believes the Company has adequately provided for the remediation costs, it is not possible at this time to determine the total costs or assess any potential 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.

14. Related party transactions (continued):

(a) Due from City of Richmond:

During 2020, the Company received and recognized in revenues $981,000 (2019 - $962,241) 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 2020 is $37,294 (2019 - $35,185) for district energy utility services rendered by the Company to the City.

During 2020, the Company received and recognized energy model review fees into other income of $24,628 (2019 - $156,740) relating to district energy permit fees collected by the City for in-building district energy related equipment reviews performed by the Company.

During 2020, $165,125 (2019 - $158,761) 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, 2020 is $323,020 (2019 - $136,168) 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, 2020 (2019 - nil).

A fee of $67,863 (2019 - $61,417), 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.

15. Share capital:

At December 31, 2020, the authorized share capital comprised 10,000 (2019 - 10,000) common shares without par value.

As at December 31, 2020, the Company has issued 450 common shares (2019 - 450) at $0.01 per share totaling $4.50 (2019 - $4.50) and contributed surplus of $27,397,110 (2019 - $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 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).

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.

17. 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.

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 risk.

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

(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.

	Carrying amount	Contractual cash flow	Less than 1 year	1 - 2 years	2 - 5 years
December 31, 2020	$ 11,133,416	$ 12,685,549	$ 2,703,511	$ 1,708,510	$ 8,273,528
December 31, 2019	8,166,226	9,163,315	2,385,002	1,541,473	5,236,840

(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 (2019 - 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. As at December 31, 2019, the plan has about 213,000 active members and approximately 106,000 retired members. Active members include approximately 41,000 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 $84,498 (2019 - $76,337) for employer contributions to the Plan in 2020.

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.

20. Impact of COVID-19:

COVID-19 pandemic:

During 2020, 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. Subsequent to December 31, 2020, the situation continues to present 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 of the Company's ongoing operations and delays in completing capital projects. As the situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the Company are not known, an estimate of the financial effect, if any, on the Company is not practicable at this time.

As at the time of approval of these financial statements, there has been no significant impact on the Company's ability to obtain debt and equity financing, carrying value of long-lived assets or revenue and profitability of ongoing operations. Management 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.