City of Richmond

Report to Committee

To:	Finance Committee	**Date:**	April 13, 2023
From:	John Irving, P.Eng., MPA General Manager, Engineering and Public Works Chief Executive Officer, Lulu Island Energy Company Jerry Chong, CPA, CA General Manager, Finance and Corporate Services Chief Financial Officer, Lulu Island Energy Company	**File:**	01-0060-20-LIEC1/2023-Vol 01
Re:	**2022 Financial Statements for the Lulu Island Energy Company**		

Staff Recommendation

That the Lulu Island Energy Company report titled "2022 Financial Statements for the Lulu Island Energy Company", dated April 13, 2023, from the Chief Executive Officer and Chief Financial Officer, be received for information.

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

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

REPORT CONCURRENCE	
CONCURRENCE OF GENERAL MANAGER	
SENIOR STAFF REPORT REVIEW	INITIALS:
APPROVED BY CAO	

Richmond

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Lulu Island ENERGY COMPANY

6911 NO. 3 ROAD
RICHMOND, BC V6Y 2C1

Report

DATE: March 30, 2023

TO: Board of Directors

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

Re: **2022 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, 2022, 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 2022 audited financial statements for the LIEC Board's approval. See Attachment 1 for a brief overview of the District Energy Utility service areas.

Background

Richmond's 2041 Official Community Plan (OCP) establishes a target to reduce greenhouse gas (GHG) emissions 50 percent below 2007 levels by 2020 and 100 percent by 2050. The City identified district energy utilities (DEUs) as a leading strategy to achieve the City's GHG reduction goals and incorporated Lulu Island Energy Company Ltd. (LIEC) in 2013 for the purposes of carrying out the City's district energy initiatives on the basis of the following guiding principles:

1. The DEU will provide end users with energy costs that are competitive with conventional energy costs, based on the same level of service; and
2. Council will retain the authority of setting customer rates, fees and charges for DEU services.

The City established three DEU service areas: ADEU, OVDEU, and CCDEU. Table 1 below provides a summary of the developments connected to the DEU service areas to-date.

Table 1 – DEU Service Areas - Current and Projected Connected Space

	Buildings To-Date	Residential Units To-Date	Floor Area To-Date	Floor Area Build-out
Alexandra District Energy Utility	13	2,200	2.4M ft^2	4.4M ft^2
Oval Village District Energy Utility	13	3,007	3.5M ft^2	6.4M ft^2
City Centre District Energy Utility	2	728	0.8M ft^2	48.0M ft^2
Total	**28**	**5,935**	**6.7M ft^2**	**58.8M ft^2**

The ADEU provides heating and cooling services to ten residential buildings, the large commercial development at "Central at Garden City", the Richmond Jamatkhana temple, and Fire Hall No. 3, comprising over 2,200 residential units and over 2.4 million square feet of floor area. While some electricity is consumed for pumping and equipment operations, most of this energy is currently produced locally from the geo-exchange fields in the greenway corridor and West Cambie Park, and highly efficient air source heat pumps.

The OVDEU services 13 buildings, containing over 3,000 residential units. Energy is currently supplied from the three interim energy centres with natural gas boilers which provide 16 MW of heating capacity. LIEC received a $6.2 million grant from the CleanBC Communities Fund for the design and construction of the sewer heat recovery technology and a permanent energy centre for the area. Once completed, the system will be able to produce up to 80% of low-carbon energy from the Gilbert Trunk sanitary force main sewer.

In 2022, LIEC executed agreements (Project Agreement) with Corix Utilities Inc. (Corix) and the Canada Infrastructure Bank (CIB) to design, build, finance, operate, and maintain CCDEU infrastructure providing heating and cooling services to over 170 new residential and mixed-use commercial developments by 2050. The first two developments in the CCDEU service area comprising of over 790,000 square feet and over 720 residential units was connected in 2022. The CCDEU project is expected to reduce GHG emissions by one million tonnes by 2050.

LIEC owns and operates DEU infrastructure within the service areas. All capital and operating costs are recovered through revenues from user fees, ensuring that the business is financially sustainable. City Council is the regulator and thus sets customer rates as noted in the principles above.

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 2022, the outbreak incidence has been stable and declining, LIEC experienced minimal delays with payments from customers.

Financial Position

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

	2022	2021	$ Changes	% Change
Current Assets	$ 17,756,420	$ 17,431,735	$ 324,685	2%
Non-current Assets	45,745,053	38,905,146	6,839,907	18%
Total Assets	$ 63,501,473	$ 56,336,881	$ 7,164,592	13%
Current Liabilities	$ 5,842,906	$ 6,321,761	$ (478,855)	(8%)
Non-current Liabilities	22,630,407	16,367,580	6,262,827	38%
Shareholder's Equity	35,028,160	33,647,540	1,380,620	4%
Total Liabilities and Shareholder's Equity	$ 63,501,473	$ 56,336,881	$ 7,164,592	13%

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 $7,164,592 in 2022 with total assets of $63,501,473 (2021 - $56,336,881).

Total assets are comprised of current assets (cash, investments, and receivables) totaling $17,756,420 (2021 – $17,431,735) and non-current assets (plant and equipment) of $45,745,053

(2021 - $38,905,146). The current assets increased by $324,685 mainly due to increased accounts receivable balance as a result of higher energy sales. During 2022, LIEC transferred more cash to investments in order to benefit from higher bank interest rate. Non-current assets increased by $6,839,907, bringing the total to $45,745,053. The increase is the net result of capital additions in the year offset by amortization expense.

LIEC's current liabilities of $5,842,906 (2021 - $6,321,761) consists of outstanding invoices and payables due within 12 months. The decrease of $478,855 is mainly due to lower current portion of Project Agreement liability, in comparison to Concession Agreement liability in prior year. The reason for the change is because energy transfer station (ETS) work in progress is paid on a monthly basis and is no longer included to form part of the Project Agreement liability. The non-current liabilities increased by $6,262,827 to $22,630,407 (2021 - $16,367,580), mainly due to increase in deferred developers' contribution in the CCDEU area which in turn increased assets. The deferred developers' contributions are recovering the cost of the service connection, including installation of the energy transfer station (ETS) and interim low carbon energy plant (LCEP) infrastructure. In accordance with IFRS, the contributions are recognized over the useful life of the equipment, which is 25 years for ETS and 30 years for LCEP from the date within which it becomes in service. Therefore, unrecognized contributions are deferred and recognized as non-current liabilities of the company. The Project Agreement liabilities are linked to the 30 year Project Agreement between LIEC, Corix and CIB, where Corix designs, constructs, finances, and maintains the OVDEU and CCDEU's infrastructure. The Project Agreement 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 2022, LIEC's shareholder equity was $35,028,160 (2021 - $33,647,540).

Income Statement

	2022	2021	$ Changes	% Change
Revenues				
Metered billings	$ 6,626,509	$ 5,450,201	$ 1,176,308	22%
Service fee	981,500	981,000	500	-%
	7,608,009	6,431,201	1,176,808	18%
Cost of Sales				
Contracts	1,150,431	771,619	378,812	49%
Utilities	1,937,484	1,016,861	920,623	91%
Amortization	1,540,099	1,335,399	204,700	15%
	4,628,014	3,123,879	1,504,135	48%
Gross Margin	**2,979,995**	**3,307,322**	**(327,327)**	**(10%)**
General and Administration Expenses				
Salaries and benefits	886,834	841,736	45,098	5%
Administration expenses	118,904	83,624	35,280	42%
Insurance	136,697	88,007	48,690	55%
Professional fees	237,278	29,762	207,515	697%
	1,379,713	1,043,129	336,584	32%
Net Income Before Other Items	1,600,282	2,264,193	(663,911)	(29%)
Contributions and Financing Expense				
Developer contributions	397,695	237,347	160,348	68%
Other income	120,394	49,521	70,873	143%
Other expense	(426,141)	(1,084,975)	658,834	(61%)
Net finance cost	(311,610)	(555,046)	243,436	(44%)
	(219,662)	(1,353,153)	1,133,491	(84%)
Net Income	**$ 1,380,620**	**$ 911,040**	**$ 469,580**	**52%**

Earnings before interest, taxes and amortization (EBITA)

Net income per above	$1,380,620	$ 911,040	$ 469,580	52%
Net finance cost	311,610	555,046	(243,436)	(44%)
Amortization expense	1,540,099	1,335,399	204,700	15%
EBITA	$3,232,329	$2,801,485	$ 430,844	15%

The income statement provides a summary of the company's revenues, expenses and profits over the fiscal year of 2022. It reports the financial performance of the company.

Table 2: Percentage of revenue

	December 31, 2022	December 31, 2021
Percentage of Revenue		
Gross margin percentage	39%	51%
General and administration percentage	18%	16%
EBITA percentage	42%	44%
Net income percentage	18%	14%

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 $1,176,308 to $6,626,509 (2021 - $5,450,201) mainly due to:

- An increase of $113,029 in ADEU metered billings due to additional energy use during summer and additional service for three buildings that were not fully occupied in prior years (Trafalgar, Westmark and Berkeley House).
- An increase of $362,693 in OVDEU metered billings due to additional heating days and additional energy use by buildings that were not fully occupied in prior years (Aspec 12, Cascade City).
- $700,586 in CCDEU metered billings for the first building connection.

No increase to the service fee of $981,500 (2021 - $981,000) for LIEC's facilitation of advancing district energy opportunities in the City, which results in numerous benefits to the City and community of Richmond. The service fee covers staff and specialized consultants working on low carbon district energy initiatives. With or without LIEC, the City would need to fund these costs in order to successfully implement district energy initiatives for the City and position itself at the forefront of tackling local and global environmental challenges. The City identified district energy utilities as a leading strategy to achieve the City's GHG reduction goals. To date, it is estimated that LIEC's district energy systems has resulted in the reduction of over 13,993 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 $378,812 to $1,150,431 (2021 - $771,619) due to the additional operations and maintenance work as a result of more buildings being serviced, including two on-site low carbon energy plants (LCEP).

Utility expenses increased by $920,623 to $1,937,484 (2021 - $1,016,861). This increase is mainly due to continued growth at the ADEU, OVDEU and CCDEU utilities; new building connections, including the first two on-site low carbon energy plants, resulted in an increased use of electricity and natural gas required to run the generation, distribution and auxiliary equipment used to deliver energy to the buildings. Natural gas and electricity rate increases and unbudgeted carbon tax contributed to this increase as well.

The amortization expense increased due to capital asset additions. Overall, the total cost of sales increased by $1,504,135 to $4,628,014 (2021 - $3,123,879).

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 general and administration expenses include a fee of $282,499 (2021 - $129,412), paid by LIEC to the City of Richmond for the support provided by the City. The increase is a result of the additional support that the City staff have provided to LIEC during the CCDEU negotiations. The general and administration expenses increased by $336,584 to $1,379,713 (2021 - $1,043,129), mainly due to:

- Salaries and benefits - The increase by $45,098 to $886,834 (2021 - $841,736) of salaries and benefits is due to staffing and adjustments to existing salaries and fringe benefits based on the City's annual increase.
- Insurance - The premium increased by $48,690 due to a general insurance rate increase and the additional capital assets insured.
- Professional fees - The increase by $207,515 to $237,278 (2021 - $29,762) is due to professional fees in relation to the CCDEU expansion project, BCUC inquiry in the municipally owned energy utilities, and audit fee.

Overall, general and administration expenses as a percentage of revenues is 18% for 2022 (2021- 16%).

The contributions and financing expense section represents other sources of revenue and expenses for the business. The energy modeling review fees collected are higher than 2021 due to more building permits being reviewed. The net finance cost is lower in comparison to 2021 as the finance costs on Project Agreement liabilities were offset by increased interest income due to higher rates of returns on investments. This section includes other expense costs that pertain to the environmental remediation and legal services related 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), was 42% (2021 - 44%) used as a proxy to measure LIEC's financial performance.

Overall, LIEC's revenues exceeded expenses resulting in a net income of $1,380,620 (2021 - $911,040).

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

Budget Variance
(See Attachment 1 for 2022 budget to actual comparison)

Revenues

The metered billings are the total energy sales of both ADEU, OVDEU and CCDEU service areas. The metered billings revenue is $2,857,251 from the ADEU and $3,068,672 from the OVDEU and $700,586 for CCDEU. 2022 actual revenues of $7,608,009 are slightly over the budget of $7,564,631

Cost of Sales

The cost of sales includes contract services, utilities (electricity and natural gas) and amortization expenses. The contract expense is under budget by 18%.

The utility expenses are based on actual customers' energy usage and consumption of electricity and natural gas. The overall utility cost is higher than budget by $316,785. The main reasons are as follows:

- Natural gas is still used to provide a majority of heating capacity at the OVDEU and CCDEU service areas, which was 48% over the budget. The variance is attributed to the larger than excepted (15%) increase in natural gas rate, unbudgeted carbon tax amount of $240k, and natural gas consumption higher than projected. This increase is partially offset by lower-than-budget natural gas amount for the ADEU service area.
- Electricity used to run pumps and peaking equipment at ADEU was lower than projected due to moderate weather conditions. Similarly, air-source heat pumps that service the Central at Garden City development in Area A did not operate at maximum heating and cooling capacity throughout the year, resulting in lower than expected electricity use.
- Natural gas, used to provide peak heating capacity at ADEU, was lower than expected due to moderate winter conditions. ADEU was able to meet 93% of the total energy demand using renewable sources, resulting in lower than expected natural gas consumption. Similarly, at Smart Centres air-source heat pumps were able to meet most heating demand without the use of natural gas as outdoor air temperatures rarely went below freezing conditions.

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 4%.

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. The salary expense is slightly lower than budget due to reduction to post employment benefit liability as a result of 3rd party actuary assessment. Administration expenses were lower in 2022 as staff have not participated in as many training opportunities. The insurance and professional fees expenses are over the budget due to the reallocation of the insurance and professional fees expenses related to CCDEU project under the general and administration expenses, while this was allocated under the contract expenses for the OVDEU project. The total general and administration expense of $1,379,713 is over budget by 5%, mainly due to professional fees related to CCDEU expansion project.

Contributions and Financing Expense

The Contributions and Financing Expense section represents other sources of income and costs. Developer contributions have decreased due to the change in the timing of few developments in 2022. Other income is made up of energy model review fees and has increased over the budget due to more building permits being reviewed. 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. It increased slightly over the budget due to the write-off of the defective distribution pipe that has been replaced. The net finance cost is the result of the finance costs on Project Agreement liabilities offset by interest income. The finance cost on Project Agreement liabilities is in line with budget; however, the overall Net finance cost is lower than budget due to the higher than projected interest income.

Despite the higher than expected utility cost and general and administration expenses, LIEC's overall financial performance exceeded budget with the net income 46% over the 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, 2022, and its financial performance and cash flows for the year end in accordance with International Financial Reporting standards.

Cody Lan

Francisco Del Castillo
Controller
(604-276-4019)

Cody Lan
Assistant Controller
(604-247-4698)

Attachment 1: 2022 Budget and Actual Comparison
Attachment 2: 2022 Audited Financial Statements

2022 Budget and Actual Comparison

	Budget	Actual	$ Changes	% Change
Revenues				
Metered Billings	$ 6,583,145	$ 6,626,509	$ 43,364	1%
Service fee	981,486	981,500	14	-%
	7,564,631	7,608,009	43,378	1%
Cost of Sales				
Contracts	1,400,550	1,150,431	(250,119)	(18%)
Utilities	1,620,699	1,937,484	316,785	20%
Amortization	1,791,047	1,540,099	(250,948)	(14%)
	4,812,296	4,628,014	(184,282)	(4%)
Gross margin	**2,752,335**	**2,979,995**	**227,660**	**8%**
General and Administration Expenses				
Salaries and benefits	963,130	886,834	(76,296)	(8%)
Administration expenses	153,172	118,904	(34,268)	(22%)
Insurance	120,000	136,697	16,697	14%
Professional Fees	80,205	237,278	157,073	196%
	1,316,507	1,379,713	63,206	5%
Net income before other items	1,435,828	1,600,282	164,454	11%
Contributions and Financing expense				
Developer contributions	566,380	397,695	(168,685)	(30%)
Other income	48,000	120,394	72,394	151%
Other expense	(418,000)	(426,141)	(8,141)	2%
Net finance cost	(685,970)	(311,610)	374,360	(55%)
	(489,590)	(219,662)	269,928	(55%)
Net Income	**$ 946,238**	**$1,380,620**	**$ 434,382**	**46%**
Earnings before interest, taxes and amortization (EBITA)				
Net income per above	$ 946,238	$1,380,620	$ 434,382	46%
Net Financing cost	685,970	311,610	(374,360)	(55%)
Amortization expense	1,791,047	1,540,099	(250,948)	(14%)
EBITA	$3,423,255	$3,232,329	($190,926)	(6%)

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2022 Audited Financial Statements

Financial Statements
(Expressed in Canadian dollars)

LULU ISLAND ENERGY COMPANY LTD.

And Independent Auditor's Report thereon

Year ended December 31, 2022

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

INDEPENDENT AUDITOR'S 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, 2022
- 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, 2022, 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 "***Auditor's Responsibilities for the Audit of the Financial Statements***" section of our auditor's 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.

KPMG LLP, an Ontario limited liability partnership and member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee.
KPMG Canada provides services to KPMG LLP.

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.

Auditor's 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 auditor's 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 auditor's 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 auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants

Vancouver, Canada
April 11, 2023

LULU ISLAND ENERGY COMPANY LTD.

Statement of Financial Position

December 31, 2022, with comparative information for 2021

	2022	2021
Assets		
Current assets:		
Cash and cash equivalents	$ 3,191,380	$ 11,707,794
Accounts receivable (note 4)	2,240,807	1,676,423
Investments (note 5)	12,324,233	4,047,518
	17,756,420	17,431,735
Non-current assets:		
Plant and equipment (note 6)	45,745,053	38,905,146
	$ 63,501,473	$ 56,336,881
Liabilities and Shareholder's Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 3,852,889	$ 2,671,416
Current portion of deferred developer contributions (note 7(a))	471,964	337,732
Current portion of Project Agreement liability (note 8)	1,518,053	-
Current portion of Concession Agreement liability (note 8)	-	3,312,613
	5,842,906	6,321,761
Non-current liabilities:		
Government grants (note 7(b))	241,051	-
Deferred developer contributions (note 7(a))	12,545,851	7,415,806
Project Agreement liability (note 8)	9,843,505	-
Concession Agreement liability (note 8)	-	8,951,774
	22,630,407	16,367,580
Shareholder's equity:		
Share capital and contributed surplus (note 9)	27,397,115	27,397,115
Retained earnings	7,631,045	6,250,425
	35,028,160	33,647,540
Commitments and contingencies (note 12)		
	$ 63,501,473	$ 56,336,881

The accompanying notes are an integral part of these 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, 2022, with comparative information for 2021

	2022	2021
Revenue (note 13)	$ 7,608,009	$ 6,431,201
Cost of sales:		
Operating expenses	3,087,915	1,788,480
Depreciation	1,540,099	1,335,399
	4,628,014	3,123,879
Gross profit	2,979,995	3,307,322
General and administrative expenses (note 10)	1,379,713	1,043,129
Income before undernoted items	1,600,282	2,264,193
Developer contributions, other income (expenses) and net finance cost:		
Developer contributions (note 7(a))	397,695	237,347
Other income (note 13)	120,394	49,521
Other expenses (note 6)	(426,141)	(1,084,975)
Net finance cost (note 11)	(311,610)	(555,046)
	(219,662)	(1,353,153)
Net income and other comprehensive income	$ 1,380,620	$ 911,040

The accompanying notes are an integral part of these financial statements.

LULU ISLAND ENERGY COMPANY LTD.

Statement of Changes in Equity

Year ended December 31, 2022, with comparative information for 2021

	Share capital (note 9)	Contributed surplus (note 9)	Retained earnings	Shareholder's equity
Balance, January 1, 2021	$ 5	$ 27,397,110	$ 5,339,385	$ 32,736,500
Net income and other comprehensive income	-	-	911,040	911,040
Balance, December 31, 2021	5	27,397,110	6,250,425	33,647,540
Net income and other comprehensive income	-	-	1,380,620	1,380,620
Balance, December 31, 2022	$ 5	$ 27,397,110	$ 7,631,045	$ 35,028,160

The accompanying notes are an integral part of these financial statements.

LULU ISLAND ENERGY COMPANY LTD.

Statement of Cash Flows

Year ended December 31, 2022, with comparative information for 2021

	2022	2021
Cash provided by (used in):		
Cash flows provided by (used in) operating activities:		
Net income and other comprehensive income	$ 1,380,620	$ 911,040
Adjustments for:		
Depreciation	1,540,099	1,335,399
Recognition of deferred contributions	(397,695)	(237,347)
Other income	-	(12,978)
Finance expense on Project Agreement liability	128,179	-
Finance expense on Concession Agreement liability	568,174	672,135
Write off of assets	81,179	-
Changes in non-cash operating working capital:		
Accounts receivable	(564,384)	1,358,087
Accounts payable and accrued liabilities	1,181,473	880,497
Net cash provided by operating activities	3,917,645	4,906,833
Cash flows provided by (used in) investing activities:		
Additions to plant and equipment	(1,305,119)	(1,460,215)
Deferred developer contributions	662,882	638,525
Cash receipts from sale of investments	4,047,518	4,014,336
Cash payments to acquire investments	(12,324,233)	(4,047,518)
Net cash used in investing activities	(8,918,952)	(854,872)
Cash flows provided by (used in) financing activities:		
Cash received from government grants	241,051	-
Project Agreement liability	(1,482,165)	-
Concession Agreement liability	(586,371)	(948,671)
Repayment of the non-capital portion of the Concession Agreement liability	(1,687,622)	-
Net cash used in financing activities	(3,515,107)	(948,671)
(Decrease) increase in cash and cash equivalents	(8,516,414)	3,103,290
Cash and cash equivalents, beginning of year	11,707,794	8,604,504
Cash and cash equivalents, end of year	$ 3,191,380	$ 11,707,794
Non-cash transactions:		
Additions to plant and equipment	$ (7,156,066)	$ (1,370,459)
Project Agreement liability	407,902	-
Concession Agreement liability	1,637,906	1,370,459
Developer contributions	4,999,090	-
Finance cost capitalized to plant and equipment	111,168	-

The accompanying notes are an integral part of these 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 on April 11, 2023.

(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 note:

Note 7 - recognition of deferred developer contributions.

Information about assumptions and estimation uncertainties that have a risk of resulting in a material adjustment within the next financial year are included in the following notes:

Note 6 - accrued liabilities for distribution pipe leak; and

Note 3(a) - useful lives of plant and equipment.

3. Significant accounting policies:

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

(a) Plant and equipment

(*i*) Recognition and measurement:

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

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

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of plant and equipment have different useful lives, they are accounted for as separate items (major components) of plant and equipment.

Gains and losses on disposal of an item of plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of plant and equipment, and are recognized net within other income in profit and loss.

3. Significant accounting policies (continued):

(a) Plant and equipment (continued):

(*ii*) Subsequent costs:

The cost of replacing a part of an item of plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The cost of the day-to-day servicing of plant and equipment are recognized in profit or loss as incurred.

(*iii*) Depreciation:

Depreciation is calculated over the depreciable amount, which is the cost of an asset less its residual value.

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

Asset	Useful life - years
Energy plant center	75
Distribution piping	50
General equipment	25-30

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.

3. Significant accounting policies (continued):

(c) Concession projects:

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

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 Project Agreement liability (2021 – Concession Agreement liability) (note 8).

(d) Government grants:

Government grants related to assets are initially recognised as deferred income at fair value if there is reasonable assurance that they will be received and the Company will comply with the conditions associated with the grant. Grants related to the acquisition of assets are recognised in profit or loss as other income on a systematic basis over the useful life of the asset.

(e) Developer contributions:

Developer contributions are amounts received from developers toward the cost of equipment and/or assets received from developers, required for the supply of district energy to the developer site. Developer contributions are recognized into income over the expected useful life of the related assets from when the assets are available for use. Non-cash developer contributions are initially recorded at fair value.

(f) 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.

(g) Cash and cash equivalents:

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less.

(h) 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 Project Agreement liability/Concession Agreement liability (2021 – Concession Agreement 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.

3. Significant accounting policies (continued):

(i) 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):

(i) 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(i)(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
Government grants	Amortized cost
Project Agreement liability	Amortized cost
Concession Agreement liability	Amortized cost

(*ii*) Measurement categories:

The following table shows the carrying values of assets and liabilities for each of these categories at December 31, 2022 and 2021. 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.

3. Significant accounting policies (continued):

(i) Financial instruments (continued):

(*ii*) Measurement categories (continued):

		2022		2021
Financial assets:				
Financial assets at amortized cost:				
Cash and cash equivalents	$	3,191,380	$	11,707,794
Accounts receivable		2,240,807		1,676,423
Investments		12,324,233		4,047,518
	$	17,756,420	$	17,431,735
Financial liabilities:				
Financial liabilities at amortized cost:				
Accounts payable and accrued liabilities	$	3,852,889	$	2,671,416
Project Agreement liability		11,361,558		-
Concession Agreement liability		-		12,264,387
	$	15,214,447	$	14,935,803

(j) Impairment:

(*i*) Financial assets:

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

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

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

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

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

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

3. Significant accounting policies (continued):

(j) Impairment (continued):

(*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.

(k) 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.

(l) Standards issued but not yet effective:

A number of new standards are effective for annual periods beginning after January 1, 2023 and earlier application is permitted; however, the Company has not early adopted the new or amended standards in preparing these financial statements.

3. Significant accounting policies (continued):

(l) Standards issued but not yet effective (continued):

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

- IFRS 17, Insurance contracts and its amendments are effective for annual periods beginning on or after January 1, 2023;
- Amendments to IAS 1, Presentation of financial statements: Classification of Liabilities as Current or Non-Current are effective for annual periods beginning on or after January 1, 2023;
- Amendments to IAS 1, Presentation of financial statements: Disclosure of accounting policies are effective for annual periods beginning on or after January 1, 2023; and
- Amendments to IAS 8, Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates are effective for annual periods beginning on or after January 1, 2023.

4. Accounts receivable:

	2022	2021
Trade receivables	$ 194,213	$ 33,455
Due from City of Richmond	152,937	151,454
Unbilled trade receivables	1,874,018	1,491,514
GST receivable	19,639	-
	$ 2,240,807	$ 1,676,423

5. Investments:

Investments represent term deposits as follows:

Purchase date	Maturity date	Interest rate	2022	2021
July 19, 2022	July 19, 2023	5.05%	$ 4,123,378	$ -
November 7, 2022	November 7, 2023	5.95%	3,193,869	-
December 21, 2022	December 21, 2023	5.10%	5,006,986	-
July 15, 2021	July 15, 2022	1.50%	-	2,033,628
October 28, 2021	October 28, 2022	1.50%	-	2,013,890
			$ 12,324,233	$ 4,047,518

6. Plant and equipment:

	Energy plant center	General equipment	Distribution piping	Total
Cost:				
Balance as at December 31, 2020	$ 5,031,915	$ 24,685,820	$ 12,217,654	$ 41,935,389
Additions	-	1,955,387	925,313	2,880,700
Balance as at December 31, 2021	5,031,915	26,641,207	13,142,967	44,816,089
Additions	-	6,954,522	1,506,663	8,461,185
Disposals	-	-	(88,238)	(88,238)
Balance as at December 31, 2022	$ 5,031,915	$ 33,595,729	$ 14,561,392	$ 53,189,036
Accumulated depreciation:				
Balance as at December 31, 2020	$ 268,368	$ 3,637,984	$ 669,192	$ 4,575,544
Depreciation	67,092	1,045,148	223,159	1,335,399
Balance as at December 31, 2021	335,460	4,683,132	892,351	5,910,943
Depreciation	67,092	1,207,563	265,444	1,540,099
Disposals	-	-	(7,059)	(7,059)
Balance as at December 31, 2022	$ 402,552	$ 5,890,695	$ 1,150,736	$ 7,443,983
Net book value:				
At January 1, 2020	$ 4,763,547	$ 21,047,836	$ 11,548,462	$ 37,359,845
At December 31, 2021	4,696,455	21,958,075	12,250,616	38,905,146
At December 31, 2022	4,629,363	27,705,034	13,410,656	45,745,053

Included in plant and equipment is $3,642,359 (2021 - $1,951,975) of assets under construction being $1,340,818 (2021- $1,070,537) general equipment and $2,301,541 (2021 - $881,438) distribution piping. For the year ended December 31, 2022, capitalized borrowing costs related to the construction of the general equipment and distribution system in the year amounted to $111,168 (2021 - $37,048).

In 2020, the Company identified a distribution pipe leakage of heat transfer fluid at one of the Company's service areas. During the year ended December 31, 2022, the Company continued to repair, remediate and monitor the service area and recognized expenses of $344,962 (2021 - $1,084,975) in other expenses. As of December 31, 2022, $716,403 (2021 - $596,585) is included in accounts payable and accrued liabilities pertaining to the accrued costs for the leak. Management believes the Company has adequately provided for the remediation costs and intends to seek compensation for such costs from the third parties involved.

7. Deferred developer contributions and Government grants:

(a) Deferred developer contributions:

The following table summarizes deferred developer contribution amounts recognized:

	2022	2021
Deferred developer contributions, beginning of year	$ 7,753,538	$ 7,352,360
Developer contributions received (net of refunds)	662,882	638,525
Developer contributions received (non-cash)	4,999,090	-
Recognized revenue from developer contributions	(397,695)	(237,347)
	13,017,815	7,753,538
Less: current portion of deferred developer contributions	471,964	337,732
Non-current deferred developer contributions	$ 12,545,851	$ 7,415,806

(b) Government grants:

In 2021, the Company was awarded a grant (the "Sewer Heat Recovery grant") from CleanBC Communities Fund. In 2022, the Company recognized $241,051 (2021 - nil) under the grant. The relevant assets were under construction at December 31, 2022 and therefore the grant received is recognized in deferred income.

8. City Centre District Energy Utility Project Agreement:

On October 30, 2014, the Company and Corix Utilities Inc. ("Corix") entered into a 30-year concession project (the "Concession Agreement"), where Corix will design, construct, finance, operate and maintain the infrastructure for the district energy utility at the Oval Village community (the "OVDEU project"). On September 22, 2022, the Company terminated the Concession Agreement after the Company entered into a new concession project (the "Project Agreement") with City Centre Energy Limited Partnership ("Project Contractor"), a wholly owned subsidiary of Corix to design, build, finance, operate and maintain City Centre District Energy Utility infrastructure providing heating and cooling services to new residential and mixed use commercial developments within the City Centre area (the "CCDEU project").The existing OVDEU project has been transferred into the CCDEU project, and the OVDEU plant and equipment, financing and operations are now executed by the Project Contractor under the Project Agreement. Part of the transfer of the existing OVDEU project into the CCDEU project was the termination of the existing Concession Agreement liability, including repayment of the non-capital portion of the Concession Agreement liability in the amount of $1,687,622.

The total estimated Project Agreement liability to finance the construction of the CCDEU project at full build out is estimated at $383,000,000 (2021 – OVDEU project $41,414,000) and will be accrued over time as the infrastructure is constructed and services are rendered.

8. City Centre District Energy Utility Project Agreement (continued):

The Project Agreement liability is payable monthly in accordance with the Project Agreement terms. Required Project Agreement liability payment obligations are disclosed in note 12.

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

(a) Project Agreement liability:

	2022	2021
Opening balance September 22, 2022	$ -	$ -
Transfer balance from Concession Agreement liability	10,966,470	-
Additions	1,637,906	-
Finance expense (note 11)	239,347	-
Net repayment	(1,482,165)	-
Ending balance	$ 11,361,558	$ -

	2022	2021
Project Agreement liability	$ 11,361,558	$ -
Less: Current portion of Project Agreement liability	(1,518,053)	-
Non-current portion of Project Agreement liability	$ 9,843,505	$ -

(b) Concession Agreement liability:

	2022	2021
Opening balance Concession Agreement liability	$ 12,264,387	$ 11,133,416
Additions	407,902	1,370,459
Finance expense (note 11)	568,174	709,183
Repayment of the non-capital portion of the Concession Agreement liability	(1,687,622)	-
Net repayment	(586,371)	(948,671)
Transfer balance to Project Agreement liability	(10,966,470)	-
Ending balance Concession Agreement liability	$ -	$ 12,264,387

	2022	2021
Concession Agreement liability	$ -	$ 12,264,387
Less: Current portion of Concession Agreement liability	-	(3,312,613)
Non-current portion of Concession Agreement liability	$ -	$ 8,951,774

8. City Centre District Energy Utility Project Agreement (continued):

The finance cost on the OVDEU projects financed under the Concession Agreement up to September 22, 2022 is 6.12% (2021 – Concession Agreement 5.24%). The finance cost on the OVDEU projects transferred to the Project Agreement for the period from September 22, 2022 to December 31, 2022 is 6.23%. The finance cost on the new CCDEU project financed under the Project Agreement from September 22, 2022 to December 31, 2022 is 4.40%.

The Project Agreement liability is repayable as follows:

2023	$	1,518,053
2024		1,548,414
2025		1,579,383
2026		1,610,970
2027 and thereafter		5,104,738
Total	$	11,361,558

The Project Agreement liability and the termination payment obligation under the Project Agreement is secured by the CCDEU project infrastructure assets and energy services agreements with customers.

9. Share capital:

At December 31, 2022, the authorized share capital comprised 10,000 (2021 - 10,000) common shares without par value.

As at December 31, 2022, the Company has issued 450 common shares (2021 - 450) at $0.01 per share totaling $4.50 (2021 - $4.50) and contributed surplus of $27,397,110 (2021 - $27,397,110).

10. Personnel expenses:

The following expenses are included in general and administrative expenses:

		2022		2021
Wages and salaries	$	886,834	$	834,736
Other payroll expenses		-		7,000
	$	886,834	$	841,736

11. Net finance cost:

		2022		2021
Finance income:				
Investment interest	$	169,433	$	51,182
Bank interest		186,562		63,729
Other		28,748		2,178
		384,743		117,089
Finance cost:				
Finance expense on Project Agreement liability (note 8)		(239,347)		-
Finance expense on Concession Agreement liability (note 8)		(568,174)		(709,183)
Less: Finance cost capitalized to plant and equipment (note 6)		111,168		37,048
		(696,353)		(672,135)
Net finance cost	$	(311,610)	$	(555,046)

12. Commitments and contingencies:

(a) Project Agreement commitments:

Under the Project Agreement, the Company needs to make monthly payments to the Project Contractor based on the aggregate of the capital obligations, the operating costs, the asset management fee on contributed assets, Project Contractor income tax and commodity costs amounts calculated as of the end of the each contract year. The capital obligations are comprised of capital expenditures, financing costs and the Project Contractor's return on equity. The commodity costs include costs of fuel, electricity, water, waste water, chemicals, etc. which are consumed or produced in the performance of the infrastructure and the operating services. All these costs will be repaid over time by revenue generated through the customer rates. As construction progresses the asset values are recorded as plant and equipment and the corresponding liabilities are recorded as Project Agreement liability as disclosed in note 8.

As at December 31, 2022, under the Project Agreement, on an early termination for convenience by the Company, or termination on an event of default by the Company, the Company is obligated to pay $748,661 to Project Contractor.

(b) Distribution pipe leakage:

An accrual has been maintained in accounts payable and accrued liabilities for the damages that resulted from a distribution pipe leakage at one of the Company's service areas (note 6). Management believes the Company has adequately provided for the remediation costs and intends to seek compensation for such costs from the third parties involved. It is not permissible at this time to accrue the estimated financial effect of any recovery of expenses from the other parties involved or the Company's insurer.

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 2022, the Company received and recognized in revenues $981,500 (2021 - $981,000) for its services of advancing district energy opportunities in the City. Staff and advanced design activities on low carbon district energy initiatives are covered by this fee. With or without the Company, the City would need to fund these costs in order to successfully implement district energy initiatives for the City and position itself at the forefront of tackling local and global environmental challenges our world faces.

In addition, included in revenue for 2022 is $30,830 (2021 - $34,920) for district energy utility services rendered by the Company to the City.

The Company also received and recognized energy model review fees into other income of $120,394 (2021 - $36,543) relating to district energy permit fees collected by the City for in-building district energy related equipment reviews performed by the Company.

The total amount due from the City as at December 31, 2022 is $152,937 (2021 - $151,454) and is included within accounts receivable.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The amount is non-interest bearing and repayable on demand.

(b) Key management personnel:

A fee of $282,498 (2021 - $129,412), included in general and administrative expenses, was paid to the City for the day-to-day support that the Company received from City staff during the year. These costs have been charged to the Company on a cost recovery basis.

14. 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).

14. Fair values (continued):

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

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

15. Financial risk management and financial instruments:

(a) Overview

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

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

(b) Risk management framework:

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

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

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

(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.

15. 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 Project Agreement liability are disclosed in note 12.

The information presented below shows the undiscounted contractual maturities of the Project Agreement liability (2021 – Concession Agreement liability), including estimated interest payments.

	Carrying amount	Contractual cash flow	Less than 1 year	1 - 2 years	2 - 5 years
December 31, 2022	$ 11,361,558	$ 12,437,215	$ 2,882,097	$ 4,301,253	$ 5,253,865
December 31, 2021	12,264,387	13,821,248	3,397,805	1,952,570	8,470,873

(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 has mitigated the interest rate fluctuation risk associated with the Project Agreement liability (note 8) by securing the debt funding for the project at fixed interest rates until 2032.

16. 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 Project Agreement 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.

17. 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, 2022 and 2021, the plan has about 227,000 active members and approximately 118,000 retired members. Active members include approximately 42,000 contributors from local governments.

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

The most recent actuarial valuation for the Municipal Pension Plan as at December 31, 2021, indicated a $3,761 million funding surplus for basic pension benefits on a going concern basis. The next valuation will be at December 31, 2024, with results available in 2025.

The Company paid $72,275 (2021 - $86,323) for employer contributions to the Plan in 2022.

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.