




2015 | Annual Report



Clean, efficient
energy, for now
and the future.

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■ MESSAGE FROM THE BOARD CHAIR

Implementing our vision of a sustainable, low carbon Richmond is off to a great start – 2015 saw Lulu Island Energy Company connecting its first customers. New customers should be comforted by our commitment to delivering energy services to their homes or businesses at competitive rates.

LIEC is regulated by Richmond City Council for setting customer rates and defining service areas. In this context, LIEC is a key delivery agent for meeting aggressive community greenhouse gas (GHG) reductions and economic development objectives.

I wish to acknowledge and sincerely thank my fellow Board Directors for their commitment to the success of LIEC. I am proud of the work accomplished by the company and presenting the 2015 Annual Report to our shareholder, the City of Richmond. Going forward, I look forward to working with the City, LIEC's Board of Directors, our partners and customers to support the growth of district energy in Richmond.

A handwritten signature in black ink, appearing to read 'George Duncan', with a long, sweeping horizontal line extending to the right.

George Duncan
Chair, Lulu Island Energy Company

■ MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

In collaboration with the Lulu Island Energy Company's (LIEC) partner, Corix Utilities, two new buildings were connected to the Oval Village District Energy Utility (OVDEU) in 2015. The OVDEU service area, originally planned to service 5,000,000 square feet at build out, was also expanded in 2015 with the addition of two major parcels. At build out it is estimated that OVDEU will reduce annual GHG emissions by 5,500 tonnes when compared to buildings using conventional energy systems. In addition, district energy services grew in 2015 with the expansion of the award-winning Alexandra District Energy Utility, expected to be an asset of LIEC in 2016 pending Council's endorsement. Finally, LIEC gained Richmond City Council support to begin the process for selecting a partner for district energy services in the City Centre north area in 2015.

LIEC remains committed to excellence in sustainable utility management and operations as Richmond's solution to providing "clean, efficient energy for now and the future". I am pleased with LIEC's work to develop sustainable infrastructure that both serve customers' space heating and hot water needs while reducing the overall environmental impact of buildings in our community.



Robert Gonzalez

CEO, Lulu Island Energy Company





MAXIMUM HEIGHT 6' 8"

4099

ABOUT THE COMPANY AND DISTRICT ENERGY IN RICHMOND

LIEC is a wholly-owned municipal corporation, established to operate district energy (DE) utility systems in the City of Richmond on the City's behalf.

The goals of LIEC are to:

- establish a highly successful district energy network providing heating and, in some cases cooling services to buildings at competitive rates;
- provide reliable, resilient local energy for the benefit of its customers;
- operate and maintain low carbon energy systems;
- position the City of Richmond to be a national and international leader in district energy utilities;
- develop and manage effective partnerships; and
- sustain long term financial viability.

LIEC was incorporated in August 2013. In 2015, LIEC had tangible capital assets of \$4,385,619 relating to the development of the OVDEU, revenues of \$1,018,950 related to user fees paid by customers, and service connection fees and permit fees paid by developers, and expenses of \$491,271 due to the commencement of operations for the supply of energy to the Riva 1 and Carrera developments.

The City of Richmond also currently owns and operates the Alexandra District Energy Utility (ADEU) and, pending City Council approval, intends to transfer these assets to LIEC in 2016. More information about the ADEU is provided in Appendix B and in the sections below.



■ SPOTLIGHT ON 2015: PROGRESS REPORT

New Buildings Connected to the Oval Village District Energy Utility

OVDEU is the first district energy project in development under LIEC's oversight following Richmond City Council's adoption of the OVDEU Service Area Bylaw in April 2014 and LIEC entering into a Concession Agreement with Corix Utilities to design, construct, finance, operate and maintain the system in October 2014. OVDEU took a leap from the drawing board to construction in 2015 with the installation of the necessary equipment to service the utility's first customers: "Carrera" by Polygon Homes (June) and "Riva" (buildings 1 and 2) by Onni (June). Temporary centralized natural gas plants were installed to service these buildings. These facilities will be in operation until there are enough buildings connected to the system to justify the costs for constructing a major energy plant that will extract heat from the Gilbert Trunk sanitary forcemain sewer. Similar technology is in operation today in the City's Gateway Theatre, Vancouver's Neighbourhood Energy Utility and throughout Europe.

Service Area Expansion of the Oval Village District Energy Utility

The Oval Village area has considerable potential for district energy expansion; ongoing real estate development in the area represents an important opportunity for LIEC and the City. 2015 saw an expansion of the service area to include two major sites that are under consideration for redevelopment.

Alexandra District Energy Utility Energy Plant and Infrastructure Expansion

Due to new development in the area, the City extended the distribution piping network in ADEU, introduced a new geexchange field (located in the City's new park on Odlin St.) and completed a significant energy plant expansion in 2015. Two new buildings were connected including "Alexandra Court" by Polygon Homes (June), and Jamatkhana Temple in September. ADEU is anticipated to be an asset of LIEC in 2016.

Ongoing Communications to Customers and Richmond Residents

LIEC and the City continue to distribute communication materials to residents and new customers in the City of Richmond to create awareness about energy utility services. Buyers of new condominium apartments serviced by LIEC in the Oval Village and the City in Alexandra service area received information packages about rate structures and services. Pending the transfer of the ADEU's assets to LIEC, communications activities will involve informing current ADEU customers about the change in management, and the continuation of the excellent service that customers in the West Cambie neighbourhood have enjoyed to date.

District Energy Node in the City Centre North Area

Over 8,500,000 sq.ft. of residential and commercial floor space is currently in different stages of planning and development in the City Centre North area (Bridgeport and Capstan Villages as defined in the City Centre Area Plan). This is 1.5 times the size of the ADEU and OVDEU capacity together at full build out. LIEC made progress on capitalizing on this opportunity in 2015 by gaining Richmond City Council's endorsement for expressions of interest from private sector partners to design, construct, finance, operate and maintain a new system. A Request for Expressions of Interest was released in the fall of 2015 setting the stage for further consideration in 2016.





■ LOOKING FORWARD IN 2016: WORK PLAN

Ongoing Development in the Oval Village Area

Robust development activity continues in the Oval Village within and adjacent to the DEU service area. For this reason, the City will consider a broader expansion of the service area in 2016 to provide certainty to developers about the City's expectations for connecting to OVDEU. Accordingly, LIEC will carry out an economic extension test to assess the most efficient manner to expand services in the area. In the meantime, LIEC looks forward to benefiting from Corix's construction and operations experience with upcoming projects in 2016, listed in Table 1.

Table 1: Development Timing in RGDEU Service Area

	Anticipated Occupancy
Cressey (Cadence)	2016
Intracorp (River Park Place)	2016
Amacon (Tempo)	2017
Aspac (Parcel 9 & 12)	2017/2020

Alexandra District Energy Utility Expansion

Growth and development in the West Cambie Neighbourhood continues, including a major retail area, the Central at Garden City, opening in the summer of 2016. In order to service these buildings, both heating and cooling capacity and associated infrastructure will be expanded. Following planning and detailed design, construction of Phase 4 of ADEU will get started in coordination with the development of the retail development in 2016. Phase 4 includes distribution piping and a new energy plant to be located on the roof of the parkade internal to the Central at Garden City development site. The energy plant will provide heating and cooling needs for retail tenants using air-source heat pumps. This new energy plant will be interconnected with the current ADEU energy plant.

Choosing a Partner for a New District Energy Node in City Centre North

Over 8,500,000 sq.ft. of residential and commercial floor space is currently in different stages of planning and development in the City Centre North area. This is 1.5 times the size of the ADEU and OVDEU capacity together at full build out. Through development approvals processes, the City secures commitments that new developments in this area “District Energy Ready.” Many developments are currently in construction, with occupancy forecasted to begin in 2016 for some. After gaining support from Council to release a Request for Expressions of Interest in 2015, 2016 activities will include the completion of the partner selection process and Richmond City Council consideration and endorsement of a strategy.

For this area, a prefeasibility study will be completed to evaluate district energy concepts that could provide energy services at a competitive price for building owners, while reducing energy consumption and greenhouse gas emissions.

Further feasibility studies are required to refine a district energy concept for this area which includes a business case for the preferred system.



■ APPENDIX A—ALEXANDRA DISTRICT ENERGY UTILITY

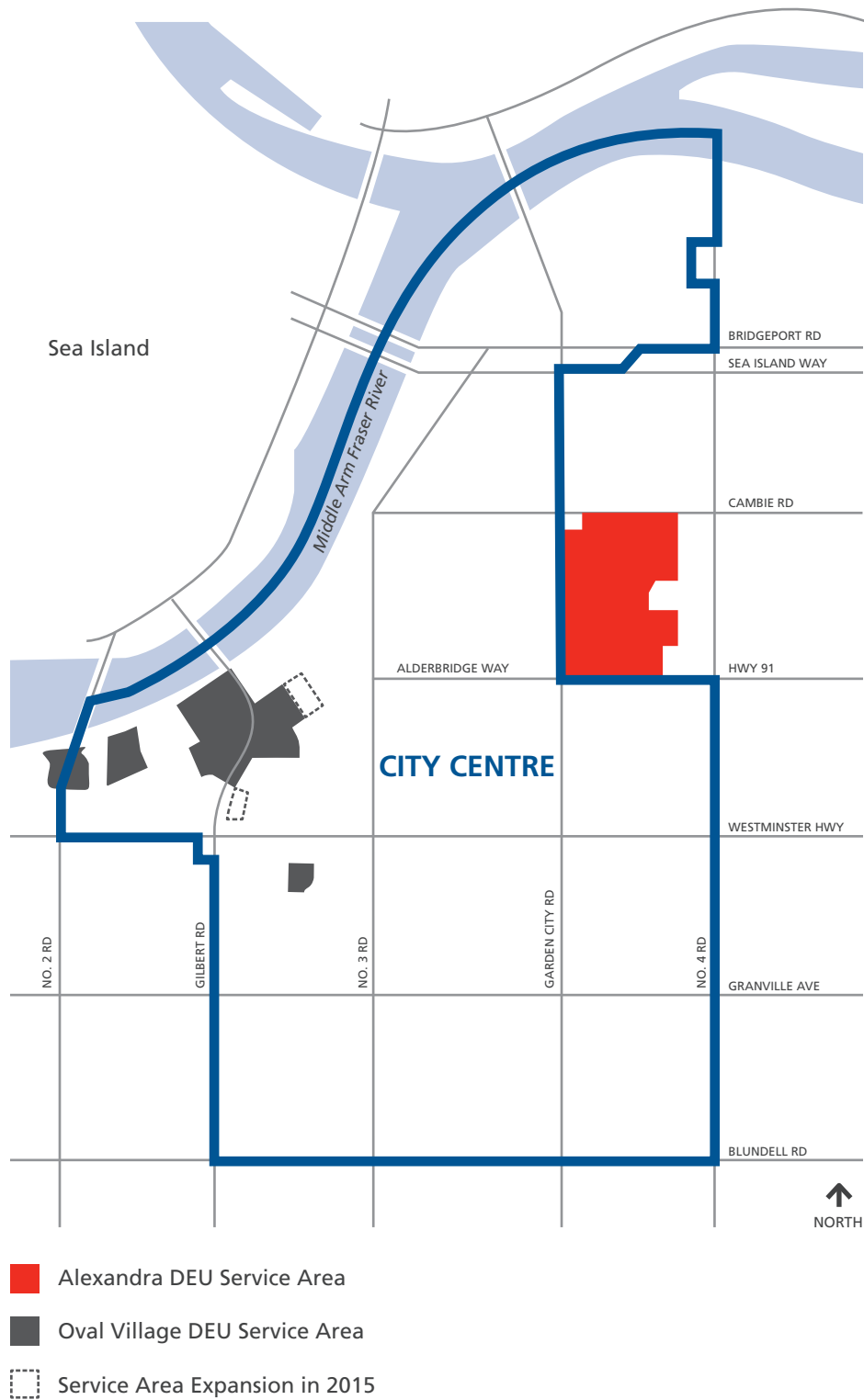
The ADEU was established in 2012 to provide renewable energy for space heating and cooling as well as heat for domestic hot water in the West Cambie neighbourhood. While the system is owned and operated by the City, the first phase of the project was developed in partnership with Oris Geo Energy Ltd. Oris had prior experience and expertise in the design, construction and operation of similar energy systems in Richmond and other communities. Going forward, the expansion of ADEU will be carried out solely by the City, or LIEC if assets are transferred, in phases that are closely tied with the timing of new buildings in the service area. By the end of 2015, the City had completed Phase 3 and was in the design stages for Phase 4 (see above).

Infrastructure Overview

Alexandra District Energy Utility

Energy Station	9600 Odlin Road, Richmond, BC V6X 1C9
Service	Space heating, cooling and domestic hot water
Technology	ADEU Phases 1 and 2 were commissioned in July 2012. The ADEU will potentially service up to 3100 residential units and 1.1 million sq. ft. of commercial uses at build out in approximately 10 to 15 years. Heating or cooling is provided to residential and commercial spaces through a hydronic (water) energy delivery system. In heating mode, ground source heat pump technology extracts heat (geothermal energy) from the ground via a network of vertical pipe loops. Built-in backup natural gas-fired boilers provide 100% back up in the event that the ground source heat pumps shut down or fail. This system cools buildings as well. During the summer months, the energy flow is reversed and heat is extracted from buildings and pumped into the ground. In this way, energy that was extracted from the ground for heating buildings is “recharged” allowing heat to be available for the next cold season. Individual buildings connected to the ADEU require smaller sized boilers for increasing the temperature of domestic hot water, reducing the overall cost of maintenance to buildings. The performance of the system is monitored continuously, providing a high level of reliability to customers.
Length of Distribution Network	3300m (10,900 ft) of high-density polyethylene piping 726 vertical closed-loop boreholes, each 250 feet deep

Service Areas





Customers and Energy Rates

Customer energy rates are set in the City of Richmond Service Area Bylaws, which are enacted by City Council. This approach applies to the ADEU and future LIEC service areas, and does not depend on the ownership of assets. This approach ensures transparency and accountability is maintained for all DE projects in the City. The rate and bylaw provisions are reviewed and approved by Council on an annual basis.

Energy rates are set based on City Council's objective to provide customers with energy costs that are equal to or less than conventional system energy costs, based on the same level of service. In the absence of DE services, a typical building would be built with electrical baseboard heaters for heating, gas fi red make-up air units for common space heating and gas fi red boilers for hot water heating. This is referred to as a "business as usual" (BAU) scenario and is the basis for comparing DE rate costs with conventional utility, energy and maintenance costs. DE customer rates in Richmond have met this requirement. As with other energy utilities, this rate includes utility costs related to infrastructure development, operation and maintenance, energy (e.g. electricity for pumps and natural gas) and other administrative costs such as staffing.

2015 Rate Structure

Each building includes one master meter. Strata corporations are billed on a quarterly basis, at a rate that is comprised of three charges:

- Capacity Charge: Charge based on the gross floor area of the building (\$0.084 per sq. ft.).
- Peak Charge: Charge based on the annual peak heating load supplied by ADEU to the building (\$1.125 per kW).
- Volumetric Charge: Charge based on the energy consumed by the building (\$3.599 per MWh).

Buildings

Address	Use	Area (sq. ft.)
Remy [4099 Stolberg St]	Residential	186,000
Mayfair [9399 Odlin Road]	Residential	351,000
Omega [9388 Odlin Road]	Residential	222,000
Alexandra Court [9399 Alexandra Road]	Residential	260,000
Jamatkhana Temple [4000 May Drive]	Institutional	30,000
Total:		1,049,000

Customer Service

ADEU provides support 24 hours a day, 7 days a week. Customers can contact customer service via a telephone hotline (604-605-7898).

Energy and Greenhouse Gas Emissions (GHGs)

The driving forces behind the establishment of district energy systems in Richmond were to reduce GHGs that cause climate change, develop renewable energy and support local green jobs.

Amount of Energy delivered by the end of 2015 6,257 MWh Greenhouse Gas Performance by the end of 2015 1159 tonnes of CO₂e avoided, equal to removing 359 cars from City of Richmond roads.

2015 Financial Summary

In 2015, ADEU was not an asset of LIEC, but this summary is provided as it relates to district energy activities in Richmond. The figures below were extracted from the City of Richmond's Financial Statements.

Corix Utilities remains engaged as the system operator under contract, to perform functional verification ensuring continuous operation and fine tuning of the system. Incoming revenue from ADEU customers has been gradually increasing in pace with the occupancy of serviced buildings. Revenue from operations for 2015 (before \$801,653 of capital funding) was \$913,495. Total expenses from operations (before \$30,685 of infrastructure amortization) were \$197,362. The total capital investment borrowed to date for Phase 1 to 4 is \$24.1M which is projected in the financial model to be repaid over the next 17 years.

2015 revenue from operations, when compared with the projected revenue in the ADEU financial model, is lower than expected due to the following reasons:

- Alexandra Court and Jamatkhana Temple connection happened later than projected
- Alexandra Gate connection didn't happen in 2015

Projected expenses were lower as well, which resulted in a surplus of \$716,133. As per the financial model approved by Council, surpluses for up to ten years were planned in order to build a reserve fund for future capital replacement and to ensure the long-term financial sustainability of ADEU. For its fourth year of operations and in the context of a growing customer base, ADEU financial, operational and environmental results show outstanding performance of the DEU as expected.





■ APPENDIX B—AWARDS & RECOGNITION

Alexandra District Energy Utility

Awarding Body	Award	Date	Comments
Canadian Consulting Engineer Magazine & the Association of Consulting Engineering Companies—Canada	Award of Excellence (Natural Resources, Mining, Industry and Energy Category)	2013	This award is the most prestigious mark of recognition in Canadian engineering and is given to projects that exhibit a high quality of engineering, imagination and innovation.
Public Works Association of British Columbia	Project of the Year	2013	This award is given to a municipality that constructs a major and complex public works or utilities project that meets specific criteria including innovative design with project benefits for the community and environment.
International District Energy Association	Certificate of Recognition—Innovation Awards	2013	This program highlights examples of engineering, technology and operational innovation within the district energy industry.
ENERGY GLOBE Foundation	Canadian Energy Globe National Award	2013	The national ENERGY GLOBE Awards distinguish best project submissions from a country. It is awarded annually to projects focusing on energy efficiency, renewable energies and the conservation of resources.
Canadian GeoExchange Coalition	Excellence Award	2014	The Canadian Geo-exchange Coalition Excellence Award recognizes regional geothermal heat pump projects that showcase both complexity and quality of installation and design.
Association of Professional Engineers and Geoscientists of British Columbia (APEGBC)	Sustainability Award	2014	APEGBC's Sustainability Award was created to recognize the important contribution that engineering and geoscience make to the well being of human life and the ecosystems on which we all depend.

■ APPENDIX C—MANAGEMENT’S DISCUSSION AND ANALYSIS

About the Company

LIEC is a wholly-owned municipal corporation, established to operate district energy utility operations in the City of Richmond on the City’s behalf. LIEC was incorporated in August 2013.

On October 30, 2014, LIEC and Corix entered into a 30 year Concession Agreement (the “Agreement”), to complete a public-private partnership project, whereby Corix will design, construct, finance, operate, and maintain infrastructure in the Oval Village District Energy Utility service area. The total estimated capital construction cost of the Oval Village District Energy Utility is \$30,909,000 and will accrue interest which will be repaid over the term of the agreement. The payment schedule is dependent on the timing and amount of the capital construction.

The Corporation will make payments to Corix based on Corix’s Annual Revenue Requirement. The Annual Revenue Requirement is based on the utility cost of service rate-setting principles in British Columbia utilizing forward test years. The Annual Revenue requirement combines a fixed charge amount to recover Corix’s fixed costs (the “Capacity Charge”) and a volumetric charge expressed as an amount per megawatt hour of energy provided to the Corporation in order to recover Corix’s variable costs (the “Commodity Charge”). The Capacity Charge includes maintenance, labour, depreciation, interest, Return on Equity and other selling, general and administration costs. The Commodity Charge includes natural gas and electricity costs. These costs will be repaid over time by revenue generated through future customer rates.

Financial Summary

Financial statements (Appendix D) provide information about the financial position, performance and changes in the financial position of the company. The financial statements demonstrate accountability by providing information about the company's resources, obligations and financial affairs. For the year ended December 31, 2015, LIEC had accumulated surplus of \$550,747 (2014:\$23,068) with \$4,385,619 (2014 – \$275,310) of tangible capital assets.

The 2015 annual surplus (the change in the accumulated surplus) is the net result of a \$1,018,950 in revenues and \$491,271 of expenses. The 2015 revenues increased by \$987,624 to \$1,018,950 (2014 – \$31,326) due to \$820,179 (2014 – \$nil) in developer contributions for service connection fees relating to energy transfer stations that form part of the tangible capital assets and \$177,584 (2014 – \$nil) from user fees.

The user fee revenues reflect energy sales to the first customers who connected in June 2015 (Riva 1 by Onni) and July 2015 (Carrera by Polygon). The user fee revenues were lower than budget due to slower than projected development completion of Riva 1 and Carrera and the deferred development (to 2016) of Cadence by Cressey.

The increase in expenses of \$483,012 to \$491,271 (2014 – \$8,259) is due to the commencement of operations for the supply of energy to the Riva 1 and Carrera developments. These expenses are mainly amounts payable to Corix and form part of the concession liability on the Statement of Financial Position.

It is expected that the initial years of the OVDEU will result in higher operating costs than revenues mainly due to the timing of start-up costs, amortization etc. The 30-year financial model that forms part of the agreement with Corix projected the operating costs for 2015 to be \$517,000 (comprised of utilities, interest and contract services (operating and maintenance, general and administration costs)). The comparable actual expenses recorded are \$417,615 (comprised of utilities \$42,381, contract services \$345,436, and interest \$29,798) and are in line with the expected figures. The favourable variance of \$99,385 is due to the delayed completion of the Riva 1 and Carrera developments as mentioned above.

■ APPENDIX E—FINANCIAL STATEMENTS OF LULU ISLAND ENERGY COMPANY LTD.

For the year ended December 31, 2015



KPMG LLP
Metro Tower I
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Burnaby BC V5H 4M2
Canada
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Fax (604) 527-3636

INDEPENDENT AUDITORS' REPORT

To the Shareholder of Lulu Island Energy Company Ltd.

We have audited the accompanying financial statements of Lulu Island Energy Company Ltd., which comprise the statement of financial position as at December 31, 2015 and the statements of operations, changes in net debt, and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.



*Lulu Island Energy Company Ltd.
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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Lulu Island Energy Company Ltd. as at December 31, 2015, and its results of operations, and its changes in net debt, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

A handwritten signature in black ink that reads 'KPMG LLP' with a horizontal line underneath.

Chartered Professional Accountants

April 21, 2016
Burnaby, Canada

LULU ISLAND ENERGY COMPANY LTD.

Statement of Financial Position

December 31, 2015, with comparative information for 2014

	2015	2014
Financial Assets		
Due from City of Richmond (note 4)	\$ 93,677	\$ 31,327
	93,677	31,327
Liabilities		
GST payable	2,208	-
Oval Village District Energy Utility ("OVDEU") concession agreement liability (note 5(a))	3,888,284	275,310
Accrued interest on OVDEU concession agreement liability (note 5(a))	38,057	8,259
	3,928,549	283,569
Net debt	(3,834,872)	(252,242)
Non-Financial Assets		
Tangible capital assets (note 7)	4,385,619	275,310
Accumulated surplus	\$ 550,747	\$ 23,068

Commitments and contingencies (note 10)

See accompanying notes to financial statements.



Director



Director

LULU ISLAND ENERGY COMPANY LTD.

Statement of Operations

Year ended December 31, 2015, with comparative information for 2014

	Budget 2015 (note 2(a))	2015	2014
Revenue:			
Contribution from City of Richmond (note 4)	\$ 27,000	\$ 21,187	\$ 31,326
User fees	252,907	177,584	-
Developer contribution	988,000	820,179	-
	1,267,907	1,018,950	31,326
Expenses:			
Amortization	-	68,192	-
Contract services (note 5(b))	230,832	345,436	-
Interest	-	29,798	8,259
Legal and accounting	16,500	5,464	-
Marketing	1,200	-	-
Utilities (note 5(b))	-	42,381	-
	248,532	491,271	8,259
Annual surplus	1,019,375	527,679	23,067
Accumulated surplus, beginning of year	23,068	23,068	1
Accumulated surplus, end of year	\$ 1,042,443	\$ 550,747	\$ 23,068

See accompanying notes to financial statements.

LULU ISLAND ENERGY COMPANY LTD.

Statement of Changes in Net Debt

Year ended December 31, 2015, with comparative information for 2014

	Budget 2015 (note 2(a))	2015	2014
Annual surplus for the year	\$ 1,019,375	\$ 527,679	\$ 23,067
Acquisition of tangible capital assets	(988,000)	(4,178,501)	(275,310)
Amortization of tangible capital assets	-	68,192	-
Change in net debt	31,375	(3,582,630)	(252,243)
Net debt, beginning of year	(252,242)	(252,242)	1
Net debt, end of year	\$ (220,867)	\$ (3,834,872)	\$ (252,242)

See accompanying notes to financial statements.

LULU ISLAND ENERGY COMPANY LTD.

Statement of Cash Flows

Year ended December 31, 2015, with comparative information for 2014

	2015	2014
Cash provided by (used in):		
Operations:		
Annual surplus	\$ 527,679	\$ 23,067
Amortization of tangible capital assets	68,192	-
Change in non-cash working capital:		
GST payable	2,208	-
Due from City of Richmond	(62,350)	(31,326)
OVDEU concession agreement liability	3,612,974	275,310
Accrued interest on OVDEU concession agreement liability	29,798	8,259
Net change in cash from operating activities	4,178,501	275,310
Capital activities:		
Acquisition of tangible capital assets	(4,178,501)	(275,310)
Net change in cash from capital activities	(4,178,501)	(275,310)
Net change in cash	-	-
Cash, beginning of year	-	-
Cash, end of year	\$ -	\$ -

See accompanying notes to financial statements.

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements

For the year ended December 31, 2015

1. Incorporation and nature of business:

The Lulu Island Energy Company Ltd. (the "Corporation") 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 business of the Corporation is to manage and operate district energy utilities, 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.

2. Significant accounting policies:

The financial statements of the Corporation are the representation of management and have been prepared in accordance with Canadian generally accepted accounting principles as prescribed by the Public Sector Accounting Board ("PSAB") of the Chartered Professional Accountants of Canada.

(a) Budget data:

The budget data presented in these financial statements is based upon the 2015 budget submission approved by the Board on February 19, 2015. Note 9 reconciles the approved budget to the budget figures reported in these financial statements.

(b) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the value of tangible capital assets, determination of provisions for the concession liability and accrued liabilities, allowance for doubtful accounts, and provisions for contingencies. Actual results could differ from these estimates. The estimates are reviewed periodically and as adjustments become necessary, they are recorded in earnings in the year in which they become known.

(c) Income taxes:

The Corporation is not subject to income taxes as it is a municipal corporation wholly-owned by the City.

(d) Non-financial assets:

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations.

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements

For the years ended December 31, 2015

2. Significant accounting policies (continued):

(d) Non-financial assets (continued):

(i) Tangible capital assets:

Tangible capital assets are recorded at cost, which includes amounts that are directly attributable to acquisition, construction, development, or betterment of the asset. The cost, less residual value, of the tangible capital assets, is amortized on a straight-line basis over their estimated useful lives.

Amortization is charged over the asset's useful life commencing when the asset is acquired or when it is available for use.

Asset	Useful life - years
Mechanical	33
Distribution piping system	50

(ii) Interest capitalization:

The Corporation does not capitalize interest costs associated with the construction of a tangible capital asset.

(iii) Impairment of tangible capital assets:

Tangible capital assets are written down when conditions indicate that they no longer contribute to the Corporation's ability to provide goods and services, or when the value of future economic benefits associated with the tangible capital assets are less than their net book value. The net write-downs are accounted for as expenses in the statement of operations.

(e) Revenue recognition:

Revenue is recorded as revenue in the period that the services are rendered, with any unearned portion recorded as deferred revenue.

(f) 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 estimated at fair value, based on construction progress billings and also includes other costs, if any, incurred directly by the Corporation.

The asset cost includes development costs estimated at fair value. Interest during construction is not included in the asset cost. When available for operations, the project assets are amortized over their estimated useful lives. Correspondingly, an obligation for the cost of capital and financing received to date, net of the contributions received is recorded as a liability and included as debt on the statement of financial position. The interest rate used is the market's current variable interest rate and may change based on market conditions.

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements

For the years ended December 31, 2015

3. Share capital:

Authorized: 10,000 common shares without par value. Issued: 100 common shares for \$1.

4. Due from City of Richmond:

Due from City of Richmond is comprised of share capital and funds held by the City of Richmond on behalf of the Corporation. The balance is non-interest bearing and is due on demand.

	2014	2014
Share capital (note 3)	\$ 1	\$ 1
Contribution from City of Richmond	93,676	31,326
	<u>\$ 93,677</u>	<u>\$ 31,327</u>

5. Oval Village (formerly "River Green") District Energy Utility Concession Agreement:

On October 30, 2014, the Corporation and Corix Utilities Inc. ("Corix") entered into a 30 year Concession Agreement (the "Agreement"), which is a public-private partnership project, where Corix 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 \$30,909,000 and will be accrued over time.

(a) OVDEU concession agreement liability:

	2015	2014
OVDEU, 30 year contract to October 31, 2044 with Corix, payable in monthly payments, including annual interest of 2.27%, in accordance with the concession agreement terms. Required principal repayments on P3 debt for the years ending December 31 are disclosed with public-private partnership commitments in note 10	\$ 3,888,284	\$ 275,310
Interest	38,057	8,259
	<u>\$ 3,926,341</u>	<u>\$ 283,569</u>

(b) Contract services and utilities expenses:

Contract services expense is comprised of maintenance, operating labour, selling, and general and administrative expense. Utilities expense is comprised of electricity and natural gas.

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements

For the years ended December 31, 2015

6. Corix and City of Richmond Limited Guarantee Agreement:

On October 30, 2014, Corix and the City of Richmond entered into a Limited Guarantee Agreement. The City of Richmond is the Guarantor and guarantees the performance of some of the Corporation's obligations under the Concession Agreement to a maximum of \$18.2 million.

7. Tangible capital assets:

Cost	Balance, December 31, 2014	Additions and transfers	Disposals	Balance, December 31, 2015
Work-in-progress	\$ 275,310	\$ (275,310)	\$ -	\$ -
Mechanical	-	2,913,291	-	2,913,291
Distribution piping system	-	1,540,520	-	1,540,520
	\$ 275,310	\$ 4,178,501	\$ -	\$ 4,453,811

Accumulated amortization	Balance, December 31, 2014	Disposals	Amortization	Balance, December 31, 2015
Work-in-progress	\$ -	\$ -	\$ -	\$ -
Mechanical	-	-	50,233	50,233
Distribution piping system	-	-	17,959	17,959
	\$ -	\$ -	\$ 68,192	\$ 68,192

Net book value	Balance, December 31, 2014	Balance, December 31, 2015
Work-in-progress	\$ 275,310	\$ -
Mechanical	-	2,863,058
Distribution piping system	-	1,522,561
	\$ 275,310	\$ 4,385,619

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements

For the years ended December 31, 2015

8. Accumulated surplus:

	2015	2014
General surplus	\$ (257,584)	\$ 23,067
Invested in tangible capital assets	808,330	-
Share capital	1	1
	\$ 550,747	\$ 23,068

9. Budget data:

The budget data presented in these financial statements is based upon the 2015 budget approved by the Board on February 19, 2015. Amortization was not contemplated on the development of the budget and, as such, has not been included. The chart below reconciles the approved budget to the budget figures reported in these financial statements.

	Budget Amount
Revenue:	
Operating budget	\$ 1,267,907
Expenses:	
Operating	248,532
Acquisition of tangible capital assets	988,000
	1,236,532
Annual surplus per approved budget	31,375
Reconciling adjustments:	
Add: Acquisition of tangible capital assets	988,000
Annual surplus per statement of operations	\$ 1,019,375

10. Commitments and contingencies:

(a) Public-private partnership commitments:

Payments to Corix under the agreement are based on Corix'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. 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.

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements

For the years ended December 31, 2015

10. Commitments and contingencies:

(a) Public-private partnership commitments (continued):

The information presented below shows the anticipated cash outflow for future obligations under the Agreement for the capital and operating costs of the assets. As construction progresses, the asset values are recorded as tangible capital assets and the corresponding liabilities are recorded as concession agreement liabilities as disclosed in note 5.

	Capital Charge	Operating Charge	Total Charge
2016	\$ 70,290	\$ 461,710	\$ 532,000
2017	131,690	810,310	942,000
2018	181,470	1,235,530	1,417,000
2019	204,780	1,659,220	1,864,000
2020	220,890	1,718,110	1,939,000
2021 and thereafter	30,099,880	107,040,480	137,140,360
	\$ 30,909,000	\$ 112,925,360	\$ 143,834,360

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