




2016 | Annual Report



Clean, efficient
energy, for now
and the future.

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■ MESSAGE FROM THE BOARD CHAIR

The Lulu Island Energy Company (LIEC) is forging ahead with delivering on the City of Richmond's vision to develop sustainable district energy systems. Of note in 2016, Alexandra District Energy Utility (ADEU) was transferred to the company allowing it to deliver all district energy services for the City as originally envisioned when it was incorporated in 2013. Under the LIEC umbrella, ADEU customers can be comforted by our commitment to deliver energy services to their homes and/or businesses at competitive prices. LIEC's district energy business is an important contributor in achieving the City of Richmond's vision to transition into a sustainable, low carbon community. LIEC, through its sustainable district energy systems, builds community resiliency and reduces the overall environmental impact of the City.

My fellow Board Directors have been essential in LIEC's continued success; I thank them for their passion and commitment. In this context, I present the 2016 Annual Report to our shareholder, the City of Richmond, as a record of the company's financial performance and customer service excellence.

A handwritten signature in black ink, appearing to read 'George Duncan', with a long horizontal flourish 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, four new buildings were connected to the Oval Village District Energy Utility (OVDEU) in 2016. In addition, district energy services grew further in 2016 with the Phase 4 expansion of the International District Energy Associations 2016 System of the Year award winner—the Alexandra District Energy Utility. Overall, LIEC provides energy to over 2.6 million sq. ft. of residential, commercial, and institutional buildings. This has eliminated 1,250 tonnes of greenhouse gas emissions in the community to date. It is estimated that at full build out, current energy systems will reduce up to 6,000 tonnes of greenhouse gas emissions annually, which is equivalent to removing approximately 2,000 cars from the road each year.

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 serve customers' space heating, cooling and hot water needs while reducing the overall environmental impact of buildings in our community.



Robert Gonzalez

CEO, Lulu Island Energy Company





■ 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 efficient 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 2016, LIEC had tangible capital assets of \$31,036,506 relating to the development of the ADEU and OVDEU, revenues of \$2,424,138 related to user fees paid by customers, service connection fees and permit fees paid by developers, and expenses of \$942,573.





■ SPOTLIGHT ON 2016: PROGRESS REPORT

New Buildings Connected to the Oval Village District Energy Utility

OVDEU was 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. Soon after, in October 2014, LIEC entered into a Concession Agreement with Corix Utilities to design, construct, finance, operate and maintain the system. In 2016, OVDEU expanded its customer base to service three new buildings in the Oval Village area—Riva 2 (February 2016), River Park Place—Phase 1 (July 2016) and Cressey Cadence (November 2016). Energy generated at the two interim energy centres provide 11MW of heating capacity to these buildings. These facilities will be in operation until there are enough buildings connected to the system to justify the costs of constructing a major energy plant that will extract heat from the Gilbert Trunk sanitary force main sewer. Similar technology is in operation today in the City's Gateway Theatre, Vancouver's Neighbourhood Energy Utility, and throughout Europe.

Alexandra District Energy Utility Energy Plant and Infrastructure Expansion—Phase 4

The City completed the Phase 4 expansion in 2016 to service its first commercial customers continued development in the West Cambie Neighbourhood, including major retail customers—the Central at Garden City (SmartREIT). Phase 4 added distribution piping and a new satellite energy plant located on the roof of the Central at Garden City north parkade connecting almost 284,000 sq. ft. of floor space to the system. The satellite energy plant provides heating and cooling needs for retail tenants using energy efficient air-source heat pumps. This new energy plant is interconnected with the current ADEU energy plant allowing for potential energy sharing with the main ADEU distribution system.

Alexandra District Energy Utility Assets Transfer to Lulu Island Energy Company

On December 31, 2016, the assets and operations of the Alexandra District Energy Utility were transferred to Lulu Island Energy Company. The transfer to LIEC was the final step towards Richmond City Council's goal of assigning LIEC the function of providing current and future district energy services on behalf of the City. The transfer is important in order to support the ongoing successful establishment of LIEC, and to maintain the highest level of service for an ever growing customer base. The transfer will ensure that connected customers will continue to receive the many benefits of district energy, such as ease of operation, less management and costs, improved efficiency and reliability, environmental benefits and comfort and convenience in the long term.

Ongoing Communications to Customers and Richmond Residents

LIEC continues to distribute communication materials to residents and new customers in Richmond to create awareness about its energy utility services. Buyers of new condominium apartments serviced by LIEC in the Oval Village and Alexandra service areas received information packages about rate structures and services. Furthermore, 2016 brought new information and changes to LIEC's website, including the development and launch of the new Kids Corner. The changes to the website were initiated as part of an awareness campaign to inform ADEU customers about the change in ownership and billing as a result of the ADEU asset transfer to LIEC. The creation of a "Kids Corner" webpage has served as a mechanism to engage and communicate with customers and Richmond residents through their children. Largely led by the Barn Owl Mascot Design Contest for children ages 4-17, the new LIEC mascot; Ali the Barn Owl has created a new avenue to engage the community around district energy and LIEC. In addition to the Kids Corner, new web content and videos supports LIEC's public engagement goals.



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. Through the development approvals processes, the City continues to secure commitments from new developments in this area to be "District Energy Ready." Following Richmond City Council's endorsement to solicit the services of a private sector partner to design, construct, finance, operate and maintain a new system, staff launched an open procurement process in 2016 and is in the process of selecting a partner for the project.





LOOKING FORWARD IN 2017: WORK PLAN

Ongoing Development in the Oval Village Area

Development activity continues in the Oval Village within and adjacent to the DEU service area. For this reason, LIEC intends to bring forward to Richmond City Council recommendations for a broader expansion of the service area in 2017 to provide certainty to developers about the City's expectations for connecting to OVDEU. LIEC has been completing an economic extension test to assess the most efficient manner to expand services in the area.

With respect to the current service area, LIEC looks forward to benefiting from Corix's construction and operations experience with upcoming projects in 2017, listed in Table 1.

Table 1: Development Timing in OVDEU Service Area

	Anticipated Occupancy
Amacon (Tempo)	2017
Aspac (2 River Green)	2017
Onni (Riva 3)	2017

Alexandra District Energy Utility Expansion

After rapid growth in 2015 and 2016, expansion and development in the West Cambie Neighbourhood continues. This includes the connection of the City of Richmond's new Fire Hall #3, scheduled for completion in April 2017. Additionally, design work and pre-construction activities are under way to ensure the ADEU infrastructure is able to meet the needs of the multiple new developments which are scheduled for completion in 2018 and beyond.

Developing a Plan for a New District Energy Node in City Centre North

After gaining support from LIEC's Board of Directors to release a Request for Proposals in 2016 for selecting a partner for servicing the north City Centre area, planning activities in 2017 will include negotiations with the lead proponent, planning and due diligence work to determine how best to service area, including assessing both heating and cooling energy services. The lead proponent will have to further analyse the proposed development area, so that to select the district energy concept that could provide energy services at a competitive price for building owners, while reducing energy consumption and greenhouse gas emissions.

■ 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 was owned and operated by the City up to the end of 2016, 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, future expansion of ADEU will be carried out by LIEC in phases that are closely tied with the timing of new buildings in the service area. By the end of 2016, the City had completed the Phase 4 expansion to connect to its first commercial customers to district energy systems.

Infrastructure Overview

Alexandra District Energy Utility

Energy Station	9600 Odlin Road, Richmond, BC V6X 1C9 Satellite Energy Plant (Area A)—4751 McClelland Rd, Upper Parkade Richmond BC, V6X 0M5
Service	Residential: Space heating, cooling and domestic hot water Commercial: Space heating and cooling
Technology	ADEU Phases 1 and 2 were commissioned in July 2012. The ADEU will potentially service up to 3100 residential units and 1.1 sq. ft. of commercial uses at build out in approximately 10 to 15 years. Heating, cooling and domestic hot water are provided to connected residential buildings, and only heating and cooling for commercial and institutional 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. Phase 3, completed in 2015 added heating and cooling capacity through the addition of a second geo-exchange field, two cooling towers and three boilers. Further, Phase 4 completed in 2016, brought the addition of a new satellite energy plant at the Central at Garden City (SmartREIT) commercial development. Located on the roof top parkade, this plant utilizes efficient air-source heat pump technology to provide space heating and cooling for the retail spaces within the development. This new energy plant is also interconnected with the current ADEU energy plant allowing for energy sharing with the main ADEU distribution system.

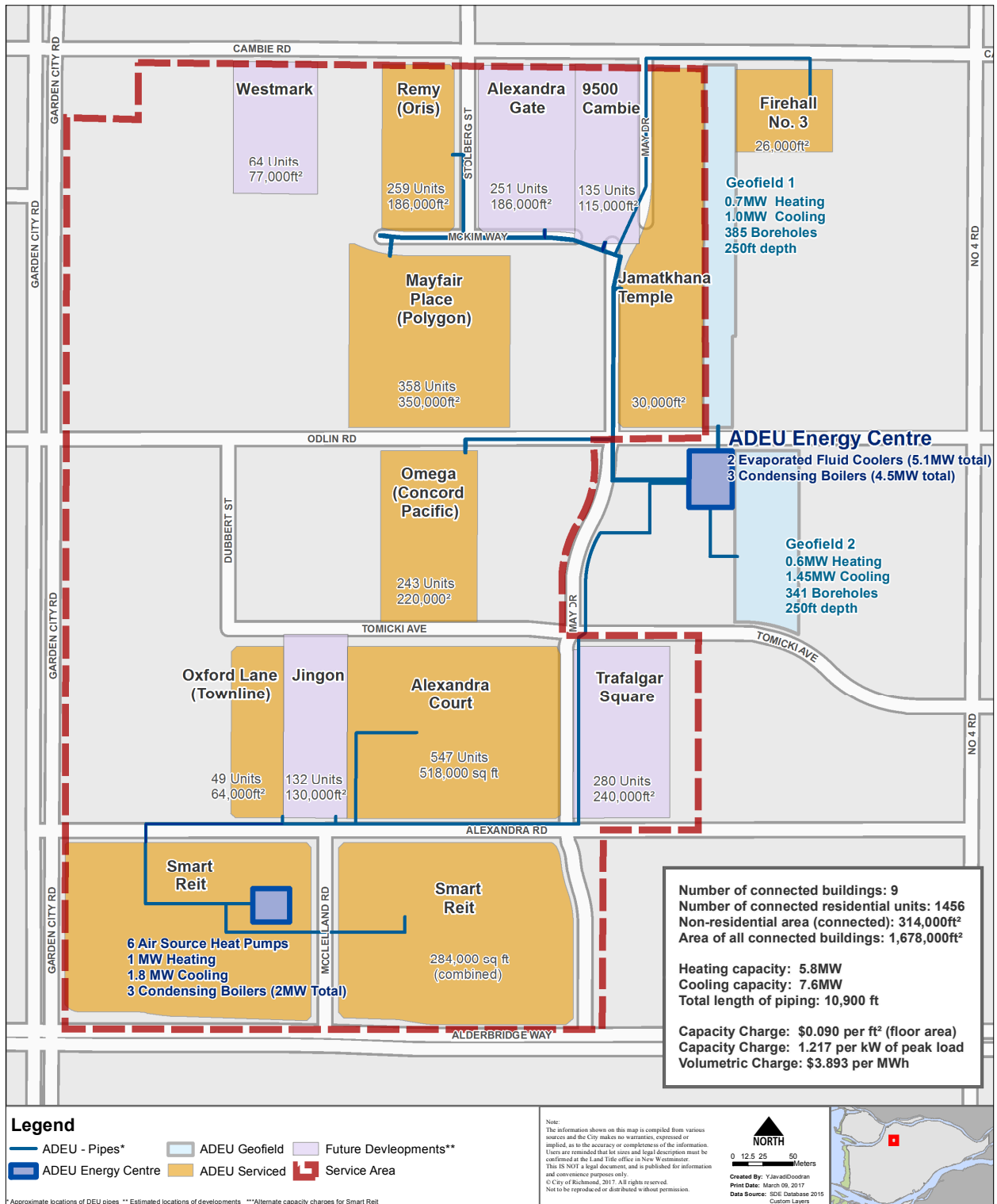


Individual buildings connected to the ADEU require smaller sized boilers for increasing the temperature of domestic hot water, reducing the overall cost of maintenance to buildings. The performance of the system is monitored continuously, providing a high level of reliability to customers.

**Length of
Distribution
Network**

3400 m (11,100 ft.) of high-density polyethylene piping
726 vertical closed-loop boreholes, each 250 feet deep

Alexandra District Energy Utility





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 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 fired make-up air units for common space heating and gas fired 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, commodities (e.g. electricity and natural gas) and other administrative costs such as staffing.

2016 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 square floor area of the building (\$0.087 per sq. ft.);
- Peak Charge: Charge based on the annual peak heating load supplied by the ADEU to the building (\$1.170 per kW/month); and
- Volumetric Charge: Charge based on the energy consumed by the building (\$3.743 per MWh).

Buildings

Address	Use	Area (sq. ft.)
Remy [4099 Stolberg Street]	Residential	186,000
Mayfair Place [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
Oxford Lane [4588 Dubbert Street]	Residential	64,000
Central at Garden City (SmartREIT) [4731-4751 McClelland Road, 9251 Alderbridge Way]	Commercial	284,000
Total:		1,397,000

Customer Service

ADEU provides support 24 hours a day, 7 days a week. Customers can contact customer service via a telephone hotline 1-844-852-5651.



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 2016 9,512 MWh. Greenhouse Gas Performance by the end of 2016 1653 tonnes of CO₂e avoided, equal to removing 512 cars from City of Richmond roads.

2016 Financial Summary

ADEU did not operate under LIEC in 2016, 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 2016 was \$1,255,505. Total expenses from operations (before \$444,900 of infrastructure amortization) were \$377,057. The total capital invested to date for Phase 1 to 4 is \$24.1M.

2016 revenue from operations and expenses, when compared with the ADEU financial model, are lower than expected due to the Alexandra Court Phases 3 and 4, SmartREIT, Oxford Lane and Fire Hall #3 developments connecting to the utility later than projected.

Projected expenses were lower as well, which resulted in a surplus of \$878,448. As per the financial model approved by Council, surpluses are strategically designed in order to build a reserve fund for future capital replacement and to ensure the long-term rate stability for the customers of the ADEU. For its fourth year of operations and in the context of a growing customer base, ADEU financial, operational and environmental results show the DEU is progressing as planned.

APPENDIX B—AWARDS & RECOGNITION

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.



Awarding Body	Award	Date	Comments
International District Energy Association	System of the Year	2016	IDEA System of the Year is the highest honour IDEA can confer on a district energy system. It recognizes an exemplary district energy system providing high-level performance and service that further the goals of the district energy industry.
Union of British Columbia Municipalities	Community Excellence Award	2016	The Community Excellence Award—Best Practices, Excellence in Action recognizes communities that have demonstrated exemplary leadership through policies, decision-making or actions that have made a difference for their residents. It showcases municipalities and regional districts who “lead the pack,” take risks to innovate, establish new partnerships, question established ways of doing business and pioneer new customer service practices.

■ 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 \$31,931,000 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. On December 31, 2016, LIEC acquired the Alexandra District Energy Utility from the City of Richmond, taking full ownership of its operations and services.

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 of 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.

LIEC's overall financial position improved by \$24,638,791 in 2016 with accumulated surplus totaling \$25,189,538 (2015 – \$550,747). Accumulated surplus is comprised of tangible capital assets \$25,659,621 (2015 – \$808,330) and deficit of \$470,083 (2015 – \$257,583).

LIEC's net financial position, calculated as financial assets less liabilities, results in a net debt position. A net debt position is an indicator of future revenues required to pay for past transactions or events. This is consistent with the concession agreement structure for the Oval Village District Energy Utility (OVDEU) where capital and operating costs are greater than revenues in the initial stages of the agreement due to the long-term nature of the capital assets that will generate revenue over their service life. Net debt increased by \$2,012,096 to \$5,846,968 (2015 – \$3,834,872).

The non-financial assets increased by \$26,650,887, bringing the total to \$31,036,506. The increase is the net result of capital additions of tangible capital assets in the year offset by disposals and amortization expense. Included in the additions is the transfer of the Alexandra District Energy Utility (ADEU) assets of \$23,157,226.

The 2016 annual surplus (the change in the accumulated surplus) is the net result of \$2,424,138 in revenues before \$23,157,226 relating to the asset transfer and reduced by \$942,573 of expenses. The 2016 revenues before the asset transfer increased by \$1,405,188 to \$2,424,138 (2015 – \$1,018,950) due to \$1,769,439 (2015 – \$820,179) in developer contributions for service connection fees relating to energy transfer stations that form part of the tangible capital assets and \$604,919 (2015 – \$177,584) from user fees.

LIEC's annual surplus before non-operating activity of \$1,481,565 exceeded budget by \$826,427 primarily due to the capital funding source revenue relating to developer contributed energy transfer stations. Annual surplus including the asset transfer exceeded budget by \$23,983,654.

The user fee revenues reflect energy sales for a full year for the first customers who connected in 2015 (Riva 1 by Onni and Carrera by Polygon) along with new customers that connected in 2016 (Riva 2 by Onni and River Park Place 1 by Intracorp). The user fee revenues are higher than budget due to the timing of connections.

The increase in expenses of \$451,302 to \$942,573 (2015 – \$491,271) is due to the commencement of operations for the supply of energy to the Riva 2 and River Park Place 1 developments as well as a full year of expenses relating to Riva 1 and Carrera developments. Expenses exceeded budget by \$3,368 due to the timing of connections which is offset by additional revenues.

These expenses are mainly amounts payable to Corix and form part of the concession liability on the Statement of Financial Position.

Tangible capital assets increased to \$31,036,506 (2015 – \$4,385,619) mainly due to the transfer of ADEU assets of \$23,157,226 from the City of Richmond. Effective January 1, 2017, the ADEU operations were transferred to LIEC from the City. This function is funded by user fees. The 2016 statement of operations does not include any amounts relating to the ADEU operations, these amounts will only be reflected beginning in 2017.

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 2016 to be \$685,928 (comprised of utilities, interest and contract services (operating and maintenance, general and administration costs, excluding amortization)). The comparable actual expenses recorded are \$701,757 (comprised of utilities \$217,289, contract services \$371,487, and interest \$112,981) and are in line with the expected figures. The variance of \$15,829 is due to the timing of completion of the Riva 2 and River Park Place 1 developments and is offset by user fee revenue.

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

Period of incorporation on
January 1, 2016 to December 31, 2016



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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, 2016 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, 2016, 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 20, 2017
Burnaby, Canada

LULU ISLAND ENERGY COMPANY LTD.

Statement of Financial Position

December 31, 2016, with comparative information for 2015

	2016	2015
Financial Assets		
Cash and cash equivalents	\$ 170,358	\$ -
Accounts receivable	573,991	-
Due from the City to Richmond (note 4)	-	93,677
	<u>744,349</u>	<u>93,677</u>
Liabilities		
Accounts payable	84,966	2,208
Due to the City of Richmond (note 4)	52,632	-
Deferred revenue (note 12)	378,604	-
Oval Village District Energy Utility ("OVDEU") concession agreement liability (note 5(a))	6,075,115	3,926,341
	<u>6,591,317</u>	<u>3,928,549</u>
Net debt	(5,846,968)	(3,834,872)
Non-Financial Assets		
Tangible capital assets (note 7)	31,036,506	4,385,619
Accumulated surplus	<u>\$ 25,189,538</u>	<u>\$ 550,747</u>

Commitments and contingencies (note 10)

See accompanying notes to financial statements.

Approved on behalf of the Board:



Director



Director

LULU ISLAND ENERGY COMPANY LTD.

Statement of Operations

Year ended December 31, 2016, with comparative information for 2015

	Budget 2016	2016	2015
	(note 2(a) and 9)		
Revenue:			
User fees	\$ 547,342	\$ 604,919	\$ 177,584
Permit fee contribution from the City of Richmond (note 11(b))	27,000	49,780	21,187
Capital funding sources	1,020,000	1,769,439	820,179
	1,594,342	2,424,138	1,018,950
Expenses:			
Amortization	104,432	183,908	68,192
Contract services (note 5(b))	367,094	371,487	345,436
General and administration	82,150	27,320	-
Insurance	30,000	-	-
Interest	108,388	112,981	29,798
Professional services	36,695	29,588	5,464
Utilities (note 5(b))	210,446	217,289	42,381
	939,205	942,573	491,271
Non-operating activity:			
Asset transfer from the City of Richmond (note 11(a))	-	23,157,226	-
Annual surplus	655,137	24,638,791	527,679
Accumulated surplus, beginning of year	550,747	550,747	23,068
Accumulated surplus, end of year	\$ 1,205,884	\$ 25,189,538	\$ 550,747

See accompanying notes to financial statements.

LULU ISLAND ENERGY COMPANY LTD.

Statement of Changes in Net Debt

Year ended December 31, 2016, with comparative information for 2015

	Budget 2016	2016	2015
	(note 2(a) and 9)		
Annual surplus for the year	\$ 655,137	\$ 24,638,791	\$ 527,679
Acquisition of tangible capital assets	(1,020,000)	(2,003,130)	(3,358,322)
Developer contributed tangible capital assets	-	(1,674,439)	(820,179)
Transfer of Alexandra District Energy ("ADEU") assets from City of Richmond	-	(23,157,226)	-
Amortization of tangible capital assets	104,432	183,908	68,192
Increase in net debt	(260,431)	(2,012,096)	(3,582,630)
Net debt, beginning of year	(3,834,872)	(3,834,872)	(252,242)
Net debt, end of year	\$ (4,095,303)	\$ (5,846,968)	\$ (3,834,872)

See accompanying notes to financial statements.

LULU ISLAND ENERGY COMPANY LTD.

Statement of Cash Flows

Year ended December 31, 2016, with comparative information for 2015

	2016	2015
Cash provided by (used in):		
Operations:		
Annual surplus	\$ 24,638,791	\$ 527,679
Items not involving cash:		
Amortization	183,908	68,192
Transfer of ADEU assets from City of Richmond	(23,157,226)	-
Developer contributed tangible capital assets	(1,674,439)	(820,179)
Change in non-cash working capital:		
Due (to) from the City of Richmond	146,309	(62,350)
Accounts receivable	(573,991)	-
Accounts payable and accrued liabilities	82,758	2,208
Deferred revenue	378,604	-
OVDEU concession agreement/liability	2,148,774	3,642,772
Net change in cash from operating activities	2,173,488	3,358,322
Capital activities:		
Acquisition of tangible capital assets	(2,003,130)	(3,358,322)
Net change in cash and cash equivalents	170,358	-
Cash, beginning of year	-	-
Cash, end of year	\$ 170,358	\$ -

See accompanying notes to financial statements.

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements
Year ended December 31, 2016

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 2016 budget submission approved by the Board on January 18, 2016. 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
Year ended December 31, 2016

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
Distribution piping	50 – 75
Civil	50
Electrical	25
Mechanical	25 – 33

(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 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.

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements
Year ended December 31, 2016

2. Significant accounting policies (continued):

(f) Public-private partnership project (continued):

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.

3. Share capital:

Authorized: 10,000 common shares without par value. Issued: 100 common shares for \$1. Additional shares issued as described in note 8(b).

4. Due (to) from City of Richmond:

Due (to) from City of Richmond is comprised of amounts that arise in the normal course of business and share capital. The balance is non-interest bearing and due on demand.

	2016	2015
Share capital (note 3)	\$ 1	\$ 1
Due (to) from City of Richmond	(52,633)	93,676
	<u>\$ (52,632)</u>	<u>\$ 93,677</u>

5. Oval Village District Energy Utility Concession Agreement:

On October 30, 2014, the Corporation and Corix Utilities Inc. ("Corix") entered into a 30 year Concession 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 \$31,931,000 and will be accrued over time.

(a) OVDEU concession agreement liability:

	2016	2015
OVDEU, 30 year contract to October 31, 2044 with Corix, payable in monthly payments 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.	\$ 5,997,522	\$ 3,888,284
Interest	77,593	38,057
	<u>\$ 6,075,115</u>	<u>\$ 3,926,341</u>

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements
Year ended December 31, 2016

5. Oval Village District Energy Utility Concession Agreement (continued):

(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.

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, 2015	Additions	Disposals	Transfer from the City	Balance, December 31, 2016
ADEU					
Distribution piping	\$ -	\$ -	\$ -	\$ 3,750,437	\$ 3,750,437
Civil	-	-	-	5,183,039	5,183,039
Electrical	-	-	-	2,794,438	2,794,438
Mechanical	-	-	-	12,461,144	12,461,144
OVDEU					
Work-in-progress	-	959,653	-	-	959,653
Mechanical	2,913,291	1,264,317	-	-	4,177,608
Distribution piping	1,540,520	1,453,599	-	-	2,994,119
	\$ 4,453,811	\$ 3,677,569	\$ -	\$ 24,189,058	\$ 32,320,438

Accumulated amortization	Balance, December 31, 2015	Amortization	Disposals	Transfer from the City	Balance, December 31, 2016
ADEU					
Distribution piping	\$ -	\$ -	\$ -	\$ 110,016	\$110,016
Civil	-	-	-	130,958	130,958
Electrical	-	-	-	140,459	140,459
Mechanical	-	-	-	650,399	650,399
OVDEU					
Work-in-progress	-	-	-	-	-
Mechanical	50,233	120,191	-	-	170,424
Distribution piping	17,959	63,717	-	-	81,676
	\$ 68,192	\$ 183,908	\$ -	\$ 1,031,832	\$ 1,283,932

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements
Year ended December 31, 2016

7. Tangible capital assets (continued):

	Balance, December 31, 2015	Balance, December 31, 2016
Net book value		
ADEU		
Distribution piping	\$ -	\$ 3,640,421
Civil	-	5,052,081
Electrical	-	2,653,979
Mechanical	-	11,810,745
OVDEU		
Work-in-progress	-	959,653
Mechanical	2,863,058	4,007,184
Distribution piping	1,522,561	2,912,443
	\$ 4,385,619	\$ 31,036,506

8. Accumulated surplus:

	2016	2015
Deficit	\$ (470,083)	\$ (257,583)
Invested in tangible capital assets:		
Tangible capital assets purchased or contributed	2,502,395	808,330
Tangible capital assets purchased through share issuance (a)	23,157,226	-
	25,659,621	808,330
	\$25,189,538	\$ 550,747

(a) The City transferred ADEU assets with a net book value of \$23,157,226 as of December 31, 2016 in exchange for share capital of the Corporation. Subsequent to year end, the remaining district energy assets of \$3,839,888 were transferred on March 31, 2017. At that time, the Corporation issued 350 common shares to the City valued at \$26,997,114 for the December 2016 and March 2017 asset transfers.

9. Budget data:

The budget data presented in these financial statements is based upon the 2016 budget approved by the Board on January 18, 2016. The following chart reconciles the approved budget to the budget figures reported in these financial statements.

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements
Year ended December 31, 2016

9. Budget data (continued):

	Budget Amount
Revenue:	
Operating budget	\$ 1,594,342
Expenses:	
Operating	569,737
Acquisition of tangible capital assets	1,020,000
	1,589,737
Annual surplus per approved budget	4,605
Reconciling adjustments:	
Add: Acquisition of tangible capital assets	1,020,000
Less: Utilities expense	210,446
Less: Interest expense	108,388
Less: Amortization expense	104,432
Add: Contract expense	53,798
Annual surplus per statement of operations	\$ 655,137

10. Commitments and contingencies:

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. The Capital charge is comprised of capital expenditures and depreciation, and Operating charge is comprised of services costs, financing costs, income and other taxes, and return on equity.

The information presented below shows the 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.

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements
Year ended December 31, 2016

10. Commitments and contingencies (continued):

	Capital Charge	Operating Charge	Total Charge
2017	\$ 122,204	\$ 808,796	\$ 931,000
2018	144,977	1,042,023	1,187,000
2019	185,311	1,289,689	1,475,000
2020	198,334	1,588,666	1,787,000
2021	204,950	1,655,050	1,860,000
2022 and thereafter	30,987,659	109,429,774	140,417,433

11. Related Party Transactions:

(a) Asset transfer from the City of Richmond:

Effective January 1, 2017, the ADEU operations were transferred to the Corporation from the City. This function is funded by user fees. In 2016, the ADEU tangible capital of the City was transferred to the Corporation as part of an Asset Purchase Agreement dated December 16, 2016. The transfer occurred at a net book value amount of \$23,157,226.

(b) Permit fee contribution from the City of Richmond

During 2016, the Corporation received \$49,780 (2015 – \$21,187) relating to district energy permit fees collected by the City for in-building district energy related equipment review, performed by the Corporation.

12. Deferred Revenue:

Included in deferred revenue is \$371,787 (2015 \$nil) for a service connection fee relating to a future energy transfer station. This will be recognized as revenue once the tangible capital asset relating to the energy transfer station is contributed.

13. Comparative Figures:

Certain comparative information has been reclassified to conform to the financial statement presentation adopted for the current year.

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