Lulu Island
ENERGY COMPANY

2017 | Annual Report


Clean, efficient energy, for now and the future.
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CONTENTS

MESSAGE FROM THE BOARD CHAIR

The Lulu Island Energy Company (LIEC) made important progress in 2017, from expanding its energy services to implementing changes to administrative matters of the company. Of particular note in 2017, the company benefitted from a consolidation of district energy services in the community that took effect on December 31, 2016. 2017 marked the first full year that the award winning Alexandra District Energy Utility was operated by the Lulu Island Energy Company. All of these important changes are summarized in this year's annual report.

As reported in the past, the Board of Directors and staff have been major contributors to the company's success. Most importantly, 2017's work by the company solidified LIEC's district energy business as an important contributor in achieving the City of Richmond's vision to become a sustainable, low carbon community. In this context, I present the 2017 Annual Report to our shareholder, the City of Richmond, as a record of the company's financial performance and customer service excellence.

Robert Gonzalez
Chair, Lulu Island Energy Company

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

Lulu Island Energy Company's collaboration with Corix Utilities saw three new buildings being connected to the Oval Village District Energy Utility (OVDEU) in 2017. With these additions, LIEC now provides energy services to over 3.3 million sq. ft. of residential, commercial, and institutional space throughout Richmond. In recognition of the company's hard work and focus on excellence, the Lulu Island Energy Company was the recipient of three major awards in 2017: the Canadian Consulting Engineering Award of Excellence, Canada Region Institution Energy Management Award, and UBCM Community Recognition Award.

The company's business grew thanks to LIEC taking over operation of the Alexandra District Energy Utility in 2017. This administrative change broadens LIEC's commitment to excellence in sustainable utility management and operations and more importantly, supports excellence in customer service for space heating, cooling, and hot water. I am pleased to report that, as envisioned, the Lulu Island Energy Company is rapidly becoming Richmond's solution for delivering "clean, efficient energy for now and the future." This report provides a summary of the outcomes of the company's hard work with its partners and customers in 2017.

John Irving
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 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 2017, LIEC had tangible capital assets of $32,032,788 relating to the development of the Alexandra and Oval Village District Energy Utilities, revenues of $4,159,023 related to meter billing fees, service fees, connection fees, and energy model review fees, and total expenses of $3,117,469.

SPOTLIGHT ON 2017: **PROGRESS REPORT**

New Buildings Connected to the Oval Village District Energy Utility (OVDEU)

As background, 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 2017, the OVDEU expanded its customer base to service three new buildings in the Oval Village area—Amacon Tempo (February 2017), Onni Riva 3 (April 2017) and ASPAC Parcel 9 (June 2017). There are currently eight buildings connected to the OVDEU. Energy generated at two interim energy centres provides 11MW of heating capacity to service 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 is envisioned to extract heat from the Gilbert Trunk sanitary force main sewer. Similar technologies are in operation today in the City of Richmond's Gateway Theatre, Vancouver's Neighbourhood Energy Utility, and in cities throughout Europe.

Alexandra District Energy Utility Energy Plant and Infrastructure

The system currently provides energy to nine buildings (5 multi-unit residential buildings, the Jamatkhana Temple, the Central at Garden City (2 large commercial buildings), and Richmond's Fire Hall No. 3) connecting over 1,400 residential units and over 1.6 million sq. ft. of floor area. As of December 31, 2017, the ADEU system has delivered 16,557 MWh of energy to customers for space heating, cooling and domestic hot water heating. While some electricity is consumed for pumping and equipment operations, almost 100% of this energy was produced locally from the geo-exchange fields located in the greenway corridor and West Cambie Park. The backup and peaking natural gas boilers and cooling towers in the energy centre have operated only for a few days throughout the system's operation to date.

Alexandra District Energy Utility Assets Transfer to Lulu Island Energy Company

In order to consolidate the City's district energy operations, Richmond City Council authorized staff to transfer ADEU's assets and operations to LIEC in 2016 in an arrangement whereby LIEC issued additional common shares of the company to the City at an issue price equal to the fair market value of the assets. The assets transfer has been completed with an initial closing date of December 31, 2016 and a second and final closing date of March 31, 2017. 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 in Richmond 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 community.

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, LIEC put efforts in developing and maintaining updated information on websites; and web content and videos support LIECs public engagement goals. In 2017, the company had a major presence at Richmond's well attended annual Public Works Open House. At LIEC's booth, residents were invited to take a photo with Ali the Barn Owl, LIEC's mascot, to share what they are doing to address climate change.

District Energy in the City Centre Area

The pace of development in Richmond City Centre Area (Bridgeport, Capstan, Aberdeen, Lansdowne and Brighouse Villages as defined in the City Centre Area plan) continues to exceed expectations. Though an open procurement process, LIEC partnered with a lead proponent to develop a feasibility plan to design, build, finance and operate a district energy utility within the City Centre area. At the same time, a due diligence analysis, including assessment of both heating and cooling energy services, is being carried out in order to ensure the maximum possible customer base and service levels. At full build out, the City Centre Area has the potential to be many times larger than the projected final size of both the ADEU and OVDEU combined.

LOOKING FORWARD IN 2018: 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 continue to monitor development activity and potentially bring forward to Richmond City Council recommendations for a broader expansion of the service area. This move will provide certainty to new developers about the City's expectations for connecting to OVDEU.

With respect to the current service area, LIEC looks forward to benefiting from Corix's construction and operations experience with upcoming projects in 2018 and beyond.

	Anticipated Occupancy
Intracorp (River Park Place 2)	2019
Landa Cascade City	2020
Aspac Lot 12	2020
Onni Riva Phase 3 Building 4	2020
ASPAC Lot 13	2020

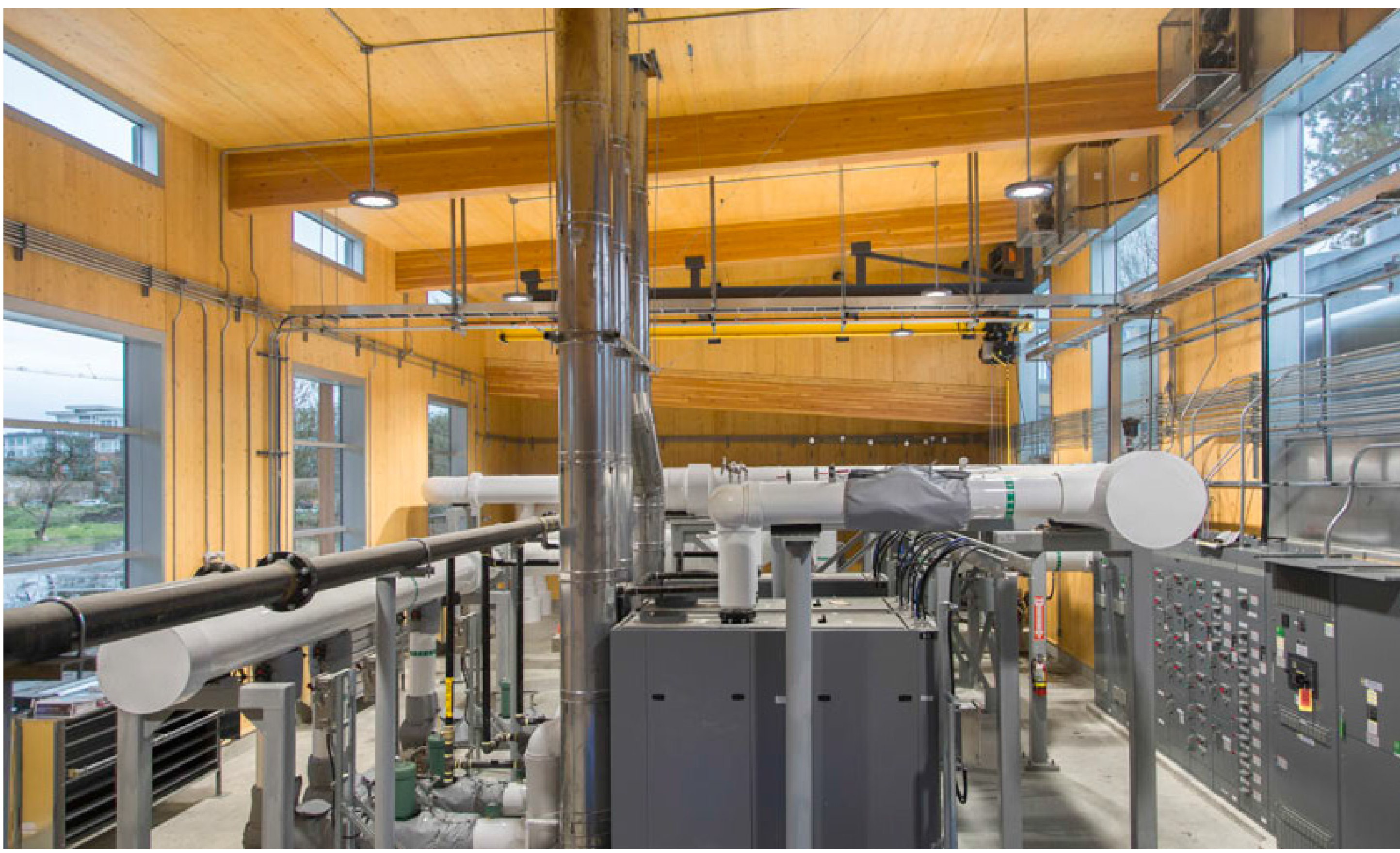
Alexandra District Energy Utility Expansion

After rapid growth in 2016 and 2017, expansion and development in the West Cambie Neighbourhood continues. In 2018, the distribution pipes will be extended along McKim Way to be able to service new developments, and the design of two new geo-exchange fields will commence. 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 2019 and beyond.

	Anticipated Occupancy
Westmark	2019
Trafalgar Square	2019
Spark	2020
Ex-Jingon	2021
Berkeley House	2022

Developing a Plan for a New District Energy Services in City Centre

After gaining support in 2016 from LIEC's Board of Directors to release a Request for Proposals, 2017 saw the selection of a preferred proponent and partner for servicing the City Centre Area. Planning activities for 2018 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's work will analyze the proposed development area, selecting the district energy concept which will provide energy services at a competitive price for building owners while reducing energy consumption and greenhouse gas emissions.



APPENDIX A—ALEXANDRA DISTRICT ENERGY UTILITY

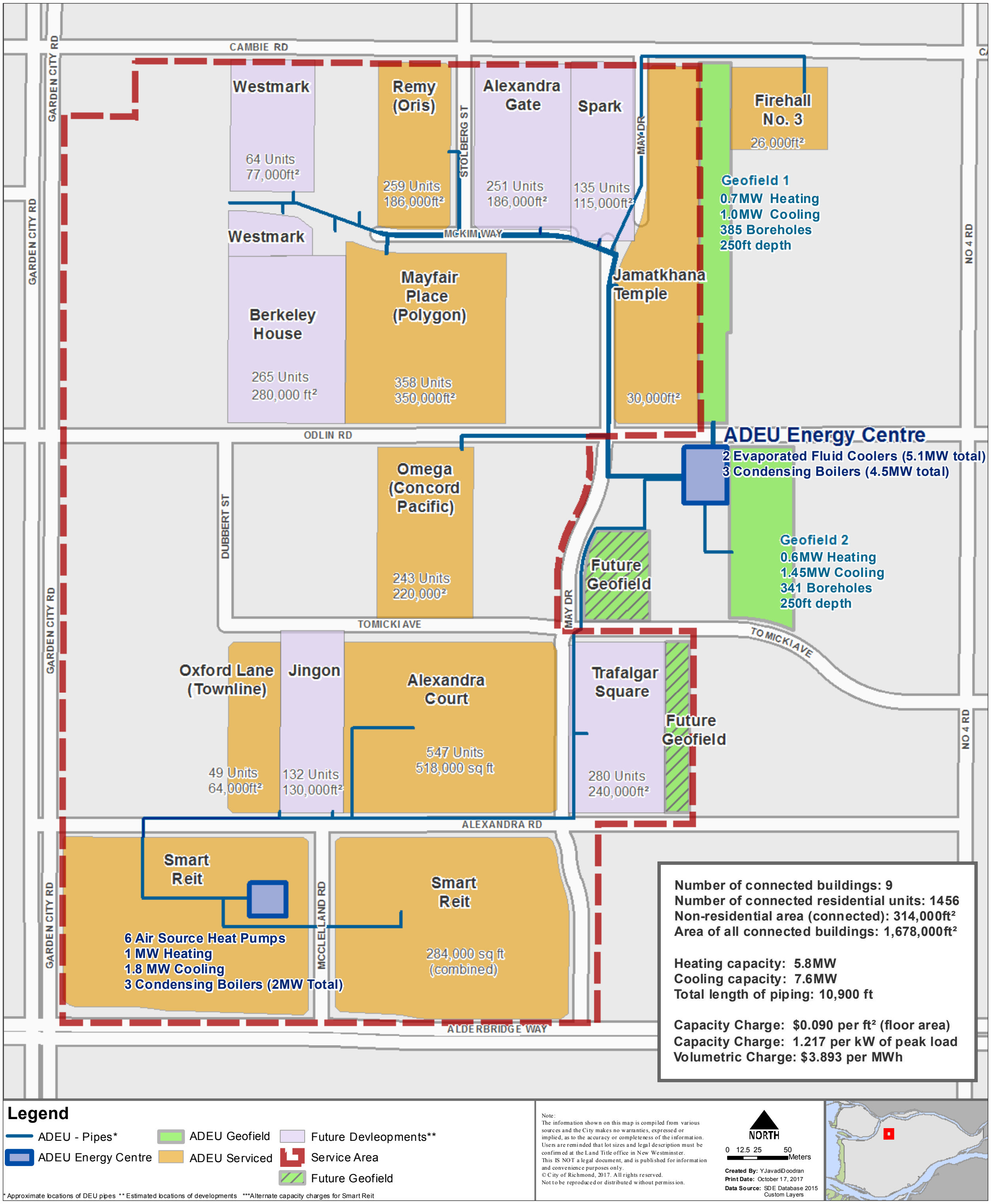
ADEU has been operating since 2012 as a sustainable energy system which provides a centralized energy source for heating, cooling and domestic hot water heating for residential and commercial customers located in the Alexandra/West Cambie neighbourhood. ADEU assists in meeting the community-wide greenhouse gas emission reduction targets adopted as part of Richmond's Sustainability Framework by providing buildings with renewable low carbon energy through geo-exchange technology.

Infrastructure Overview

Energy Station	9600 Odlin Road, Richmond, BC V6X 1C9 Satellite Energy Plant (Area A)—4751 McClelland Road, 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 3,100 residential units and 1.1 million 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	3,400 m (11,100 ft.) of high-density polyethylene piping 726 vertical closed-loop boreholes, each 250 ft. 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.

2017 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 ($0.090 per sq. ft.);
- Peak Charge: Charge based on the annual peak heating load supplied by the ADEU to the building ($1.217 per kW/month); and
- Volumetric Charge: Charge based on the energy consumed by the building ($3.893 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	518,000
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
Fire Hall #3 [9680 Cambie Road]	Commercial	24,995
	Total:	**1,679,995**

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 2017, 16,557 MWh. Greenhouse Gas Performance by the end of 2017, 2,482 tonnes of CO2e avoided, equal to removing 530 cars from City of Richmond roads for one year.

2017 Financial Summary

The total net book value of ADEU capital asset to date is $22 million. Revenue from ADEU customers has been gradually increasing in pace with the occupancy of serviced buildings. Revenue from operations for 2017 was $1,714,058 (2016 – $1,255,505). Revenue increased by $458,553, 37% increase comparing to 2016.

Corix Utilities remains engaged as the system operator under contract, to perform functional verification ensuring continuous operation and fine tuning of the system. Total cost of sales (utilities and contract services) from operations were $355, 251 (2016 – $191,134).

ADEU financial model has been updated to reflect the current year financial performance. Based on the best estimations and underlying assumptions, the project internal rate of return (IRR) is 8.27% and payback period is 20 years. In the context of a growing customer base, ADEU financial, operational and environmental results show the DEU is progressing as planned.

APPENDIX B—OVAL VILLAGE DISTRICT ENERGY UTILITY

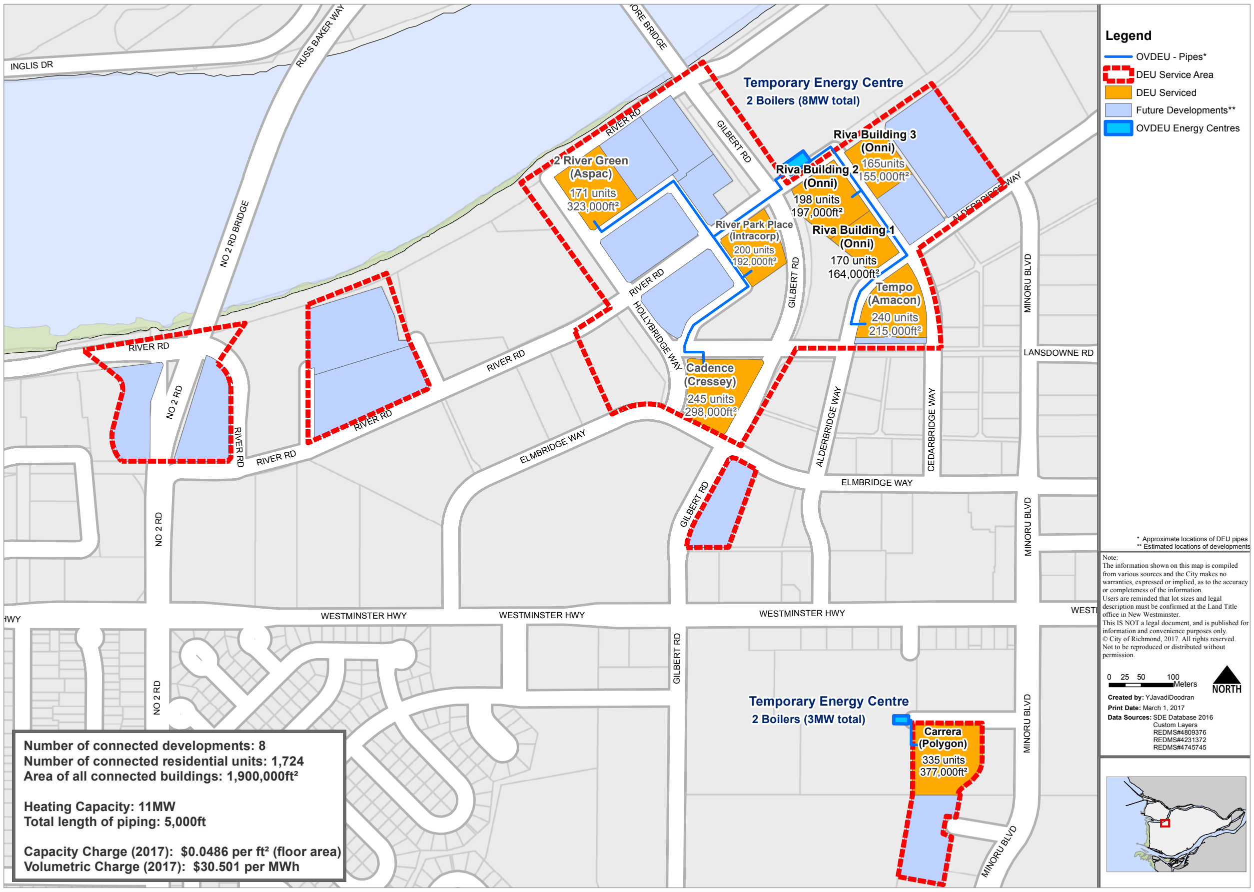
Over 1,600 residential units are receiving energy from the OVDEU. Space heating and domestic hot water heating energy is currently supplied from the two interim energy centres. When enough buildings are connected to the system, a permanent energy centre will be built which will produce low carbon energy, currently planned to be harnessed from the Gilbert Trunk sanitary force main sewer. As with the ADEU, the OVDEU will assist in meeting the community-wide greenhouse gas emission reduction targets adopted as part of Richmond's Sustainability Framework by providing buildings with renewable low carbon energy.

A system overview and service map for the Oval Village District Energy Utility is shown below.

Infrastructure Overview

Energy Station	Interim Energy Centre – 7011 River Parkway, Richmond, BC Interim Energy Centre – 6111 Bowling Green Road, Richmond, BC
Service	Residential: Space heating and domestic hot water
Technology	The OVDEU serviced its first customers in 2015, and currently services 8 buildings which contain over 1,600 residential units and over 1.8 million sq. ft. At full build-out the OVDEU will potentially service up to 5,500 residential units and 6.4 million sq. ft. of floor space. Energy for space heating and domestic hot water is provided to connected buildings through a hydronic (water) energy delivery system. Energy generated at two interim energy centres provides 11MW of heating capacity to service these buildings. These interim energy centres currently use high efficiency natural gas boilers to produce energy. The performance of the system is monitored continuously, providing a high level of reliability to customers. 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, currently planned for operation in 2025.
Length of Distribution Network	1,200 m (3,900 ft.) insulated steel piping

Oval Village District Energy Utility (October 2017)



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 established 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 in-building equipment which would use a combination of electricity and natural gas to provide space and domestic 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.

2017 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 ($0.0495 per sq. ft.); and
- Volumetric Charge: Charge based on the energy consumed by the building ($30.5 per MWh).

Buildings

Address	Use	Area (sq. ft.)
Polygon Carrera	Residential	377,404
Onni Riva Building 1	Residential	155,942
Onni Riva Building 2	Residential	196,967
Intracorp River Park Place 1	Residential	191,662
Cressey Cadence	Residential	276,826
Amacon Tempo	Residential	214,266
Onni Riva Building 3	Residential	155,829
ASPAC 9	Residential	323,111
	Total:	**1,892,007**

Customer Service

OVDEU 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)

Amount of Energy delivered by the end of 2017, 16,015 MWh. Over the project's lifetime, the OVDEU system is anticipated to reduce the GHG emissions by more than 52,000 tonnes of C02 as compared to business as usual.

2017 Financial Summary

The total net book value of OVDEU capital asset to date is $9.4 million. Revenue from OVDEU customers has been significantly increasing in pace with the occupancy of three new serviced buildings. Revenue from operations for 2017 was $1,314,712 (2016 – $604,919). Revenue increased by $709,793 compared to 2016.

In October 2014, LIEC and Corix Utilities executed a Concession Agreement whereby LIEC would own the Oval Village District Energy Utility's (OVDEU) infrastructure, and Corix would design, construct, finance, operate and maintain OVDEU. Payments to Corix under the Concession 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.

In the context of a growing customer base, OVDEU financial, operational and environmental results show the DEU is progressing as planned.

APPENDIX C—AWARDS & RECOGNITION

Awarding Body	Award	Date	Comments
Association of Consulting Engineering Companies	**Canadian Consulting Engineering Award of Excellence**	2017	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.
Association of Energy Engineers	**Canada Region Institutional Energy Management Award**	2017	The Region Institutional Energy Management Award recognizes organizations and companies for their dedication and performance in the energy efficiency and renewable energy industry. This prestigious award recognizes the City for leading the way with its District Energy implementation program.
Canadian Wood Council	**UBCM Community Recognition Award**	2017	It recognizes leadership in the use of wood, both architecturally and structurally, in the City's Alexandra District Energy Utility building. The building construction uses local, innovative low carbon wood for structural elements as well as interior and exterior cladding.
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.

Awarding Body	Award	Date	Comments
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 ecosystems on which we all depend.
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.

APPENDIX D—MANAGEMENT'S DISCUSSION AND ANALYSIS

About the Company

LIEC is a subsidiary of the City of Richmond, established to develop, manage and operate district energy utilities in the City of Richmond on the City's behalf. LIEC was incorporated in August 2013.

LIEC provides space heating, domestic hot water heating and, optionally, space cooling services to multi-unit residential and commercial customers in the West Cambie and Oval Village neighbourhoods. Two service areas were established through the Service Area Bylaws: Alexandra District Energy Utility (Bylaw No. 8641) and Oval Village District Energy Utility (Bylaw No. 9134). Through these Bylaws, all existing and future customers in the service areas are mandated to connect and use space heating and domestic hot water heating from LIEC, as well as space cooling in the ADEU service area.

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 $39,888,000 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 Company 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 Company 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.

On December 31, 2016, City of Richmond transferred the Alexandra District Energy Utility to LIEC in order for LIEC to manage its operations and services. The transfer was completed on March 31, 2017, and LIEC now effectively manages all district energy initiatives.

LIEC has historically followed the Public Sector Accounting Board (PSAB) in the preparation of its financial statements. With all energy operations now consolidated under LIEC, management and LIEC's auditors confirmed that LIEC can be classified as a Government Business Enterprise (GBE). As a GBE, LIEC's financial statements will be prepared under International Financial Reporting Standards (IFRS).

Financial Summary

Financial statements (Appendix E) 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.

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These are the first financial statement prepared in accordance with IFRS. In preparing its opening IFRS statement of financial position, management are required to make adjustments from PSAB to IFRS. The financial statements have been audited by the independent firm KPMG LLP and their report precedes the financial statements.

LIEC's overall financial position improved by $7,626,379 in 2017 with total assets of $39,748,218 (2016 – $32,121,839). Total assets are comprised of current assets (cash, investments, and receivables) of $7,715,430 (2016 – $808,330) and plant and equipment of $32,032,788 (2016 – $31,255,922). The existing cash balances are set aside for future capital replacements and to build a reserve fund in order to ensure rate stability for rate payers.

The current assets increased by $6,849,513, mainly due to completion of the ADEU transfer and developers' contributions. Plant and equipment increased by $776,866, bringing the total to $32,032,788. The increase is the net result of capital additions in the year offset by amortization expense.

LIEC's long-term liabilities of $9,906,741 (2016 – $7,919,576) consist of deferred contributions and concession liabilities. The deferred contributions are the fees received from developers to recover the cost of the initial connection, including installation of the energy transfer station. Under IFRS, the contributions are recognized over the useful life of equipment from the available to use date. Therefore, these contributions are deferred and recognized as long-term liabilities of the company.

The concession liabilities represent the 30 year concession agreement between LIEC and Corix Utilities Inc. (Corix), where Corix designs, constructs, finances, operates, and maintains the infrastructure for the OVDEU. The concession liabilities are the anticipated cash outflow for future obligations under the agreement for the capital and operating costs of the assets.

The shareholder's equity is equal to the total assets minus its total liabilities; it measures the company's financial health. In 2017, LIEC's shareholder equity was $28,289,134 (2016 – $23,007,692), which indicates that the company's value has increased by $5,281,442, showing good financial health of the company.

The metered billings (user fee) revenues reflect a full year of energy sales to a number of buildings that were connected in 2017. The metered billings revenue was $1,314,712 from the Oval Village District Energy Utility (OVDEU) and $1,714,058 from the Alexandra District Energy Utility (ADEU). Overall, 2017 actual revenues of $3,028,769 are in line with the projected revenues.

Compared to 2016, the metered billing revenue in OVDEU increased by $709,793, which is mainly due to three new buildings connecting the OVDEU. The metered billing revenue in ADEU is increased by $458,553. This increase is mainly due to a new connected building and a full year of service for buildings connected in late 2016.

The operating expense is classified in the cost of sales which is the direct variable cost relating to operating revenue, which includes utilities (electricity and natural gas) and contract services. The plant operating expense is under budget by $198,634, due to efficient operations and fewer maintenance incidents.

The general and administration expenses are expenditures that LIEC will incur to engage in business activities such as salaries and benefits, administration expense, professional fees, insurance expense, etc. Overall, there is a favourable variance with respect to expenses.

Overall, LIEC's revenues exceeded expenses resulting in a net income of $1,041,554. Pursuant to the financial model approved by Council, the net income will be set aside in LIEC's equity to build a reserve fund for future capital replacement and in order to ensure long-term rate stability for rate payers. Although LIEC is still in the start-up phase, the financial statements show that LIEC's financial position is very good.

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

Period of incorporation on January 1, 2017 to December 31, 2017

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Burnaby BC V5H 4M2
Canada
Telephone (604) 527-3600
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, 2017, the statements of comprehensive income (loss), changes in equity and cash flows for the year ended December 31, 2017 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 International Financial Reporting 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 audit. 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 audit 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.

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, 2017 and its results of operations, its financial performance and its cash flows for the year ended December 31, 2017 in accordance with International Financial Reporting Standards.

Comparative Information

We draw attention to note 20 to the financial statements which describes that the Company adopted International Financial Reporting Standards on January 1, 2017 with a transition date of January 1, 2016. These standards were applied retrospectively by management to the comparative information in these financial statements, including the statements of financial position as at December 31, 2016 and January 1, 2016 and the statements of comprehensive income (loss), changes in equity and cash flows for the year ended December 31, 2016 and related disclosures.

KPMG LLP

Chartered Professional Accountants

Burnaby, Canada
April 25, 2018

LULU ISLAND ENERGY COMPANY LTD.
Statement of Financial Position

	December 31, 2017	December 31, 2016	January 1, 2016
Assets			
Current assets:			
Cash and cash equivalents	$ 710,775	$ 170,358	$ -
Accounts receivable (note 6)	1,127,151	695,559	-
Other investments (note 7)	5,516,738	-	-
Due from the City to Richmond (note 8, 14)	360,766	-	93,677
	7,715,430	865,917	93,677
Non-current assets:			
Plant and equipment (note 9)	32,032,788	31,255,922	4,508,862
Total Assets	$ 39,748,218	$ 32,121,839	$ 4,602,539
Liabilities and Shareholder's Equity (Deficiency)			
Current liabilities:			
Accounts payable and accrued liabilities	$ 256,582	$ 84,967	$ 2,208
Due to the City of Richmond (note 8, 14)	-	52,631	-
Current portion of deferred developer contributions (note 10)	106,761	99,973	50,466
Current portion of concession liability (note 11)	1,187,000	957,000	931,000
	1,550,343	1,194,571	983,674
Non-current liabilities:			
Deferred developer contributions (note 10)	3,521,677	2,685,681	751,143
Concession liability (note 11)	6,387,064	5,233,895	2,995,341
	9,908,741	7,919,576	3,746,484
Total liabilities	11,459,084	9,114,147	4,730,158
Shareholder's equity (deficiency):			
Share capital and contributed surplus (note 15)	27,397,115	23,157,227	1
Retained earnings (deficit)	892,019	(149,535)	(127,620)
	28,289,134	23,007,692	(127,619)
Total liabilities and shareholder's equity (deficiency)	$ 39,748,218	$ 32,121,839	$ 4,602,539

See accompanying notes to financial statements.

Approved on behalf of the Board:

________________ Director   ________________ Director

LULU ISLAND ENERGY COMPANY LTD.

Statement of Comprehensive Income (Loss)

Year ended December 31, 2017, with comparative information for 2016

	2017	2016
Revenue (note 14)	$ 3,943,769	$ 604,919
Cost of sales:		
Operating expenses	(1,113,391)	(391,147)
Depreciation	(1,022,738)	(200,820)
	(2,136,129)	(591,967)
Gross profit	1,807,640	12,952
Expenses:		
General and administrative	(713,878)	(32,587)
Net income (loss) before undernoted items	1,093,762	(19,635)
Developer contributions, other income and net finance cost:		
Developer contributions	99,974	50,465
Other income (note 14)	115,280	144,780
Net finance income (cost) (note 5)	(267,462)	(197,525)
	(52,208)	(2,280)
Net income (loss) and comprehensive income (loss)	$ 1,041,554	$ (21,915)

See accompanying notes to financial statements.

LULU ISLAND ENERGY COMPANY LTD.

Statement of Changes in Equity (Deficiency)

Year ended December 31, 2017, with comparative information for 2016

	Share capital	Contributed surplus	Retained earnings (deficit)	Shareholder's equity (deficiency)
Balance January 1, 2016	$ 1	$ -	$ (127,620)	$ (127,619)
Net loss and comprehensive loss	-	-	(21,915)	(21,915)
Contributed surplus (note 14(a))	-	23,157,226	-	23,157,226
Balance December 31, 2016	1	23,157,226	(149,535)	23,007,692
Issuance of common shares	4	-	-	4
Net income and comprehensive income	-	-	1,041,554	1,041,554
Contributed surplus (note 14, 15)	-	4,239,884	-	4,239,884
Balance December 31, 2017	$ 5	$ 27,397,110	$ 892,019	$ 28,289,134

See accompanying notes to financial statements.

LULU ISLAND ENERGY COMPANY LTD.

Statement of Cash Flows

Year ended December 31, 2017, with comparative information for 2016

	2017	2016
Cash provided by (used in):		
Operations:		
Net income (loss)	$ 1,041,554	$ (21,915)
Adjustments for:		
Depreciation	1,022,738	200,820
Recognition of deferred contributions	(99,974)	(50,465)
Change in non-cash working capital:		
Due (to) from the City of Richmond	(413,397)	146,309
Accounts receivable	(431,592)	(573,991)
Accounts payable and accrued liabilities	171,616	82,758
Deferred developer contributions	826,977	1,086,770
Net change in cash from operating activities	2,117,922	870,286
Investments:		
Acquisition of plant and equipment	(1,757,760)	(1,674,439)
Purchase of investments	(5,516,738)	-
Net change in cash from investing activities	(7,274,498)	(1,674,439)
Financing:		
Issuance of common shares	4	-
Contributed surplus	4,198,040	-
Concession liability	1,498,949	974,511
Net change in cash from financing activities	5,696,993	974,511
Net change in cash	540,417	170,358
Cash, beginning of year	170,358	-
Cash, end of year	$ 710,775	$ 170,358
Non-cash items (note 14(a)):		
Transfer of plant and equipment from shareholder	$ 41,844	$ 23,157,226

See accompanying notes to financial statements.

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements

Year ended December 31, 2017

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1. Incorporation and nature of business:

The Lulu Island Energy Company Ltd. (the "Company") was incorporated on August 19, 2013 under the Business Corporations Act of British Columbia as a municipal corporation wholly-owned by the City of Richmond (the "City"). The address of the Company's registered office is 6911 No. 3 Road, Richmond, British Columbia, V6Y 2C1.

The business of the Company is to develop, manage and operate district energy utilities in the City, including but not limited to energy production, generation or exchange, transmission, distribution, maintenance, marketing and sale to customers, customer service, profit generation and financial management. The Company also provides advisory services for energy and infrastructure.

2. Basis of presentation:

(a) Statement of compliance:

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB"). These are the Company's first financial statements prepared in accordance with IFRSs and IFRS 1, *First-time Adoption of International Financial Reporting Standards*, has been applied.

An explanation of how the transition to IFRSs has affected the reported financial position, financial performance and cash flows of the Company is provided in note 20.

The financial statements were approved and authorized for issue by the Board of Directors April 25, 2018.

(b) Basis of measurement:

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

(c) Presentation of financial statements:

The Company uses a classified statement of financial position. The statement of financial position distinguishes between current and non-current assets and liabilities. Current assets and liabilities are those expected to be recovered within twelve months from the reporting date and non-current assets and liabilities are those where the recovery is expected to occur more than twelve months from the reporting date. The Company classifies the statement of comprehensive income using the function of expense method, which classifies expenses according to their functions, such as cost of sales and general and administrative expenses.

(d) Functional and presentation currency:

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

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements

Year ended December 31, 2017

2. Basis of presentation (continued):

(e) Use of estimates and judgments:

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in the following notes:

Note 10 - recognition of deferred developer contributions

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

Note 6 - valuation of accounts receivable

Note 9 - useful lives of plant and equipment

Note 13 - determination of the future minimum obligations and commitments for the concession liability

3. Significant accounting policies:

The accounting policies set out below have been applied consistently to all years presented in these financial statements and in preparing the opening IFRS statement of financial position at January 1, 2016 for the purposes of the transition to IFRS, unless otherwise indicated.

(a) Plant and equipment:

(*i*) Recognition and measurement:

Items of plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

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

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements

Year ended December 31, 2017

3. Significant accounting policies (continued):

(a) Plant and equipment (continued):

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

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

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

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

(*ii*) Subsequent costs:

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

(*iii*) Depreciation:

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

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

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

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements

Year ended December 31, 2017

3. Significant accounting policies (continued):

(b) Revenue recognition:

The Company recognizes revenue related to metered billings for the provision of energy and other services 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 the payment is being made. Revenue is measured at the fair value of the consideration received or receivable.

(c) Public-private partnership project:

Public-private partnership ("P3") projects are delivered by private sector partners selected to design, build, finance, and maintain the assets. The cost of the assets under construction are recorded at cost, based on construction progress billings and also includes other costs, if any, incurred directly by the Company.

When deemed available for use, the project assets are amortized over their estimated useful lives. Correspondingly, an obligation for the cost of capital and financing received to date, net of the developer contributions received, is recorded under concession liabilities (note 11).

(d) Income taxes:

Under Section 149(1) (d) of the Income Tax Act, the Company is exempt from income and capital taxes by virtue of the fact that it is a wholly owned subsidiary of the City. Accordingly, no provision for such taxes has been made in accounts.

(e) Cash and cash equivalents:

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

(f) Finance income and finance cost:

Finance income comprises interest on funds invested. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

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

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements

Year ended December 31, 2017

3. Significant accounting policies (continued):

(g) Financial instruments:

(i) Non-derivative financial assets and liabilities:

Non-derivative financial assets and non-derivative financial liabilities are initially recognized at fair value, and their subsequent measurement is dependent on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics, and the Company's designation of such instruments.

The Company classifies its financial instruments as follows:

Cash and cash equivalents	Loans and receivables
Other investments	Loans and receivables
Accounts receivable	Loans and receivables
Due from the City of Richmond	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Due to the City of Richmond	Other financial liabilities
Concession liability	Other financial liabilities

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. These assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition they are accounted for at amortized cost, using the effective interest method, less any impairment losses. The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

The Company has the following non-derivative financial liabilities: accounts payable and accrued liabilities, due to the City and the concession liability which are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are accounted for at amortized cost using the effective interest method. The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Company does not have any financial instruments required or elected to be subsequently recorded at fair value.

(ii) Share capital:

The share capital is classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity.

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements

Year ended December 31, 2017

3. Significant accounting policies (continued):

(h) Impairment:

(*i*) Financial assets (including receivables):

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can be include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy.

The Company considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individual significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

(*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.

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements

Year ended December 31, 2017

3. Significant accounting policies (continued):

(h) Impairment (continued):

(*ii*) Non-financial assets (continued):

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(i) Pension benefits:

The Company and its employees participate in the Municipal Pension Plan, a multi-employer defined benefit. 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.

(j) New standards and interpretations not yet adopted:

(*i*) IFRS 15 Revenue from Contracts with Customers:

On May 28, 2014 the IASB issued IFRS 15 Revenue from Contracts with Customers. The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. IFRS 15 will replace IAS 11 *Construction Contracts,* IAS 18 *Revenue,* IFRIC 13 *Customer Loyalty Programmes,* IFRIC 15 *Agreements for the Construction of Real Estate,* IFRIC 18 *Transfer of Assets from Customers*, and SIC 31 *Revenue – Barter Transactions Involving Advertising Services*.

The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized.

The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs.

The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements

Year ended December 31, 2017

3. Significant accounting policies (continued):

(j) New standards and interpretations not yet adopted (continued):

(*ii*) IFRS 16 Leases:

On January 13, 2016 the IASB issued IFRS 16 Leases. The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17 Leases.

This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors.

Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided.

The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

(*iii*) IFRS 9 Financial Instruments:

On July 24, 2014 the IASB issued the complete IFRS 9 (IFRS 9 (2014)).

The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight.

IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new ‘expected credit loss’ model for calculating impairment.

IFRS 9 (2014) also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. Special transitional requirements have been set for the application of the new general hedging model.

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements

Year ended December 31, 2017

3. Significant accounting policies (continued):

(j) New standards and interpretations not yet adopted (continued):

(*iii*) IFRS 9 Financial Instruments (continued):

The Company intends to adopt IFRS 9 (2014) in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

4. Personnel expenses:

	December 31, 2017	December 31, 2016
Wages and salaries	$ 578,697	$ -
Other payroll expenses	28,650	-
	$ 607,347	$ -

5. Net finance income (cost):

	December 31, 2017	December 31, 2016
Finance income:		
Investment interest	$ 55,587	$ -
Bank interest	6,902	-
Other	2,692	-
	65,181	-
Finance cost:		
Finance expense on concession liability	(332,643)	(197,525)
Net finance cost	$ (267,462)	$ (197,525)

6. Accounts receivable:

	December 31, 2017	December 31, 2016	January 1, 2016
Trade receivables	$ 13,163	$ 371,787	$ -
Unbilled trade receivables	1,094,777	320,867	-
Sales tax receivable	19,211	2,905	-
	$ 1,127,151	$ 695,559	$ -

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements

Year ended December 31, 2017

7. Other investments:

Investments represent cash term deposits as follows:

Purchase date	Maturity date (interest rate)	December 31, 2017	December 31, 2016	January 1, 2016
May 12, 2017	May 12, 2018 (1.80%)	$ 2,000,000	$ -	$ -
Sept 29, 2017	Sept 29, 2018 (1.95%)	1,505,178	-	-
Nov 22, 2017	Nov 22, 2018 (1.90%)	1,511,560	-	-
Nov 30, 2017	Nov 30, 2018 (2.45%)	500,000	-	-
		$ 5,516,738	$ -	$ -

8. Due from (to) City of Richmond:

Due from (to) the City arise in the normal course of business and are non-interest bearing with no stated repayment terms.

9. Plant and equipment:

	Energy plant center	General equipment	Distribution piping	Total
Cost:				
Balance as at January 1, 2016	$ -	$ 3,050,244	$ 1,540,521	$ 4,590,765
Additions	5,031,915	16,992,938	4,923,027	26,947,880
Balance as at December 31, 2016	5,031,915	20,043,182	6,463,548	31,538,645
Additions	-	703,368	1,096,236	1,799,604
Balance as at December 31, 2017	$ 5,031,915	$ 20,746,550	$ 7,559,784	$ 33,338,249
Accumulated depreciation:				
Balance as at January1, 2016	$ -	$ 72,627	$ 9,276	$ 81,903
Depreciation	-	164,576	36,244	200,820
Balance as at December 31, 2016	-	237,203	45,520	282,723
Depreciation	67,092	812,936	142,710	1,022,738
Balance as at December 31, 2017	$ 67,092	$ 1,050,139	$ 188,230	$ 1,305,461
Net book value:				
At January 1, 2016	$ -	$ 2,977,617	$ 1,531,245	$ 4,508,862
At December 31, 2016	5,031,915	19,805,979	6,418,028	31,255,922
At December 31, 2017	4,964,823	19,696,411	7,371,554	32,032,788

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements

Year ended December 31, 2017

9. Plant and equipment (continued):

Included in plant and equipment is $127,055 (2016 - $899,762) of assets under construction.

For the year ended December 31, 2017, capitalized borrowing costs related to the construction of the distribution system amounted to $43,935 (2016 - $113,085).

10. Deferred developer contributions:

The Company defers contribution amounts received from developers related to the cost of initial connection, including installation of the energy transfer station. The developer contributions are recognized over the useful life of the associated general equipment from the date the respective building is deemed available to use.

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

	December 31, 2017	December 31, 2016	January 1, 2016
Deferred developer contributions, beginning of year	$ 2,785,654	$ 801,609	$ -
Developer contributions received	1,011,793	2,053,080	820,179
Cumulative revenue from developer contributions	(169,009)	(69,035)	(18,570)
	3,628,438	2,785,654	801,609
Less: current portion of deferred developer contributions	(106,761)	(99,973)	(50,466)
Non-current deferred developer contributions	$ 3,521,677	$ 2,685,681	$ 751,143

11. Oval Village District Energy Utility (“OVDEU”) Concession Agreement:

On October 30, 2014, the Corporation and the OVDEU developer (“the Concessionaire”) entered into a 30 year Concession Agreement, which is a public-private partnership project (“P3”), where the Concessionaire will design, construct, finance, operate and maintain the infrastructure for the district energy utility at the Oval Village community. The total estimated concession liability to finance the construction of the OVDEU at full build out is $31,931,000 and will be accrued over time as the services are rendered.

The Concession Agreement is payable monthly in accordance with the Concession Agreement terms. Required concession liability payment obligations are disclosed in note 13.

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements

Year ended December 31, 2017

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

OVDEU Concession Agreement liability:

	December 31, 2017	December 31, 2016	January 1, 2016
OVDEU Concession Agreement liability	$ 7,468,915	$ 6,113,302	$ 3,888,284
Accrued interest	105,149	77,593	38,057
	7,574,064	6,190,895	3,926,341
Less: current portion of concession liability	(1,187,000)	(957,000)	(931,000)
Non-current portion of concession liability	$ 6,387,064	$ 5,233,895	$ 2,995,341

The average finance cost on the concession liability is 5.5% for the year ended December 31, 2017 (2016 - 6.15%).

The concession liability is repayable as follows:

2018	$ 1,187,000
2019	1,475,000
2020	1,787,000
2021	1,860,000
2022 and thereafter	1,265,064
Total	$ 7,574,064

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

Balance January 1, 2017	$ 6,190,895
Additions	1,282,551
Finance expense	376,579
Net repayment	(275,961)
Balance December 31, 2017	$ 7,574,064

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements

Year ended December 31, 2017

12. Limited Guarantee Agreement:

On October 30, 2014, the Concessionaire and the City entered into a Limited Guarantee Agreement. The City is the Guarantor and guarantees the performance of some of the Company's obligations under the Concession Agreement to a maximum of $18.2 million (2016 - $18.2 million).

13. Commitments and contingencies:

Public-private partnership commitments:

Payments to the Concessionaire under the Concession Agreement are based on the Concessionaire's Annual Revenue Requirement, which is based on the utility cost of service rate-setting principles in British Columbia utilizing forward test years. The Annual Revenue Requirement is a combination of Capital and Operating charges. The Capital charge is comprised of capital expenditures and depreciation, and Operating charge is comprised of services costs, financing costs, income and other taxes and return on equity.

The information presented below shows the committed cash outflow under the Concession Agreement for the capital and operating costs of the assets. As construction progresses the asset values are recorded as plant and equipment and the corresponding liabilities are recorded as concession agreement liabilities as disclosed in note 11.

	Capital commitment	Operating commitment	Total commitment
2018	$ 144,977	$ 1,042,023	$ 1,187,000
Total	$ 144,977	$ 1,042,203	$ 1,187,000

14. Related party transactions:

Included in these financial statements are transactions with various Crown corporations, ministries, agencies, boards and commissions related to the Company by virtue of common control by the City, the Province of British Columbia or the Government of Canada. The Company has applied the modified disclosure requirements under IAS 24, *Related Party Disclosures*, which is only applicable for government-related entities.

(a) Asset transfer from the City of Richmond:

On December 31, 2016, the Alexandra District Energy Utility ("ADEU") plant and equipment were transferred to the Company from the City as part of the first transfer of an Asset Purchase Agreement dated December 16, 2016. The transfer occurred at net book value of $23,157,226 and was recognized within equity as shareholder contributed surplus.

Effective January 1, 2017, the ADEU operations were transferred to the Company from the City.

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements

Year ended December 31, 2017

14. Related party transactions (continued):

March 31, 2017 the City transferred the second transfer of the ADEU assets to the Company consisting of plant and equipment, cash and balances due from the City at its net book value of $3,839,888 and was recognized within equity as shareholder contributed surplus. At the same time, the Company issued 350 common shares to the City in consideration for the total ADEU asset transfers recognized within equity as share capital.

During 2017, the Company received an additional $400,000 equity contribution from the City relating to fund capital projects. These funds have been recorded as an increase in contributed surplus.

(b) Due from/to City of Richmond:

During 2017, the Company received and recognized in revenues $915,000 (2016 - nil) 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.

In addition, included in revenue for 2017 is $29,972 (2016 – nil) for district energy utility services rendered by the Company to the City.

During 2017, the Company received and recognized energy model review fees into other income of $115,280 (2016 - $49,780) relating to district energy permit fees collected by the City for in-building district energy related equipment reviews performed by the Company.

During 2017, $93,560 (2016 – nil) of salary and benefit expenses were charged to the City for the costs incurred due to Company staff being assigned to perform project management duties for the City projects. These costs have been charged to the City on a cost recovery basis and are included in General and administrative expenses.

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.

(c) Key management personnel

The Company did not enter into any transactions with key management personnel in the year ended December 31, 2017 (2016 – none).

No key management personnel are remunerated by the Company. A fee of $48,152 (2016 – nil), included in general and administration expenses, was paid to the City for the day-to-day support that the Company received from the City staff over the year. These costs have been charged to the Company on a cost recovery basis and include an element of re-charge for City key management personnel.

LULU ISLAND ENERGY COMPANY LTD.

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Year ended December 31, 2017

15. Share capital:

At December 31, 2017, the authorized share capital comprised 10,000 (2016 - 10,000) common shares without par value.

In March 2017, the Company issued 350 common shares (2016 - nil) at $0.01 per share totaling $4 (2016 - nil) and received $3,839,884 of contributed surplus (2016 - $23,157,226) (note 14(a)).

16. Fair values:

The Company uses the following hierarchy to determine and disclose fair value of financial instruments:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities; and

Level 2 - inputs other than quoted prices that are observable for asset or liability, either directly or indirectly; and

Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

(a) Current assets and liabilities:

The carrying amounts for cash and cash equivalents, investments, due from (to) the City and accounts payable and accrued liabilities approximate their fair values due to the short-term nature of these items.

(b) Non-current financial liabilities:

Subsequent to initial recognition the concession liability is accounted for at amortized cost using the effective interest method. The carrying amount of the concession liability approximates its fair value due to the nature of liabilities accrued and benchmark market rate of variable interest rate applied (level 3 inputs).

LULU ISLAND ENERGY COMPANY LTD.

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Year ended December 31, 2017

17. Financial risk management and financial instruments:

(a) Overview

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

— Credit risk

— Liquidity risk

— 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.

(c) Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Such risks arise principally from certain financial assets held by the Company consisting of its cash and cash equivalents, trade accounts receivables and other investments. The Company assesses these financial assets on a continuous basis for any amounts that are not collectible or realizable. It is management's opinion that the Company is not exposed to significant credit risk from its financial instruments.

(i) Trade and unbilled trade receivables:

The Company trades mainly with recognized and creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant.

The Company establishes an allowance for doubtful accounts that represents its estimate of incurred losses in respect of trade and other receivables based upon factors surrounding the credit risk of specific accounts, historical trends and other information.

At December 31, 2017 and 2016 all trade and other receivables were neither past due (current) nor impaired and related to end-user customers in the City's geographic region.

(ii) Other investments:

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

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements

Year ended December 31, 2017

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

(e) Liquidity risk:

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is continually monitoring actual and forecasted cash flows from operations and anticipated investing and financing activities to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company's terms of business require amounts to be paid from customers within 30-days of the date of invoice. The accounts payable and accrued liabilities and due from the City are in the normal course of operations and paid within the following fiscal year. The commitments under the concession liability are disclosed in noted 13.

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

	Carrying amount	Contractual cash flow	Less than 1 year	1 – 2 years	2 – 5 years
December 31, 2017	$ 7,574,064	$ 8,713,553	$ 1,219,206	$ 1,598,346	$ 5,896,001
December 31, 2016	6,190,895	7,225,361	985,989	1,298,167	4,941,205
January 1, 2016	3,926,341	4,432,949	959,201	1,046,627	2,427,121

(f) Market risk:

Market risk is the risk that changes in market prices, such as interest rates and other rate risks, will affect the Company's income or the value of its holdings of financial instruments.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Interest rate risk is the risk that the fair value of future cash flow of a financial instrument will fluctuate because of changes in the market interest rate.

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

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements

Year ended December 31, 2017

18. Capital management:

The Company's objective when managing capital is to maintain a strong capital base to sustain future development of the business, so that it can provide return for the shareholder and benefits for other stakeholders.

The Company considers the items included in shareholder's equity and the concession liability as capital. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may request additional investment from its shareholder. The Company is not required to meet any debt covenants. The Company is not subject to externally imposed capital requirements.

There were no changes in the Company's approach to capital management during the year (2016 - no changes).

19. Pension plan:

The Company and its employees contribute to the Municipal Pension Plan (a jointly trusteed pension plan). The board of trustees, representing plan members and employers, is responsible for administering the plan, including investment of assets and administration of benefits. The plan is a multi-employer defined benefit pension plan. Basic pension benefits are based on a formula. As at December 31, 2016, the plan has about 193,000 active members and approximately 90,000 retired members. Active members include approximately 38,000 contributors from local governments.

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

The most recent valuation for the Municipal Pension Plan as at December 31, 2015, indicated a $2,224 million funding surplus for basic pension benefits on a going concern basis. As a result of the 2015 basic account actuarial valuation surplus and pursuant to the joint trustee agreement, $1,927 million was transferred to the rate stabilization account and $297 million of the surplus ensured the required contribution rates remained unchanged.

The Company paid $40,148 (2016 - nil) for employer contributions to the Plan in 2017.

The next valuation will be at December 31, 2018, with results available in 2019. Employers participating in the plan record their pension expense as the amount of employer contributions made during the fiscal year (defined contribution pension plan accounting).

LULU ISLAND ENERGY COMPANY LTD.
Notes to Financial Statements

Year ended December 31, 2017

20. Explanation of transition to IFRS:

As stated in note 2(a), these are the Company's first financial statements prepared in accordance with IFRS.

The Company's financial statements were prepared in accordance with Canadian generally accepted accounting principles as prescribed by the Public Sector Accounting Board ("PSAB") up to and including December 31, 2016; and have been restated using IFRS for these financial statements.

The Company has not elected to take any of the optional exemptions from full retrospective application. All mandatory exemptions have been adopted and applied.

In preparing its opening IFRS statement of financial position, the Company has adjusted amounts reported previously in financial statements prepared in accordance with previous PSAB. An explanation of how the transition from previous PSAB to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

(a) Reconciliation of equity:

	January 1, 2016	December 31, 2016
Accumulated surplus under PSAB	$ 550,747	$ 25,189,537
Changes from PSAB to IFRS:		
Capitalization of interest (note 20(c)(i))	136,952	250,038
Amortization of developer contributions (note 20(c)(ii))	(801,609)	(2,401,262)
Changes in depreciation (note 20(c)(iii))	(13,710)	(30,622)
Retained earnings under IFRS	(678,367)	(2,181,846)
Share capital	1	1
Shareholder's Equity under IFRS	$ (127,619)	$ 23,007,692

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements

Year ended December 31, 2017

20. Explanation of transition to IFRS (continued):

(b) Reconciliation of comprehensive income (loss) for the year ended December 31, 2016:

	2016 PSAB	Effect of transition	2016 IFRS
Revenue	$ 604,919	$ -	$ 604,919
Cost of sales:			
Operating expenses (note 20(c)(i))	(701,758)	310,611	(391,147)
Depreciation (note 20(c)(iii))	(183,908)	(16,912)	(200,820)
	(885,666)	293,699	(591,967)
Gross (loss) profit	(280,747)	293,699	12,952
Expenses:			
General and administrative (note (20(c)(ii))	(56,907)	24,320	(32,587)
Net income (loss) before undernoted items	(337,654)	318,019	(19,635)
Developer contributions, other income and financing:			
Developer contributions (note 20(c)(ii))	1,674,439	(1,623,974)	50,465
Other income	144,780	-	144,780
Finance expense	-	(197,525)	(197,525)
	1,819,219	(1,821,499)	(2,280)
Net income (loss) and comprehensive income (loss)	$ 1,481,565	$ (1,503,480)	$ (21,915)

(c) Notes to the reconciliations:

(*i*) Interest capitalization:

Under previous PSAB, the Company expensed borrowing costs as incurred. Under IFRS, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized and amortized once the related asset is available for use, using the effective interest method.

The impact arising from the change is summarized as follows:

	January 1, 2016	December 31, 2016	Total
Decrease in financing cost	$ 136,952	$ 113,086	$ 250,038
Increase in shareholder's equity	$ 136,952	$ 113,086	$ 250,038

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements

Year ended December 31, 2017

20. Explanation of transition to IFRS (continued):

(c) Notes to the reconciliations:

(*ii*) Developer contributions:

Under previous PSAB, the Company recorded full amount of developer contributions on connection of the building. Refunds to developers were expensed when the payment was made. Under IFRS, the contributions, net of any refunds to developers, are deferred and recognized in line with the cost of the related asset, over 25 years from the date the asset is available for use, which is the date the building is connected.

The impact arising from the change is summarized as follows:

	January 1, 2016	December 31, 2016	Total
Decrease in developer contributions	$ (801,609)	$ (1,623,974)	$ (2,425,583)
Decrease in expense	-	24,320	24,320
Decrease in shareholder's equity	$ (801,609)	$ (1,599,654)	$ (2,401,263)

(*iii*) Depreciation:

Under IFRS, depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate. As a result of the adoption of IFRS, the componentization of assets were revised along with their estimated useful lives (see note 3). Due to a change in useful lives and the capitalization of borrowing costs (note 20 (c)(i)), the depreciation expense has changed accordingly.

The impact arising from the change is summarized as follows:

	January 1, 2016	December 31, 2016	Total
Increase in depreciation expense	$ (13,710)	$ (16,912)	$ (30,622)
Decrease in shareholder's equity	$ (13,710)	$ (16,912)	$ (30,622)

(d) Material presentation adjustments:

Interest paid/accrued has been presented separately in the statements of comprehensive income (loss) and cash flows. There are no other material differences in presentation between the statements of comprehensive income (loss) and cash flows presented under IFRSs and the statements of operations and cash flows presented under PSAB.

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