MINUTES OF THE REGULAR MEETING OF COUNCIL HELD IN THE COUNCIL CHAMBER, CITY HALL, 141 WEST 14TH STREET, NORTH VANCOUVER, BC, ON **MONDAY, JULY 15, 2019**

REPORTS

12. Lonsdale Energy Corp. – 2019 Annual General Meeting – File: 11-5500-06-0001/1

Report: Director, Lonsdale Energy Corp., July 9, 2019

Moved by Councillor McIlroy, seconded by Councillor Hu

PURSUANT to the report of the Director, Lonsdale Energy Corp., dated July 9, 2019, entitled “2019 Annual General Meeting”:

THAT the 2018 Financial Statements be received and filed;

THAT the proposed Unanimous Consent Resolutions of the Shareholder of Lonsdale Energy Corp. (Attachment #2) be endorsed;

AND THAT the Mayor and City Clerk be authorized to sign the Unanimous Consent Resolutions.

CARRIED UNANIMOUSLY

Director	President

lonsdale energycorp.

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141 West 14th Street, North Vancouver BC V7M 1H9

REPORT

To: Mayor Linda Buchanan and Members of Council

From: Ben Themens, Director, LEC

SUBJECT: 2019 ANNUAL GENERAL MEETING

Date: July 9, 2019

RECOMMENDATION:

PURSUANT to the report of the Director of Lonsdale Energy Corp., dated July 8, 2019, entitled, "2019 Annual General Meeting":

THAT the 2018 Financial Statements be received and filed;

THAT the attached proposed Unanimous Consent Resolutions of the Shareholder of Lonsdale Energy Corp. (Attachment 2) be endorsed;

AND THAT the Mayor and City Clerk be authorized to sign and seal the said resolution.

ATTACHMENTS:

1. Financial Statements of Lonsdale Energy Corp. for the period ended December 31, 2018, made up of the Statement of Financial Position, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows
2. Proposed Unanimous Consent Resolutions of the Shareholder of Lonsdale Energy Corp. (in lieu of the annual general meeting)
3. Historical Data for 2004 – 2018 Years of Operation
4. Summary of LEC Statistics, as of December 31, 2018

PURPOSE:

This report provides information concerning Lonsdale Energy Corp. (LEC) 2018 activities and presents the audited Financial Statements for that year. It recommends that a resolution be adopted by the City of North Vancouver, sole shareholder of LEC, in lieu of holding an annual general meeting.

DISCUSSION:

Review of 2018 Activity

LEC was incorporated on July 7, 2003. In November of that year, the company started to provide heat for hydronic space heating and domestic hot water to buildings within the City. Since its inception, LEC has grown to provide reliable and reasonably priced thermal energy to its customers in four separate service areas. LEC's statements comply with the International Financial Reporting Standards (IFRS).

The following customer buildings were added to the LEC network in 2018:

- One Sixty (160 East 6th Street)
- The Saint George (154 East 18th Street)
- Cascade (175 & 185 Victory Ship Way)
- Kindred (603-639 East 3rd Street)
- Magnolia (366 East 3rd Street)

With the addition of these five buildings in 2018, LEC's distribution network has 80 energy transfer stations delivering heating and cooling services to 77 separate premises. LEC's network services approximately 5.7 million sq. ft. of properties including 4,919 households, as well as various commercial and institutional premises. **Attachment 4** provides additional statistics on LEC.

During early 2018, LEC completed an important 350 meter section of piping on St. Georges Ave. from 11th Street to 6th Street with an approximate cost of $0.8 million. This is a significant portion of the required piping to interconnect the Central Lonsdale and Lower Lonsdale service areas. The interconnection of the service areas will allow for further flexibility in LEC's plant operations, the conveyance of thermal energy from sustainable sources to reach additional customers, and reduction of the risk of service outages through additional system resiliency. With the additional 400 meter section of piping on St. Georges Avenue between 6th and 3rd Streets completed in March 2019, LEC has achieved the interconnection of these service areas. Given the previously completed (2017) interconnection of the Harbourside and Central Lonsdale service areas, and the pending completion of two network transfer stations, LEC will be able to transfer energy between all service areas and take full advantage of alternative energy sources.

The Kindred building commenced service in November 2018 and is the first LEC customer in the new Moodyville service area. The connection of this service area required a 1.1 km piping extension of LEC's distribution system on 3rd Street from St. Georges Avenue to Moody Avenue. This was a significant project for the company with primary construction occurring from March to December of 2018 at a cost of $2.875 million. The addition of this piping extension will provide the developing Moodyville area with sustainable thermal energy and provides LEC access to an expected future customer base of 1,500 households.

LEC has also significantly increased its capacity at Mini-Plant 5 (MP5), located in the parking lot of the Pinnacle Hotel. The additional capacity will allow significant heat recovery through provision of cooling services to new buildings in The Shipyards and the outdoor public skating rink. The majority of this work was completed during 2018 for a cost of $0.965 million. Completion of controls, programming and commissioning work will occur in 2019.

Prior to 2018, LEC had completed network control and automation upgrades in all of its Mini-Plants but two: MP4 at City Hall and MP6 at 2151 Lonsdale Avenue. MP6 upgrades were completed on April 1, 2018 and MP4 was primarily completed by the end of 2018 at approximate costs of $116,000 and $99,000 respectively. The completion of these upgrades, as well as the upgrades of previous plants, provide LEC with much greater control and management of its system and provide an abundance of valuable performance data to better serve customers, improve system efficiency, and prioritize the use of the most appropriate available energy source.

Review of 2018 Financial Performance

The financial statements of Lonsdale Energy Corp. (**Attachment 1**) provide the financial information of the business for the benefit of the sole shareholder, the City. LEC is reporting a profit of $580,598 for the year ended December 31, 2018. While this is less than 2017 ($799,595) it is the second year in a row that LEC has earned a significant profit and well above 2016's profit of $18,673. It should also be noted that with the addition of 2018's net income, LEC's accumulated deficit has been eliminated and for the first time since the company's inception, the shareholder's equity includes a retained earnings balance. A historical summary of LEC's financial results is provided in **Attachment 3**.

LEC saw a revenue increase of 6% from 2017 to 2018 as a result of new customer connections, as well as a rate increase, but even more significant was an increase of 60% in contributions received in 2018. This is primarily a result of the new application fee rate structure which was introduced in March 2017. Under the new structure, LEC began charging 0.15% of the assigned construction value of the building permit. This structure more accurately aligns with the costs incurred for the review of new developments, processing of building permit applications, and building performance monitoring and troubleshooting over an approximate three year period.

The following factors contributed to the decrease in profits in 2018 from 2017:

- 2017 was impacted by an approximate 40% decrease in maintenance and repairs costs due to staff and contractor's focus on capital projects. 2018's costs returned to previously consistent levels (2018: $219,000; 2017: $135,000; 2016: $225,000.
- The introduction and use of more plants has increased fixed costs, such as demand charges on natural gas purchases which is included in cost of sales.

- The commissioning of major assets over 2017 and 2018 (MP8, MP5 Capacity Extension, 1.0 km of piping on Keith Road, 0.5 km of piping on St. Georges, and 1.1 km of piping on 3rd Street, plant controls) has significantly increased depreciation expenses (13%).
- LEC's staffing complement has increased to address in-house project/construction management, the growth of its system, investigation into alternative energy sources and commitment to its customer service resulting in increased general and administrative costs.
- The October 9, 2018 rupture of Enbridge's transmission pipeline significantly reduced the capacity of natural gas to the Lower Mainland and consequently increased natural gas prices. For several months, LEC was unable to take advantage of occasional low market spot pricing to generate commodity savings.

The Commodity Charge invoiced to the customers is designed to align with FortisBC Energy Inc.'s (FortisBC) Rate 3 for natural gas. Whenever FortisBC's rate fluctuates, LEC's Commodity Charge is adjusted in line with the fluctuation. It is important to note that an increase or decrease in Commodity Charge revenue will be matched by an increase or reduction in the expenses associated with gas purchase. Under normal circumstances and for much of 2018, LEC was able to mitigate potential losses and capitalize on savings opportunities by increasing efficiency, redistributing gas consumption between its plants, and monitoring natural gas market prices. However, the rupture of the Enbridge pipeline near Prince George in early October severely limited the natural gas available to the Lower Mainland and resulted in natural gas providers declaring a Force Majeure. This incident upset the natural gas market and caused reactionary pricing adjustments. Over the past few years, LEC had taken advantage of variable market pricing at two of its plants to provide savings when market prices allowed it. However, following the pipeline rupture the prices increased to uneconomical levels and LEC minimized the use of these plants as usual seasonal natural gas purchase savings became unavailable.

Outlook for 2019

With continued growth and development within the City, 2019 will be a very busy year for LEC. Current construction schedules forecast the addition of 13 new buildings during the year, increasing the total number of buildings served to 90 by the end of 2019.

During the first six months of 2019, LEC has completed the distribution piping on St. Georges Avenue from 3rd to 6th Street, completing the interconnection of the Lower and Central Lonsdale service areas, as well as distribution piping on Ridgeway Avenue between 2nd and 3rd Street, and Chesterfield Avenue between 15th and 16th Street. Additional distribution system piping projects scheduled within 2019 include East 15th Street – Lonsdale to St. Georges Avenue and from there, north to 1549 St. Georges, the replacement of LEC piping at Mosquito Creek, and connection of new buildings from existing LEC mains.

In addition to distribution system construction, LEC will be conducting work on a number of ancillary equipment sites to its plants and distribution system during 2019. This includes the construction of two network transfer stations at 717 Chesterfield Avenue (NTS1) and 160 East 6th Street (NTS2). These stations will facilitate the transfer of energy between service areas without compromising the integrity of LEC's distribution system as a result of large differences in pressure due to elevation differentials between service areas. The company will also be building two booster pump stations to counter the pressure loss caused by long stretches in the distribution system. Booster Pump Station 1 (BPS1) is located at 541 W Keith Road and will enhance the future conveyance of thermal energy from the North Shore Waste Water Treatment Plant (NSWWTP), while Booster Pump Station 2 (BPS2) is located at 366 East 3rd Street and will increase the pressure in the supply line servicing the Moodyville service area.

While LEC is always aiming to maintain its cost advantage in relation to stand-alone in-building technologies, LEC is optimistic that it will be able to continue generating significant profits in 2019. Profits will continue to be used to reimburse LEC's debt obligations to the City and fund lower greenhouse gas (GHG) energy sources. It is important to note that this forecast still assumes the use of existing natural gas boiler technology to produce most of the heat delivered by LEC. The agreement signed with the Greater Vancouver Sewerage & Drainage District (GVS&DD) expects that the NSWWTP will deliver 20,000 to 30,000 MWh by 2021 (which could account for over half of LEC's heat sales). As per LEC's report presented at the July 24, 2017 Council meeting, LEC is implementing annual 5% Capacity Charge increases over a period of five years to fund the additional costs of the future NSWWTP and 2019 will be the third year of this plan.

Alternative Energy Sources

LEC is continuously exploring new ways to innovate and enhance the sustainability of its district energy system. Currently, LEC's alternative energy sources include a solar thermal panel array on the roof of the Library, a geo-exchange field under and around the School District 44 head office, as well as recovery of rejected heat from the cooling process used in LEC's cooling services at the School District 44 head office and Waterfront/Shipyard buildings. These energy sources are used in priority and directly offset energy that would otherwise be provided by using natural gas fired boilers in LEC's system.

On October 5, 2017, LEC entered into a Thermal Energy Sale and Purchase Agreement with GVS&DD. Under the agreement, GVS&DD is to recover heat from the treated sewerage effluent which is to be distributed through LEC's district energy system. The GHG reduction resulting from this heat recovery will allow LEC to supply a considerably larger amount of low-carbon energy to its customers (20,000-30,000 MWh) and displace 7,200 tonnes of emissions within the City per year (as estimated by the GVS&DD). LEC received Council approval on July 24, 2017 for a loan of $3.6 million to fund the capital cost of the distribution system to link the Harbourside service area with the future NSWWTP. Upon completion, while GVS&DD will be responsible for the operation and maintenance of the heat recovery facility, LEC will be obligated to reimburse those costs and the cost of electricity.

On December 14, 2017, LEC entered into a Senior Energy Specialist Agreement with FortisBC. The agreement provides funding for the hiring of an engineer to review the feasibility of implementing a hydrogen injection facility to displace natural gas currently consumed by LEC. The one-year feasibility study was completed in March 2019. The results of the study have been submitted to LEC and FortisBC and are currently under review and consideration.

The reduction of the use of natural gas boilers is an increasing priority for LEC as it continues to focus on decarbonization. However, alternative energy projects have significant capital and operating costs which makes their financial viability challenging, particularly when considering the past decade's low gas prices. LEC will complete rigorous financial analysis on these projects before making any investment recommendations.

Annual General Meeting

The legislation requires that each year the company hold an Annual General Meeting (AGM) so that its shareholders can approve the company's financial statements; appoint the Directors and Auditors; and conduct any other business that the situation may require. Alternatively, the shareholders may consent in writing to the business required to be transacted at the AGM. Accordingly, a consent resolution has been submitted so that the shareholder may consent to the resolutions to be passed at an AGM (**Attachment 2**).

It should be noted that the consent resolution names BDO Canada LLP as auditors of the Company until the next annual reference date or until a successor is appointed. In 2016, the City and LEC issued a Request for Proposal of Professional Audit Services for the audit of the 2016 to 2020 Financial Statements. After conducting the selection process, a Unanimous Consent Resolution of the Shareholders appointed BDO Canada LLP as the auditors of the Company.

Nomination of the Directors

Article 18.1 of the Articles of the company specifies the officers that must be appointed to the company as follows: a Chairperson of the Board, a Vice-Chairperson, a President and a Secretary-Treasurer.

A Unanimous Consent Resolution of the Shareholder dated December 21, 2018 appointed Leanne McCarthy and Jessica McIlroy to the LEC Board. The proposed Unanimous Consent Resolutions of the Shareholder of LEC (**Attachment 2**) has been prepared on the same basis as previous years and references LEC's Officers as follows:

Name	Office
Leanne McCarthy	Chairman of the Board and President
Jessica McIlroy	Vice-Chair and Director At Large
Ben Themens	Executive Director and Secretary-Treasurer

Note that the title Executive Director is meant to recognize the fact that this director is involved in the company's day-to-day management and operations. It also aligns with the title of Director currently in use by most of the City department's heads. The title Director at Large recognizes the fact that while not being specifically involved in the company's operations, the appointee represents the residents' broader interests.

Considering LEC's sustained growth, the complexity of existing and contemplated alternative energy sources, the desire to continue implementing and develop a strategy to expand the use of alternative energy sources, and the workload of City staff involved in dual positions, LEC intends to review its governance structure in the coming year.

Amount Due to the City of North Vancouver

On December 16, 2013 the City converted its amounts due from LEC into a five-year demand term loan, maturing on December 16, 2018, bearing interest at 2.1% per annum. The initial loan agreement authorized LEC to borrow up to $12 million from this source. This amount covered expenses incurred by the City for the construction of the LEC distribution network between 2009 and 2015. Expenses for construction prior to 2009 have been reimbursed to the City.

Subsequently, on August 4, 2015 and November 26, 2015, LEC borrowed $2,000,000 and $611,966 from the City, bearing the same interest rate and terms as the above loan to provide for the legal settlement of the purchase price of equipment payable to Corix by LEC. In 2016, LEC received authorization to borrow up to $7,750,000 from the City for construction of Mini-Plant 8 and additions to the LEC distribution network. In 2017, Council approved additional funding of $2,300,000 for the 2017-2018 LEC Construction Program, $3,600,000 for the connection of the heat recovery plant at the NSWWTP, and $1,200,000 for expansion of the cooling capacity at Mini-Plant 5 for the servicing of Lot 5 (Shipyards). Additional funding was approved by Council in 2018 consisting of $1,200,000 for the future construction of a mini-plant at the Harbourside Concert Properties development and $3,000,000 of additional distribution system construction.

On August 1, 2018, these authorized amounts were consolidated into a new five-year demand term loan, maturing on August, 1, 2023, and bearing an interest rate of 2.65% per annum. The total authorized amount of this new loan is $33,661,966. As of December 31 2018, the amount owed to the City against the loan was $23,293,926.

On June 29, 2012 the City received a loan of $2,000,000 under the Green Municipal Investment Fund Project Loan through the Municipal Finance Authority ("MFA") to finance eligible capital costs. Funding was transferred to LEC who is responsible for interest payments and reimbursement. As of December 31, 2018, the loan had an outstanding balance of approximately $895,066.

In a report to Council dated June 6, 2017 titled "2017-2018 LEC Construction Program Financing", the company informed Council of its intention to cease using its operating revenue for the purpose of funding capital expansions and major upgrades. To enhance transparency, LEC is borrowing funding for future capital projects so that operating revenue may be targeted toward the payment of interest and principal of existing loans. The report provided a loan repayment schedule which indicated that the company intended to allocate $1.1 million to this purpose in 2018. This was achieved through payment of $498,448 in interest to the City and payments against the principal amount of loans outstanding: $202,672 to MFA on May 9, 2018; $233,000 to the City on June 28, 2018; and $165,880 on March 21, 2019. The final scheduled 2018 payment was delayed into 2019 to provide contingency cash flow to the company during the winter season in consideration of natural gas pricing uncertainty due to the rupture of the Enbridge pipeline. Once the colder winter conditions had subsided and natural gas prices had stabilized, the final payment was made. With the inclusion of this delayed payment, LEC fulfilled its 2018 payment target as set out by the repayment schedule. In addition to these payments, administrative services as well as maintenance and operation activities provided by the City are reimbursed on a quarterly basis.

At year-end, LEC had approximately $817,000 in cash. This amount includes approximately $375,000 of cash disbursements from the above mentioned loans. The latter amount is to be used solely on capital projects specified in the loan agreements. The difference of $442,000 reflects LEC's available working capital as of December 31, 2018, which also includes the $165,880 of contingent cash for the above-mentioned delayed 2018 loan reimbursement.

FINANCIAL IMPLICATIONS:

Discussed throughout the report.

INTER-DEPARTMENTAL IMPLICATIONS

LEC works in constant cooperation with City departments. LEC is involved in the review of rezoning and building permit applications of buildings with a floor area exceeding 1,000 square meters. All LEC projects are reviewed by the Engineering, Parks and Environment department to ensure good coordination between LEC and the City. The Finance Department is also involved in the invoicing of all City charges recoverable from LEC.

RESPECTFULLY SUBMITTED BY:

Ben Themens, MBA, P.Eng., CPA, CGA
Director, LEC

Attachment No. 1

Financial Statements of

LONSDALE ENERGY CORP.

Year ended December 31, 2018

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600 Cathedral Place
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Independent Auditor's Report

To the Shareholder of Lonsdale Energy Corp.

Opinion

We have audited the financial statements of Lonsdale Energy Corp. (the "Entity"), which comprise the Statement of financial position as at December 31, 2018, and the Statements of Comprehensive Income, Changes in Equity and Cash Flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of 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.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

BDO Canada LLP

Chartered Professional Accountants

Vancouver, British Columbia
July 9, 2019

LONSDALE ENERGY CORP.

Statement of Financial Position

December 31, 2018, with comparative information for 2017

	Note	2018	2017
Assets			
Current Assets:			
Cash		$ 817,106	$ 1,683,050
Accounts receivable	5	1,057,351	1,018,278
Prepaid expenses		61,040	62,334
		1,935,497	2,763,662
Plant and equipment	6	31,198,418	26,014,057
Supplies for the distribution system	6	578,279	503,279
Software assets	7	530,468	437,713
Debt Reserve Fund	8(c)	20,000	20,000
		$ 34,262,662	$ 29,738,711
Liabilities and Shareholder's Equity			
Current liabilities:			
Accounts payable and accrued liabilities		$ 659,220	$ 818,167
Due to the City of North Vancouver	8(a)	559,040	416,440
Current portion of Loan from City of North Vancouver	8(a)	494,982	472,328
Security deposits		230,059	262,500
Current portion of loan from Green Municipal Investment Fund	8(c)	210,779	202,672
Current portion of deferred contributions	9	561,405	356,652
		2,715,485	2,528,759
Loan from City of North Vancouver	8(b)	22,798,944	18,769,598
Loan from Green Municipal Investment Fund	8(c)	684,287	895,067
Deferred contributions	9	5,949,785	6,011,724
		32,148,501	28,205,148
Shareholder's equity:			
Share capital	10	2,000,010	2,000,010
Contributed surplus		111,723	111,723
Retained earnings (deficit)		2,428	(578,170)
		2,114,161	1,533,563
Commitments and contingencies (note 13)			
		$ 34,262,662	$ 29,738,711

See accompanying notes to financial statements.

Approved on behalf of the Board:

_____________________ Director _____________________ Director

LONSDALE ENERGY CORP.

Statement of Comprehensive Income

Year ended December 31, 2018, with comparative information for 2017

	Note	2018	2017
Revenue	*12*	$ 4,132,957	$ 3,900,077
Cost of sales		1,678,140	1,538,595
		2,454,817	2,361,482
Operating expenses:			
Plant operation and maintenance		218,812	134,380
Depreciation		1,206,818	1,064,736
General and administrative		587,399	405,632
		2,013,029	1,604,748
Contributions and financing costs:			
Contributions	*9 & 12*	571,832	357,676
Finance income		65,426	42,975
Finance costs		(498,448)	(357,790)
		138,810	42,861
Net income and comprehensive income		$ 580,598	$ 799,595

See accompanying notes to financial statements.

LONSDALE ENERGY CORP.

Statement of Changes in Equity

Year ended December 31, 2018, with comparative information for 2017

	Share capital	Contributed surplus	Retained earnings (deficit)	Shareholder's equity
Balance, December 31, 2016	$ 2,000,010	$ 111,723	$ (1,377,765)	$ 733,968
Net income and comprehensive income	-	-	799,595	799,595
Balance, December 31, 2017	2,000,010	111,723	(578,170)	1,533,563
Net income and comprehensive income	-	-	580,598	580,598
Balance, December 31, 2018	$ 2,000,010	$ 111,723	$ 2,428	$ 2,114,161

See accompanying notes to financial statements.

LONSDALE ENERGY CORP.

Statement of Cash Flows

Year ended December 31, 2018, with comparative information for 2017

	2018	2017
Cash provided by (used in)		
Operations:		
Net income	$ 580,598	$ 799,595
Adjustments for:		
Depreciation	1,206,818	1,064,736
Recognition of deferred contributions	(561,405)	(356,652)
Net finance cost	433,022	314,815
Loss on disposal of property and equipment	-	-
Change in non-cash operating working capital:		
Accounts receivable	(39,073)	(207,403)
Prepaid expenses	1,294	(11,863)
Supplies for distribution system	(75,000)	(206,478)
Accounts payable and accrued liabilities	(158,948)	79,083
Security deposits	(32,441)	50,000
Net cash from operating activities	1,354,865	1,525,833
Investments:		
Purchase of plant and equipment (including supplies for the distribution system)	(6,320,877)	(4,670,060)
Purchase of software assets	(163,056)	(99,137)
Interest received	65,426	42,975
Net cash used in investing activities	(6,418,507)	(4,726,222)
Financing:		
Contributions received	704,218	964,841
Repayments of loans from the City of North Vancouver	(233,000)	(450,000)
Proceeds from loans from the City of North Vancouver	4,427,600	4,731,115
Interest paid	(498,448)	(357,790)
Principal payments on Green Municipal Investment Fund loan	(202,672)	(194,877)
Net cash from financing activities	4,197,698	4,693,289
Increase (decrease) in cash	(865,944)	1,492,900
Cash, beginning of year	1,683,050	190,150
Cash, end of year	$ 817,106	$ 1,683,050

See accompanying notes to financial statements.

1. Reporting entity:

Lonsdale Energy Corp. (the "Company") is domiciled in Canada and was incorporated under the Business Corporations Act (British Columbia) on July 7, 2003 and commenced development activities thereafter and commercial operations on March 1, 2004. The address of the Company's registered office is 141 West 14th Street North Vancouver, British Columbia, V7M 1H9. The Company is a wholly owned subsidiary of The Corporation of the City of North Vancouver (the "City"). Since inception, the efforts of the Company have been devoted to the development and operation of a district energy system in the City of North Vancouver. 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.

2. Basis of presentation:

(a) Statement of compliance:

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

The financial statements were authorized for issue by the Board of Directors on July 8, 2019.

(b) Basis of measurement:

The financial statements have been prepared on the historical cost basis on a going concern basis. The going concern basis of presentation assumes the Company will continue in operation for the foreseeable future and will be able to realize its assets and settle its liabilities and commitments in the normal course of business.

Management believes that, based on its current cash flow forecasts and continued and ongoing financing from the City, when and if required, to fund future capital requirements that the Company will be able to operate for the foreseeable future.

(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 or settled within twelve months from the reporting date and non-current assets and liabilities are those where the recovery or settlement 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 costs of operation or administrative activities.

2. **Basis of presentation (continued):**

   (d) Functional and presentation currency:

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

   (e) Judgements and estimates:

   The preparation of the financial statements in conformity with IFRS requires management to make judgments, 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 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 5 - valuation of accounts receivable (note 15)

   Note 6 - useful lives of plant and equipment (note 4(a)(*iii*))

   Note 7 - useful lives of software assets (note 4(b))

3. **Adoption of new accounting standards:**

   Accounting standards, interpretations and amendments effective for accounting years beginning on or after January 1, 2018 did not materially affect the Company's financial statements other than those described below.

   IFRS 9 *Financial Instruments* (IFRS 9)

   On January 1, 2018, the Company adopted IFRS 9 Financial Instruments (IFRS 9), which supersedes IAS 39, Financial Instruments: Recognition and Measurement (IAS 39). IFRS 9 includes revised guidance on the classification and measurement of financial assets and liabilities; new guidance for measuring impairment on financial assets; and new hedge accounting guidance. The Company adopted IFRS 9 retrospectively, however despite the retrospective adoption of IFRS 9, the Company is not required, upon initial application, to restate comparatives.

3. Adoption of new accounting standards (continued):

(*i*) Classification and measurement of financial instruments

On adoption of IFRS 9, in accordance with its transitional provisions, the Company has not restated prior periods but has reclassified the financial assets held at January 1, 2018, retrospectively, based on the new classification requirements and the characteristics of each financial instrument as at the transition date. For financial liabilities, IFRS 9 retains most of the IAS 39 requirements. The Company did not choose the option of designating any financial liabilities at fair value through profit or loss (FVTPL) as such, the adoption of IFRS 9 did not impact the Company's accounting policies for financial liabilities.

Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 contains three primary measurement categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVTOCI), and FVTPL.

The following table shows the original classification and carrying amount under IAS 39 and the new classification and carrying amount under IFRS 9 for each class of the Company's financial assets and financial liabilities as at January 1, 2018.

Financial Instrument	Note	IAS 39		IFRS 9	
Financial assets					
Cash		Loans and receivables	1,683,050	Amortized cost	1,683,050
Accounts receivable	5	Loans and receivables	62,334	Amortized cost	62,334
Financial liabilities					
Accounts payable and accrued liabilities		Other financial liabilities	818,167	Amortized cost	818,167
Security deposits		Other financial liabilities	262,500	Amortized cost	262,500
Due to the City of North Vancouver	8	Other financial liabilities	19,241,926	Amortized cost	19,241,926
Loan from Green Municipal Invest Fund	8	Other financial liabilities	1,097,739	Amortized cost	1,097,739
Deferred contributions	9	Other financial liabilities	6,368,376	Amortized cost	6,368,376

(*ii*) Impairment of financial assets

IFRS 9 replaces the incurred loss model in IAS 39 with an expected credit loss (ECL) model. This applies to financial assets measured at amortized cost. Under IFRS 9, credit losses are recognized earlier than under IAS 39.

3. Adoption of new accounting standards (continued):

(*ii*) Impairment of financial assets (continued):

Under IAS 39, accounts receivable would first be provisioned for when it is deemed that the collection is unlikely. Upon adoption of IFRS 9 the Company measures the loss allowance at an amount equal to the lifetime ECL that results from possible default events over the expected life of accounts receivables and unbilled service revenue. The Company uses a provision matrix to measure the lifetime ECL of accounts receivable and unbilled service revenue from individual customers which accounts for exposures in different customer classes.

For an explanation of how the Company applies the impairment requirements of IFRS 9, see Note 5.

(*iii*) Hedge accounting

The new hedge accounting model which replaces hedge accounting guidance in IAS 39 did not impact the Company's financial statements.

(*iv*) Disclosure

Amendments were also made to IFRS 7 introducing expanded qualitative and quantitative disclosures related to IFRS 9, which the Company has also adopted for the annual period beginning January 1, 2018.

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

On January 1, 2018, the Company adopted IFRS 15 *Revenue from Contracts with Customers* (IFRS 15). IFRS 15 contains a five step model that applies to contracts with customers that specifies that revenue is recognized when or as an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognized at a point in time or over time.

The Company adopted IFRS 15 using the modified retrospective approach, with recognition of transitional adjustments in opening retained earnings on the date of initial application (January 1, 2018), without restatement of comparative figures. IFRS 15 provides for certain optional practical expedients, including those related to the initial adoption of the standard. The Company applied the following practical expedients upon adoption of IFRS 15 on January 1, 2018:

3. Adoption of new accounting standards (continued):

Practical expedient	Description
Completed contract	The Company applied IFRS 15 retrospectively only to contracts that did not begin and end in the same annual reporting period and are not completed contracts as at January 1, 2018.
Transaction price allocated to the remaining performance obligations	The Company did not disclose the amount of consideration allocated to the remaining performance obligations nor did it provide an explanation of when the Company expects to recognize that amount as revenue for comparative periods presented.

(*i*) Recognition and measurement

In accordance with IFRS 15, revenue is recognized at the transaction price as per the rates set by the City.

Capital contributions received from developers to construct or acquire property, plant and equipment for the purpose of connecting future customers to the distribution network are considered out of scope of IFRS 15. Capital contributions received will be recognized as contributions in aid of construction and amortized into revenue at an equivalent rate to that used for depreciation of the related property, plant and equipment (PP&E).

The adoption of IFRS 15 had no impact to opening retained earnings as at January 1, 2018.

(*ii*) Disclosure

Amendments were also made to IFRS 15 introducing expanded qualitative and quantitative disclosures, which the Company has also adopted for the annual period beginning January 1, 2018.

Impacts of adopting IFRS 9 and IFRS 15 on the Company's financial statements on January 1, 2018.

The adoption of IFRS 9 and 15 did not result in any changes to the statement of financial position on January 1, 2018.

4. **Significant accounting policies:**

(a) Plant and equipment, supplies for the distribution system:

(*i*) Recognition and measurement:

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

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets include the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets.

The supplies for the distribution system are capital items, not for resale, which have yet to be used in the construction of the distribution system infrastructure, and accordingly are not amortized until installed and available for use.

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 or 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 costs 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 is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

4. **Significant accounting policies (continued):**

(a) Plant and equipment and supplies for the distribution system (continued):

(*iii*) Depreciation (continued):

Depreciation of the various components of the general equipment and sections of the distribution system starts once a component/section is available for use at the following rates on a straight line basis for the current and comparative periods:

Asset	Rate
Distribution system	2.5%
Generation equipment	5%

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

(b) Software assets:

The software assets are integral to the functionality of related equipment. Software assets are recognized at cost, net of accumulated amortization and accumulated impairment losses, if any. Software assets, less their estimated residual values, are amortized on a straight-line basis. Depreciation of the software assets starts once the software is available for use at the following rate on a straight line basis for the current and comparative periods:

Asset	Rate
Software	10%

The estimated useful lives, amortization method, and residual value of each asset are evaluated annually or more frequently if required, and are adjusted, if appropriate.

(c) Revenue recognition:

Energy sales are based on fixed rates and meter readings and are billed on a cyclical basis. Revenue is accrued for energy delivered but not yet billed where collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable.

Application fee revenues are based on a percentage of the value of a development. Revenue is earned over time on an accrual basis upon providing services.

4. Significant accounting policies (continued):

(d) Government grants:

Government grants are recognized initially as deferred contributions at fair value when there is reasonable assurance that they will be received and the Company will comply with the conditions associated with the grant. Grants that compensate the Company for operating expenses incurred are initially deferred and recognized in profit or loss as other income in the same periods in which the expenses are recognized. Grants that compensate the Company for the cost of an asset are initially deferred and recognized in profit or loss on a systematic basis consistent with the depreciation of the of the asset, over the useful life of the asset when put into use.

(e) Finance income and finance costs:

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, unwinding of the discount on provisions, 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.

(f) Financial instruments:

(*i*) Financial assets:

The Company has the following financial assets: cash and accounts receivables.

The Company initially recognizes cash and accounts receivable on the date on which they are originated. Cash and accounts receivable are initially measured at fair value and are subsequently classified and measured at amortized cost, using the effective interest rate method, because they meet the solely payments of principal and interest criterion and are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows. The carrying amount is reduced through the use of a loss allowance and the amount of the related loss allowance is recognized in profit or loss. Subsequent recoveries of receivables and unbilled service revenue previously provisioned are credited to profit or loss.

Due to its short term nature, the carrying amounts of accounts receivable and unbilled service revenue approximates their fair value.

4. Significant accounting policies (continued):

(f) Financial instruments (continued):

(*ii*) Financial liabilities:

The Company initially recognizes financial liabilities on the date that they are originated. All other financial liabilities are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Company has the following financial liabilities: accounts payable and accrued liabilities, due to the City of North Vancouver, security deposits, loan from City of North Vancouver, loan from the Green Municipal Investment Fund.

Other financial liabilities

Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

(*iii*) Share capital:

Common shares

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity.

(g) Impairment:

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").

4. Significant accounting policies (continued):

(g) Impairment (continued):

generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. The 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.

(h) New standards and interpretations not yet adopted:

The following is a summary of recent relevant accounting pronouncements which have not yet been adopted by the Company:

(i) IFRS 16 *Leases*

On January 13, 2016 the IASB issued IFRS 16, Leases ("IFRS 16"). 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 at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17, Leases ("IAS 17").

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 consolidated financial statements for the annual period beginning on January 1, 2019.

5. Accounts receivable:

	2018	2017
Trade receivables	$ 880,499	$ 930,856
Sales tax receivable	176,852	87,422
	$ 1,057,351	$ 1,018,278

Included in trade receivables is $0 (2017 - $1,918) due from the City pertaining to commodity charges for the City's energy usage. The Company settles the receivables due from the City separate from its payment of the amounts due to the City. As a result, the outstanding receivables and payables due from/to the City are recorded on a gross basis.

The aging of trade receivables at the reporting date was:

	2018	2017
(a) Utilities		
Current	$ 511,522	$ 479,190
Past due 30-60 days	173,790	187,757
Past due 60-90 days	9,313	3,177
Past due greater than 90 days	2,865	-
(b) Application fees		
Current	$ -	$ 121,002
Past due 30-60 days	-	-
Past due 60-90 days	394	24,650
Past due greater than 90 days	38,274	-
(c) Other		
Current	$ 43,730	$ 115,080
Past due 30-60 days	100,611	-
Past due 60-90 days	-	-
Past due greater than 90 days	-	-
	$ 880,499	$ 930,856

(a) Utilities

Included in utilities are trade receivables for the monthly provision of space heating and domestic hot water services.

5. Accounts receivable (continued):

(b) Application fees

Included in application fees are trade receivables for 0.15% of the construction value of new developments connecting to the Company's distribution system. These trade receivables cover multiple phases of development and the developers are offered the option of paying fees separately by phase. Phased payments can result in the potential for longer aging of trade receivables. These trade receivables are still expected to be collected within one year.

(c) Other

Included in other are trade receivables such as the non-refundable connection fees from new customers or contributions from developers for extended distribution piping as part of the initial connection of a building to the system

The Company measures the loss allowance at an amount equal to the lifetime ECL for accounts receivables. The ECL is an estimation of loss in the event of default of the accounts receivable arising from default events occurring in the lifetime of the instrument. The lifetime ECL is estimated based on historical default rates and forward looking trends in the energy and real estate industry.

There was no loss allowance related to the collectability of accounts receivable as at December 31, 2018 and 2017.

6. Plant and equipment:

		Distribution system		General equipment		Total
Cost						
Balance as at December 31, 2017	$	17,539,955	$	14,181,847	$	31,721,802
Additions		4,864,996		1,455,882		6,320,878
Disposal		-		-		-
Balance as at December 31, 2018	$	22,404,951	$	15,637,729	$	38,042,680
Accumulated depreciation						
Balance as at December 31, 2017	$	2,039,842	$	3,667,903	$	5,707,745
Depreciation		403,987		732,530		1,136,517
Disposal		-		-		-
Balance as at December 31, 2018	$	2,443,829	$	4,400,433	$	6,844,262
Net book value						
At December 31, 2017	$	15,500,113	$	10,513,944	$	26,014,057
At December 31, 2018		19,961,122		11,237,296		31,198,418

Supplies for the distribution system represent plant and equipment which have not been installed or used for the district energy system as at December 31, 2018. In addition, they are not being amortized.

7. Software assets:

Cost		
Balance, at December 31, 2017	$	528,705
Additions		163,056
Balance, at December 31, 2018	$	691,761
Accumulated Depreciation		
Balance, at December 31, 2017	$	90,992
Depreciation		70,301
Balance, at December 31, 2018	$	161,293
Net book value		
At December 31, 2017	$	437,713
At December 31, 2018	$	530,468

In 2014, the Company initiated the replacement and upgrade of the central control system in the Lower Lonsdale service area as well as acquiring a new financial reporting system. The new financial reporting system was put into service in March 2015 and is being amortized over its estimated useful life of 10 years. The control system was put into service in July 2016 and is being amortized over its estimated useful life of 10 years.

In 2017, the Company undertook further controls upgrades for the Harbourside service area, as well as preliminary work on the Central Lonsdale service area. The control system in Harbourside was put into service in September 2017, the Central Lonsdale system is expected to be completed and put into service in March 2019.

8. Due to the City of North Vancouver:

(a) Due to the City of North Vancouver:

The amount due to the City of $559,040 (2017 - $416,440) is used to cover operating and financing expenses incurred by the City on behalf of the Company. The amounts outstanding as at 2018 are expected to be repaid as part of the ongoing operations of the Company. The amount due to the City is non-interest bearing, unsecured and due on demand.

8. Due to the City of North Vancouver (continued):

(a) Due to the City of North Vancouver (continued):

In addition to the amount due to the City, $494,982 (2017 - $472,328) of the principal loan amount is included in the current liabilities this amount is expected to be reimbursed by the Company within one year. In 2018, $233,000 was reimbursed to the City in payment of the principal of a City loan.

All of the Company's shares are owned by the City, the parent organization. The full financial statements of the City are publicly available and produced by the City.

(b) Loans from the City of North Vancouver:

	2018	2017
Demand promissory note *(i)*	$ -	$ 11,549,960
Demand promissory note *(ii)*	-	2,611,966
Demand promissory note *(iii)*	-	1,205,000
Demand promissory note *(iv)*	-	2,325,000
Demand promissory note *(v)*	-	625,000
Demand promissory note *(vi)*	-	600,000
Demand promissory note *(vii)*	-	165,000
Demand promissory note *(viii)*	-	160,000
Demand promissory note *(ix)*	-	-
Demand promissory note *(x)*	23,293,926	-
	$ 23,293,926	$ 19,241,926

(*i*) The loan from the City is comprised of a five-year demand term loan maturing on December 16, 2018, bearing interest at 2.1% per annum. Additional funding is available to the Company under the terms of the agreement to a maximum of $12,000,000.

(*ii*) On August 4, 2015 and November 26, 2015, the Company borrowed an additional $2,000,000 and $611,966, respectively from the City. The loans bear interest at 2.1% per annum.

(*iii*) On November 18, 2016 the Company was authorized to borrow an additional $1,600,000 from the City. The loan bears interest at 2.1% per annum. As at December 31, 2017, an amount of $1,205,000 had been drawn by the Company on this loan.

(*iv*) On September 19, 2016 the Company was authorized to borrow an additional $3,250,000 from the City. The loan bears interest at 2.1% per annum. As at December 31, 2017, an amount of $2,325,000 had been drawn by the Company on this loan.

8. Due to the City of North Vancouver (continued):

(b) Loans from the City of North Vancouver (continued):

(*v*) On June 12, 2017 the Company was authorized to borrow an additional $2,300,000 from the City. The loan bears interest at 2.1% per annum. As at December 31, 2017, an amount of $625,000 had been drawn by the Company on this loan.

(*vi*) On April 4, 2016 the Company was authorized to borrow an additional $600,000 from the City. The loan bears interest at 2.1% per annum. As at December 31, 2017, an amount of $600,000 had been drawn by the Company on this loan.

(*vii*) On April 4, 2016 the Company was authorized to borrow an additional $2,300,000 from the City. The loan bears interest at 2.1% per annum. As at December 31, 2017, an amount of $165,000 had been drawn by the Company on this loan.

(*viii*) On September 18, 2017 the Company was authorized to borrow an additional $1,200,000 from the City. The loan bears interest at 2.1% per annum. As at December 31, 2017, an amount of $160,000 had been drawn by the Company on this loan.

(*ix*) On July 24, 2017 the Company was authorized to borrow an additional $3,600,000 from the City. The loan bears interest at 2.1% per annum. As at December 31, 2017, no amount had been drawn by the Company on this loan.

(*x*) On August 1, 2018 a new five-year demand term loan was issued by the City. This Promissory Note replaces and nullifies all previous Promissory Notes issued by the City to the Company. The loan matures on August 1, 2023 and bears interest at 2.65% per annum. As at December 31, 2018 an amount of $23,296,926 had been drawn by the Company. Additional funding is available to the Company under the terms of the agreement to a maximum of $33,661,966.

Although the term loans are due on demand, with the exception of an amount of $494,982, the amounts have been classified as a non-current liability as the City has not indicated its intention to call the loan within the next fiscal year and the Company has provided a reimbursement schedule to the City, which was accepted by Council that supports this classification.

The interest expense of $492,448 (2017 - $351,790) related to the due to the City of North Vancouver are included in finance costs in the Statement of Comprehensive Income.

The loans are secured by an interest in all of the Company's current and future property, including plant and equipment, supplies for the distribution system and other related assets.

8. Due to the City of North Vancouver (continued):

(c) Loan from Green Municipal Investment Fund:

On June 29, 2012, the City received a loan of $2,000,000 under the Green Municipal Investment Fund Project Loan through the Municipal Finance Authority ("MFA") to finance Eligible Costs incurred related to the capital projects undertaken by the Company. The loan bears interest at the ten year Government of Canada bond yield rate in effect at the date of request of the disbursement less 1.5% (effective interest rate of 0.3%) and is payable semi-annually and matures on the tenth anniversary of the loan date. As a condition to receive the loan, the Company made a debt reserve deposit payment of $20,000 to the MFA on behalf of the City which is recorded in other assets on the statement of financial position.

The annual principal payments to the MFA are held in a sinking fund deposit account which accrues interest income based on actuarial estimates. The total principal repayments made including the interest income earned on the sinking fund deposit will be used to retire the loan on June 29, 2022. The difference between the actuarial and actual interest income earned during the term will be paid by or reimbursed to the Company.

The City assumed this loan on behalf of the Company. The City then loaned the proceeds of the loan to the Company with terms consistent with the MFA. The principal payments of this loan are made by the Company directly to the MFA which results in the reduction to the amounts owed by the Company to the City. The loan is subject to certain financial and non-financial covenants. As at December 31, 2018, the City and Company were in compliance with these covenants.

Future principal repayments, including actuarial adjustments of $228,739 (2017 - $264,829) on this loan over the next four years are as follows:

2019	$	210,779
2020		219,210
2021		227,979
2022		237,098
	$	895,066

The interest expense of $6,000 (2017 - $6,000) is included in finance costs in the Statement of Comprehensive Income.

9. Deferred contributions:

	2018	2017
(a) Green Municipal Investment Fund Project Grant	$ 1,068,480	$ 1,150,298
(b) Gas Tax Agreement – Innovation Fund	797,640	822,038
(c) Infrastructure Stimulus Fund Grant	81,728	83,103
(d) Solar Water Installation	150,261	163,921
(e) Contributions from developers and new customers	4,385,788	4,118,994
(f) Contributions from utility company	27,293	30,022
	6,511,190	6,368,376
Current portion	(561,405)	(356,652)
Non-current portion	$ 5,949,785	$ 6,011,724

(a) Green Municipal Investment Fund Project Grant:

In 2005, the City and the Federation of Canadian Municipalities (FCM) entered into an agreement whereby FCM provides a grant from the Green Municipal Investment Fund. The grant provides for 25% of the eligible costs, to a maximum of $2,000,000, related to the construction of the mini-plants, distribution system and project soft costs such as those related to intangible assets, development costs and pre-operating costs. The Company has received the maximum eligible grant of $2,000,000.

The contribution is recognized over the useful life of the related assets. The portion of the grant that is not recognized as revenue is recorded as deferred contribution.

The following table summarizes the amount recognized as of December 31:

	2018	2017
Deferred contribution - FCM Grant, beginning of year	$ 1,150,298	$ 1,232,116
Revenue recognized from grant	(81,818)	(81,818)
Deferred contribution - FCM Grant, end of year	$ 1,068,480	$ 1,150,298

(b) Gas Tax Agreement - Innovation Fund:

In 2009, the City and the Union of British Columbia Municipalities (UBCM) entered into an agreement whereby UBCM provided a grant from the Gas Tax Innovation Fund. The grant provides for 100% of the eligible costs, to a maximum of $973,750 related to the construction of a section of the distribution system in Central Lonsdale.

The contribution is recognized over the useful life of the distribution system at a rate of 2.5% per year from the date the section covered under the grant is available for use. The portion of the grant that is not recognized as revenue is recorded as deferred contribution.

9. Deferred contributions (continued):

(b) Gas Tax Agreement - Innovation Fund (continued):

The following table summarizes the amount recognized as of December 31:

		2018		2017
Deferred contribution - Gas Tax Grant, beginning of year	$	822,038	$	846,436
Revenue recognized from grant		(24,398)		(24,398)
Deferred contribution - Gas Tax Grant, end of year	$	797,640	$	822,038

(c) Infrastructure Stimulus Fund Grant:

In 2011, the City and the Province of British Columbia (Province) entered into agreement whereby the Province provides a grant from the Infrastructure Stimulus Fund. The grant provides for 66.66% of the eligible costs, to a maximum of $83,332 related to the construction of a section of the distribution system in Central Lonsdale. The maximum contribution of $83,332 was received in 2011.

The contribution is recognized over the useful life of the distribution system at a rate of 2.5% per year from the date the section completed under the grant is available for use. Depreciation of this section of the distribution system started to be recognized as of November 1, 2017 resulting in the commencement of revenue recognition.

The following table summarizes the amount recognized as of December 31:

		2018		2017
Deferred contribution - Infrastructure grant, beginning and end of year	$	83,103	$	83,332
Revenue recognized from grant		(1,375)		(229)
Deferred contribution – Infrastructure Stimulus Fund Grant, end of year	$	81,728	$	83,103

(d) Solar Water Installation:

In 2010, the City transferred the ownership of the Solar Panels to the Company which involved the transfer of all costs incurred and contributions received that were associated with the project.

9. Deferred contributions (continued):

(d) Solar Water Installation (continued):

The City had incurred a total of $347,150 in project costs and received two grant contributions from the Federal Government and the Province towards the project for a total of $273,202. The contributions are recognized over the useful life of the solar panels at rate of 5% per year.

The following table summarizes the amount recognized as of December 31:

	2018	2017
Deferred contribution - Solar Water Installation, beginning of year	$ 163,921	$ 177,581
Revenue from contributions recognized	(13,660)	(13,660)
Deferred contribution - Solar Water Installation, end of year	$ 150,261	$ 163,921

(e) Contributions from developers and new customers:

The Company recognizes as a contribution from developers the amounts reimbursed by developers to the Company for costs to construct or acquire property and equipment. Revenue is recognized over the useful life of the distribution system at a rate of 2.5% per year from the date a section is available for use.

The Company also includes in the contributions from developers and new customers the non-refundable connection fees or general contributions received as part of the initial connection of a building to the system. These fees and general contributions are linked to the cost of the initial connection including installation of the building heat exchanger. The contributions are recognized over the useful life of the general equipment at a rate of 5% per year from the date of connection of the building. This amount includes compensation of $98,493 and $23,676 received in 2016 and 2017 respectively, from the City for service connection rebates granted to rental buildings.

The following table summarizes the amount recognized as of December 31:

	2018	2017
Deferred contribution from developers and new customers, beginning of year	$ 4,118,994	$ 3,387,968
Contributions	704,218	964,843
Revenue recognized from contributions	(437,424)	(233,817)
Deferred contribution, end of year	$ 4,385,788	$ 4,118,994

9. Deferred contributions (continued):

(f) Contribution from utility company:

In 2009, the City received funding under the Efficient Boiler Program administered by Fortis Gas Inc. of $54,586. The contribution is recognized over the useful life of the boilers at a rate of 5% per year.

The following table summarizes the amount recognized as of December 31:

		2018		2017
Deferred contribution from utility company, beginning of year	$	30,022	$	32,752
Revenue recognized from contributions		(2,729)		(2,730)
Deferred contribution from utility company, end of year	$	27,293	$	30,022

10. Share capital:

The authorized capital of the Company consists of an unlimited number of voting common shares without par value. As of December 31, 2018, a total of 2,000,010 (2017 - 2,000,010) shares were issued and outstanding to the Company's sole shareholder, the City.

There were no changes in share capital during the year.

11. Related parties:

The City has incurred expenses, including sales taxes, on behalf of the Company in the year of approximately $1,263,124 (2017 - $993,545) by providing staff, purchasing material and installing and operating the distribution system for the Company's benefit. Of this amount $271,651 (2017 - $393,117) has been capitalized to plant and equipment. Specifically, City staff has been involved in designing, purchasing materials for and installing and operating components of the distribution system. These costs have been charged to the Company by the City on a cost recovery basis. Included in revenue for 2018 is $204,053 (2017 - $207,941) for heating and cooling services rendered by the Company to the City.

Included in the services provided to the Company by the City is key management personnel compensation, comprised of the president, executive director, deputy director, manager - engineering, two project engineers, construction manager, senior energy specialist – hydrogen, and accountant. These key management personnel are directly employed by the City and contracted to the Company based on an allocation of their compensation. For the year ended December 31, 2018, key management personnel compensation of $874,142 (2017 - $479,422) was included in the costs charged to the Company by the City.

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.

12. Revenue:

	Note	2018	2017
Revenue from contracts with customers			
Energy sales		$4,132,957	$3,900,077
Other			
Contributions from Government	*9(a)–(d)*	$121,251	$120,105
Contributions from developers	*9(e)*	112,534	51,050
Connection fees	*9(e)*	130,595	117,316
Contributions from utilities companies	*9(f)*	2,729	2,729
Application fee revenue	*9(e)*	194,295	65,451
Miscellaneous		10,422	1,025
		$571,832	$357,676
Total revenue		$4,704,789	$4,257,753

13. Commitments and contingencies:

(a) As at December 31, 2018, the Company has approximately $1,028,831 (2017 - $1,467,528) in open purchase and work orders relating to plant and equipment.

(b) As a condition of the Green Municipal Investment Fund Project Loan from the MFA (note 8(c)), the City executed a demand note in connection with the loan whereby the City may be required to lend certain amounts to the MFA. The demand note relating to the loan is $66,291. The demand note is contingent in nature and is therefore not recorded as a liability.

(c) On October 5, 2017, the Company entered in an agreement with Greater Vancouver Sewerage and Drainage District for the purchase of thermal energy from the new North Shore wastewater treatment plant currently under construction. Under the agreement, as of mid-2021, the Company will be obligated to purchase minimal quantities of energy from the new plant. The cost of this future energy is based on an agreed upon pricing model.

14. Fair values:

Financial Assets and Liabilities:

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

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data, which are unobservable inputs.

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

The Company does not have any financial assets or liabilities that are carried at fair value.

The fair values of cash, accounts receivable, accounts payable and accrued liabilities, due to the City of North Vancouver, and security deposits approximate their carrying values due to their short term nature.

The fair value of the loan from the City of North Vancouver is equal to its carrying amount as the loan is due on demand.

The fair value of the loan from the Green Municipal Investment Fund at year end is $842,925 (2017 - $1,081,634) and is classified as level 3.

15. Financial risk management:

Overview

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

- operational risk
- credit risk
- liquidity risk
- market risk

Risk management framework:

Management has overall responsibility for the establishment and oversight of the Company's risk management framework.

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.

15. Financial risk management (continued):

Operational risk:

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Company's operations.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management. This responsibility is supported by the development of overall Company standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of spending authority;
- ethical and business standards; and
- risk mitigation, including insurance when this is effective.

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, and arises principally from the Company's receivables from customers.

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Management has established a credit policy under which each new customer and developer must provide a security deposit that is held for 18 months following the issuance of a building occupancy permit.

As at December 31, 2018, $41,139 (2017 - $0) of accounts receivable exceeded 90 days.

15. Financial risk management (continued):

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 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 financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities in the normal course of business. The Company anticipates that its cash flows from operations and current grant agreements will be sufficient to satisfy its current obligations. The City provides financing to the Company through its formal related party loan which has a specified rate of interest but no specified terms of repayment.

As at December 31, 2018, all financial liabilities, except for the loan from the Green Municipal Investment Fund and the loan from City of North Vancouver, have been classified as current as they are contractually due within the next fiscal year.

As at December 31, 2018	Carrying amount	Total contractual cash flows	Less than one year	1 to 5 years	More than 5 years
Loan from Green Municipal Investment Fund	$ 895,066	$ 916,066	$ 216,779	$ 699,287	$ -
Loan from City of North Vancouver	23,293,926	23,293,926	-	23,293,926	-

As at December 31, 2017	Carrying amount	Total contractual cash flows	Less than one year	1 to 5 years	More than 5 years
Loan from Green Municipal Investment Fund	$ 1,097,739	$ 1,124,739	$ 208,672	$ 916,066	$ -
Loan from City of North Vancouver	19,241,926	19,241,926	-	19,241,926	-

15. Financial risk management (continued):

Market risk:

Market risk is the risk that changes in market prices, such as energy prices, 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:*

  In respect of financial assets, the Company's policy is to invest cash at fixed rates of interest in order to maintain liquidity. The loan from the Green Municipal Investment Fund and the loan from City of North Vancouver bear a fixed rate of interest. The loan from City of North Vancouver is maturing on August 1, 2023 and the Company is cognizant that the interest rate may be adjusted in line with market pricing at that time.

16. Capital management:

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern to sustain future development of the business, so that it can provide returns for the shareholder and benefits for other stakeholders.

The Company considers the items included in shareholder's equity as capital. There were no changes in the Company's approach to capital management during the year.

Attachment 2

UNANIMOUS CONSENT RESOLUTIONS OF THE SHAREHOLDER

OF

LONSDALE ENERGY CORP.
(the "Company")

in lieu of the annual general meeting

The undersigned, being the sole shareholder of the Company entitled to vote at an annual general meeting, hereby consents to and adopts in writing the following resolutions:

RESOLVED THAT:

1. the financial statements of the Company for the period ended December 31, 2018, made up of statement of financial position, statement of comprehensive income, statement of changes in equity and statement of cash flows as at the end of that period and the report of the auditors thereon are hereby received and filed;

2. all lawful acts, contracts, proceedings, appointments and payments of money by the directors of the Company since the last annual reference date of the Company, and which have previously been disclosed to the shareholder, are hereby adopted, ratified and confirmed;

3. the number of Directors of the Company is hereby fixed at 3;

4. the following persons, each of whom has consented in writing to act as a director, are hereby elected as directors of the Company, to hold office until the next annual general meeting of the Company or unanimous resolutions consented to in lieu of holding an annual general meeting, or until their successors are appointed:

   Jessica McIlroy Leanne McCarthy Ben Themens

5. BDO Canada LLP be appointed as auditors of the Company until the next annual reference date of the Company or until a successor is appointed, at a remuneration to be fixed by the Directors; and

6. June 15, 2019 be and is hereby selected as the annual reference date for the Company for its current annual reference period.

DATED as of July 08, 2019.

THE CORPORATION OF THE CITY OF NORTH VANCOUVER

____
Mayor Linda Buchanan

____
Karla Graham, City Clerk

Lonsdale Energy Corp.

Attachment 3

Historical Data for 2004 - 2018 Years of Operations

Income Statement line description	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	$ 176,707	$ 409,108	$ 415,741	$ 630,088	$ 1,016,118	$ 1,158,110	$ 1,434,108	$ 1,562,007	$ 1,693,413	$ 2,038,134	$ 2,594,229	$ 2,647,001	$ 2,838,793	$ 3,900,077	$ 4,132,957
Cost of Sales	$ 66,777	$ 187,089	$ 245,839	$ 299,299	$ 479,519	$ 469,707	$ 722,351	$ 752,254	$ 747,330	$ 965,876	$ 1,261,027	$ 1,175,841	$ 1,196,282	$ 1,538,595	$ 1,678,140
Gross profit	$ 109,930	$ 222,019	$ 169,902	$ 330,789	$ 536,599	$ 688,403	$ 711,757	$ 809,753	$ 946,083	$ 1,072,258	$ 1,333,202	$ 1,471,160	$ 1,642,511	$ 2,361,482	$ 2,454,817
Plant Operation and Maintenance	$ 19,087	$ 91,585	$ 95,244	$ 98,149	$ 114,689	$ 138,289	$ 143,305	$ 191,350	$ 212,842	$ 289,346	$ 310,795	$ 289,127	$ 225,115	$ 134,380	$ 218,812
Depreciation	$ 68,531	$ 114,823	$ 127,777	$ 146,220	$ 212,246	$ 293,444	$ 273,586	$ 309,667	$ 430,542	$ 564,686	$ 693,517	$ 795,568	$ 886,925	$ 1,064,736	$ 1,206,818
General and Administrative	$ 98,268	$ 145,543	$ 172,968	$ 140,987	$ 173,957	$ 146,916	$ 185,574	$ 188,783	$ 309,926	$ 445,511	$ 361,409	$ 348,892	$ 497,248	$ 405,632	$ 587,399
Total - Operating Expenses	$ 185,886	$ 351,951	$ 395,989	$ 385,356	$ 500,892	$ 578,649	$ 602,465	$ 689,800	$ 953,310	$ 1,299,543	$ 1,365,721	$ 1,433,587	$ 1,609,288	$ 1,604,748	$ 2,013,029
Income (loss) before other expenses	$ (75,956)	$ (129,932)	$ (226,087)	$ (54,567)	$ 35,707	$ 109,754	$ 109,292	$ 119,953	$ (7,227)	$ (227,285)	$ (32,519)	$ 37,573	$ 33,223	$ 756,734	$ 441,788
Contributions		$ 60,136	$ 259,458	$ 38,804	$ 63,416	$ 117,389	$ 120,875	$ 146,532	$ 174,480	$ 211,010	$ 225,615	$ 232,648	$ 260,629	$ 357,676	$ 571,832
Finance income		$ 23,432	$ 22,037	$ 24,530	$ 17,321	$ 5,111	$ 11,171	$ 15,742	$ 25,121	$ 32,071	$ 34,429	$ 27,172	$ 27,691	$ 42,975	$ 65,425
Finance costs	$ (111,951)	$ (207,481)	$ (194,850)	$ (34,141)	$ (123,277)	$ (125,421)	$ (128,876)	$ (131,322)	$ (139,585)	$ (157,986)	$ (214,870)	$ (253,282)	$ (302,870)	$ (357,790)	$ (498,448)
Subtotal	$ (111,951)	$ (123,913)	$ 86,645	$ 29,193	$ (42,540)	$ (2,921)	$ 3,170	$ 30,952	$ 60,016	$ 85,095	$ 45,174	$ 6,538	$ (14,550)	$ 42,861	$ 138,809
Income before non-recurring expenses	$ (187,907)	$ (253,845)	$ (139,442)	$ (25,374)	$ (6,833)	$ 106,833	$ 112,462	$ 150,905	$ 52,789	$ (142,190)	$ 12,655	$ 44,111	$ 18,673	$ 799,595	$ 580,597
Non-recurring expenses												$ (1,030,721)			
Net Income and Comprehensive Income	$ (187,907)	$ (253,845)	$ (139,442)	$ (25,374)	$ (6,833)	$ 106,833	$ 112,462	$ 150,905	$ 52,789	$ (142,190)	$ 12,655	$ (986,610)	$ 18,673	$ 799,595	$ 580,597
Total Net Accumulated Surplus (loss)	$ (277,787)	$ (531,632)	$ (671,074)	$ (696,448)	$ (703,281)	$ (596,449)	$ (483,987)	$ (333,082)	$ (280,293)	$ (422,483)	$ (409,828)	$ (1,396,438)	$ (1,377,765)	$ (578,170)	$ 2,427
Sales (kW.hr)	1,175,900	3,630,109	4,981,300	6,828,400	11,063,030	14,120,569	18,737,975	22,847,087	23,945,719	27,921,503	31,254,231	32,401,971	37,787,274	49,502,564	49,502,564

Attachment 4

Summary of LEC Statistics
As of December 31, 2018

- Total square footage of buildings served: 5,702,012 square feet
- Square footage of new buildings connected in 2017: 519,633 square feet
- Total number of customer accounts served: 80
  - Residential Buildings 37
  - Mixed Residential / Commercial 17
  - Commercial 16
  - Institution 6
  - Cooling 3
  - Hotel 1
- New customers connected in 2018: 5
- Total number of residential suites connected: 4,919
- New residential suites connected in 2018: 526
- Total number of boilers installed in LEC Mini-Plants: 28
- Number of new boilers installed in 2018: 2
- Trench kilometers of distribution system: 11.6 kilometers
- Kilowatt-hours of heating delivered to customers in 2018: 53,109,668 kW.h
- Kilowatt-hours of cooling delivered to customers in 2018: 515,980 kW.h
- Total Energy Capacity 26 MW