



Coquitlam Optical Network Corporation (QNet)
2016 Annual Report

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March 10, 2017

QNet 2016 Annual Report

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1. EXECUTIVE SUMMARY

In 2016 QNet revenue grew to \$829,534 an increase of 51% over 2015 revenue of \$552,735. This was a somewhat larger than typical growth in sales revenue due to a one time lease by SNC Lavalin for the Evergreen Line. Operating expenses were approximately as forecast and capital expenditures were \$91,011 lower than expected primarily due to a delay in a capital project. The company produced a cash flow surplus of \$246,039 (\$92,009 higher than forecast). Taking into account amortization and interest in 2016 the cash flow surplus was \$47,569.

Building on these recurring revenues and using conservative future sales estimates, the company expects to repay the City's \$4.95 million investment as well as approximately \$1.45 million in interest charges by 2028. By end of the 30 year business plan in 2037, accrued profit should total approximately \$11.6 million.

Prior to QNet, TELUS and Shaw had a virtual duopoly over telecom services in Coquitlam. As evidence that QNet's primary goal of enabling competition is being achieved, there are now 8 additional telecom service providers using QNet's dark fibre utility to provide a growing number of Coquitlam businesses and high-density residential consumers access to a level of competition for telecom services almost unheard of in the rest of the country.

For example, Coquitlam businesses connected to QNet's fibre now have access to dedicated gigabit and higher broadband speeds starting at a highly competitive rate of \$1,000/month and residential consumers in high density developments have access to packages which include Internet access (300 Mbps), digital TV and digital phone for \$149.85 per month.

QNet directed efforts in 2016 towards direct engagement with our key customers, becoming involved in cost-of-sales reduction analysis, site selection, and solution design. In this manner, QNet is positioning itself as an integral and trusted partner with our customer organizations. The strategy has proven effective as these efforts were a significant contributor to our increased revenue and overall level of sales activity in 2016.

Looking ahead to 2017, QNet is forecasting continued growth in sales driven primarily by increased marketing and sales efforts on the part of several of QNet's telecom service providers. QNet's revenue in 2017 will also benefit from an expanding fibre optic footprint and customer base, and ongoing focus on solving the network problems of our clients and stakeholders.

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2. FINAL TRIMESTER FINANCIAL REPORT – 2016

Audited 2016 financial statements for QNet are attached in Appendix 2. Based on cash flow, QNet's 2016 financial results are as follows:

<u>Building Connections</u>	Last Year	2016 Budget	2016 Actual	Variance
Fibre Connected Buildings	55	70	73	3
<u>Revenue & Expenses</u>	Last Year	2016 Budget	2016 Actual	Variance
New Sales (recurring)				
- Fibre Lease	\$41,739	\$68,694	\$83,980	\$15,286
- Rack Lease	\$0	\$9,000	\$10,000	\$1,000
Recurring Revenue				
- Fibre Lease	\$238,752	\$307,178	\$325,030	\$17,852
- Rack Lease	\$168,000	\$168,000	\$168,000	\$0
- Power Recovery	\$29,550	\$30,000	\$31,890	\$1,890
One Time Revenue				
- Fibre Lease	\$36,800	\$204,000	\$184,000	-\$20,000
- Connection Fees	\$14,400	\$24,800	\$25,200	\$400
- Other	\$23,494	\$0	\$1,434 ¹	\$1,434
Total Revenue	\$552,735	\$811,672	\$829,534²	\$17,862
Operating Expense	-\$173,521	-\$212,615	-\$229,475³	-\$16,860
Revenue Less Expense	\$379,214	\$599,057	\$600,059	\$1,002
<u>Capital Asset Expenditures</u>	Last Year	2016 Budget	2016 Actual	Variance
Cost of Sales				
- Building Connections	-\$176,580	-\$217,690	-\$188,747	\$28,943
Capital Projects				
- Johnson & David	\$0			
- Evergreen Line	-\$10,000			
- United Blvd to Golden	-\$53,550			
- Golden Glacier Backbone		-\$82,337	-\$87,872	-\$5,535
- Pinetree Trillium		-\$60,000	-\$71,170	-\$11,170
- North Road cable		-\$75,000	\$0	\$75,000
- Minor Equipment	-\$4,759	-\$10,000	-\$6,227	\$3,773
Total Capital	-\$244,889	-\$445,027	-\$354,020⁴	\$91,011
<u>Cash Flow Surplus or Deficit</u>	Last Year	2016 Budget	2016 Actual	Variance
Revenue Less Expenses	\$379,214	\$599,057	\$600,059	\$1,002
Total Capital Costs	-\$244,889	-\$445,027	-\$354,020	\$91,011
Interest	-\$78,273	-\$90,846	-\$79,246	\$11,600
Amortization	-\$140,526	-\$149,454	-\$119,224	\$30,230
Cash Flow +/-	-\$84,474	-\$86,270	\$47,569	\$133,843

¹ Project Management Fees, Gain on Disposal, Gifted Assets, Penalties Revenue, Bank Interest and Miscellaneous.

² Financial Statements, page 2- Revenue

³ Financial Statements, page 2- Expenses (General & Administrative, plus Bad Debt)

⁴ Financial Statements, page 3 – Acquisition of Tangible Capital Assets

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<u>Financing Summary</u>	2015	2016
Cash Flow Surplus	\$134,325	\$246,039
Cash in Bank - Start of Year	4,883	2,929 ⁹
Cash in Bank - End of Year	(2,929)	(1,295) ¹⁰
Adjustments for Prepaid, AR, AP & WIP	121,493	(110,387)
Cash Flow Surplus after Adjustments	\$257,772	\$137,286
Loan Balance Forward	(5,171,033)	(4,991,534)
Interest on Borrowed Funds	(78,273)	(79,246) ¹¹
Total Principal and Interest Owed	(\$5,249,306)	(\$5,070,780)
Loan Payments	257,772	137,286
Balance Owed after Payment	(\$4,991,534)	(\$4,933,494)¹²

Explanation of Financial Results

Revenue & Expenses:

Total revenue was \$17,862 higher than expected as a result of higher than expected fibre lease sales orders. Operating expenses came in \$16,860 higher than expected, mainly due to higher than anticipated contractor fees for fibre repair.

Capital Asset Expenditures:

As a result of increased sales volume, QNet invested \$188,747 in capital funds to connect 18 new buildings in 2016. In terms of total capital expenditure, \$354,020 worth of network assets were added in 2016.

Cash Flow +/- and Financing Summary:

QNet posted a revenue surplus of \$246,039 in 2016. In contrast to 2015, adjustments in 2016 for prepaid accounts receivable, accounts payable and work in progress subtracted (\$110,387) from this number. This was primarily due to timing in receiving accounts receivable and paying accounts payable.

⁹ Financial Statements Page 4, Cash beginning of Year

¹⁰ Financial Statements Page 4, Cash end of year

¹¹ Financial Statements Page 2, Expenses-Interest

¹² Financial Statements Page 1, Due to City of Coquitlam

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3. QNet 2017 Budget

The QNet 30 year financial plan has been updated with actual results through 2016 and revised forecasts through 2037.

<u>Building Connections</u>	2016 Budget	2016 Actual	2017 Budget
Fibre Connected Buildings	70	73	85
<u>Revenue & Expenses</u>	2016 Budget	2016 Actual	2017 Budget
New Sales (recurring)			
- Fibre Lease	\$68,694	\$83,980	\$70,100
- Rack Lease	\$9,000	\$10,000	\$10,000
Recurring Revenue			
- Fibre Lease	\$307,178	\$325,030	\$379,128
- Rack Lease	\$168,000	\$168,000	\$168,000
- Power Recovery	\$30,000	\$31,890	\$32,100
One Time Revenue			
- Fibre Lease	\$204,000	\$184,000	\$95,000
- Connection Fees	\$24,800	\$25,200	\$28,000
- Other	\$0	\$1,434	\$0
Total Revenue	\$811,672	\$829,534	\$782,328
Operating Expense	(\$212,615)	(\$229,475)	(\$209,611)
Revenue Less Expense	\$599,057	\$600,059	\$572,717
<u>Capital Asset Expenditures</u>	2016 Budget	2016 Actual	2017 Budget
Cost of Sales			
- Building Connections	(\$217,690)	(\$188,747)	(\$186,203)
Capital Projects			
- Golden Glacier Backbone	(\$82,337)	(\$87,872)	
- Pinetree Trillium	(\$60,000)	(\$71,170)	
- North Road cable	(\$75,000)	\$0	(\$75,000)
- Minor Equipment	(\$10,000)	(\$6,227)	(\$45,000)
Total Capital	-445,027	(\$354,016)	(\$306,203)
<u>Cash Flow Surplus or Deficit</u>	2016 Budget	2016 Actual	2017 Budget
Revenue Less Expenses	\$599,057	\$600,059	\$572,717
Total Capital Costs	-445,027	(\$354,020)	(\$306,203)
Cash Flow +/-	\$154,030	\$246,039	\$266,514

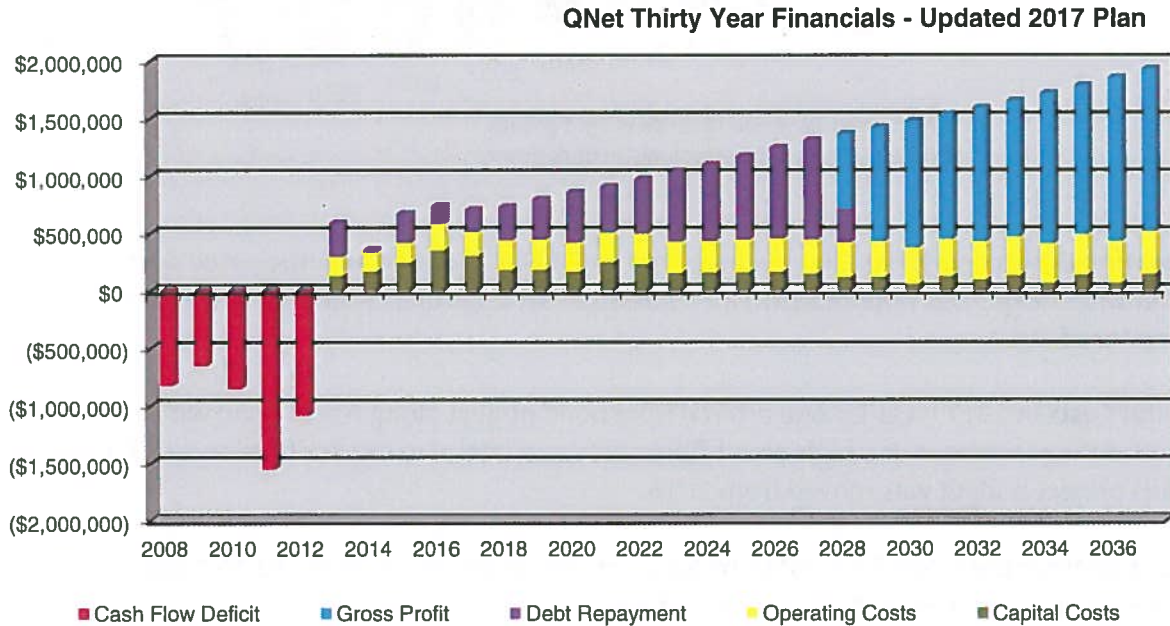
4. 30 YEAR FINANCIAL PLAN UPDATE

QNet’s financial metrics through 2037 remain on target including full loan repayment by 2028, reduced loan interest costs, and no additional financing over the \$4.95 million received to date. A cash flow summary to 2021 is attached in Appendix 1.

2017 Plan Updated Key Financial Metrics

	<u>2016</u>	<u>2017</u>
First Year of Payment of Principal Debt:	2016	achieved
Last Year of Repayment of City Loan:	2028	2028
Total Principal Financing Required:	\$4.95 mil	\$4.95 mil
Total Cost of Financing (interest paid on loan):	\$1.70 mil	\$1.45 mil
Total 30 Year Net Profit:	\$11.8 mil	\$11.6 mil
Replacement Cost of 25-50 Year Assets:	\$4.21 mil	\$4.23 mil

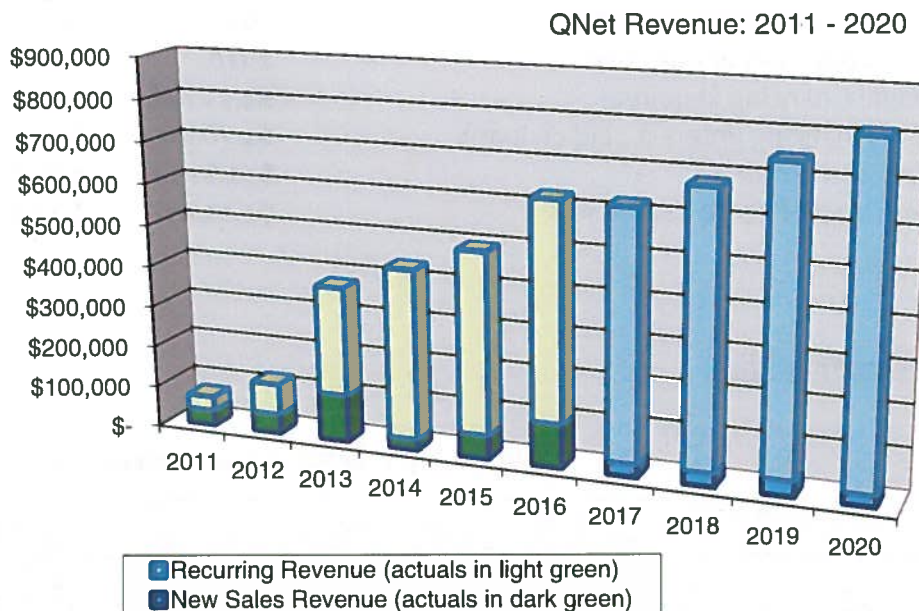
2017 Plan Cash Flow Chart



Updated 2017 Plan Adjustments

Building Connections are forecast to grow by twelve in 2017 for a total of eighty five connected buildings.

New and Recurring Sales in 2017 are based on Service Orders in progress as well as Service Orders issued. There are 9 Service Orders underway in 2017 as of March 29th 2017.



Operating Cost forecast has slightly decreased to \$209,611 due to an anticipated decrease in contractor expenses required with an addition of an ICT Project Manager in the second trimester of 2017.

Capital Costs in 2017 includes one arterial fibre build project along North Road which includes the placement of a high-count fibre cable and lateral vaults for fibre access. Part of this project budget was moved from 2016.

Financing from the City is forecast to be \$4.95 million in principal out of the \$5.1 million business plan estimate for the remainder of the plan.

Total Net Profit is expected to be in the range of \$11.6 million at the end of the thirty year plan based on very conservative sales forecasts.

5. CONCLUSION

QNet increased total revenue in 2016 by \$276,799 and debt reduction of \$137,286 including adjustments. The company is forecasting ongoing annual reductions in loan principal moving forward.

Using conservative sales forecasts, the recast 2017 financial plan predicts full repayment of the City's investment in QNet by 2028 and approx. \$11.6 million in non-tax revenue generation by the end of 2037.

In terms of achieving QNet's primary business plan goal, a large and growing portion of Coquitlam businesses and high-density residential consumers have unprecedented access to an expanding list of highly competitive telecom services.

A handwritten signature in blue ink, appearing to read "Danny Bandiera", is written over a solid horizontal line.

Danny Bandiera
General Manager, QNet

Appendix 1: QNet Cash Flow Summary 2014 to 2021

Recast 2017 Plan Cash Flow Summary
(Actuals thru 2016)

	2014	2015	2016	2017	2018	2019	2020	2021
New Current Year Sales Revenue (Recurring)	\$ 16,679	\$ 41,739	\$ 79,044	\$ 23,645	\$ 24,524	\$ 31,128	\$ 21,917	\$ 16,226
Recurring Revenue From Prior Years Sales	\$ 378,480	\$ 406,752	\$ 489,400	\$ 559,128	\$ 616,568	\$ 676,747	\$ 751,418	\$ 808,468
Recurring Power Recovery Revenue	\$ 30,076	\$ 29,550	\$ 31,890	\$ 32,100	\$ 32,100	\$ 32,100	\$ 32,100	\$ 32,100
One Time Revenue	\$ 8,825	\$ 74,694	\$ 229,200	\$ 175,967	\$ 80,967	\$ 79,367	\$ 78,567	\$ 77,767
Total Revenue	\$ 434,060	\$ 552,735	\$ 829,534	\$ 790,840	\$ 754,159	\$ 819,342	\$ 884,002	\$ 934,561
Operating Expenses	\$ (168,158)	\$ (173,521)	\$ (229,476)	\$ (209,611)	\$ (257,181)	\$ (262,890)	\$ (253,237)	\$ (258,848)
Revenue Less Operating Costs	\$ 265,902	\$ 379,214	\$ 600,058	\$ 581,229	\$ 496,978	\$ 556,451	\$ 630,764	\$ 675,713
Capital Asset Expenditures	\$ (171,561)	\$ (244,889)	\$ (354,016)	\$ (306,203)	\$ (183,445)	\$ (184,581)	\$ (167,427)	\$ (249,306)
Current Year Earnings Before Adjustments	\$ 94,341	\$ 134,326	\$ 246,042	\$ 275,026	\$ 313,533	\$ 371,870	\$ 463,337	\$ 426,406
Cash at Start of Year	\$ 1,845	\$ 4,883	\$ 2,929	\$ 1,295	\$ 1,295	\$ 1,295	\$ 1,295	\$ 1,295
Forecast Interest on Cash in Bank	\$ -	\$ -	\$ -	\$ 6	\$ 6	\$ 6	\$ 6	\$ 13
Forecast Interest on Cash at End of Year	\$ (4,883)	\$ (2,929)	\$ (1,295)	\$ (1,295)	\$ (1,295)	\$ (1,295)	\$ (1,295)	\$ (1,295)
Adjustments for Prepaid A/R, A/P & W/P	\$ (64,934)	\$ 121,493	\$ (70,140)	\$ -	\$ -	\$ -	\$ -	\$ -
Cash Flow Deficit or Surplus	\$ 26,369	\$ 257,772	\$ 177,536	\$ 275,033	\$ 313,539	\$ 371,877	\$ 463,347	\$ 426,419
Loan Balance Forward From Prior Year	\$ (5,119,697)	\$ (5,171,033)	\$ (4,991,534)	\$ (4,933,494)	\$ (4,738,877)	\$ (4,514,428)	\$ (4,238,709)	\$ (3,876,243)
Interest On Borrowed Funds	\$ (77,705)	\$ (78,273)	\$ (79,246)	\$ (80,416)	\$ (89,091)	\$ (96,157)	\$ (100,881)	\$ (101,945)
Total Principal and Interest Owed	\$ (5,197,402)	\$ (5,249,306)	\$ (5,070,780)	\$ (5,013,910)	\$ (4,827,968)	\$ (4,610,586)	\$ (4,339,590)	\$ (3,978,189)
Loan Payments	\$ 26,369	\$ 257,772	\$ 137,286	\$ 275,033	\$ 313,539	\$ 371,877	\$ 463,347	\$ 426,419
Loan Balance	\$ (5,171,033)	\$ (4,991,534)	\$ (4,933,494)	\$ (4,738,877)	\$ (4,514,428)	\$ (4,238,709)	\$ (3,876,243)	\$ (3,551,769)

Appendix 2: Audited Financial Statements

Financial Statements of

COQUITLAM OPTICAL NETWORK CORPORATION (QNET)

Year ended December 31, 2016

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Coquitlam Optical Network Corporation (QNET)

We have audited the accompanying financial statements of Coquitlam Optical Network Corporation (QNET), which comprise the statement of financial position as at December 31, 2016, the statements of operations, changes in net debt and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Coquitlam Optical Network Corporation (QNET) as at December 31, 2016, and its results of operations and the changes in its net debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Professional Accountants

[Date]
Burnaby, Canada

COQUITLAM OPTICAL NETWORK CORPORATION (QNET)

Statement of Financial Position

December 31, 2016, with comparative information for 2015

	2016	2015
Financial Assets		
Cash	\$ 1,295	\$ 2,929
Accounts receivable	143,105	52,193
	144,400	55,122
Liabilities		
Accounts payable and accrued liabilities	112,374	131,649
Due to City of Coquitlam (note 4)	4,933,494	4,991,534
	5,045,868	5,123,183
Net debt	(4,901,468)	(5,068,061)
Non-Financial Assets		
Tangible capital assets (note 3)	4,168,513	3,933,717
Prepaid expenses	5,776	5,576
	4,174,289	3,939,293
Accumulated deficit	\$ (727,179)	\$ (1,128,768)
Accumulated deficit is comprised of:		
Share capital	\$ 1	\$ 1
Accumulated deficit	(727,180)	(1,128,769)
	\$ (727,179)	\$ (1,128,768)

Economic dependence (note 6)

See accompanying notes to financial statements.

Approved on behalf of the Board:

COQUITLAM OPTICAL NETWORK CORPORATION (QNET)

Statement of Operations

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

	2016 Budget (note 7)	2016	2015
Revenue:			
Lease	\$ 756,872	\$ 733,996	\$ 466,042
Installation fees	24,800	25,200	14,400
Power cost recovery	30,000	31,890	29,550
Revenue sharing	-	38,448	19,250
Developer's contribution	-	-	8,900
Project management fees	-	-	7,480
Other	-	-	7,113
	811,672	829,534	552,735
Expenses:			
General and administrative	212,615	229,475	161,080
Amortization	149,454	119,224	140,526
Bad debt	-	-	12,441
Interest (note 4)	90,846	79,246	78,273
	452,915	427,945	392,320
Annual surplus	358,757	401,589	160,415
Accumulated deficit, beginning of year	(1,128,769)	(1,128,769)	(1,289,184)
Accumulated deficit, end of year	\$ (770,012)	\$ (727,180)	\$ (1,128,769)

See accompanying notes to financial statements.

COQUITLAM OPTICAL NETWORK CORPORATION (QNET)

Statement of Changes in Net Debt

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

	2016 Budget (note 7)	2016	2015
Annual surplus for the year	\$ 358,757	\$ 401,589	\$ 160,415
Acquisition of tangible capital assets	(445,207)	(354,020)	(244,889)
Amortization of tangible capital assets	149,454	119,224	140,526
Increase in prepaid expense	-	(200)	(229)
Change in net debt	63,004	166,593	55,823
Net debt, beginning of year	(5,068,061)	(5,068,061)	(5,123,884)
Net Debt, end of year	\$ (5,005,057)	\$ (4,901,468)	\$ (5,068,061)

See accompanying notes to financial statements.

COQUITLAM OPTICAL NETWORK CORPORATION (QNET)

Statement of Cash Flows

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

	2016	2015
Cash provided by (used in):		
Operations:		
Annual surplus	\$ 401,589	\$ 160,415
Amortization of tangible capital assets, an item not involving cash	119,224	140,526
Loss on disposal of tangible capital assets	-	-
Change in non-cash operating working capital balances:		
Prepaid expenses	(200)	(229)
Accounts receivable	(90,912)	9,663
Accounts payable and accrued liabilities	(19,275)	112,059
Net change in cash from operating activities	410,426	422,434
Capital activities:		
Cash used to acquire tangible capital assets	(354,020)	(244,889)
Financing activities:		
Decrease in due to City of Coquitlam	(58,040)	(179,499)
Net change in cash	(1,634)	(1,954)
Cash, beginning of year	2,929	4,883
Cash, end of year	\$ 1,295	\$ 2,929

See accompanying notes to financial statements.

COQUITLAM OPTICAL NETWORK CORPORATION (QNET)

Notes to Financial Statements

Year ended December 31, 2016

1. Operations:

Coquitlam Optical Network Corporation (QNet) (the "Company") was incorporated on November 12, 2008 under the British Columbia Business Corporations Act. The Company's business involves providing open access to optical fibre networks. It is a wholly municipal-owned subsidiary of the City of Coquitlam and operates its business within the City of Coquitlam municipality boundaries. The Company is a local government corporation and is exempt from income taxes.

2. Significant accounting policies:

These financial statements have been prepared by management in accordance with Canadian public sector accounting standards:

(a) Revenue recognition:

The Company recognizes revenue when services are provided to customers, the price is fixed or determinable, and collectability is reasonably assured.

(b) Non-financial assets:

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They are not intended for sale in the ordinary course of operations.

(i) Tangible capital assets:

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

Asset	Rate
Software	8 years
Data centre equipment	5 - 25 years
Building entrance - civil	85 years
Building entrance - fibre	25 years
Arterial fibre - civil	85 years
Arterial fibre - fibre	25 years
Leasehold improvements and leased equipment	over term of lease

COQUITLAM OPTICAL NETWORK CORPORATION (QNET)

Notes to Financial Statements (continued)

Year ended December 31, 2016

2. Significant accounting policies (continued):

(b) Non-financial assets (continued):

(i) Tangible capital assets (continued):

Any assets under construction are not amortized until the asset is available for productive use.

Leases which transfer substantially all of the benefits and risks incidental to ownership of property are accounted for as leased tangible capital assets. Amortization is provided over the term of the lease.

(ii) Impairment of tangible capital assets:

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

(c) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that could affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of allowance for doubtful accounts, useful lives for amortization of tangible capital assets, and provisions for contingencies. Actual results could differ from those estimates.

(d) Functional and object reporting:

The operations of the Company are comprised of a single function, optical fibre networks operations. As a result, the expenses of the Company are presented by object in the statement of operations.

COQUITLAM OPTICAL NETWORK CORPORATION (QNET)

Notes to Financial Statements (continued)

Year ended December 31, 2016

3. Tangible capital assets:

COQUITLAM OPTICAL NETWORK CORPORATION (QNET)

Notes to Financial Statements (continued)

Year ended December 31, 2016

3. Tangible capital assets (continued):

There was no write-down of tangible capital assets during the year (2015 - nil).

COQUITLAM OPTICAL NETWORK CORPORATION (QNET)

Notes to Financial Statements (continued)

Year ended December 31, 2016

4. Due to City of Coquitlam:

The amount due to City of Coquitlam at December 31, 2016 of \$4,933,494 (2015 - \$4,991,534) is related to funding for the purchase of tangible capital assets and funding for operating expenses of the Company. These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration negotiated and agreed to by the related parties.

During 2011, the Company entered into a lease agreement to lease leasehold improvements and equipment from the City of Coquitlam until December 15, 2051. Included in the amount due to City of Coquitlam is \$932,876 (2015 - \$932,876) for the use of leasehold improvements and equipment for the term of the lease.

Amounts due to City of Coquitlam are unsecured, bear interest at 1.63% (2015 - 1.57%) and have no set terms of repayment.

5. Related party transactions

During the year, certain employees of the City of Coquitlam performed administrative services for the Company, including purchasing, accounting, clerical and other operational-type services. The Company was not charged by the City of Coquitlam for these services for the year ended December 31, 2016 (2015 - nil). Management costs and direct infrastructure services related to the Company of \$107,511 (2015 - \$94,339) were charged from the City of Coquitlam and are shown as expenses in the financial statements.

6. Economic dependence:

The Company's operations are currently partially funded by the City of Coquitlam and accordingly, operations of the Company for the foreseeable future are dependent upon the continued financial support of the City of Coquitlam.

COQUITLAM OPTICAL NETWORK CORPORATION (QNET)

Notes to Financial Statements (continued)

Year ended December 31, 2016

7. Budget data:

The budget data presented in these financial statements is based upon the 2016 budget approved by the Board of Directors on March 29, 2016. The chart below reconciles the approved budget figures reported in these financial statements.

Revenue:	
Operating budget	\$ 811,672
Expenses:	
Operating budget	897,942
Annual surplus per approved budget	(86,270)
Add: capital funding	445,027
<u>Annual surplus per statement of operations</u>	<u>\$ 358,757</u>

