City of Richmond

Report to Committee

To:	Finance Committee	**Date:**	April 10, 2025
From:	John Irving, P.Eng., MPA Deputy CAO Chief Executive Officer, Lulu Island Energy Company Jerry Chong, CPA, CA General Manager, Finance and Corporate Services Chief Financial Officer, Lulu Island Energy Company	**File:**	03-0950-01/2025-Vol 01
Re:	**2024 Financial Statements for the Lulu Island Energy Company**		

Staff Recommendation

That the Lulu Island Energy Company report titled "2024 Financial Statements for the Lulu Island Energy Company", dated April 10, 2025, from the Chief Executive Officer and Chief Financial Officer, be received for information.

John Irving, P.Eng., MPA
Deputy CAO
Chief Executive Officer,
Lulu Island Energy Company
(604-276-4140)

Jerry Chong, CPA, CA
General Manager, Finance
and Corporate Services
Chief Financial Officer,
Lulu Island Energy Company
(604-276-4064)

REPORT CONCURRENCE	
REVIEWED BY SMT	INITIALS:
APPROVED BY CAO	

8022654

6911 NO. 3 ROAD
RICHMOND, BC V6Y 2C1

Report

DATE: March 11, 2025

TO: Board of Directors

FROM: Jerry Chong, CPA, CA, Chief Financial Officer

Re: **2024 Financial Statements for the Lulu Island Energy Company**

Staff Recommendation

That the audited financial statements of the Lulu Island Energy Company (LIEC) for the year ended December 31, 2024, be approved, and that any two LIEC directors be authorized to sign the financial statements on behalf of the Board.

Origin

Section 11.3 of the LIEC Articles of Incorporation requires that an auditor be appointed and that audited financial statements be prepared at the end of each fiscal year. It also requires that the audited financial statements be presented annually at an open City of Richmond Council meeting within 150 days of LIEC's fiscal year end. This report presents the 2024 audited financial statements for the LIEC Board's approval. See Attachment 1 for a brief overview of the District Energy Utility service areas.

Analysis

The preparation of financial statements is the responsibility of management. As a Government Business Enterprise (GBE), LIEC's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

LIEC's audited financial statements consist of:

- Statement of financial position – summary of assets, liabilities, and shareholder's equity;
- Statement of profit or loss and total comprehensive income – summary of revenues, expenses, other activities, and net income for the year;
- Statement of changes in equity – summary of changes in share capital, contributed surplus, and accumulated surplus for the year;
- Statement of cash flows – summary of the sources and uses of cash in the year; and
- Notes to the financial statements – summary of additional information pertaining to operations and financial position.

The financial statements have been audited by the independent firm KPMG LLP, as the designated auditor at the 2024 Annual General Meeting. Their report precedes the financial statements in Attachment 3.

Financial Position

Table 1: Summary of assets, liabilities and shareholder's equity

	2024	2023	$ Changes	% Change
Cash and cash equivalents	$ 7,576,940	$ 2,511,976	$ 5,064,964	202%
Accounts receivable	4,385,448	4,792,892	(407,444)	(9%)
Investments	13,727,812	12,014,953	1,712,859	14%
Plant and equipment	58,128,103	53,740,785	4,387,318	8%
Total Assets	$ 83,818,303	$ 73,060,606	$ 10,757,697	15%
Accounts payable	$ 1,377,195	$ 1,848,902	$ (471,707)	(26%)
Government grants	514,462	403,026	111,436	28%
Deferred developer contributions	22,788,278	19,235,460	3,552,818	18%
Project Agreement liability	19,283,096	14,475,318	4,807,778	33%
Shareholder's Equity	39,855,272	37,097,900	2,757,372	7%
Total Liabilities and Shareholder's Equity	$ 83,818,303	$ 73,060,606	$ 10,757,697	15%

The statement of financial position provides a summary of assets, liabilities, and shareholder's equity.

Cash and cash equivalents and Investments

The year-end cash balance of $7,575,940 (2023 - $2,511,976) supports operational activities and committed capital projects. The increase in cash was due to net income and advanced payments from developers for future building connections. LIEC maintained a higher cash balance at year-end to facilitate upcoming financial transactions for Metro Vancouver and CleanBC grants related to Sewer Heat Recovery project. LIEC's investments of $13,727,812 (2023 - $12,014,953) remain in secured term deposits with a continued strategy to capitalize on higher interest rates.

Accounts Receivable

Accounts receivable totaled $4,385,448 (2023 - $4,792,892), primarily reflecting accruals for the last quarter's meter billings. The decrease from the prior year is due to the collection of outstanding developers' contributions, which were recorded as receivables at the end of 2023 and received in 2024.

Plant and Equipment

Plant and equipment are reported at the net book value, representing capital cost net of accumulated depreciation. In 2024, the net book value increased to $58,128,103 (2023 - $53,740,785) due to additional capital expenditures.

Accounts Payable and Government Grants

Accounts payable totaled $1,377,195 (2023 – 1,848,902), representing outstanding vendor invoices. The decrease compared to prior year was due to the timing of year-end invoices. The government grant liability increased to $514,462 (2023 - $403,026), reflecting the accumulated CleanBC grant received for the Sewer Heat Recovery project. In accordance with IFRS reporting, the grant is recognized as revenue annually over the useful life of the plant once the asset is in service.

Deferred Developer Contributions and Project Agreement Liabilities

Utility company balance sheets are predominantly dominated by capital assets and debt due to the requirements to build out the infrastructure network. The developers' contributions and Project Agreement liabilities are the primary sources of funding for the construction of new assets, which make up the majority of the liabilities. Developer contributions, which recover the construction costs for in-building equipment installation, are recognized as deferred liabilities. In accordance with IFRS reporting, revenue from these contributions is recognized annually over the useful life of the equipment once the asset is in service. At the 2024 year-end, deferred developer contribution totaled $22,788,278 (2023 – $19,235,460).

The Project Agreement liability is associated with the 30-year agreements between LIEC, Corix, and the Canada Infrastructure Bank (CIB). Under the Project Agreement, Corix designs, constructs, finances, and maintains the CCDEU infrastructure, while CIB provides low-cost financing for a portion of the infrastructure. The Project Agreement liability represents anticipated future cash outflow for capital and operating costs under the agreement. At the 2024 year-end, the Project Agreement liability was $19,283,096 (2023 - $14,475,318)

Shareholder's Equity

Shareholder's equity reflects the net worth of the company, calculated as total assets minus the total liabilities. In 2024, LIEC's shareholder equity was $39,855,272 (2023 - $37,097,900), representing a 7% increase from the previous year.

Profit or Loss and Total Comprehensive Income

	2024	2023	$ Changes	% Change
Revenues				
Metered billings	$ 8,778,966	$ 7,588,977	$ 1,189,989	16%
Service fee	981,486	981,486	-	-
	9,760,452	8,570,463	1,189,989	14%
Cost of Sales				
Contracts[1]	2,093,165	1,805,391	287,774	16%
Utilities	1,926,163	1,815,943	110,220	6%
Depreciation	1,798,972	1,455,216	343,756	24%
	5,818,300	5,076,550	741,750	15%
Gross Profit	**3,942,152**	**3,493,913**	**448,239**	**13%**
General and Administration Expenses				
Salaries and benefits	1,074,838	1,056,910	17,928	2%
Administration expenses[1]	365,929	339,068	26,861	8%
Insurance	345,218	308,640	36,578	12%
Professional fees	323,760	270,883	52,877	20%
	2,109,745	1,975,501	134,244	7%
Net Income Before Other Items	1,832,407	1,518,412	313,995	21%
Contributions and Financing Expense				
Developer contributions	668,131	475,410	192,721	41%
Other income	32,868	20,511	12,357	60%
Finance income	958,986	785,190	173,796	22%
Finance cost	(735,020)	(729,783)	(5,237)	1%
	924,965	551,328	373,637	68%
Net Income	**$ 2,757,372**	**$ 2,069,740**	**$ 687,632**	**33%**

Earnings before interest, taxes, depreciation and amortization (EBITDA)

Net income per above	$2,757,372	$2,069,740	$ 687,632	33%
Net finance cost (income)	(223,966)	(55,407)	(168,559)	304%
Depreciation expense	1,798,972	1,455,216	343,756	24%
EBITDA	$4,332,378	$3,469,549	$ 862,829	25%

[1] 2023 amount is adjusted from audited financial statement for comparison purpose, due to cost reclassification between administration expense and contracts expense. Net income is not impacted.

The statement of profit or loss and total comprehensive income provides a summary of the company's revenues, expenses, and profits over the fiscal year of 2024. It reports the financial performance of the company.

Table 2: Percentage of revenue

	December 31, 2024	December 31, 2023
Percentage of Revenue		
Gross margin	40%	41%
General and administration percentage	22%	23%
EBITDA percentage	44%	40%
Net income percentage	28%	24%

Year-over-Year Change

Revenues

Metered billings reflect energy sales based on the actual customers' energy usage and consumption. It comprises of energy sales from ADEU and CCDEU service areas[2]. Metered billings revenue was $5,926,105 (2023 - 4,712,496) from the CCDEU and $2,852,861 (2023 - 2,876,481) from the ADEU. Overall, metered billings increased by $1,189,989 to $9,760,452 (2023 - $7,588,977). The increase was due to additional energy use by buildings that were not fully occupied in prior years, as well as the approved 2024 rate increase.

There was no change to the service fee of $981,486 (2023 - $981,486) for LIEC's facilitation of advancing district energy opportunities in the City, which results in numerous benefits to the City and community of Richmond. The service fee covers staff and specialized consultants working on low carbon district energy initiatives. With or without LIEC, the City would need to fund these costs in order to successfully implement district energy initiatives for the City and position itself at the forefront of tackling local and global environmental challenges. The City identified district energy utilities as a leading strategy to achieve the City's GHG reduction goals. To date, it is estimated that LIEC's district energy systems has resulted in the reduction of over 22,870 tons of GHG emissions.

Cost of Sales

The cost of sales consists of total expenses attributable to energy sales, which includes contract services, utilities (electricity and natural gas), and depreciation. Contract expenses increased by $287,774 to $2,093,165 (2023 - $1,805,391) due to additional operations and maintenance work. Contract expenses increased by 16%, consistent with the increase in metered revenue.

Utility expenses increased by $110,220 to $1,926,163 (2023 - $1,815,943) driven by increased energy usage from new buildings connected in 2023 that operated for the first time for a full year in 2024.

---

[2] Note that OVDEU is now combined under the CCDEU service area.

Depreciation expense increased due to additional assets being put into service. The gross margin in 2024 was 40%, which was slightly lower than the 41% in 2023. This was mainly due to the additional maintenance and higher utility costs of the newly connected on-site Low Carbon Energy Plants (LCEPs).

General and administration expenses

The general and administration expenses are expenditures that LIEC incurs to engage in business development activities and includes salaries and benefits, administration expenses, insurance and professional fees. The general and administration expenses increased by $134,244 to $2,109,745 (2023 - $1,975,501) driven by the following key factors:

- **Administration expenses** - The increase of $26,861 to $365,929 (2023 – $339,068) was mainly due to the increase in the CCDEU Project Agreement related administration expenses, which include: project administration, overhead costs for managing Corix's special purpose entity, and CIB financial administration requirements. This increase was expected as the implementation of the CCDEU project ramped up. Administration expenses also include the overhead allocation of $69,680 (2023 - $70,723) paid to the City of Richmond for the day-to-day support that LIEC received from City staff during the year.

- **Insurance** - The premium increased by $36,578 or 12% due to a general insurance rate increase, and the inclusion of additional capital assets under coverage.

- **Professional fees** - The increase of $52,877 to $323,760 (2023 - $270,883) was due to costs associated with professional studies. Additionally, higher audit fees contributed to this increase, as additional work was required to support the company's operational growth.

Overall, general and administration expenses as a percentage of revenues was 22% in 2024, slightly lower than in 2023 (23%).

Contributions and financing expenses

The contributions and financing expense section represents other sources of revenue and expenses for the Company. Developer contributions increased compared to 2023 due to two new connections that occurred in 2023 and operated for a full year for the first time in 2024. Other income was higher than 2023 due to LIEC receiving a recovery payment for its internal administrative and personnel costs related to Corix reorganization consent request. Interest income was higher than 2023 due to higher cash and investment balances. Finance expense was higher than 2023 due to increase in new infrastructure being financed and constructed.

LIEC's earnings before interest, tax, depreciation and amortization (EBITDA), used as a proxy to measure the company's operational efficiency, increased to 44% as a percentage of revenue compared to 40% in 2023. This was due to the increase in revenue outpacing the increase in operating costs.

Overall, LIEC's revenues exceeded expenses, resulting in a net income of $2,757,372 (2023 - $2,069,740).

LIEC's financial sustainability and future growth must be taken into consideration when reviewing its EBITDA and net income. LIEC's success is dependent upon developing in-house expertise and securing funds for future capital replacements as existing infrastructure components reach their end of life, as well as to cover expenses of unexpected and rare events. Other important factors include the planning of future projects, which consists of research and development, and exploratory reviews of future technology and opportunities.

<u>Budget Variance</u>
<u>(See Attachment 2 for 2024 budget to actual comparison)</u>

Revenues

The metered billings are the total energy sales of both ADEU and CCDEU service areas. The metered billings revenue was $2,852,861 from the ADEU and $5,926,104 from the CCDEU. 2024 actual revenue of $9,760,452 was in line with the budget.

Cost of Sales

Contract expenses were under budget by 12% mainly due to less unscheduled maintenance and repairs. Utility expenses are based on actual customers' energy usage and consumption of electricity and natural gas. The overall utility cost was lower than budget by 29% due to milder weather and significantly lower natural gas commodity cost than originally projected for 2024.

Depreciation expenses were lower than budget mainly due to the timing of new capital asset additions. Overall, the cost of sales was 17% below the budget. The gross margin of 40% still exceeded budget by 11% due to the lower than forecasted utility and contract costs.

General and Administration Expenses

Administration expenses were lower than the budget due to underutilized internal administration expense budget. Insurance expenses were below budget due to the timing of capital expenditures. Professional fees were lower than budget due to the delay of some technical studies and updated developer guidelines which will take place in 2025. Overall, total general and administration expenses were 10% under the budget.

Contributions and Financing Expense

Developer contributions exceeded the budget due to the additional value recognized from developer-contributed assets. Other income surpassed the budget as LIEC received a recovery payment for its internal administrative and personnel costs related to Corix reorganization consent. The finance cost was below budget primarily due to the timing of assets coming into service and the capitalization of interest on work-in-progress. This was also attributed to delays in some capital investments due to development timeline setbacks. The interest income exceeded budget, as LIEC actively pursued higher interest rate opportunities through various term deposits yielding much higher returns than originally anticipated.

LIEC's overall financial performance exceeded budget. Consistent with the company's financial plan objectives, any net income will be maintained in LIEC's equity in order to fund future capital projects and infrastructure replacement.

Financial Impact

None.

Conclusion

The Auditor's Report states that these financial statements present fairly, in all material respects, the financial position of Lulu Island Energy Company Ltd. as of December 31, 2024, and its financial performance and cash flow for the year end in accordance with International Financial Reporting Standards.

Cody Lan

Helen Zhao
Controller
(604-276-4019)

Cody Lan
Assistant Controller
(604-247-4698)

Attachment 1: District Energy in Richmond
Attachment 2: 2024 Budget and Actual Comparison
Attachment 3: 2024 Audited Financial Statements

District Energy in Richmond

Richmond's 2041 Official Community Plan (OCP) establishes a target to reduce greenhouse gas (GHG) emissions 50 percent below 2007 levels by 2030 and 100 percent by 2050. The City identified district energy utilities (DEUs) as a leading strategy to achieve the City's GHG reduction goals and incorporated Lulu Island Energy Company Ltd. (LIEC) in 2013 for the purpose of carrying out the City's district energy initiatives based on the following guiding principles:

1. The DEU will provide end users with energy costs that are competitive with conventional energy costs, based on the same level of service; and
2. Council will retain the authority to set customer rates, fees and charges for DEU services.

The City established three DEU service areas: ADEU, OVDEU, and CCDEU. Table 1 below provides a summary of the developments connected under the DEU service areas to date.

Table 1 – DEU Service Areas - Current and Projected Connected Space

	Buildings To-Date	Residential Units To-Date	Floor Area To-Date	Floor Area Build-out
Alexandra DEU	13	2,200	2.4M ft^2	4.4M ft^2
Oval Village DEU	14	3,174	3.7M ft^2	6.4M ft^2
City Centre DEU	4	1,549	1.7M ft^2	48.0M ft^2
Total	**31**	**6,923**	**7.8M ft^2**	**58.8M ft^2**

The ADEU provides heating and cooling services to ten residential buildings, the large commercial development at "Central at Garden City", the Richmond Jamatkhana Temple, and Fire Hall No. 3, comprising 2,200 residential units and over 2.4 million square feet of floor area. While some electricity is consumed for pumping and equipment operations, most of this energy is currently produced locally from the geo-exchange fields in the greenway corridor and West Cambie Park, and highly efficient air source heat pumps.

The OVDEU services 14 buildings, containing 3,174 residential units. Energy is currently supplied from the three interim energy centres with natural gas boilers, which provide 16 MW of heating capacity. LIEC received a $6.2 million grant from the CleanBC Communities Fund for the design and construction of the sewer heat recovery technology and a permanent energy centre for the area. This project is in the preliminary design stage and is expected to be completed in 2028. Once completed, the system will be able to produce up to 80% of low-carbon energy from the Gilbert Trunk sanitary force main sewer.

The CCDEU currently services four buildings, comprised of 1,549 residential units and approximately 1.7 million square feet of floor area. While offsite energy centres progress through development, CCDEU utilizes on-site low carbon energy plants as a source of energy production. At full build-out, 176 developments, 28,000 residential units and approximately 48 million square feet of floor space will be serviced by 5 permanent energy centres with over 130 MW of heating and 115 MW of cooling capacity. The built-out system is estimated to reduce over one million tonnes of GHG emissions compared to conventional service.

2024 Budget and Actual Comparison

	Budget	Actual	$ Changes	% Change
Revenues				
Metered Billings	$ 8,843,699	$ 8,778,966	$ (64,733)	(1%)
Service fee	981,486	981,486	-	0%
	9,825,185	9,760,452	(64,733)	(1%)
Cost of Sales				
Contracts	2,384,879	2,093,165	(291,714)	(12%)
Utilities	2,714,879	1,926,163	(788,716)	(29%)
Depreciation	1,923,980	1,798,972	(125,008)	(6%)
	7,023,738	5,818,300	(1,205,438)	(17%)
Gross profit	**2,801,447**	**3,942,152**	**1,140,705**	**41%**
General and Administration Expenses				
Salaries and benefits	1,038,072	1,074,838	36,766	4%
Administration expenses	417,739	365,929	(51,810)	(12%)
Insurance	418,160	345,218	(72,942)	(17%)
Professional Fees	465,282	323,760	(141,522)	(30%)
	2,339,253	2,109,745	(229,308)	(10%)
Net income before other items	462,194	1,832,407	1,370,213	-
Contributions and Financing expense				
Developer contributions	557,442	668,131	110,689	20%
Other income	27,000	32,868	5,868	22%
Financing income	400,000	958,986	558,986	140%
Financing cost	(1,084,616)	(735,020)	349,596	(32%)
	(100,174)	924,965	1,025,139	-
Net Income	**$ 362,020**	**$ 2,757,372**	**$ 2,395,352**	**-**

Earnings before interest, taxes, depreciation and amortization (EBITDA)

	Budget	Actual	$ Changes	% Change
Net income per above	$ 362,020	$2,757,372	$ 2,395,352	-
Net Financing cost	684,616	(223,966)	(908,582)	(133%)
Depreciation expense	1,923,980	1,798,972	(125,008)	(6%)
EBITDA	$ 2,970,616	$4,332,378	$ 1,361,762	46%

2024 Audited Financial Statements

Financial Statements
(Expressed in Canadian dollars)

LULU ISLAND ENERGY COMPANY LTD.

And Independent Auditor's Report thereon

Year ended December 31, 2024

KPMG LLP
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada
Telephone (604) 691-3000
Fax (604) 691-3031

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the Lulu Island Energy Company:

Opinion

We have audited the financial statements of Lulu Island Energy Company Ltd. (the "Entity"), which comprise:

- the statement of financial position as at December 31, 2024
- the statement of profit or loss and total comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of material accounting policies

(hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2024, and its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

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 auditor's 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 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 the financial statements in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board, 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 the 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.
- 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.

KPMG LLP

Chartered Professional Accountants

Vancouver, Canada
April 11, 2025

LULU ISLAND ENERGY COMPANY LTD.

Statement of Financial Position

December 31, 2024, with comparative information for 2023

	2024	2023
Assets		
Current assets:		
Cash and cash equivalents	$ 7,576,940	$ 2,511,976
Accounts receivable (note 4)	4,385,448	4,792,892
Investments (note 5)	9,120,685	12,014,953
	21,083,073	19,319,821
Non-current assets:		
Investments (note 5)	4,607,127	-
Plant and equipment (note 6)	58,128,103	53,740,785
Total assets	$ 83,818,303	$ 73,060,606
Liabilities and Shareholder's Equity		
Current liabilities:		
Accounts payable and accrued liabilities (note 7)	$ 1,377,195	$ 1,848,902
Current portion of deferred developer contributions (note 8(a))	668,133	668,131
Current portion of Project Agreement liability (note 9)	7,158,752	6,125,191
	9,204,080	8,642,224
Non-current liabilities:		
Government grants (note 8(b))	514,462	403,026
Deferred developer contributions (note 8(a))	22,120,145	18,567,329
Project Agreement liability (note 9)	12,124,344	8,350,127
	34,758,951	27,320,482
Total liabilities	43,963,031	35,962,706
Shareholder's equity:		
Share capital and contributed surplus (note 10)	27,397,115	27,397,115
Retained earnings	12,458,157	9,700,785
	39,855,272	37,097,900
Commitments and contingencies (note 13)		
Total equity and liabilities	$ 83,818,303	$ 73,060,606

The accompanying notes are an integral part of these financial statements.

Approved on behalf of the Board:

Director

Director

LULU ISLAND ENERGY COMPANY LTD.

Statement of Profit or Loss and Total Comprehensive Income

Year ended December 31, 2024, with comparative information for 2023

	2024	2023
Revenue (note 14, 15(a))	$ 9,760,452	$ 8,570,463
Cost of sales:		
Operating expenses	4,019,328	3,419,169
Depreciation (note 6)	1,798,972	1,455,216
	5,818,300	4,874,385
Gross profit	3,942,152	3,696,078
General and administrative expenses (note 11, 15(b))	2,109,745	2,177,666
Profit before undernoted items	1,832,407	1,518,412
Developer contributions, other income and net finance cost:		
Developer contributions (note 8(a))	668,131	475,410
Other income (note 15(a))	32,868	20,511
Net finance income (note 12)	223,966	55,407
	924,965	551,328
Profit and total comprehensive income for the year	$ 2,757,372	$ 2,069,740

The accompanying notes are an integral part of these financial statements.

LULU ISLAND ENERGY COMPANY LTD.

Statement of Changes in Equity

Year ended December 31, 2024, with comparative information for 2023

	Share capital (note 10)	Contributed surplus (note 10)	Retained earnings	Shareholder's equity
Balance, January 1, 2023	$ 5	$ 27,397,110	$ 7,631,045	$ 35,028,160
Profit and total comprehensive income	-	-	2,069,740	2,069,740
Balance, December 31, 2023	5	27,397,110	9,700,785	37,097,900
Profit and total comprehensive income	-	-	2,757,372	2,757,372
Balance, December 31, 2024	$ 5	$ 27,397,110	$ 12,458,157	$ 39,855,272

The accompanying notes are an integral part of these financial statements.

LULU ISLAND ENERGY COMPANY LTD.

Statement of Cash Flows

Year ended December 31, 2024, with comparative information for 2023

		2024		2023
Cash provided by (used in):				
Cash flows provided by (used in) operating activities:				
Profit and total comprehensive income	$	2,757,372	$	2,069,740
Adjustments for:				
Depreciation		1,798,972		1,455,216
Recognition of deferred developer contributions		(668,131)		(475,410)
Finance expense		735,020		729,783
Changes in non-cash operating working capital:				
Accounts receivable		407,444		(406,393)
Accounts payable and accrued liabilities		(471,708)		(2,003,987)
Net cash provided by operating activities		4,558,969		1,368,949
Cash flows provided by (used in) investing activities:				
Additions to plant and equipment		(1,118,889)		(2,050,178)
Deferred developer contributions		4,220,949		438,780
Cash receipts from sale of investments		12,014,953		12,324,233
Cash payments to acquire investments		(13,727,812)		(12,014,953)
Net cash provided by (used in) investing activities		1,389,201		(1,302,118)
Cash flows provided by (used in) financing activities:				
Cash received from government grants		111,438		161,975
Project Agreement liability, net		(994,644)		(908,210)
Net cash used in financing activities		(883,206)		(746,235)
Increase (decrease) in cash and cash equivalents		5,064,964		(679,404)
Cash and cash equivalents, beginning of year		2,511,976		3,191,380
Cash and cash equivalents, end of year	$	7,576,940	$	2,511,976
Non-cash transactions:				
Additions to plant and equipment	$	(5,067,401)	$	(7,400,770)
Project Agreement liability		4,855,397		3,247,234
Developer contributions		-		6,254,275
Finance cost capitalized to plant and equipment		212,005		44,953
Accounts receivable		-		(2,145,692)

The accompanying notes are an integral part of these financial statements.

1. Incorporation and nature of business:

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

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

2. Basis of presentation:

(a) Statement of compliance:

These financial statements have been prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board ("IASB").

These financial statements were approved and authorized for issue by the Board of Directors on April 10, 2025.

(b) Basis of measurement:

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

(c) Functional and presentation currency:

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

(d) Use of estimates and judgments:

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

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

2. Basis of presentation (continued):

(d) Use of estimates and judgments (continued):

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

- Note 8(a) - Deferred developer contributions and Government grants.

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

- Note 3(a)(iii) and Note 6 - useful lives of plant and equipment.

3. Material accounting policies:

The material accounting policies set out below have been applied consistently to all years presented in these financial statements, unless otherwise indicated.

(a) Plant and equipment:

(*i*) Recognition and measurement:

Plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

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

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

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

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

3. Material accounting policies (continued):

(a) Plant and equipment (continued):

(*ii*) Subsequent costs:

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

(*iii*) Depreciation:

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

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

Asset	Useful life - years
Energy plant center	75
Distribution piping	50
General equipment	20-40

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

(b) Revenue recognition:

The Company recognizes revenue for the provision of energy and supply of other services. Revenue for the provision of energy is based on meter readings and is billed on a cyclical basis. Revenue is accrued for energy delivered but not yet billed. Revenue for other services is recognized upon completion of service. Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when payment is made. Revenue is measured at the fair value of the consideration received or receivable.

3. Material accounting policies (continued):

(c) Concession projects:

Concession projects are delivered by partners selected to design, build, finance, and maintain the assets which are owned by the Company. The cost of the assets under construction are recorded at cost, based on construction progress billings and also includes other costs, if any, incurred directly by the Company.

When deemed available for use, the project assets are amortized over their estimated useful lives. An obligation for the cost of capital and financing received to date, net of repayments, is recorded under Project Agreement liability (note 9).

(d) Government grants:

Government grants related to assets are initially recognised as deferred income at fair value if there is reasonable assurance that they will be received and the Company will comply with the conditions associated with the grant. Grants related to the acquisition of assets are recognised in profit or loss as other income on a systematic basis over the useful life of the asset.

(e) Developer contributions:

Developer contributions are amounts received from developers toward the cost of equipment and/or assets received/receivable from developers, required for the supply of district energy to the developer site. Developer contributions are recognized into income over the expected useful life of the related assets from when the assets are available for use. Non-cash developer contributions are initially recorded at fair value.

(f) Income taxes:

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

(g) Cash and cash equivalents:

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

(h) Finance income and finance cost:

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

Finance costs comprise interest expense on the Project Agreement liability. Finance 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.

3. Material accounting policies (continued):

(i) Financial instruments:

Classification and measurement of financial assets and financial liabilities:

Under IFRS 9, *Financial Instruments* ("IFRS 9"), on initial recognition, a financial asset is classified as measured at: amortized cost, fair value through other comprehensive income ("FVOCI") - debt instrument, FVOCI - equity instrument, or fair value through profit or loss ("FVTPL"). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as FVTPL: it is held within a business model whose objective is to hold assets to collect contractual cash flows; and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

3. Material accounting policies (continued):

(i) Financial instruments (continued):

Classification and measurement of financial assets and financial liabilities (continued):

The following accounting policies apply to subsequent measurement of financial assets:

- Financial assets at FVTPL: these assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.

  Financial assets at amortized cost: these assets are subsequently measured at amortized costs using the effective interest method. The amortized cost is reduced by impairment losses (see note 3(j)(i)). Interest income and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

- Debt investments at FVOCI: these assets are subsequently measured at fair value. Interest income calculated using the effective interest method and impairment are recognized in profit or loss. Other net gains are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

- Equity investments at FVOCI: these assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

Financial liabilities are initially recognized at amortized cost. Subsequent to initial recognition financial liabilities are measured at amortized cost using the effective interest method.

The following table shows the measurement categories for each class of the Company's financial assets and financial liabilities:

Financial assets:	
Cash and cash equivalents	Amortized cost
Accounts receivable	Amortized cost
Investments	Amortized cost
Financial liabilities:	
Accounts payable and accrued liabilities	Amortized cost
Project Agreement liability	Amortized cost

3. Material accounting policies (continued):

(j) Impairment:

(*i*) Financial assets:

The 'expected credit loss' ("ECL") impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments.

The financial assets at amortized cost consist of cash and cash equivalents, accounts receivable and investments.

Under IFRS 9, loss allowances are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12-months after the reporting date; and
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Company measures loss allowances at an amount equal to lifetime ECLs. The Company has elected to measure loss allowances for trade receivables, including amounts due from the City, at an amount equal to lifetime ECLs.

Measurement of ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive).

(*ii*) Non-financial assets:

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU").

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

3. Material accounting policies (continued):

(j) Impairment (continued):

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

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

(k) Pension benefits:

The Company and its employees participate in the Municipal Pension Plan, a multi-employer defined benefit plan. Defined contribution plan accounting is applied to this plan because separate information for the Company is unable to be provided to apply defined benefit accounting. The expenses associated with this plan are equal to the actual contributions required by the Company during the reporting period.

(l) Standards issued but not yet effective:

A number of new standards are effective for annual periods beginning after January 1, 2024 and earlier application is permitted; however, the Company has not early adopted the new or amended standards in preparing these financial statements.

IFRS 18 Presentation and Disclosure in Financial Statements:

IFRS 18 will replace IAS 1 *Presentation of Financial Statements* and applies for annual reporting periods beginning on or after 1 January 2027. The new standard introduces the following key new requirements:

- Entities are required to classify all income and expenses into five categories in the statement of profit or loss, namely the operating, investing, financing, discontinued operations and income tax categories. Entities are also required to present a newly-defined operating profit subtotal. Entities' net profit will not change.
- Management-defined performance measures (MPMs) are disclosed in a single note in the financial statements.
- Enhanced guidance is provided on how to group information in the financial statements.

In addition, all entities are required to use the operating profit subtotal as the starting point for the statement of cash flows when presenting operating cash flows under the indirect method.

The Company is still in the process of assessing the impact of the new standard, particularly with respect to the structure of the Company's statement of profit or loss, the statement of cash flows and the additional disclosures required for MPMs. The Company is also assessing the impact of how information is grouped in the financial statements, including for items currently labelled as 'other'.

3. Material accounting policies (continued):

(l) Standards issued but not yet effective (continued):

The following amended standards and interpretations are effective for annual periods beginning after January 1, 2024 and are not expected to have a material impact on the financial statements.

- Lack of exchangeability (Amendments to IAS 21);
- Classification and Measurement of Financial Instruments (Amendments to IFRS 9 and IFRS 7).

4. Accounts receivable:

	2024	2023
Trade receivables	$ 1,251,399	$ 2,371,845
Due from City of Richmond (note 15(a))	166,301	165,059
Unbilled trade receivables	2,833,834	2,157,192
GST receivable	133,914	98,796
	$ 4,385,448	$ 4,792,892

5. Investments:

Investments represent term deposits as follows:

Purchase date	Maturity date	Interest rate	2024	2023
June 20, 2024	June 20, 2025	5.20%	$ 2,980,151	$ -
June 20, 2024	June 22, 2026	5.01%	1,026,628	-
June 20, 2024	June 22, 2027	5.00%	1,026,575	-
July 23, 2024	July 23, 2025	5.22%	3,069,076	-
July 23, 2024	July 23, 2025	5.40%	3,071,458	-
July 23, 2024	July 23, 2026	4.89%	2,553,924	-
June 15, 2024	June 17, 2024	6.21%	-	3,707,485
June 15, 2024	June 17, 2024	5.65%	-	1,056,153
July 19, 2024	July 19, 2024	6.40%	-	4,357,453
November 8, 2024	November 8, 2024	6.21%	-	2,893,862
			13,727,812	12,014,953
Less: current portion of investments			9,120,685	12,014,953
Non-current investments			$ 4,607,127	$ -

6. Plant and equipment:

	Energy plant center	General equipment	Distribution piping	Total
Cost:				
Balance as at December 31, 2022	$ 5,031,915	$ 33,595,729	$ 14,561,392	$ 53,189,036
Transfer	-	667,176	(667,176)	-
Additions	-	6,337,288	3,113,661	9,450,949
Balance as at December 31, 2023	5,031,915	40,600,193	17,007,877	62,639,985
Additions	-	2,802,641	3,383,649	6,186,290
Balance as at December 31, 2024	$ 5,031,915	$ 43,402,834	$ 20,391,526	$ 68,826,275
Accumulated depreciation:				
Balance as at December 31, 2022	$ 402,552	$ 5,890,695	$ 1,150,737	$ 7,443,984
Transfer	-	(6,723)	6,723	-
Depreciation	67,092	1,178,511	209,613	1,455,216
Balance as at December 31, 2023	469,644	$ 7,062,483	$ 1,367,073	$ 8,899,200
Depreciation	67,092	1,431,183	300,697	1,798,972
Balance as at December 31, 2024	$ 536,736	$ 8,493,666	$ 1,667,770	$ 10,698,172
Net book value:				
At December 31, 2022	$ 4,629,363	$ 27,705,034	$ 13,410,655	$ 45,745,052
At December 31, 2023	4,562,271	33,537,710	15,640,804	53,740,785
At December 31, 2024	4,495,179	34,909,168	18,723,756	58,128,103

Included in plant and equipment is $10,706,471 (2023 - $5,173,479) of assets under construction being $5,212,386 (2023 - $2,982,685) general equipment and $5,494,085 (2023 - $2,190,794) distribution piping. For the year ended December 31, 2024, capitalized borrowing costs related to the construction of the general equipment and distribution system in the year amounted to $212,005 (2023 - $44,953), calculated using a capitalization rate of 4.76% (2023 - 4.40%).

7. Accounts payable and accrued liabilities:

In 2020, the Company identified a distribution pipe leakage of heat transfer fluid at one of the Company's service areas. Following repair and remediation of the service area in earlier years, during the year ended December 31, 2024, the Company continued to monitor the service area and incur legal costs associated with the leak, and recognized expenses of nil (2023 - nil) in other expenses. As of December 31, 2024, $259,293 (2023 - $440,560) is included in accounts payable and accrued liabilities pertaining to the accrued costs associated with the leak. Management believes the Company has adequately provided for the costs associated with leak and intends to seek compensation for costs incurred and accrued from the third parties involved.

Accounts payable and accrued liabilities also include post-employment benefits of $86,000 (2023 - $72,800).

8. Deferred developer contributions and Government grants:

(a) Deferred developer contributions:

The following table summarizes deferred developer contribution amounts recognized:

	2024	2023
Deferred developer contributions, beginning of year	$ 19,235,460	$ 13,017,815
Developer contributions receivable	-	2,145,692
Developer contributions received (net of refunds)	4,220,949	366,780
Developer contributions received (non-cash)	-	4,180,583
Recognized revenue from developer contributions	(668,131)	(475,410)
	22,788,278	19,235,460
Less: current portion of deferred developer contributions	668,133	668,131
Non-current deferred developer contributions	$ 22,120,145	$ 18,567,329

(b) Government grants:

In 2022, the Company was awarded a grant (the “Sewer Heat Recovery grant”) from CleanBC Communities Fund. In 2024, the Company recognized on the statement of financial position $514,464 (2023 - $403,026) under the Sewer Heat Recovery grant. As the relevant assets were under construction at December 31, 2024, the grants received have been deferred under non-current liabilities.

9. City Centre District Energy Utility Project Agreement:

On September 22, 2022, the Company entered into a new concession project agreement (the “Project Agreement”) with City Centre Energy Limited Partnership (“Project Contractor”) to design, build, finance, operate and maintain City Centre District Energy Utility infrastructure providing heating and cooling services to new residential and mixed use commercial developments within the City Centre area (the “CCDEU project”). The Project Contractor was a wholly owned subsidiary of Corix Utilities Inc. (“Corix”). During 2024, following a re-organization within Corix, the Project Contractor become a wholly owned subsidiary of Corix District Energy Holdings GP Inc.

The total estimated Project Agreement liability to finance the construction of the CCDEU project at full build out is estimated at $618,657,000 and will be accrued over time as the infrastructure is constructed and services are rendered.

9. City Centre District Energy Utility Project Agreement (continued):

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

The following tables summarize the changes in the Project Agreement liability due to financing cash flows and liability related additions and repayments:

(a) Project Agreement liability:

	2024	2023
Project Agreement liability – capital	$ 18,343,191	$ 13,968,958
Project Agreement liability – non-capital	939,905	506,360
	19,283,096	14,475,318
Less: Current portion of Project Agreement liability	(7,158,752)	(6,125,191)
Non-current portion of Project Agreement liability	$ 12,124,344	$ 8,350,127

The average finance cost on the project liability is 5.17% for the year ended December 31, 2024 (2023 - 5.35%).

The Project Agreement liability is repayable as follows:

2025	$ 7,158,752
2026	1,429,696
2027	1,497,607
2028	1,568,743
2029 and thereafter	7,628,298
Total	$ 19,283,096

The Project Agreement liability and the termination payment obligation under the Project Agreement is secured by the CCDEU project infrastructure assets and energy services agreements with customers.

	2024	2023
Opening balance	$ 14,475,318	$ 11,361,558
Additions	4,855,397	3,247,234
Finance expense (note 12)	947,025	774,736
Net repayment	(994,644)	(908,210)
Ending balance	$ 19,283,096	$ 14,475,318

10. Share capital and contributed surplus:

At December 31, 2024, the authorized share capital comprised 10,000 (2023 - 10,000) common shares without par value.

As at December 31, 2024, the Company has issued 450 common shares (2023 - 450) at $0.01 per share totaling $4.50 (2023 - $4.50) and held a contributed surplus of $27,397,110 (2023 - $27,397,110).

11. Personnel expenses:

The following expenses are included in general and administrative expenses:

	2024	2023
Wages and salaries	$ 1,074,838	$ 1,056,910

12. Net finance income:

	2024	2023
Finance income:		
Investment interest	$ 761,880	$ 706,881
Bank interest	182,576	52,097
Other	14,530	26,212
	958,986	785,190
Finance cost:		
Finance expense on Project Agreement liability (note 9)	(947,025)	(774,736)
Less: Finance cost capitalized to plant and equipment (note 6)	212,005	44,953
	(735,020)	(729,783)
Net finance income	$ 223,966	$ 55,407

13. Commitments and contingencies:

(a) Project Agreement commitments:

Under the Project Agreement, the Company needs to make monthly payments to the Project Contractor based on the aggregate of the capital obligations, the operating costs, the asset management fee on contributed assets, Project Contractor income tax and commodity costs amounts calculated as of the end of each contract year. The capital obligations are comprised of capital expenditures and financing costs. The commodity costs include costs of fuel, electricity, water, chemicals, etc. which are consumed or produced in the performance of the infrastructure and the operating services. All these costs will be repaid over time by revenue generated through the provision of energy services. The information presented below shows the expected committed cash outflow for the next year under the Project Agreement for the capital and operating costs. As construction progresses the asset values are recorded as plant and equipment and the corresponding liabilities are recorded as project agreement liabilities as disclosed in note 9.

	Capital Commitment	Operating Commitment	Total Commitment
2025	$ 996,104	$ 6,162,648	$ 7,158,752

As at December 31, 2024, under the Project Agreement, on an early termination for convenience by the Company, or termination on an event of default by the Company, the Company is obligated to pay $20,442,835 to Project Contractor.

(b) Distribution pipe leakage:

An accrual has been maintained in accounts payable and accrued liabilities for the damages that resulted from a distribution pipe leakage at one of the Company's service areas (note 7). Management believes the Company has adequately provided for the remediation costs and intends to seek compensation for such costs from the third parties involved. It is not practicable at this time to measure the financial effect of any recovery of expenses from the other parties involved or the Company's insurer.

14. Revenue:

	2024	2023
Metered billings	$ 8,778,966	$ 7,588,977
Other revenue	981,486	981,486
	$ 9,760,452	$ 8,570,463

15. Related party transactions:

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

(a) Due from City of Richmond:

During 2024, the Company received and recognized in other revenue $981,486 (2023 - $981,486) for its services of advancing district energy opportunities in the City. Staff and advanced design activities on low carbon district energy initiatives are covered by this fee. With or without the Company, the City would need to fund these costs in order to successfully implement district energy initiatives for the City and position itself at the forefront of tackling local and global environmental challenges our world faces.

In addition, included in metered billings revenue for 2024 is $34,274 (2023 - $44,848) for district energy utility services rendered by the Company to the City.

The Company also received and recognized energy model review fees into other income of $32,868 (2023 - $20,511) relating to district energy permit fees collected by the City for in-building district energy related equipment reviews performed by the Company.

Additionally, a fee of $69,680 (2023 - $70,723), included in general and administrative expenses, was paid to the City for the day-to-day support that the Company received from City staff during the year. These costs have been charged to the Company on a cost recovery basis.

The total amount due from the City as at December 31, 2024 is $166,301 (2023 - $165,059) and is included within accounts receivable.

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. The amount is non-interest bearing and repayable on demand.

15. Related party transactions (continued):

(a) Key management personnel:

Key management personnel compensation comprised the following:

		2024		2023
Short-term employee benefits	$	215,610	$	101,417
Post-employment benefits		2,781		-
	$	218,391	$	101,417

The Board of Directors do not receive any remuneration. Key management personnel include the Board of Directors, Chief Executive Officer, Chief Financial Officer and Chief Operating Officer. In 2024, the Company undertook an operational review in conjunction with its growth plan, which resulted in the creation of a full-time Chief Operating Officer role that was reclassified from an existing position and the elimination of the Corporate Secretary role. The Chief Operating Officer role is the only officer position held by a full-time employee of the Company, hence the variance in key management personnel compensation between 2024 and 2023. The growth plan and staff positions were approved by the Board. Short-term employee benefits include salaries and taxable benefits.

16. Fair values and financial instruments:

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

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities; and
- Level 2 - inputs other than quoted prices that are observable for asset or liability, either directly or indirectly; and
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

16. Fair values and financial instruments (continued):

Financial assets and liabilities not measured at fair value:

The carrying amounts for cash and cash equivalents, accounts receivable, investments and accounts payable and accrued liabilities approximate their fair values due to their short-term nature and/or market rates of interest.

Subsequent to initial recognition, the Project Agreement liability is accounted for at amortized cost using the effective interest method. The Project Agreement liability includes a component relating to a financing arrangement the Project Contractor holds with the Canada Infrastructure Bank. To determine the fair value of the Project Agreement liability for disclosures purposes, this component has been discounted using a market-based rate for a similar instrument. The other components of the Project Agreement liability approximate their fair values due to the market rates of interest.

The following table shows the carrying amounts and fair values of the financial assets and financial liabilities according to their fair value hierarchy.

	December 31, 2024		December 31, 2023	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	$ 7,576,940	$ 7,576,940	$ 2,511,976	$ 2,511,976
Accounts receivable	4,385,448	4,385,448	4,792,892	4,792,892
Investments	13,727,812	13,727,812	12,014,953	12,014,953
Accounts payable and accrued liabilities	1,377,195	1,377,195	1,848,902	1,848,902
Project Agreement liability	19,283,096	17,558,506	14,475,318	13,699,825

17. Financial risk management:

(a) Overview:

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

- Credit risk;
- Liquidity risk; and
- Market risk (interest rate risk)

(b) Risk management framework:

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The management reports regularly to the Board of Directors on its activities.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

(c) Credit risk:

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

(*i*) Trade and unbilled trade receivables:

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

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

The sale of energy utilities is made to end-user customers in the City's geographic region. On the basis of the Company's collective experience, management considers the credit risk associated with trade receivables to be low.

17. Financial risk management (continued):

(c) Credit risk (continued):

(*i*) Trade and unbilled trade receivables (continued):

The sale of energy utilities is made to end-user customers in the City's geographic region. On the basis of the Company's collective experience, management considers the credit risk associated with trade receivables to be low.

The following table provides information about the exposure to credit risk for trade receivables by aging:

	December 31, 2024			
Aging	Gross book balance	Bad debt provision	Proportion of provision	Credit-impaired
Current (not past due)	$ 3,000,135	$ -	$ -	No
1 to 30 days past due	-	-	-	-
31 to 60 days past due	216,010	-	-	No
61 to 90 days past due	-	-	-	-
91 days to 1 year past due	1,035,389	-	-	No
	$ 4,251,534	$ -	$ -	-

	December 31, 2023			
Aging	Gross book balance	Bad debt provision	Proportion of provision	Credit-impaired
Current (not past due)	$ 2,322,251	$ -	$ -	No
1 to 30 days past due	2,145,691	-	-	No
31 to 60 days past due	61,847	-	-	No
61 to 90 days past due	-	-	-	-
91 days to 1 year past due	164,306	-	-	No
	$ 4,694,095	$ -	$ -	-

(*ii*) Due from the City:

The credit risk on amounts due from the City is considered to be low as the City is a Crown entity incorporated under the Local Government Act of British Columbia.

(*iii*) Cash and cash equivalents, and investments:

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

17. Financial risk management (continued):

(d) Liquidity risk:

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

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

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

	Carrying amount	Contractual cash flow	Less than 1 year	1 - 2 years	2 - 5 years
December 31, 2024	$ 19,283,096	$ 22,219,519	$ 7,353,383	$ 1,549,506	$13,316,630
December 31, 2023	14,475,318	16,697,726	6,310,433	1,307,153	9,080,140

(e) Market risk:

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

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

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

The Company has mitigated the interest rate fluctuation risk associated with the Project Agreement liability (note 9) by securing some of the debt funding at fixed interest rates until 2032.

18. Capital management:

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

The Company considers the items included in shareholder's equity and the Project Agreement liability as capital. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. The Company is not required to meet any debt covenants. The Company is not subject to externally imposed capital requirements.

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

19. Pension plan:

Lulu Island Energy Company Ltd. and its employees contribute to the Municipal Pension Plan (a jointly trusteed pension plan). The Board of Trustees, representing plan members and employers, is responsible for administering the plan, including investment of assets and administration of benefits. The plan is a multi-employer defined benefit pension plan. Basic pension benefits are based on a formula. As at December 31, 2024, the plan has about 256,000 active members and approximately 129,000 retired members. Active members include approximately 45,000 contributors from local governments.

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

The most recent actuarial valuation for the Municipal Pension Plan as at December 31, 2021, indicated a $3,761 million funding surplus for basic pension benefits on a going concern basis.

The Company paid $114,138 (2023 - $105,804) for employer contributions while employees contributed $105,556 (2023 - $97,849) to the plan in fiscal 2024.

The next valuation will be as at December 31, 2024.

Employers participating in the plan record their pension expense as the amount of employer contributions made during the fiscal year (defined contribution pension plan accounting). This is because the plan records accrued liabilities and accrued assets for the plan in aggregate, resulting in no consistent and reliable basis for allocating the obligation, assets and cost to individual employers participating in the plan.