



To: Finance & Audit Committee

Date: April 9, 2026

From: John Irving
Deputy CAO
Chief Executive Officer, Lulu Island Energy
Company

File: 03-0950-01/2026-Vol
01

Jerry Chong
General Manager, Finance and
Corporate Services
Chief Financial Officer, Lulu Island Energy
Company

Re: 2025 Financial Statements for the Lulu Island Energy Company

Staff Recommendation

That the Lulu Island Energy Company report titled “2025 Financial Statements for the Lulu Island Energy Company”, from the Chief Executive Officer and Chief Financial Officer, dated April 9, 2026, be received for information.

Executive Summary

This report presents the financial statements of the Lulu Island Energy Company (LIEC) for the year ended December 31, 2025, which have been audited by KPMG LLP. LIEC reported net income of \$2.3 million, with revenues exceeding expenses.

As of December 31, 2025, LIEC’s total assets were \$114.2 million, total liabilities \$72.0 million, and shareholder’s equity was \$42.2 million, reflecting a stable financial position to support ongoing capital and operating needs.

Respectfully submitted,

John Irving, Deputy CAO, and
Jerry Chong, General Manager, Finance and Corporate Services

Endorsed by Serena Lusk, CAO



6911 NO. 3 ROAD
RICHMOND, BC V6Y 2C1

Report

DATE: February 27, 2026
TO: Board of Directors
FROM: Jerry Chong, CPA, CA, Chief Financial Officer
Re: **2025 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, 2025, 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 2025 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 2025 Annual General Meeting. Their report precedes the financial statements in Attachment 3.

Financial Position

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

	2025	2024	\$ Changes	% Change
Cash and cash equivalents	\$ 4,434,012	\$ 7,576,940	\$ (3,142,928)	(41%)
Accounts receivable	4,378,708	4,385,448	(6,740)	0%
Prepaid expenses	35,361	-	35,361	-
Investments	17,969,078	13,727,812	4,241,266	31%
Plant and equipment	87,426,728	58,128,103	29,298,625	50%
Total Assets	\$ 114,243,887	\$ 83,818,303	\$ 30,425,584	36%
Accounts payable	\$ 2,075,720	\$ 1,377,195	\$ 698,525	51%
Government grants	1,360,090	514,462	845,628	164%
Deferred developer contributions	39,107,207	22,788,278	16,318,929	72%
Project Agreement liability	29,526,568	19,283,096	10,243,472	53%
Shareholder's Equity	42,174,302	39,855,272	2,319,030	6%
Total Liabilities and Shareholder's Equity	\$ 114,243,887	\$ 83,818,303	\$ 30,425,584	36%

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

Cash and cash equivalents and Investments

Cash and cash equivalents totaled \$4,434,012 (2024 – \$7,576,940), providing adequate liquidity to support ongoing operations and committed capital projects. The decrease from the prior year primarily reflects slowdown with the Sewer Heat Recovery project schedule, which reduced the need to maintain a higher cash balance.

Investments totaled \$17,969,078 (2024 – \$13,727,812), consisting of secured term deposits. The increase compared to the prior year is primarily attributable to operational results and the timing of project expenditures. The investment approach balances liquidity requirements for upcoming capital projects with return optimization.

Accounts Receivable

Accounts receivable totaled \$4,378,708 (2024 – \$4,385,448). The balance primarily represents accrued revenue for the fourth-quarter meter billings. The year-over-year balance remains consistent with prior year levels and reflects normal billing and collection cycles.

Prepaid Expenses

Prepaid expenses totaled \$35,361 (2024 – nil). The balance relates to the purchase of environmental liability insurance coverage for the ADEU secured during 2025 for the policy period extending from 2025 through 2027. The prepaid amount will be amortized on a straight-line basis over the coverage term, with expense recognized in the periods to which the insurance coverage relates.

Plant and Equipment

Plant and equipment are reported at the net book value, representing capital cost net of accumulated depreciation. As at year-end, the net book value totaled \$87,426,728 (2024 - \$58,128,103) due to additional capital expenditures.

Accounts Payable and Government Grants

Accounts payable totaled \$2,075,720 (2024 – \$1,377,195), representing outstanding vendor invoices in the normal course of operations. The increase compared to prior year was due to the timing of invoices received and processed at year-end.

The government grant liability increased to \$1,360,090 (2024 - \$514,462), reflecting cumulative funding received under the Clean BC program in support of the Sewer Heat Recovery Project. In accordance with IFRS, grant funding related to capital assets is deferred and recognized as revenue on a systematic basis over the useful life of the associated asset once it is placed into service.

Deferred Developer Contributions and Project Agreement Liabilities

Utility company balance sheets are predominantly comprised of capital assets and long-term obligations, reflecting the capital-intensive nature to build out the energy infrastructure network. The developers' contributions and Project Agreement liabilities are the primary sources of funding for the construction of new assets, which make up most 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 2025 year-end, deferred developer contribution totaled \$39,107,207 (2024 - \$22,788,278). The increase reflects continued system expansion.

The Project Agreement liability is associated with the 30-year agreement 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 2025 year-end, the Project Agreement liability was \$29,526,568 (2024 - \$19,283,096), reflecting ongoing project development.

Shareholder's Equity

Shareholder's equity reflects the net worth of the company, calculated as total assets minus the total liabilities. In 2025, LIEC's shareholder equity was \$42,174,302 (2024 - \$39,855,272), representing a 6% increase from the previous year.

Profit or Loss and Total Comprehensive Income

	2025	2024	\$ Changes	% Change
Revenues				
Metered billings	\$ 10,382,616	\$ 8,778,966	\$ 1,603,650	18%
Service fee	981,486	981,486	-	-
	11,364,102	9,760,452	1,603,650	16%
Cost of Sales				
Contracts	2,819,160	2,093,165	725,895	35%
Utilities	2,255,819	1,926,163	329,656	17%
Depreciation	2,332,823	1,798,972	533,851	30%
	7,407,702	5,818,300	1,589,402	27%
Gross Profit	3,956,400	3,942,152	14,248	0%
General and Administration Expenses				
Salaries and benefits	1,308,300	1,074,838	233,462	22%
Administration expenses	391,017	365,929	25,088	7%
Insurance	426,918	345,218	81,700	24%
Professional fees	335,618	323,760	11,858	4%
	2,461,853	2,109,745	352,108	17%
Net Income Before Other Items	1,494,547	1,832,407	(337,860)	(18%)
Contributions and Financing Expense				
Developer contributions	1,129,687	668,131	461,556	69%
Other income	17,341	32,868	(15,527)	(47%)
Loss on disposal	(179,324)	-	(179,324)	-
Finance income	904,588	958,986	(54,398)	(6%)
Finance expense	(1,047,809)	(735,020)	(312,789)	43%
	824,483	924,965	(100,482)	(11%)
Net Income	\$ 2,319,030	\$ 2,757,372	\$ (438,342)	(16%)
Earnings before interest, taxes, depreciation and amortization (EBITDA)				
Net income per above	\$2,319,030	\$2,757,372	\$ (438,342)	(16%)
Net finance cost (income)	143,221	(223,966)	367,187	(164%)
Depreciation expense	2,332,823	1,798,972	533,851	30%
EBITDA	\$4,795,074	\$4,332,378	\$ 462,696	11%

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 2025. It reports the financial performance of the company.

Table 2: Percentage of revenue

	December 31, 2025	December 31, 2024
Percentage of Revenue		
Gross margin	35%	40%
General and administration percentage	22%	22%
EBITDA percentage	42%	44%
Net income percentage	20%	28%

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 areas¹. Metered billings revenue was \$7,352,083 (2024 - \$5,926,105) from the CCDEU and \$3,030,533 (2024 - \$2,852,861) from the ADEU. Overall, metered billings increased by \$1,603,650 to \$10,382,616 (2024 - \$8,778,966). This increase was driven by three new building connections, higher energy consumption from buildings that were not fully occupied in the prior year, and the approved 2025 customer rates.

There was no change to the service fee of \$981,486 (2024 - \$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 26,964 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 \$725,895 to \$2,819,060 (2024 - \$2,093,165) due to additional operations and maintenance work requirements from three additional on-site low-carbon energy plants (LCEPs).

¹ Note that OVDEU is now combined under the CCDEU service area.

Utility expenses increased by \$329,656 to \$2,255,819 (2024 - \$1,926,163) primarily due to increased energy usage from three additional buildings connected and higher demand from one building that was not fully occupied in the prior year.

Depreciation expense increased due to the addition of new capital assets being put into service.

Gross Margin

Gross margin as a percentage of revenue decreased to 35% from 40% in prior year due to the overall growth of the on-site Low Carbon Energy Plants (LCEPs). On-site LCEPs are used as an interim strategy to secure future connections to centralized district energy infrastructure while delivering low-carbon energy to customers from day one. LCEPs' air-source heat pump equipment is more complex, and it requires more frequent maintenance and higher staffing requirements than centralized interim energy centres. As additional LCEPs come online, a continued downward trend in gross margin is anticipated; however, the long-term plan is to minimize the number of new on-site LCEPs and replace existing on-site LCEPs' equipment with connections to centralized district energy infrastructure, which should reverse the downward trend of the gross margin. Despite this, the gross margin exceeded budget by 27% due to the lower-than-budgeted contract costs, utility costs and depreciation expense.

General and administration expenses

General and administration (G&A) expenses represent costs incurred by LIEC to support ongoing operations and includes salaries and benefits, administration expenses, insurance, and professional fees. G&A expenses totaled \$2,461,853 (2024 - \$2,109,745), representing an increase of 17% compared to prior year. The increase aligns with the continued growth and expanded operational requirements as LIEC advances new infrastructure development and scales ongoing system operations. Key drivers of the year-over-year increase include:

- **Salary and benefits** - The increase of \$233,462 to \$1,308,300 (2024 - \$1,074,838) was driven by the addition of three new employees, approved by the board, to support the additional efforts needed to deliver new infrastructure and operate existing systems necessary to service LIEC customers.
- **Administration expenses** - The increase of \$25,088 to \$391,017 (2024 - \$365,929) was mainly due to city staff support related to company growth and general inflation. Administration expenses also include the overhead allocation of \$87,340 (2024 - \$69,680) 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 \$81,700 to \$426,918 (2024 - \$345,218) due to additional assets being insured, market wide premium adjustments, and expanded insurance coverage for ADEU assets as directed by the board.

- **Professional fee** - The increase of \$11,858 to \$335,618 (2024 - \$323,760) reflects incremental audit services required to support the operational growth and infrastructure expansion.

Overall, general and administration expenses as a percentage of revenue was 22% in 2025, same as 2024.

Contributions and financing expenses

The contributions and financing expense section represents other sources of revenue and expenses for the Company. Developer contributions increased to \$1,129,687 (2024 - \$668,131) due to three new connections completed in 2025. Other income decreased to \$17,341 (2024 - \$32,868) due to reduced building permit review activity, reflecting a slowdown in development timeline.

In 2025, LIEC completed capacity upgrades at an interim energy center, replacing two operational natural gas boilers with larger, more efficient units. In line with the company's circular economy policy, staff arranged for an equipment rental company to refurbish the boilers at no cost in exchange for a credit toward future rentals. In accordance with accounting standards, the boilers were recorded as disposed equipment. The disposal resulted in a loss recognized in the year.

Finance income represent interest earned on term deposits and cash balances. Interest income declined to \$904,588 (2024 - \$958,986) due to lower interest rates. Finance expense increased to \$1,047,809 (2024 - \$735,020) due to additional 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, has increased by \$462,696 or 11% compared to 2024, due to increase in revenue outpacing the increase in operating costs.

Overall, LIEC's revenues exceeded expenses, resulting in a net income of \$2,319,030 (2024 - \$2,757,372).

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.

Budget Variance
(See Attachment 2 for 2025 budget to actual comparison)

Revenues

The metered billings are the total energy sales of both ADEU and CCDEU service areas. The total metered billings revenue of \$11,364,102 was in line with the budget.

Cost of Sales

Contract expenses were 7% below the budget, mainly due to lower preventive maintenance cost for ADEU following the transition to a new service provider, as well as reduced unscheduled maintenance and repair activities for both ADEU and CCDEU. Utility expenses are driven by actual customer energy consumption, including electricity and natural gas. Overall utility costs were 27% lower than budget, primarily due to the elimination of the BC carbon tax on natural gas used by interim energy centres.

Depreciation expenses exceeded budget mainly due to the carrying value of LCEP assets being higher than originally estimated.

Overall, the cost of sales was 12% below the budget. As a result, the gross margin improved to 35%, exceeded budgeted margin of 27%.

General and Administration Expenses

Salaries and benefits were 4% over budget due to post-employment benefit expense adjustments that were not included in the budget. Administration expenses were below budget primarily due to underutilized internal administration expense budget. Insurance expenses were under budget due to the timing of capital expenditures and the associated impact on coverage levels. Professional fees were lower than budget due to the delays in certain technical studies and updates to developer guidelines, consistent with the slowdown in new development activity. Overall, total general and administration expenses were 5% under the budget.

Contributions and Financing Expense

Developer contributions exceeded budget as the actual value of the developer-contributed assets higher than originally estimated. Other income was below budget due to reduced building permit review activity during the period. Finance expenses were below budget, primarily due to the timing of capital expenditure, associated with delayed development projects. Interest income exceeded budget, resulting from higher than anticipated cash and investment balances.

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

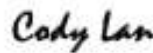
None.

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 at December 31, 2025, and its financial performance and cash flow for the year end in accordance with International Financial Reporting Standards.



Helen Zhao
Controller
(604-276-4019)



Cody Lan
Assistant Controller
(604-247-4698)

Attachment 1: District Energy in Richmond
Attachment 2: 2025 Budget and Actual Comparison
Attachment 3: 2025 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 were competitive with conventional energy costs, based on the same level of service.
2. Council will retain the authority to set customer rates, fees and charges for DEU services.
3. The DEU will provide a flexible platform for adopting low-carbon energy technologies.

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 Bylaw Service Areas - Current and Projected Connected Space

	Buildings	Residential	Floor Area	
	To-Date	Units To-Date	To-Date	Build-out
Alexandra DEU	13	2,200	2.4M ft ²	4.4M ft ²
Oval Village DEU	15	3,524	3.7M ft ²	6.4M ft ²
City Centre DEU	6	2,506	2.6M ft ²	48M ft ²
Total	34	8,230	8.7M ft²	58.8M ft²

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 was consumed for pumping and equipment operations, most of this energy was 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 15 buildings, containing 3,524 residential units. Energy is currently supplied from the three interim energy centres with natural gas boilers, which provide almost 26 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 detailed design stage and is expected to be completed in 2030. 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 six buildings, comprised of 2,506 residential units and approximately 2.6 million square feet of floor area. While off-site energy infrastructure is being built, CCDEU utilizes on-site low-carbon energy plants to service new customers. 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.

2025 Budget and Actual Comparison

	Budget	Actual	\$ Changes	% Change
Revenues				
Metered Billings	\$10,490,541	\$ 10,382,616	\$ (107,925)	(1%)
Service fee	981,486	981,486	-	0%
	11,472,027	11,364,102	(107,925)	(1%)
Cost of Sales				
Contracts	3,039,245	2,819,060	(220,185)	(7%)
Utilities	3,081,202	2,255,819	(825,383)	(27%)
Depreciation	2,253,789	2,332,823	79,034	4%
	8,374,236	7,407,702	(966,534)	(12%)
Gross profit	3,097,791	3,956,400	858,609	28%
General and Administration Expenses				
Salaries and benefits	1,256,558	1,308,300	51,742	4%
Administration expenses	446,424	391,017	(55,407)	(12%)
Insurance	454,486	426,918	(27,568)	(6%)
Professional Fees	438,560	335,618	(102,942)	(23%)
	2,596,028	2,461,853	(134,175)	(5%)
Net income before other items	501,763	1,494,547	992,784	
Contributions and Financing expense				
Developer contributions	944,980	1,129,687	184,707	20%
Other income	27,000	17,341	(9,659)	(36%)
Loss on disposal	-	(179,324)	(179,324)	-
Financing income	640,000	904,588	264,588	41%
Financing cost	(1,899,002)	(1,047,809)	851,193	(45%)
	(287,022)	824,483	1,111,505	
Net Income	\$214,741	\$2,319,030	\$ 2,104,289	
Earnings before interest, taxes, depreciation and amortization (EBITDA)				
Net income per above	\$214,741	\$2,319,030	\$ 2,104,289	
Net Financing cost	1,259,002	143,221	(1,115,781)	(89%)
Depreciation expense	2,253,789	2,332,823	79,034	4%
EBITDA	\$3,727,532	\$4,795,074	\$ 1,067,542	29%

Financial Statements
(Expressed in Canadian dollars)

**LULU ISLAND ENERGY
COMPANY LTD.**

And Independent Auditor's Report thereon
Year ended December 31, 2025



KPMG LLP
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Lulu Island Energy Company Ltd.

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, 2025
- the statement of profit or loss and other 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, 2025, 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 ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



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

Management is responsible for the preparation and fair presentation of 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 10, 2026

LULU ISLAND ENERGY COMPANY LTD.


Statement of Financial Position

December 31, 2025, with comparative information for 2024


	2025	2024
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,434,012	\$ 7,576,940
Accounts receivable (note 4)	4,378,708	4,385,448
Prepaid expenses	35,361	-
Investments (note 5)	10,850,060	9,120,685
	<u>19,698,141</u>	<u>21,083,073</u>
Non-current assets:		
Investments (note 5)	7,119,018	4,607,127
Plant and equipment (note 6)	87,426,728	58,128,103
	<u>\$ 114,243,887</u>	<u>\$ 83,818,303</u>
Liabilities and Shareholder's Equity		
Current liabilities:		
Accounts payable and accrued liabilities (note 7)	\$ 2,075,720	\$ 1,377,195
Current portion of deferred developer contributions (note 8(a))	1,540,563	668,133
Current portion of Project Agreement liability (note 9)	7,444,475	7,158,752
	<u>11,060,758</u>	<u>9,204,080</u>
Non-current liabilities:		
Government grants (note 8(b))	1,360,090	514,462
Deferred developer contributions (note 8(a))	37,566,644	22,120,145
Project Agreement liability (note 9)	22,082,093	12,124,344
	<u>61,008,827</u>	<u>34,758,951</u>
Total liabilities	72,069,585	43,963,031
Shareholder's equity:		
Share capital and contributed surplus (note 10)	27,397,115	27,397,115
Retained earnings	14,777,187	12,458,157
	<u>42,174,302</u>	<u>39,855,272</u>
Commitments and contingencies (note 13)		
Total equity and liabilities	<u>\$ 114,243,887</u>	<u>\$ 83,818,303</u>

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, 2025, with comparative information for 2024

	2025	2024
Revenue (note 14, 15(a))	\$ 11,364,102	\$ 9,760,452
Cost of sales:		
Operating expenses	5,074,879	4,019,328
Depreciation (note 6)	2,332,823	1,798,972
	<u>7,407,702</u>	<u>5,818,300</u>
Gross profit	3,956,400	3,942,152
General and administrative expenses (notes 11, 15(b))	2,461,853	2,109,745
Profit before undernoted items	1,494,547	1,832,407
Other income (expenses):		
Developer contributions (note 8(a))	1,129,687	668,131
Other income (note 15(a))	17,341	32,868
Loss on disposal of plant and equipment (note 6)	(179,324)	-
Net finance income (cost) (note 12)	(143,221)	223,966
	<u>824,483</u>	<u>924,965</u>
Profit and total comprehensive income for the year	\$ 2,319,030	\$ 2,757,372

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, 2025, with comparative information for 2024

	Share capital (note 10)	Contributed surplus (note 10)	Retained earnings	Shareholder's equity
Balance, January 1, 2024	\$ 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
Profit and total comprehensive income	-	-	2,319,030	2,319,030
Balance, December 31, 2025	\$ 5	\$ 27,397,110	\$ 14,777,187	\$ 42,174,302

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

LULU ISLAND ENERGY COMPANY LTD.

Statement of Cash Flows

Year ended December 31, 2025, with comparative information for 2024

	2025	2024
Cash provided by (used in):		
Cash flows provided by (used in) operating activities:		
Profit and total comprehensive income	\$ 2,319,030	\$ 2,757,372
Adjustments for:		
Depreciation	2,332,823	1,798,972
Recognition of deferred developer contributions	(1,129,687)	(668,131)
Finance cost	1,047,809	735,020
Loss on disposal of plant and equipment	179,324	-
Interest income on investments	(594,523)	-
Changes in non-cash operating working capital:		
Accounts receivable	6,740	407,444
Prepaid expenses	(35,361)	-
Accounts payable and accrued liabilities	609,102	(471,708)
Net cash provided by operating activities	4,735,257	4,558,969
Cash flows provided by (used in) investing activities:		
Additions to plant and equipment	(4,234,565)	(1,118,889)
Deferred developer contributions	-	4,220,949
Cash receipts from sale of investments	9,541,750	12,014,953
Cash payments to acquire investments	(13,188,493)	(13,727,812)
Net cash provided by (used in) investing activities	(7,881,308)	1,389,201
Cash flows provided by (used in) financing activities:		
Cash received from government grants	845,628	111,438
Project Agreement liability, net	-	(994,644)
Repayment of the capital portion of the Project Agreement liability	(543,392)	-
Repayment of the non-capital portion of the Project Agreement liability	(299,113)	-
Net cash provided by (used in) financing activities	3,123	(883,206)
Increase (decrease) in cash and cash equivalents	(3,142,928)	5,064,964
Cash and cash equivalents, beginning of year	7,576,940	2,511,976
Cash and cash equivalents, end of year	\$ 4,434,012	\$ 7,576,940
Non-cash transactions:		
Additions to plant and equipment	\$ (27,576,207)	\$ (5,067,401)
Project Agreement liability for additions to plant and equipment	9,758,801	4,855,397
Developer contributions for additions to plant and equipment	17,448,616	-
Interest cost capitalized to plant and equipment	279,367	212,005
Accrued liability for assets under construction	89,423	-

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

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements

Year ended December 31, 2025

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 (“IFRS”).

These financial statements were approved and authorized for issue by the Board of Directors on April 9, 2026.

(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.

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements (continued)

Year ended December 31, 2025

2. Basis of presentation (continued):

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

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

- Note 8 - 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.

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements (continued)

Year ended December 31, 2025

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.

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements (continued)

Year ended December 31, 2025

3. Material accounting policies (continued):

(c) Concession projects:

Concession projects are delivered by partners selected to design, build, finance, and maintain the project assets which are owned by the Company and included in plant and equipment. 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 cash amounts received/receivable from developers toward the cost of equipment and/or assets received from developers, required for the supply of district energy to the developer's site. Developer contributions are recognized into income over the expected useful life of the related assets from when the assets are available for use. Developer contributed assets are initially recorded at fair value and included in plant and equipment.

(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.

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements (continued)

Year ended December 31, 2025

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.

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements (continued)

Year ended December 31, 2025

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 fair value. Subsequent to initial recognition financial liabilities are measured at amortized cost using the effective interest method.

The following table shows the subsequent 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

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements (continued)

Year ended December 31, 2025

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.

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements (continued)

Year ended December 31, 2025

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, 2025 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'.

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements (continued)

Year ended December 31, 2025

3. Material accounting policies (continued):

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

The following new and amended accounting standards are not expected to have a significant impact on the financial statements:

- Classification and Measurement of Financial Instruments (Amendments to IFRS 9 and IFRS 7); and
- Contracts Referencing Nature-dependent Electricity (Amendments to IFRS 9 and IFRS 7).

4. Accounts receivable:

	2025	2024
Trade receivables	\$ 346,153	\$ 1,251,399
Due from City of Richmond (note 15(a))	187,181	166,301
Unbilled trade receivables	3,692,081	2,833,834
GST receivable	153,293	133,914
	\$ 4,378,708	\$ 4,385,448

5. Investments:

Investments represent term deposits as follows:

Purchase date	Maturity date	Interest rate	2025	2024
July 23, 2025	July 22, 2026	3.85%	\$ 3,215,498	\$ -
August 5, 2025	August 5, 2026	3.33%	4,054,010	-
December 3, 2025	December 3, 2027	3.11%	3,033,911	-
December 3, 2025	December 3, 2027	3.13%	3,007,203	-
June 20, 2024	June 20, 2025	5.20%	-	2,980,151
June 20, 2024	June 22, 2026	5.01%	1,026,628	1,026,628
June 20, 2024	June 22, 2027	5.00%	1,077,904	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	2,553,924
			17,969,078	13,727,812
Less: current portion of investments			10,850,060	9,120,685
Non-current investments			\$ 7,119,018	\$ 4,607,127

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements (continued)

Year ended December 31, 2025

6. Plant and equipment:

	Energy plant center	General equipment	Distribution piping	Total
Cost:				
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
Transfer	-	88,140	(88,140)	-
Additions	-	24,139,242	7,671,530	31,810,772
Disposals	-	(283,047)	-	(283,047)
Balance as at December 31, 2025	\$ 5,031,915	\$ 67,347,169	\$ 27,974,916	\$ 100,354,000
Accumulated depreciation:				
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
Depreciation	67,092	1,961,726	304,005	2,332,823
Disposals	-	(103,723)	-	(103,723)
Balance as at December 31, 2025	\$ 603,828	\$ 10,351,669	\$ 1,971,775	\$ 12,927,272
Net book value:				
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
At December 31, 2025	4,428,087	56,995,500	26,003,141	87,426,728

Included in plant and equipment is \$18,851,592 (2024 - \$10,706,471) of assets under construction being \$6,760,875 (2024 - \$5,212,386) general equipment and \$12,090,717 (2024 - \$5,494,085) distribution piping. For the year ended December 31, 2025, capitalized borrowing costs related to the construction of the general equipment and distribution system in the year amounted to \$279,367 (2024 - \$212,005), calculated using a capitalization rate of 4.76% (2024 - 4.76%).

7. Accounts payable and accrued liabilities:

Accounts payable and accrued liabilities include post-employment benefits of \$135,700 (2024 - \$86,000).

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements (continued)

Year ended December 31, 2025

8. Deferred developer contributions and Government grants:

(a) Deferred developer contributions:

The following table summarizes deferred developer contribution amounts recognized:

	2025	2024
Deferred developer contributions, beginning of year	\$ 22,788,278	\$ 19,235,460
Developer contributions received (net of refunds)	-	4,220,949
Developer contributed assets received	17,448,616	-
Recognized revenue from developer contributions	(1,129,687)	(668,131)
	39,107,207	22,788,278
Less: current portion of deferred developer contributions	1,540,563	668,133
Non-current deferred developer contributions	\$ 37,566,644	\$ 22,120,145

(b) Government grants:

In 2022, the Company received approval for a grant (the "Sewer Heat Recovery grant") from CleanBC Communities Fund, receivable as qualifying capital expenses are incurred. In 2025, the Company recognized on the statement of financial position \$1,360,090 (2024 - \$514,462) under the Sewer Heat Recovery grant. As the relevant assets were under construction at December 31, 2025, the grant received has been deferred under non-current liabilities.

9. City Centre District Energy Utility Project Agreement:

On September 22, 2022, the Company entered into a 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 is 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 \$609,717,000 and will be accrued over time as the infrastructure is constructed and services are rendered.

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements (continued)

Year ended December 31, 2025

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:

	2025	2024
Project Agreement liability – capital	\$ 27,558,600	\$ 18,343,191
Project Agreement liability – non-capital	1,967,968	939,905
	29,526,568	19,283,096
Less: Current portion of Project Agreement liability	(7,444,475)	(7,158,752)
Non-current portion of Project Agreement liability	\$ 22,082,093	\$ 12,124,344

The average finance cost on the project liability is 4.71% for the year ended December 31, 2025 (2024 - 5.17%).

The Project Agreement liability is repayable as follows:

2026	\$ 7,444,475	\$ 7,158,752
2027	2,289,031	1,429,696
2028	2,408,061	1,497,607
2029	2,533,280	1,568,743
2030 and thereafter	14,851,721	7,628,298
Total	\$ 29,526,568	\$ 19,283,096

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

	2025	2024
Opening balance	\$ 19,283,096	\$ 14,475,318
Additions	9,758,801	4,855,397
Finance expense (note 12)	1,327,176	947,025
Net repayment	-	(994,644)
Repayment of the capital portion	(543,392)	-
Repayment of the non-capital portion	(299,113)	-
Ending balance	\$ 29,526,568	\$ 19,283,096

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements (continued)

Year ended December 31, 2025

10. Share capital and contributed surplus:

At December 31, 2025, the authorized share capital comprised 10,000 (2024 - 10,000) common shares without par value.

As at December 31, 2025, the Company has issued 450 common shares (2024 - 450) at \$0.01 per share totaling \$4.50 (2024 - \$4.50) and held a contributed surplus of \$27,397,110 (2024 - \$27,397,110).

11. Personnel expenses:

The following expenses are included in general and administrative expenses:

	2025	2024
Wages and salaries	\$ 1,308,300	\$ 1,074,838

12. Net finance income (cost):

	2025	2024
Finance income:		
Interest income on investments	\$ 594,326	\$ 761,880
Interest income on cash and cash equivalents	310,262	182,576
Other	-	14,530
	904,588	958,986
Finance cost:		
Interest expense on Project Agreement liability (note 9)	(1,327,176)	(947,025)
Less: Interest expense capitalized to plant and equipment (note 6)	279,367	212,005
	(1,047,809)	(735,020)
Net finance income (cost)	\$ (143,221)	\$ 223,966

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements (continued)

Year ended December 31, 2025

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
2026	\$ 1,371,434	\$ 6,073,041	\$ 7,444,475

As at December 31, 2025, 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 \$31,289,562 to Project Contractor.

(b) Distribution pipe leakage:

In 2020, the Company identified a distribution pipe leakage of heat transfer fluid in one of its service areas. Remediation activities were substantially completed in prior years, and the matter has advanced to the recovery stage. The Company is pursuing recovery of costs incurred and accrued from responsible parties. At this time, it is not practicable to estimate the financial effect of any potential recovery from the other parties involved or the Company's insurer.

14. Revenue:

	2025	2024
Metered billings	\$ 10,382,616	\$ 8,778,966
Other revenue	981,486	981,486
	\$ 11,364,102	\$ 9,760,452

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements (continued)

Year ended December 31, 2025

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 2025, the Company received and recognized in other revenue \$981,486 (2024 - \$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 2025 is \$36,508 (2024 - \$34,274) 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 \$9,457 (2024 - \$32,868) 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 \$87,340 (2024 - \$69,680), 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, 2025 is \$187,181 (2024 - \$166,301) 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.

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements (continued)

Year ended December 31, 2025

15. Related party transactions (continued):

(b) Key management personnel:

Key management personnel compensation comprised the following:

	2025	2024
Short-term employee benefits	\$ 298,730	\$ 215,610
Post-employment benefits	4,186	2,781
	<u>\$ 302,916</u>	<u>\$ 218,391</u>

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. The Chief Operating Officer role is the only officer position held by a full-time employee of the Company. Short-term employee benefits include salaries and taxable benefits. The variance in key management personnel compensation in 2025 compared to 2024 is attributable to the Chief Operating Officer position being in place for the full year in 2025, whereas the position commenced partway through 2024 following approval by the Board of Directors.

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.

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements (continued)

Year ended December 31, 2025

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, 2025		December 31, 2024	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	\$ 4,434,012	\$ 4,434,012	\$ 7,576,940	\$ 7,576,940
Accounts receivable	4,378,708	4,378,708	4,385,448	4,385,448
Investments	17,969,078	17,969,078	13,727,812	13,727,812
Accounts payable and accrued liabilities	2,075,720	2,075,720	1,377,195	1,377,195
Project Agreement liability	29,526,568	26,949,516	19,283,096	17,558,506

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements (continued)

Year ended December 31, 2025

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 engages 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 and unbilled trade receivables to be low.

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements (continued)

Year ended December 31, 2025

17. Financial risk management (continued):

(c) Credit risk (continued):

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

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

December 31, 2025				
Aging	Gross book balance	Bad debt provision	Proportion of provision	Credit-impaired
Current (not past due)	\$ 4,038,234	\$ -	\$ -	No
1 to 30 days past due	-	-	-	-
31 to 60 days past due	-	-	-	-
61 to 90 days past due	-	-	-	-
91 days to 1 year past due	-	-	-	-
	\$ 4,038,234	\$ -	\$ -	-

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	\$ -	\$ -	-

(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.

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements (continued)

Year ended December 31, 2025

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 assets. 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, 2025	\$ 29,526,568	\$ 34,687,091	\$ 7,641,378	\$ 2,475,509	\$ 24,570,204
December 31, 2024	19,283,096	22,219,519	7,353,383	1,549,506	13,316,630

(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.

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements (continued)

Year ended December 31, 2025

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 capital portion of 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:

The Company and its employees contribute to the City's Municipal Pension Plan (a jointly trustee 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 273,000 active members and approximately 133,000 retired members. Active members include approximately 47,000 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, 2024, indicated a \$2,675 million funding surplus for basic pension benefits on a going concern basis.

The Company paid \$133,116 (2024 - \$114,138) for employer contributions while employees contributed \$123,014 (2024 - \$105,556) to the plan in fiscal 2025.

The next valuation will be as at December 31, 2027.

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.