



2023 | Annual Report



Air-source heat pumps located in the
City Centre District Energy Utility

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The Richmond Centre development currently under construction.



■ MESSAGE FROM THE BOARD CHAIR

The Lulu Island Energy Company (LIEC) expanded its customer base, delivered major infrastructure upgrades and continued to provide exemplary customer service in 2023. Upon commencing the City Centre District Energy Utility (CCDEU) project in 2022, a major milestone in the company's history, LIEC staff have been working with developers to coordinate the connection of upcoming developments in the service area alongside planning for the implementation of new interim and permanent energy centres. Over the next 30 years district energy infrastructure will continue to expand and the connected floor area will grow to approximately 52 million ft². Persistent economical impacts such as inflation did not hinder district energy development as the service areas continued to expand as planned in 2023. LIEC is excited to share our recent accomplishments and future milestones, which are summarized in the report.

2023's accomplishments have resulted in more robust DEU infrastructure and a customer base that receives low carbon energy at competitive rates and excellent customer service. I proudly present the 2023 Annual Report to our shareholder, the City of Richmond, as a record of the company's financial performance and customer service excellence.


Jerry Chong
Chair, Lulu Island Energy Company

■ MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

In 2023, LIEC initiated infrastructure upgrades and grew existing service areas while working closely with stakeholders and developers to facilitate future connections and deliver new infrastructure. The future permanent energy centre, located in the Oval Village, will utilize sewer heat recovery technology to service customers in 2028.

The CCDEU added its third development serviced by a low carbon, on-site energy plant in 2023, totalling 1,200,000 ft² of serviced floor space. This substantial connection is the first of many upcoming developments expected to connect in the City Centre area since the commencement of the CCDEU project. The CCDEU will continue to experience exponential growth with a variety of residential, commercial and mixed-use buildings in the horizon for future connection.

In the OVDEU area, capacity upgrades began construction, which will increase the aggregate capacity of the system to 19.2MW. As development accelerates in Richmond, LIEC is prudently ensuring that DEU infrastructure is ready to provide uninterrupted energy services to our customers.

I am pleased to report that LIEC continues to be Richmond's solution for delivering *"clean, efficient energy for now and the future."* This report provides a summary of the outcomes of the company's hard work with its partners and customers in 2023.



John Irving

CEO, Lulu Island Energy Company



■ ABOUT THE LULU ISLAND ENERGY COMPANY

Lulu Island Energy Company provided heating, cooling and domestic hot water to 7.3M ft² of floor space in 2023.

LIEC is a wholly-owned municipal corporation incorporated in August 2013. LIEC was established to operate district energy utility systems in the City of Richmond on the City's behalf.

The goals of LIEC are to:

- establish a highly efficient district energy network providing heating and, in some cases cooling services to buildings at competitive rates;
- provide reliable, resilient local energy for the benefit of its customers;
- operate and maintain low carbon energy systems;
- position the City of Richmond to be a national and international leader in district energy utilities;
- develop and manage effective partnerships; and
- sustain long term financial viability.

On December 31, 2023, LIEC had tangible capital assets of \$53,740,785, revenues of \$8,570,463, and expenses of \$6,500,723.



Interior supply and return piping located at the recently connected One Park.

Alexandra District Energy Utility (ADEU)

LIEC's flagship geo-exchange system now provides energy services to 13 buildings (10 multi-unit residential buildings, the Jamatkhana Temple, the Central at Garden City development and Richmond's Fire Hall No. 3) connecting over 2,200 residential units, over 2,400,000 ft² of total floor area. As of December 31, 2023, the ADEU system delivered 68,268 MWh of energy to customers for space heating, cooling, and domestic hot water heating. More than 92% of this energy delivered was low carbon energy from the local geo-exchange fields. Upgrades to the plant's controls and fibre optic network infrastructure were successfully completed in 2023. This has allowed LIEC to improve its remote operation capabilities, lower operating costs and improving system reliability.

Educating Richmond Stakeholders: District Energy Utility Tours

Historically, LIEC has provided tours of the ADEU to a variety of interested parties. The tours provided education to interested stakeholders on district energy initiatives, how LIEC operates in Richmond and the many benefits that district energy provides to a community like Richmond. In 2023, LIEC also began conducting tours for the City of Richmond staff members to educate staff on the growing district energy initiatives within the City. Staff visit the DEU service areas in Richmond and were educated on different technologies within the multiple energy centres and connected customer buildings. This program further cements LIEC's commitment to educating Richmond stakeholders on district energy and the initiatives implemented to reduce community GHG emissions.



■ LOOKING FORWARD: 2024 WORK PLAN

Expansion of the City Centre District Energy Utility

Expansion of the CCDEU has been underway since the execution of a substantial \$175M financing deal with partners' Corix Utilities and Canada Infrastructure Bank. LIEC is in the early stages of development of the CCDEU system, which will swiftly become the largest DEU service area within its first few years of operation. While a permanent energy centre, utilizing sewer heat recovery technology, is expected to be completed by 2028. LIEC will continue progressing the interim connection strategy which involves utilizing onsite low-carbon energy plants and interim energy centres to serve upcoming developments.

The first phase of the Richmond Centre development, Building 1B, includes over 430,000 ft² of floor space is anticipated to connect via this connection strategy in 2024, which will mark the fourth connected CCDEU development. LIEC staff continue to work closely with the developers to ensure infrastructure is designed and constructed to meet LIEC's high quality standards, and is ready to connect to future CCDEU infrastructure.

Building and Address	Use Type	Floor Area (ft ²)	Occupancy
Richmond Centre (Ph 1B) – 6788 Minoru Blvd.	Mixed	436,882	2024

To provide service to upcoming developments in the Capstan neighbourhood, LIEC will be implementing a new energy centre in the north end of Capstan area. Similar to the approach utilized in the Oval Village neighbourhood, LIEC will first be utilizing a temporary energy centre until there are enough buildings connected to the system to justify the costs of constructing a permanent major energy plant. The temporary energy centre, currently in design, will be outfitted with 16MW of capacity and is schedule to be in service in 2026.

Ongoing Upgrades in the Oval Village Area

LIEC continuously monitors development activity, and is working diligently with Corix Utilities to ensure Oval Village area customers receive quality service and that the necessary infrastructure is built to service new developments. LIEC is utilizing the \$6.2 million in grant funding from the CleanBC Communities fund to construct a permanent energy centre that will utilize sewer heat recovery (SHR) as the primary technology to provide low-carbon energy. The project will reduce GHG emissions by 9,750 tCO₂e annually, increase service capabilities and be completed by 2028. The OVDEU team continues to leverage expertise in design, construction and operation of district energy utilities to ensure the efficient delivery of upgrade and expansion projects in the service area, and provide resilient and reliable energy services to our existing customers.

Alexandra District Energy Utility Expansion

Expansion and development in the West Cambie Neighbourhood continues. One new building is expected to connect to ADEU in 2024. This new development will increase the connected floor area by over 189,850 ft², bringing the total serviced area to 2.5M ft² with 14 connected buildings. Efficient planning allowed for the prior installation of distribution piping for this building, so the connection will be completed with no impact on the public roadways. The design for new distribution piping along Dubbert Street to service future developments and for the addition of a third cooling tower to increase the cooling capacity of the system will also be completed in 2024.

Building and Address	Use Type	Floor Area (ft ²)	Occupancy
Camden Square – 9300/9320 Cambie Road	Residential	189,850	2024–2025



The award-winning ADEU plant.

■ ALEXANDRA DISTRICT ENERGY UTILITY SERVICE AREA

ADEU has been operating since 2012 as a low carbon energy system which provides a centralized energy source for heating, cooling and domestic hot water heating for residential and commercial customers located in the Alexandra/ West Cambie neighbourhood. ADEU assists in meeting the community-wide greenhouse gas emission reduction targets adopted as part of Richmond's 2041 Official Community Plan by providing buildings with renewable low carbon energy through geo-exchange technology.

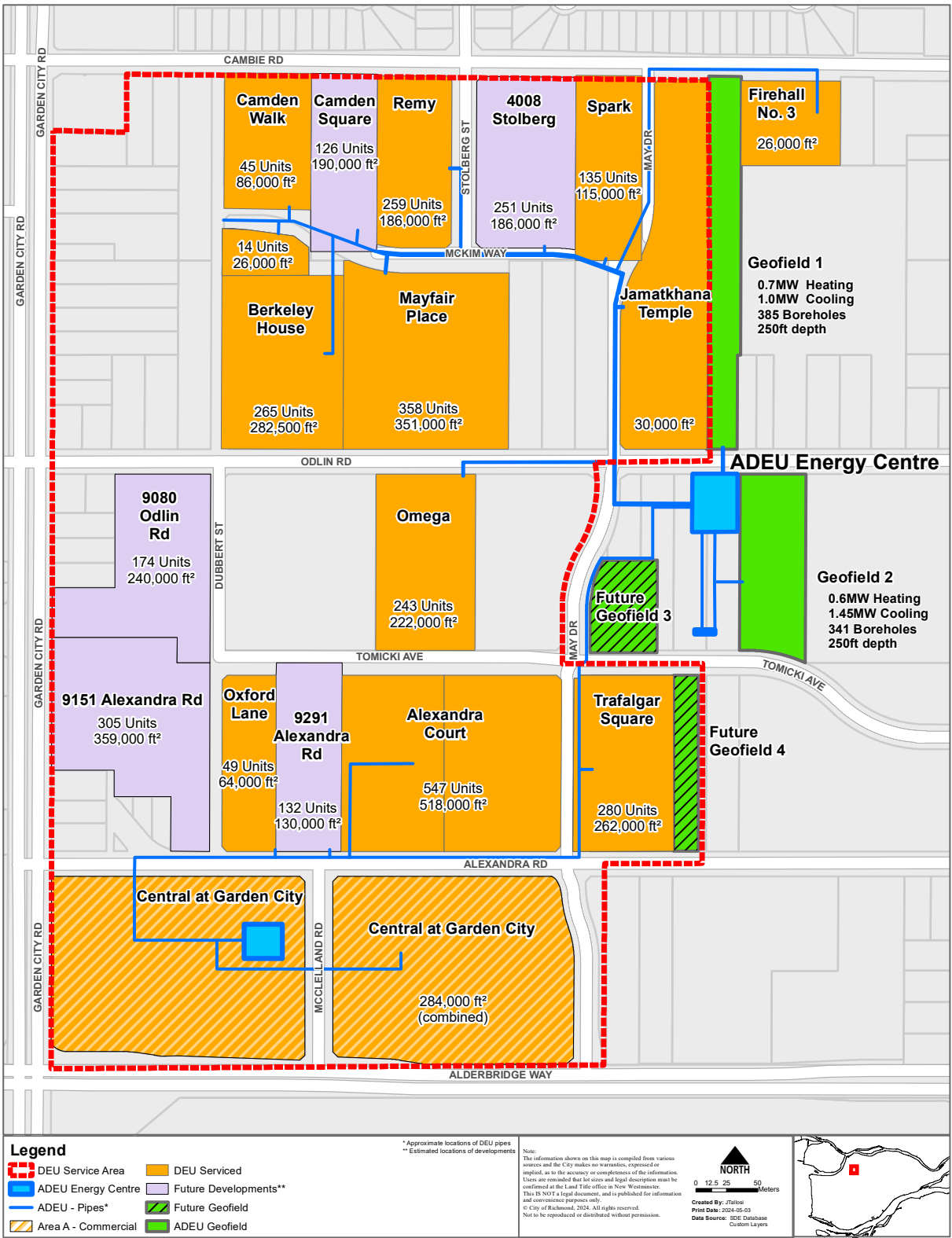


Implementing distribution piping in the ADEU.

Infrastructure Overview

Energy Station	9600 Odlin Road, Richmond, BC V6X 1C9 Satellite Energy Plant (Area A) – 4751 McClelland Road, Upper Parkade, Richmond, BC V6X 0M5
Service	Residential: Space heating, cooling and domestic hot water Commercial: Space heating and cooling
Technology	Heating, cooling and domestic hot water are provided to connected residential buildings, and only heating and cooling for large commercial and institutional spaces through a hydronic (water) energy delivery system. In heating mode, ground source heat pump technology extracts heat (geothermal energy) from the ground via a network of vertical pipe loops. Built-in backup natural gas-fired boilers provide 100% back up in the event that the ground source heat pumps shut down or require maintenance. This system cools buildings as well. During the summer months, the energy flow is reversed and heat is extracted from buildings and pumped into the ground. In this way, energy that was extracted from the ground for heating buildings is “recharged” allowing heat to be available for the next cold season. The satellite energy plant located at the Central at Garden City (Smart Centres) commercial development utilizes efficient air-source heat pump technology to provide space heating and cooling for the large commercial customers within the development. This new energy plant is also interconnected with the current ADEU energy plant allowing for energy sharing with the main ADEU distribution system. Individual buildings connected to the ADEU require smaller sized boilers for increasing the temperature of domestic hot water and reducing the overall cost of maintenance to buildings. The performance of the system is monitored continuously, providing the highest level of reliability to customers.
Length of Distribution Network	3,660 m (12,000 ft.) of high-density polyethylene piping 726 vertical closed-loop boreholes, each 250 ft. deep

Alexandra District Energy Utility Service Area Map



Customers and Energy Rates

Customer energy rates are set in the City of Richmond Service Area Bylaws, which are approved by City Council. This approach ensures that transparency and accountability is maintained for all district energy projects in the City. The rate and bylaw provisions are reviewed and approved by Council on an annual basis.

Energy rates are set based on City Council's objective to provide customers with energy costs that are equal to or less than conventional system energy costs, based on the same level of service. In the absence of DE services, a typical building would have in-building equipment that would use a combination of natural gas and/or electricity and result in operational and maintenance expenses. This is the basis for comparing DE rate costs with conventional utility, energy and maintenance costs. DE customer rates in Richmond have met this requirement. As with other energy utilities, this rate includes utility costs related to infrastructure development, operation and maintenance, commodities (e.g. electricity and natural gas) and other administrative costs.

2023 Rate Structure

Each building includes one master meter. Strata corporations are billing on a quarterly basis, at a rate that is comprised of two charges:

- Capacity Charge: Monthly charge based on the gross floor area of the building (\$0.0956 per ft²)
- Volumetric Charge: Charge based on the energy consumed by the buildings (\$24.190 per MWh)

Buildings

Building Name and Address	Use	Area (ft ²)
Remy – 4099 Stolberg Street	Residential	186,000
Mayfair Place – 9399 Odlin Road	Residential	351,000
Omega – 9333 Tomicki Avenue	Residential	222,000
Alexandra Court – 9399 Alexandra Road	Residential	518,000
Jamatkhana Temple – 4000 May Drive	Institutional	30,000
Oxford Lane – 4588 Dubbert Street	Residential	64,000
Trafalgar – 9500 Tomicki Avenue	Residential	262,000
Spark – 4033 May Drive	Residential	115,000
Berkeley House – 9233 Odlin Road	Residential	282,500
Camden Walk – 9200 & 9211 McKim Way	Residential	112,000

LIEC offers tours of our energy centres to ensure Richmond community members are aware of the benefits of using a district energy system.



Amenities surrounding the energy centre at Alexandra Park.

Building Name and Address	Use	Area (ft ²)
Central at Garden City – Walmart – 9251 Alderbridge Way	Commercial	160,000
Central at Garden City – Building A/B – 4751 McClelland Road	Commercial	124,000
City of Richmond Fire Hall #3 – 9660 Cambie Road	Institutional	26,000

Customer Service

LIEC provides support 24 hours a day, 7 days a week for ADEU customers. Customers can contact customer service via a telephone hotline — 1-844-852-5651.

Energy and Greenhouse Gas Emissions (GHGs)

The driving forces behind the establishment of district energy systems in Richmond were to reduce GHG emissions that cause climate change, develop low carbon renewable energy systems and support local green jobs.

The amount of energy delivered by the end of 2023 was 68,268 MWh. Greenhouse gas performance by the end of 2023 was 11,776 tonnes of CO₂e avoided, equal to removing over 3,600 cars from City of Richmond roads for one year.¹

2023 Financial Summary

The total net book value of ADEU's capital asset at December 31, 2023 is \$22,476,689. Revenue from ADEU customers has been gradually increasing in pace with the occupancy of serviced buildings and new connected buildings. Revenue from operations for 2023 is \$2,876,481 (2022–\$2,857,251). Revenue increased by \$19,230, mainly due to additional energy use for buildings that were not fully occupied in prior years.

Corix Utilities remains engaged as the system operator under contract to perform functional verification ensuring continuous operation and fine tuning of the system. Total cost of sales (utilities, contract services, depreciation expenses) are \$1,592,180 (2022–\$1,557,977). The increase of \$34,204 is mainly due to the additional operations and maintenance work as a result of more buildings being serviced and additional energy sales provided to customers.

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

¹ epa.gov/energy/greenhouse-gas-equivalencies-calculator

CITY CENTRE DISTRICT ENERGY UTILITY

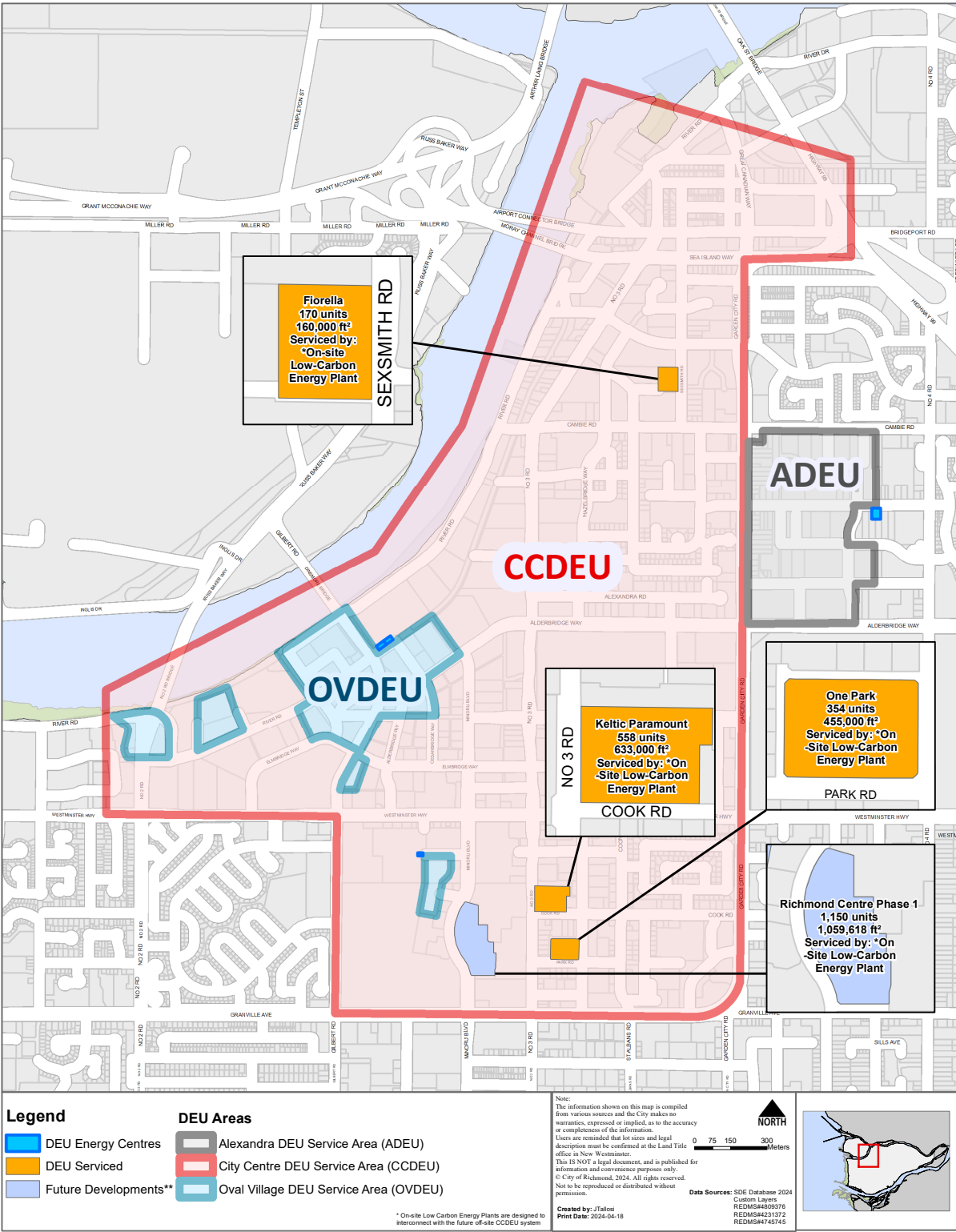
CCDEU Service Area

LIEC is facilitating development of the CCDEU system which, by full buildout, is projected to serve approximately 170 development sites and 52M ft² of floor space. While the CCDEU system development is underway, LIEC will continue progressing the interim connection strategy which involves utilizing onsite low carbon energy plants to serve upcoming developments. The first three CCDEU developments under this strategy, The Paramount, Fiorella and One Park were connected and are now being serviced by onsite energy plants which utilize low carbon technology. These sites comprise approximately 1,200,000 ft² of floor space and 1,100 residential units. The One Park development, comprising over 450,000 ft² of floor space was the most recent building to connect to the DEU. LIEC staff continue to work closely with the developers to ensure infrastructure is designed and constructed to meet LIEC's high quality standards, and is ready to connect to future CCDEU infrastructure.



Development continues in Richmond's City Centre service area.

City Centre District Energy Utility Service Area Map

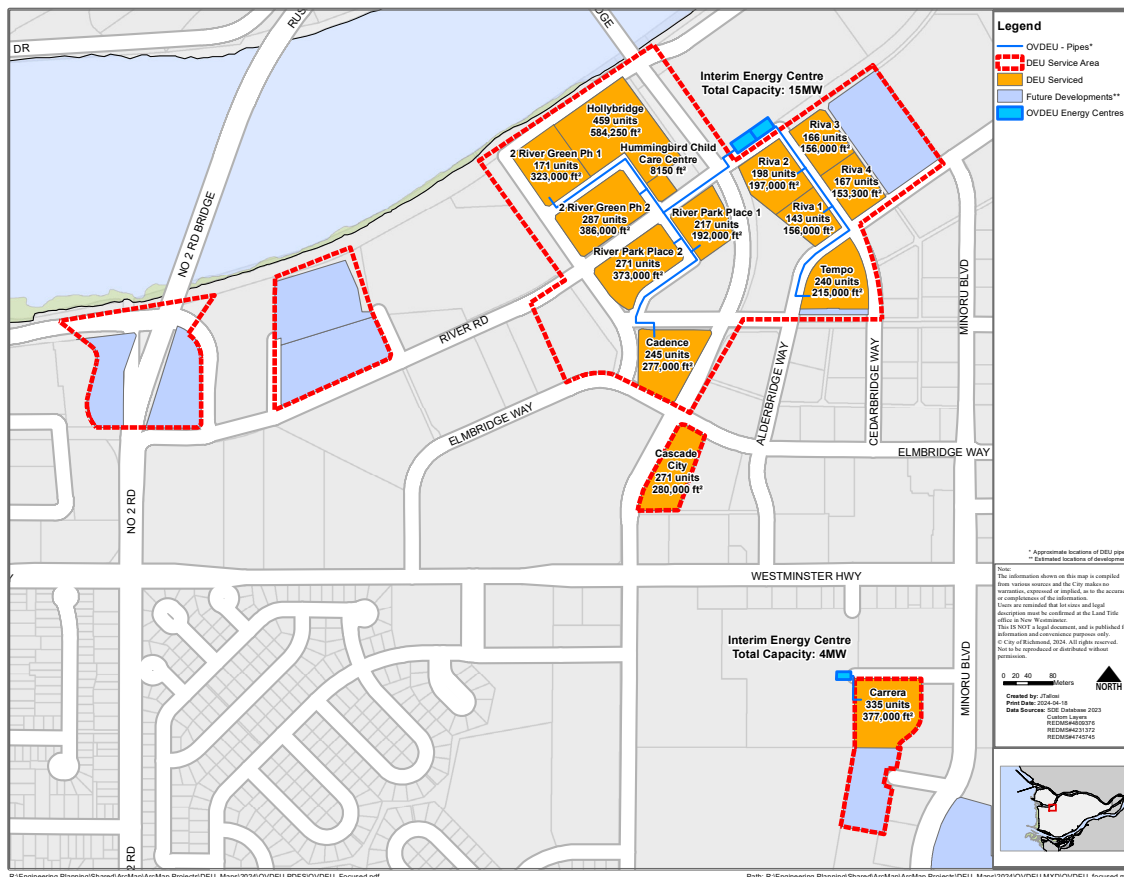


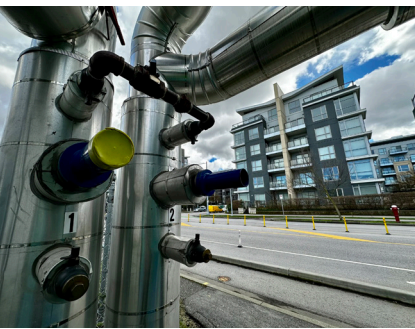
OVDEU Service Area

The OVDEU has been operating since 2015 under a Concession Agreement with Corix Utilities Inc. who designed, constructed, financed, operated and maintained the system. In 2022, the OVDEU infrastructure has been transferred under the CCDEU Project Agreement in which CIB will provide \$175 million in financing towards the further OVDEU infrastructure needed and City Centre Energy Limited Partnership (Corix Utilities), a wholly owned subsidiary of Corix Utilities will design, build, finance, operate and maintain the infrastructure. Further expansion of the Oval Village District Energy Utility (OVDEU) will be performed under the new CCDEU Project Agreement going forward

Today, over 3,000 residential units (14 buildings) are receiving energy from the OVDEU. At full build-out the OVDEU will service up to 5,500 residential units and 6.4 million ft² of floor space. Space heating and domestic hot water heating energy is currently supplied from three interim energy centres (IECs). A permanent, sewer heat recovery energy centre, planned for 2028, is under development to replace the IECs and produce low carbon energy harnessed from the Gilbert Trunk sanitary force main sewer. Similar to the ADEU, the OVDEU will assist in meeting the community-wide greenhouse gas emission reduction targets adopted as part of Richmond's 2041 Official Community Plan (OCP) by providing buildings with renewable low carbon energy.

Oval Village District Energy Utility Service Area Map





Riva 3, a building serviced in the OVDEU.

Customers and Energy Rates

Customer energy rates are defined in the City of Richmond's Service Area Bylaws, which are enacted by City Council. This approach ensures transparency and accountability is maintained for all district energy projects in the City. The rate and bylaw provisions are reviewed and approved by Council on an annual basis.

Energy rates are established based on City Council's objective to provide customers with energy costs that are equal to or less than conventional system energy costs, based on the same level of service. In the absence of district energy services, a typical building would have in-building equipment that would use a combination of natural gas and/or electricity and result in operational and maintenance expenses. This is referred to as a "business as usual" (BAU) scenario and is the basis for comparing district energy rate costs with conventional utility, energy and maintenance costs. District energy customer rates in Richmond have met this requirement. As with other energy utilities, this rate includes utility costs related to infrastructure development, operation and maintenance, commodities (e.g. electricity and natural gas) and other administrative costs such as staffing.

2023 Rate Structure

CCDEU Service Area

Strata corporations are billed on a quarterly basis, at a rate that is comprised of two charges:

- Capacity charge: Monthly charge based on the gross square floor area of the building (\$0.0738 per ft²)
- Volumetric Charge: Charge based on the energy consumed by the building (\$45.340 per MWh)

OVDEU Service Area

Each building includes one master meter. Strata corporations are billed on a quarterly basis, at a rate that is comprised of two charges:

- Capacity charge: Monthly charge based on the gross square floor area of the building (\$0.0633 per ft²)
- Volumetric Charge: Charge based on the energy consumed by the building (\$38.952 per MWh)

Infrastructure Overview

CCDEU

Energy Station	The Paramount Onsite Energy Plant – 6340 No. 3 Road, Richmond, BC Fiorella Onsite Energy Plant – 3699 Sexsmith Road, Richmond, BC One Park Onsite Energy Plant – 8119 Park Rd, Richmond, BC
Service	Space heating, space cooling, and domestic hot water heating
Technology	Energy for space heating, cooling, and domestic hot water is currently provided through onsite energy plants which incorporate air-source heat pump technology, with high-efficiency natural gas boilers providing backup and peaking service at times of high heating demand. These plants are designed to interconnect to the CCDEU system currently under development.

OVDEU

Energy Station	Interim Energy Centre #1– 6111 Bowling Green Road, Richmond, BC Interim Energy Centre #2– 7011 River Parkway, Richmond, BC Interim Energy Centre #3– 7015 River Parkway, Richmond, BC
Service	Residential: Space heating and domestic hot water heating
Technology	Energy for space heating and domestic hot water is provided to connected buildings through a hydronic (water) energy delivery system. Energy generated at three interim energy centres provides 19.2MW of heating capacity to service these buildings. These interim energy centres currently use high efficiency natural gas boilers to produce energy. The performance of the system is monitored continuously to ensure a high level of reliability is provided to customers. The interim energy centres will be replaced by the permanent sewer heat recovery energy centre that will extract heat from the Gilbert Trunk sanitary force main sewer; currently under development with expected completion by 2028.
Length of Distribution Network	2,010 m (6,695 ft.) insulated steel piping

Connected Buildings

Building Name and Address	Use	Area (ft ²)
CCDEU Service Area		
The Paramount – 6320 No 3 Road	Residential/ Commercial/ Retail	633,000
Fiorella – 3699 Sexsmith Road	Residential	160,000
One Park – 8119 Park Road	Residential/ Commercial	455,000
OVDEU Service Area		
Carrera – 7368 Gollner Avenue	Residential	377,000
Riva Building 1 – 5399 Cedarbridge Way	Residential	156,000
Riva Building 2 – 5311 Cedarbridge Way	Residential	197,000
River Park Place 1 – 6888 River Road	Residential/ Commercial	192,000
Cadence – 7468 Lansdowne Road	Residential/ Commercial	277,000
Tempo – 7688 Alderbridge Way	Residential	215,000
Riva Building 3 – 7008 River Parkway	Residential	156,000
River Green – 6611 Pearson Way	Residential	323,000
River Park Place 2 – 6899 Pearson Way	Residential/ Commercial	373,000
River Green 2 – 6622 Pearson Way	Residential	386,000
Cascade City – 5766 & 5788 Gilbert Road	Residential/ Commercial	280,000
Hummingbird – 6899 Pearson Way	Commercial	8,150
Hollybridge – 6811, 6833 & 6855 Pearson Way	Residential/ Commercial	584,250
Riva 4 – 7771 Alderbridge Way	Residential	153,300

CCDEU Customer Service

LIEC provides support 24 hours a day, 7 days a week to CCDEU customers. Customers can contact customer service via a telephone hotline—1-844-852-5651.

CCDEU Energy and Greenhouse Gas Emissions (GHGs)

The amount of Energy delivered by the end of 2023 was 146,808 MWh. The system has reduced greenhouse gas emissions by an estimated 61,205 tonnes of greenhouse gases (CO₂e), equal to removing 14,567 cars from City of Richmond roads for one year.² At full build-out, the CCDEU system is anticipated to annually reduce GHG emissions by almost 9,000 tonnes of CO₂ as compared to business as usual.



District energy infrastructure

² epa.gov/energy/greenhouse-gas-equivalencies-calculator

2023 CCDEU Financial Summary

In September 2022, LIEC entered into a new Project Agreement with City Centre Energy Limited Partnership (Corix), a wholly owned subsidiary of Corix Utilities Inc. to design, build, finance, operate and maintain CCDEU and OVDEU infrastructure providing heating and cooling services to new residential and mixed use commercial developments within the City Centre area. Canada Infrastructure Bank will provide \$175 million in low cost financing to the project. LIEC would continue to own all CCDEU and OVDEU infrastructure.

The total net book value of CCDEU capital assets as at December 31, 2023 is \$30,769,572. Revenue from CCDEU customers has been increasing in pace with the occupancy of serviced buildings and new connected buildings. Revenue from operations for 2023 is \$4,712,496 (2022—\$3,769,258). Revenue increased by \$943,238 compared to 2022. The increase was mainly due to additional heating days and additional energy use by new building connections as well as buildings that were not fully occupied in prior years.

APPENDIX A: AWARDS & RECOGNITION

Awarding Body	Award	Date	Comments
Energy Globe Foundation	Canadian Energy Globe National Award	2023	The national Energy Globe Award recognizes projects that conserve energy and use renewable or emission-free sources. The national award is presented annually to projects saving the environment through personal action, sustainable projects or campaigns for raising awareness in sustainability.
EuroHeat and Power	2021 Emerging Market Award	2021	The Emerging Market Award, which has recognized the ADEU, provides global recognition to organizations that excel in demonstrating the overall importance of district energy systems in providing sustainable energy solutions in countries without a fully established district energy market.
Community Energy Association	2021 Climate & Energy Action Award	2021	The Climate and Energy Action Award, in the Community Planning and Development category, acknowledges Richmond's successful District Energy Implementation Program. The City's leadership and implementation of the program shows best practices in technology, impact and economics.
International District Energy Association	IDEA Innovation Award	2020	IDEA presents this award to the company whose project displays technological, engineering and operational innovations within the district energy industry.
Energy Globe Foundation	Canadian Energy Globe National Award	2020	The National Energy Globe Award recognizes projects that conserve energy and use renewable or emission-free sources. The national award is presented annually to projects saving the environment through personal action, sustainable projects or campaigns for raising awareness in sustainability.



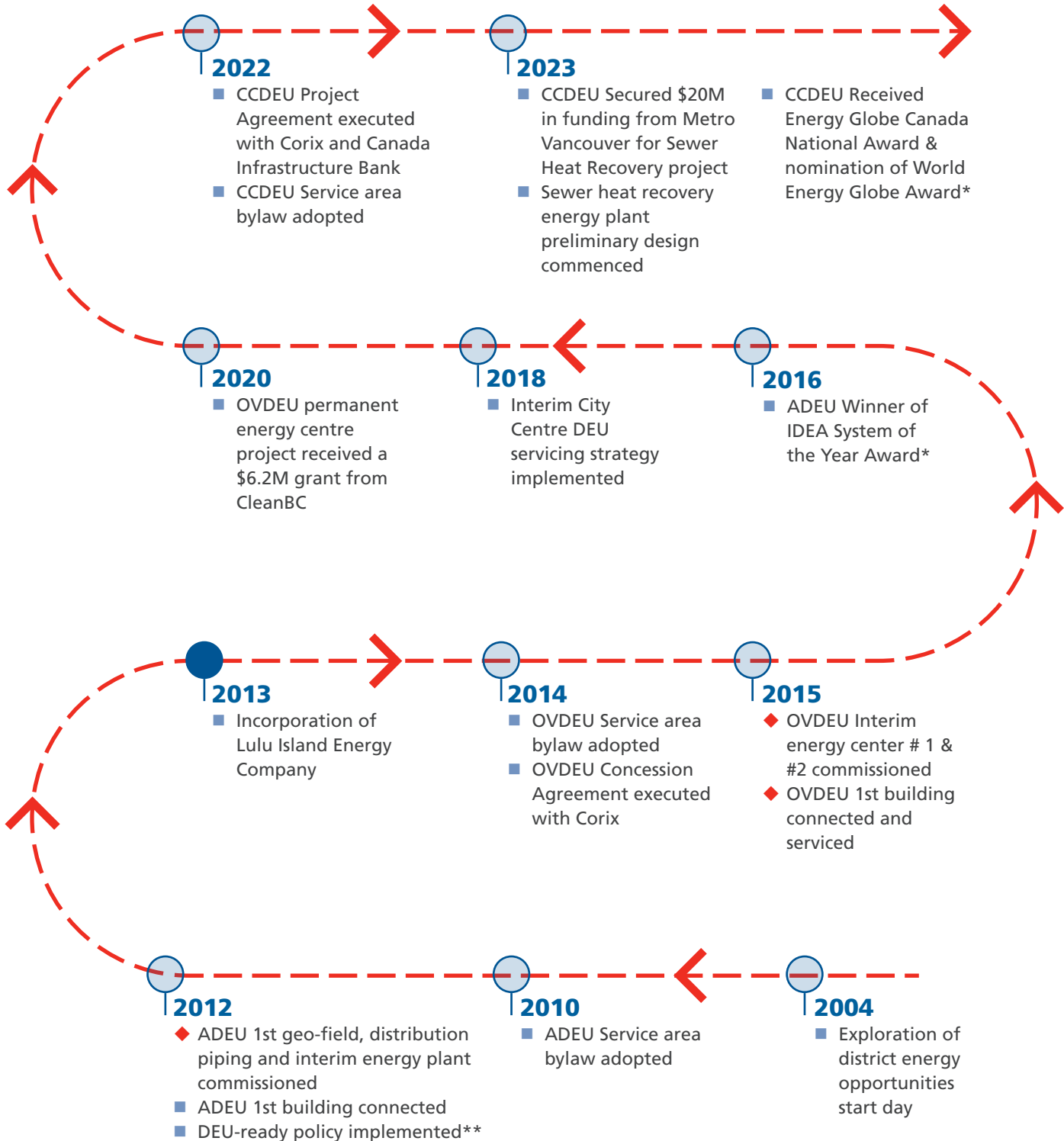
Stakeholders and staff review design options for the future energy plant.

Association of Energy Engineers	Canada Region Energy Project of the Year Award	2019	The Association of Energy Engineers awards this to a project that takes a first-of-a-kind approach wherever it has been implemented.
Canadian Association of Municipal Administrators	CAMA Awards of Excellence – Environment Award	2019	This award recognizes the commitment of a municipality to environmentally sustainable governance, to protecting the environment and to combating climate change. Awards are granted to programs, projects or services that have made a significant and positive impact on the environment.
International District Energy Association	Public Sector District Energy Leadership Award	2018	This award recognized the commitment and vision shown by the City of Richmond's Council for its ongoing support for district energy in Richmond.
Association of Energy Engineers	Canada Region Innovative Energy Project of the Year Award	2018	This award recognized the ADEU Phase 4 expansion project for its innovative approach to service the Central at Garden City development using renewables and making a significant impact on climate change.
Association of Consulting Engineering Companies	Canadian Consulting Engineering Award of Excellence	2017	This award is the most prestigious mark of recognition in Canadian engineering and was given to the Alexandra District Energy Utility expansion project to connect the Central at Garden City development for its high quality of engineering, imagination and innovation.
Association of Energy Engineers	Canada Region Institutional Energy Management Award	2017	The Canada Region Institutional Energy Management Award recognizes organizations and companies for their dedication and performance in the energy efficiency and renewable energy industry. This prestigious award recognizes the City for leading the way with its District Energy implementation program.

Canadian Wood Council	UBCM Community Recognition Award	2017	This award recognized the leadership in the use of wood, both architecturally and structurally, in the City's Alexandra District Energy Utility building constructed during the Phase 3 expansion. The building construction used local, innovative low carbon wood for structural elements as well as interior and exterior cladding.
International District Energy Association	System of the Year	2016	IDEA System of the Year is the highest honour IDEA can confer on a district energy system. It recognized the Alexandra District Energy Utility as an exemplary district energy system that provides high-level performance and service that further the goals of the district energy industry.
Union of British Columbia Municipalities	Community Excellence Award	2016	The Community Excellence Award recognized the City's district energy program for its exemplary leadership through policies, decision-making and actions that have made a difference for its residents.
Canadian Geo-Exchange Coalition	Excellence Award	2014	The Canadian Geo-exchange Coalition Excellence Award recognized the Alexandra District Energy Utility geothermal/geo-exchange system for its quality of installation and design.
Association of Professional Engineers and Geoscientists of British Columbia (APEGBC)	Sustainability Award	2014	APEGBC's Sustainability Award was created to recognize the important contribution that engineering and geoscience make to the well-being of human life and ecosystems on which we all depend, and was awarded in recognition of the Alexandra District Energy system.

Canadian Consulting Engineer Magazine & the Association of Consulting Engineering Companies – Canada	Award of Excellence (Natural Resources, Mining, Industry and Energy Category)	2013	This award is the most prestigious mark of recognition in Canadian engineering and was given to the Alexandra District Energy Utility project for its high quality of engineering, imagination and innovation.
Public Works Association of British Columbia	Project of the Year	2013	This award is given to a municipality that constructs a major and complex public works or utilities project that meets specific criteria including innovative design with project benefits for the community and environment. It was awarded to the City in recognition of the Alexandra District Energy system
International District Energy Association	Certificate of Recognition – Innovation Awards	2013	This program highlighted the Alexandra District Energy System as an example of engineering, technology and operational innovation within the district energy industry.
ENERGY GLOBE Foundation	Canadian Energy Globe National Award	2013	The national Energy Globe award distinguished the Alexandra District Energy Utility as the best national project for its focus on energy efficiency, renewable energy and the conservation of resources.

■ APPENDIX B: LULU ISLAND ENERGY COMPANY MILESTONE TIMELINE



* See Appendix A: Awards & Recognition

** New developments in the DEU service area must have the mechanical capability to connect to and receive 100% of annual space heating, domestic water heating, and space cooling from the DEU and connect to the network once informed by LIEC

■ APPENDIX C: MANAGEMENT'S DISCUSSION AND ANALYSIS

About the Company

The City of Richmond's 2041 Official Community Plan (OCP) establishes a target to reduce greenhouse gas (GHG) emissions 50 per cent below 2007 levels by 2030 and 100 per cent 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 purposes of carrying out the City's district energy initiatives on the basis of 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 of setting customer rates, fees and charges for DEU services.

There are two established DEU service areas within the City; ADEU 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	Build-Out
Alexandra DEU	13	2,200	2.4M ft ²	4.4M ft ²
City Centre DEU	17	4,256	4.9M ft ²	48M ft ²
Total	30	6,456	7.3M ft ²	52.4M 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 of 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 CCDEU currently services 17 buildings, comprised of 4,256 residential units and approximately 4.9M ft² of floor area. 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.

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 52M ft² 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.

Review of Financial Performance

As a Government Business Enterprise (GBE), LIEC is a financially self-sustaining entity that does not rely on the assistance from the City and its financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

Statement of Financial Position

LIEC's overall financial position improved by \$9,559,133 in 2023 with total assets of \$73,060,606 (2022-\$63,501,473). Total assets are comprised of current assets (cash, investments, and receivables) totaling \$19,319,821 (2022-\$17,756,420) and non-current assets (plant and equipment) of \$53,740,785 (2022-\$45,745,053).

LIEC's cash balance frequently fluctuates as a result of timing and magnitude of payments for related projects. During 2023, LIEC continued to keep more cash in secured term deposit investments in order to benefit from higher interest rates. Accounts receivables grew by approximately 114% is related to system growth and advanced payments from developers for future building connections. Collection is impacted by the fluid nature of construction schedules, construction progress and permitting issuance, all of which led to longer collection periods. LIEC is confident in the collectability of its receivables based on its historical track record of collection and procedures available to the company.

Plant and equipment consist primarily of the energy plants, energy generation equipment, distribution piping system, and energy transfer stations. Additions of \$9.45 million to assets, was driven by the need to meet new customer demand.

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 as primary sources of funding for the construction of new assets make up the majority of the liabilities.

LIEC's current liabilities of \$8,569,424 (2022-\$5,842,906) consists of outstanding invoices, payables, and the current portion of Project Agreement liability allocation due within 12 months. Higher amounts of annual payments are expected as a result of project growth.

The non-current liabilities increased by \$4,762,875 to \$27,393,282 (2022-\$22,630,407), mainly due to the increase in assets in the CCDEU area which in turn increased the deferred developers' contributions and Project Agreement liabilities.

The shareholder's equity represents the net worth of the company. It is equal to the total assets minus the total liabilities and measures the company's financial health. In 2023, LIEC's shareholder equity was \$37,097,900 (2022-\$35,028,160).

Statement of Profit or Loss and Total Comprehensive Income

The metered billings reflect the full year energy sales based on the actual customers' energy usage and consumption. It comprises the total energy sales of ADEU and CCDEU service areas. Overall, the metered billings increased by \$962,468 to \$7,588,977 (2022-\$6,626,509) mainly due to new building connections. The 2023 revenue is in line with the Company's projections.

The cost of sales is the accumulated total expenses attributable to the metered billing revenue, which includes contract services, utilities (electricity and natural gas), and amortization expenses. The total contract expense increased by \$452,795 to \$1,603,226 (2022–\$1,150,431) due to the additional operations and maintenance work as a result of more buildings being serviced, including three on-site low carbon energy plants (LCEP). Utility expenses decreased by \$121,541 to \$1,815,943 (2022–\$1,937,484). The decrease is mainly due to the reduction in natural gas rates. The gross margin as a percentage of revenue is 43% for 2023 compared to 39% in 2022 mainly due to lower utility cost expenses incurred in 2023.

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. Overall, general and administration expenses as a percentage of revenues is 25% for 2023 (2022–18%). This is due to the first full year of implementation of the CCDEU. As with the ADEU and OVDEU projects, the CCDEU initial years' general and administration expenses appear high in relation to the revenue received from customers. This is due to the initial project operation and administration setup costs necessary for the infrastructure expansion and operation for a project of this scale, as well as the costs required to administer low-interest financing from CIB. As more customers are connected to the utility, the general and administration expenses in relation to the revenue will decrease.

The contributions and financing expense section represents other sources of revenue and expenses for the business. The developer contributions are higher compared to 2022 mainly due to two new connections during the year. Other income is made up of energy model review fees. The energy modeling review fee revenues are lower than 2022 due to lower than projected building permit reviews. During the year, LIEC continued to repair, remediate and monitor the leak service area; all remediation costs had been accrued in prior years and there are no additional costs in 2023. The net finance income and cost is the net balance of year-to-date finance costs on project agreement liabilities, offset by interest income. Interest income has exceeded the full year finance cost for 2023, because LIEC has taken advantage of the higher interest rates by investing in short-term term deposits which have yielded much higher returns compared to 2022. This has resulted in a positive variance in the net financing costs comparison with prior years.

LIEC's earnings before interest, tax, and amortization (EBITA), used as a proxy to measure the company's financial performance, as a percentage of revenue decreased to 40% compared to 42% in 2022. This is due to the initial operation and administration setup costs necessary for the CCDEU project infrastructure expansion and operation. This is expected and was encountered in the past with the existing OVDEU and ADEU projects. As more customers are connected to the system, revenues and EBITA will increase. Overall, LIEC's revenues exceeded expenses resulting in a net income of \$2,069,740 (2022–\$1,380,620).

LIEC's financial sustainability and future growth must be taken into consideration when reviewing its EBITA 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. The net income will be set aside in LIEC's equity to build a reserve fund for future capital replacement and to ensure long-term rate stability for ratepayers.

■ APPENDIX D: FINANCIAL STATEMENTS OF LULU ISLAND ENERGY COMPANY LTD.

Period of incorporation on January 1, 2023 to December 31, 2023



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Telephone (604) 691-3000
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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, 2023
- 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, 2023, 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.

KPMG LLP, an Ontario limited liability partnership and member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. KPMG Canada provides services to KPMG LLP.



Lulu Island Energy Company Ltd.
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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.



Lulu Island Energy Company Ltd.

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- 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.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, stylized font and is underlined with a single horizontal stroke.

Chartered Professional Accountants

Vancouver, Canada

April 4, 2024

LULU ISLAND ENERGY COMPANY LTD.

Statement of Financial Position

December 31, 2023, with comparative information for 2022

	2023	2022
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,511,976	\$ 3,191,380
Accounts receivable (note 4)	4,792,892	2,240,807
Investments (note 5)	12,014,953	12,324,233
	19,319,821	17,756,420
Non-current assets:		
Plant and equipment (note 6)	53,740,785	45,745,053
Total assets	\$ 73,060,606	\$ 63,501,473
Liabilities and Shareholder's Equity		
Current liabilities:		
Accounts payable and accrued liabilities (note 7)	\$ 1,776,102	\$ 3,852,889
Current portion of deferred developer contributions (note 8(a))	668,131	471,964
Current portion of Project Agreement liability (note 9)	6,125,191	1,518,053
	8,569,424	5,842,906
Non-current liabilities:		
Government grants (note 8(b))	403,026	241,051
Post-employment benefits	72,800	-
Deferred developer contributions (note 8(a))	18,567,329	12,545,851
Project Agreement liability (note 9)	8,350,127	9,843,505
	27,393,282	22,630,407
Total liabilities	35,962,706	28,473,313
Shareholder's equity:		
Share capital and contributed surplus (note 10)	27,397,115	27,397,115
Retained earnings	9,700,785	7,631,045
	37,097,900	35,028,160
Commitments and contingencies (note 13)		
Total equity and liabilities	\$ 73,060,606	\$ 63,501,473

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, 2023, with comparative information for 2022

	2023	2022
Revenue (note 14)	\$ 8,570,463	\$ 7,608,009
Cost of sales:		
Operating expenses	3,419,169	3,087,915
Depreciation	1,455,216	1,540,099
	4,874,385	4,628,014
Gross profit	3,696,078	2,979,995
General and administrative expenses (note 11)	2,177,666	1,379,713
Profit before undernoted items	1,518,412	1,600,282
Developer contributions, other income (expenses) and net finance cost:		
Developer contributions (note 8(a))	475,410	397,695
Other income (note 15)	20,511	120,394
Other expenses (note 7)	-	(426,141)
Net finance income (expense) (note 12)	55,407	(311,610)
	551,328	(219,662)
Profit and total comprehensive income for the year	\$ 2,069,740	\$ 1,380,620

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, 2023, with comparative information for 2022

	Share capital (note 10)	Contributed surplus (note 10)	Retained earnings	Shareholder's equity
Balance, January 1, 2022	\$ 5	\$ 27,397,110	\$ 6,250,425	\$ 33,647,540
Profit and total comprehensive income	-	-	1,380,620	1,380,620
Balance, December 31, 2022	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

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

LULU ISLAND ENERGY COMPANY LTD.

Statement of Cash Flows

Year ended December 31, 2023, with comparative information for 2022

	2023	2022
Cash provided by (used in):		
Cash flows provided by (used in) operating activities:		
Profit and total comprehensive income	\$ 2,069,740	\$ 1,380,620
Adjustments for:		
Depreciation	1,455,216	1,540,099
Recognition of deferred contributions	(475,410)	(397,695)
Finance expense	729,783	128,179
Finance expense on Concession Agreement liability	-	568,174
Write off of assets	-	81,179
Changes in non-cash operating working capital:		
Accounts receivable	(406,393)	(564,384)
Accounts payable and accrued liabilities	(2,003,987)	1,181,473
Net cash provided by operating activities	1,368,949	3,917,645
Cash flows provided by (used in) investing activities:		
Additions to plant and equipment	(2,050,178)	(1,305,119)
Deferred developer contributions	438,780	662,882
Cash receipts from sale of investments	12,324,233	4,047,518
Cash payments to acquire investments	(12,014,953)	(12,324,233)
Net cash used in investing activities	(1,302,118)	(8,918,952)
Cash flows provided by (used in) financing activities:		
Cash received from government grants	161,975	241,051
Project Agreement liability	(908,210)	(1,482,165)
Concession Agreement liability	-	(586,371)
Repayment of the non-capital portion of the Concession Agreement liability	-	(1,687,622)
Net cash used in financing activities	(746,235)	(3,515,107)
Decrease in cash and cash equivalents	(679,404)	(8,516,414)
Cash and cash equivalents, beginning of year	3,191,380	11,707,794
Cash and cash equivalents, end of year	\$ 2,511,976	\$ 3,191,380
Non-cash transactions:		
Additions to plant and equipment	\$ (7,400,770)	\$ (7,156,066)
Project Agreement liability	3,247,234	407,902
Concession Agreement liability	-	1,637,906
Developer contributions	6,254,275	4,999,090
Finance cost capitalized to plant and equipment	44,953	111,168
Accounts receivable	(2,145,692)	-

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

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements

Year ended December 31, 2023

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 4, 2024.

(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, 2023

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 - recognition of deferred developer contributions.

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 Company adopted Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) from January 1, 2023. Although the amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policy information disclosed in the financial statements.

The amendments require the disclosure of 'material', rather than 'significant', accounting policies. The amendments also provide guidance on the application of materiality to disclosure of accounting policies, assisting entities to provide useful, entity-specific accounting policy information that users need to understand other information in the financial statements.

The 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, 2023

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:

Effective, January 1, 2023, the Company revised the estimated useful lives of certain general equipment assets from 25-30 years to 20-40 years. The change was implemented to better reflect the rate of use of the general equipment. The impact of the change in the estimated useful lives has been accounted for prospectively as a change in accounting estimate. The change in the depreciation rate of general equipment resulted in a reduction to the depreciation expense of \$196,450.

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, 2023

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 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 (2022 – Project Agreement liability/Concession 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, 2023

3. Material accounting policies (continued):

(i) Financial instruments:

(i) 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, 2023

3. Material accounting policies (continued):

(i) Financial instruments (continued):

(i) 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

(ii) Measurement categories:

The following table shows the carrying values of assets and liabilities for each of these categories at December 31, 2023 and 2022. Unless otherwise noted, the fair values of the instruments approximate their carrying amount due to their short-term nature and/or due to application of market rates of interest.

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements (continued)

Year ended December 31, 2023

3. Material accounting policies (continued):

(i) Financial instruments (continued):

(ii) Measurement categories (continued):

	2023	2022
Financial assets:		
Financial assets at amortized cost:		
Cash and cash equivalents	\$ 2,511,976	\$ 3,191,380
Accounts receivable	4,792,892	2,240,807
Investments	12,014,954	12,324,233
	\$ 19,319,822	\$ 17,756,420
Financial liabilities:		
Financial liabilities at amortized cost:		
Accounts payable and accrued liabilities	\$ 1,848,902	\$ 3,852,889
Project Agreement liability	14,475,318	11,361,558
	\$ 16,324,260	\$ 15,214,447

(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).

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements (continued)

Year ended December 31, 2023

3. Material accounting policies (continued):

(j) Impairment (continued):

(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.

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.

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements (continued)

Year ended December 31, 2023

3. Material accounting policies (continued):

(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.

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.

- Classification of Liabilities as Current or Non-current (Amendments to IAS 1);
- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16 Leases);
- Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7);
- Lack of exchangeability (Amendments to IAS 21).

4. Accounts receivable:

	2023	2022
Trade receivables	\$ 2,371,845	\$ 194,213
Due from City of Richmond	165,059	152,937
Unbilled trade receivables	2,157,192	1,874,018
GST receivable	98,796	19,639
	\$ 4,792,892	\$ 2,240,807

5. Investments:

Investments represent term deposits as follows:

Purchase date	Maturity date	Interest rate	2023	2022
June 15, 2023	June 17, 2024	6.21%	\$ 3,707,485	-
June 15, 2023	June 17, 2024	5.65%	1,056,153	-
July 19, 2023	July 19, 2024	6.40%	4,357,453	-
November 8, 2023	November 8, 2024	6.21%	2,893,862	-
July 19, 2022	July 19, 2023	5.05%	-	4,123,378
November 7, 2022	November 7, 2023	5.95%	-	3,193,869
December 21, 2022	December 21, 2023	5.10%	-	5,006,986
			\$ 12,014,953	\$ 12,324,233

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements (continued)

Year ended December 31, 2023

6. Plant and equipment:

	Energy plant center	General equipment	Distribution piping	Total
Cost:				
Balance as at December 31, 2021	\$ 5,031,915	\$ 26,641,207	\$ 13,142,967	\$ 44,816,089
Additions	-	6,954,522	1,506,663	8,461,185
Disposals	-	-	(88,238)	(88,238)
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
Accumulated depreciation:				
Balance as at December 31, 2021	335,460	4,683,132	892,351	5,910,943
Depreciation	67,092	1,207,563	265,445	1,540,100
Disposals	-	-	(7,059)	(7,059)
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
Net book value:				
At January 1, 2021	\$ 4,696,455	\$ 21,958,075	\$ 12,250,616	\$ 38,905,146
At December 31, 2022	4,629,363	27,705,034	13,410,656	45,745,053
At December 31, 2023	4,562,271	33,537,710	15,640,804	53,740,785

Included in plant and equipment is \$5,173,479 (2022 - \$3,642,359) of assets under construction being \$2,982,685 (2022 - \$1,340,818) general equipment and \$2,190,794 (2022 - \$2,301,541) distribution piping. For the year ended December 31, 2023, capitalized borrowing costs related to the construction of the general equipment and distribution system in the year amounted to \$44,953 (2022 - \$111,168).

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, 2023, the Company continued to monitor the service area and incur legal costs associated with the leak, and recognized expenses of \$nil (2022 - \$344,962) in other expenses. As of December 31, 2023, \$440,560 (2022 - \$716,403) 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.

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements (continued)

Year ended December 31, 2023

8. Deferred developer contributions and Government grants:

(a) Deferred developer contributions:

The following table summarizes deferred developer contribution amounts recognized:

	2023	2022
Deferred developer contributions, beginning of year	\$ 13,017,815	\$ 7,753,538
Developer contributions receivable	2,145,692	-
Developer contributions received (net of refunds)	366,780	662,882
Developer contributions received (non-cash)	4,180,583	4,999,090
Recognized revenue from developer contributions	(475,410)	(397,695)
	19,235,460	13,017,815
Less: current portion of deferred developer contributions	668,131	471,964
Non-current deferred developer contributions	\$ 18,567,329	\$ 12,545,851

(b) Government grants:

In 2022, the Company was awarded a grant (the "Sewer Heat Recovery grant") from CleanBC Communities Fund. In 2023, the Company recognized \$403,026 (2022 - \$241,051) under the Sewer Heat Recovery grant. The relevant assets were under construction at December 31, 2023 and therefore the grant received is recognized under non-current liabilities.

9. City Centre District Energy Utility Project Agreement:

On October 30, 2014, the Company and Corix Utilities Inc. ("Corix") entered into a 30-year concession project (the "Concession Agreement"), where Corix will design, construct, finance, operate and maintain the infrastructure for the district energy utility at the Oval Village community (the "OVDEU project"). On September 22, 2022, the Company terminated the Concession Agreement after the Company entered into a new concession project (the "Project Agreement") with City Centre Energy Limited Partnership ("Project Contractor"), a wholly owned subsidiary of Corix 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 existing OVDEU project has been transferred into the CCDEU project, and the OVDEU plant and equipment, financing and operations are now executed by the Project Contractor under the Project Agreement.

The total estimated Project Agreement liability to finance the construction of the CCDEU project at full build out is estimated at \$513,485,496 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, 2023

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:

	2023	2022
Project Agreement liability – capital	\$ 13,968,958	\$11,277,500
Project Agreement liability – non-capital	506,360	84,058
	14,475,318	11,361,558
Less: Current portion of Project Agreement liability	(6,125,191)	(1,518,053)
Non-current portion of Project Agreement liability	\$ 8,350,127	\$ 9,843,505

The average finance cost on the project liability is 5.35% for the year ended December 31, 2023 (2022 – 6.7%).

The Project Agreement liability is repayable as follows:

2024	\$ 6,125,191
2025	1,195,385
2026	1,225,270
2027	1,255,902
2028 and thereafter	4,673,570
Total	\$ 14,475,318

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.

	2023	2022
Opening balance	\$ 11,361,558	\$ -
Transfer balance from Concession Agreement liability	-	10,966,470
Additions	3,247,234	1,637,906
Finance expense (note 12)	774,736	239,347
Net repayment	(908,210)	(1,482,165)
Ending balance	\$ 14,475,318	\$11,361,558

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements (continued)

Year ended December 31, 2023

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

(b) Concession Agreement liability:

	2023	2022
Opening balance Concession Agreement liability	\$ -	\$ 12,264,387
Additions		407,902
Finance expense (note 11)	-	568,174
Repayment of the non-capital portion of the Concession Agreement liability	-	(1,687,622)
Net repayment	-	(586,371)
Transfer balance to Project Agreement liability	-	(10,966,470)
Ending balance Concession Agreement liability	\$ -	\$ -

10. Share capital:

At December 31, 2023, the authorized share capital comprised 10,000 (2022 - 10,000) common shares without par value.

As at December 31, 2023, the Company has issued 450 common shares (2022 - 450) at \$0.01 per share totaling \$4.50 (2022 - \$4.50) and held a contributed surplus of \$27,397,110 (2022 - \$27,397,110).

11. Personnel expenses:

The following expenses are included in general and administrative expenses:

	2023	2022
Wages and salaries	\$ 1,056,910	\$ 886,834
	\$ 1,056,910	\$ 886,834

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements (continued)

Year ended December 31, 2023

12. Net finance income (cost):

	2023	2022
Finance income:		
Investment interest	\$ 706,881	\$ 169,433
Bank interest	52,097	186,562
Other	26,212	28,748
	785,190	384,743
Finance cost:		
Finance expense on Project Agreement liability (note 9)	(774,736)	(239,347)
Finance expense on Concession Agreement liability (note 9)	-	(568,174)
Less: Finance cost capitalized to plant and equipment (note 6)	44,953	111,168
	(729,783)	(696,353)
Net finance income (cost)	\$ 55,407	\$ (311,610)

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 the each contract year. The capital obligations are comprised of capital expenditures, financing costs and the Project Contractor's return on equity. The commodity costs include costs of fuel, electricity, water, waste 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 from 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 of the assets. 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
2024	\$ 846,813	\$ 5,278,378	\$ 6,125,191

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements (continued)

Year ended December 31, 2023

13. Commitments and contingencies (continued):

(a) Project Agreement commitments (continued):

As at December 31, 2023, 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 \$877,869 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:

	2023	2022
Metered billings	\$ 7,588,977	\$ 6,626,509
Other revenue	981,486	981,500
	<u>\$ 8,570,463</u>	<u>\$ 7,608,009</u>

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 2023, the Company received and recognized in revenue \$981,486 (2022 - \$981,500) 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 revenue for 2023 is \$44,848 (2022 - \$30,830) for district energy utility services rendered by the Company to the City.

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements (continued)

Year ended December 31, 2023

15. Related party transactions (continued):

(a) Due from City of Richmond (continued):

The Company also received and recognized energy model review fees into other income of \$20,511 (2022 - \$120,394) relating to district energy permit fees collected by the City for in-building district energy related equipment reviews performed by the Company.

The total amount due from the City as at December 31, 2023 is \$165,059 (2022 - \$152,937) 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.

(b) Key management personnel:

A fee of \$147,890 (2022 - \$282,498), 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.

16. Fair values:

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

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

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

(a) 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.

(b) Non-current financial liabilities:

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

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements (continued)

Year ended December 31, 2023

17. Financial risk management and financial instruments:

(a) Overview

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

- Credit risk;
- Liquidity risk; 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.

(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.

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements (continued)

Year ended December 31, 2023

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

(c) Credit risk (continued):

(iii) Cash and investments:

Credit risk arising from other financial assets of the Company comprises cash 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.

(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, 2023	\$ 14,475,318	\$ 16,697,727	\$ 6,310,433	\$ 1,307,153	\$ 9,080,140
December 31, 2022	11,361,558	12,437,215	2,882,097	4,301,253	5,253,865

(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 the debt funding for the project at fixed interest rates until 2032.

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements (continued)

Year ended December 31, 2023

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 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, 2023, the plan has about 240,000 active members and approximately 124,000 retired members. Active members include approximately 43,000 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 \$105,804 (2022 - \$72,275) for employer contributions while employees contributed \$97,849 (2022 - \$66,762) to the plan in fiscal 2023.

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.

Lulu Island Energy Company

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Cover photo: One Park, the newest connection in the City Centre service area.