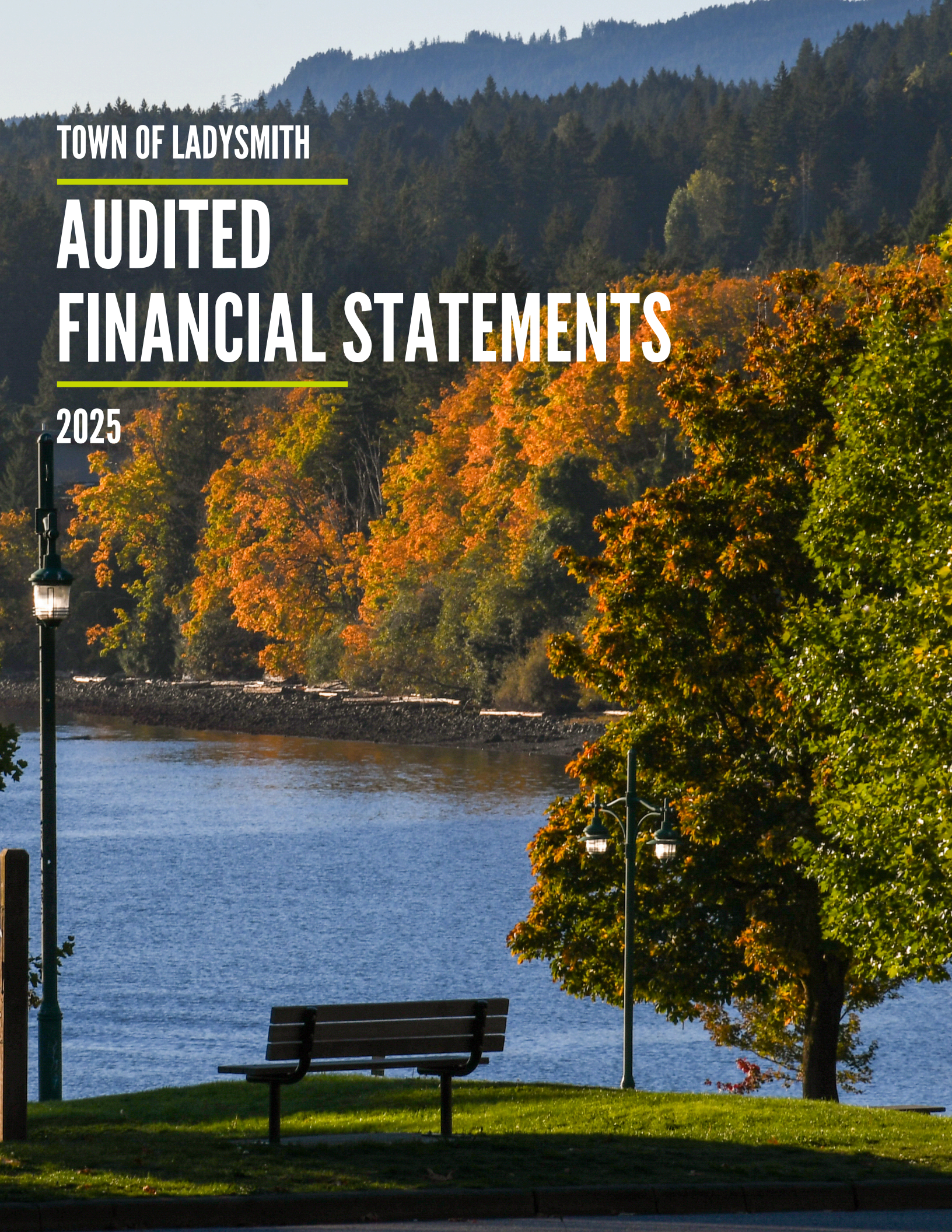


TOWN OF LADYSMITH

AUDITED FINANCIAL STATEMENTS

2025





INDEX TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025

Management Report

Independent Auditor's Report

Consolidated Financial Statements

Consolidated Statement of Financial Position	1
Consolidated Statement of Operations	2
Consolidated Statement of Cash Flows	3
Consolidated Statement of Changes in Net Financial Assets	4
Notes to the Consolidated Financial Statements	5-31

Schedules

I Statement of Operations by Segment – 2024 & 2025	32-33
II Consolidated Statement of Tangible Capital Assets – 2024 & 2025	34-35

STATEMENT OF MANAGEMENT'S RESPONSIBILITY

The accompanying Consolidated Financial Statements are the responsibility of the management of the Town of Ladysmith and have been prepared in compliance with legislation, and in accordance with Canadian Public Sector Accounting standards.

In carrying out its responsibilities, management maintains appropriate systems of internal and administrative controls designed to provide reasonable assurance that transactions are executed in accordance with proper authorization, that assets are properly accounted for and safeguarded, and that financial information produced is relevant and reliable.

MNP LLP as the Municipality's appointed external auditors, have audited the Consolidated Financial Statements. The Auditor's report is addressed to the Mayor and members of Council and appears on the following page. Their opinion is based upon an examination conducted in accordance with Canadian Auditing Standards, performing such tests and other procedures as they consider necessary to obtain reasonable assurance that the Consolidated Financial Statements are free of material misstatement and present fairly the financial position and results of the Municipality in accordance with Canadian Public Sector Accounting Standards.

Allison McCarrick

Allison McCarrick
Chief Administration Officer

To the Mayor and Council of the Town of Ladysmith:

Opinion

We have audited the consolidated financial statements of the Town of Ladysmith (the "Town"), which comprise the consolidated statement of financial position as at December 31, 2025, and the consolidated statements of operations net financial assets and cash flows for the year then ended, and notes and schedules to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Town as at December 31, 2025, and the results of its consolidated operations net financial assets and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

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

Other Information

Management is responsible for the other information. The other information comprises the annual report, which is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Town'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 Town or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated 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 consolidated 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 Town's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Town'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 consolidated 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 Town to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Nanaimo, British Columbia

April 21, 2026

MNP LLP

Chartered Professional Accountants

**TOWN OF LADYSMITH
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2025**

		<u>2025</u>	<u>2024</u>
Financial Assets			
Cash and cash equivalents	<i>(Note 2)</i>	\$ 60,974,262	\$ 54,167,730
Accounts receivable	<i>(Note 4)</i>	<u>3,201,840</u>	<u>2,464,695</u>
		<u>64,176,102</u>	<u>56,632,425</u>
Liabilities			
Accounts payable and accrued liabilities	<i>(Note 5)</i>	2,387,966	2,663,079
Post-employment benefits	<i>(Note 6)</i>	381,900	357,400
Deferred revenue	<i>(Note 7)</i>	5,692,161	3,430,831
Refundable deposits and other	<i>(Note 8)</i>	2,109,033	2,091,477
Restricted reserves	<i>(Note 9)</i>	581,342	560,984
Development cost charge reserve	<i>(Note 10)</i>	10,280,517	9,736,879
Canada Community-Building reserve	<i>(Note 11)</i>	2,397,781	2,067,700
Equipment financing	<i>(Note 12)</i>	2,499,313	2,659,293
Debenture debt	<i>(Note 13)</i>	11,951,733	12,816,879
Asset Retirement obligation	<i>(Note 14)</i>	<u>2,053,545</u>	<u>3,100,092</u>
		<u>40,335,291</u>	<u>39,484,614</u>
Net Financial Assets		<u>23,840,811</u>	<u>17,147,811</u>
Non-Financial Assets			
Tangible Capital Assets	<i>(Schedule II)</i>	122,362,674	119,097,968
Prepays		130,765	99,720
Inventory		<u>78,020</u>	<u>84,586</u>
		<u>122,571,459</u>	<u>119,282,274</u>
Accumulated Surplus	<i>(Note 19)</i>	<u>\$ 146,412,270</u>	<u>\$ 136,430,085</u>

Commitments and Contingencies (Note 15)
Subsequent Events (Note 29)

Erin Anderson
Director of Financial Services

TOWN OF LADYSMITH
CONSOLIDATED STATEMENT OF OPERATIONS
AS AT DECEMBER 31, 2025

	<u>2025</u>	<u>Budget 2025</u> (Note 17)	<u>2024</u>
Revenue			
Taxation (Note 23)	\$ 14,262,373	\$ 14,211,315	\$ 13,695,892
Sale of Services (Note 24)	5,774,300	5,193,841	5,333,278
Investment Income	1,614,486	1,506,548	2,011,086
Licence, Permits, Rentals & Penalties (Note 25)	1,206,815	906,746	1,104,172
Grants (Note 26)	7,098,249	20,471,340	3,364,275
Donations and contributed tangible capital assets	3,060,166	5,773,967	400,392
Gain (loss) on foreign exchange	(9,755)	-	25,423
Loss on disposal of assets	(400,376)	-	(344,180)
Development fees (Note 10)	336,355	2,545,833	59,131
Canada Community-Building funds utilized (Note 11)	217,668	1,890,786	189,169
	<u>33,160,281</u>	<u>52,500,376</u>	<u>25,838,638</u>
Expenses			
General government services	3,112,406	4,238,717	2,859,760
Protective services	3,049,001	3,440,152	2,705,702
Transportation services	2,958,972	3,428,874	3,086,495
Solid waste services	742,642	1,075,579	582,994
Cemetery services	51,699	38,899	32,328
Development services	950,630	1,359,077	891,760
Recreation and cultural services	3,980,637	4,042,291	3,820,761
Parks operation services	1,256,508	1,069,174	1,190,714
Sewer services	3,962,450	5,640,406	3,271,303
Water services	3,113,151	5,828,264	2,980,047
	<u>23,178,096</u>	<u>30,161,433</u>	<u>21,421,864</u>
Annual Surplus	9,982,185	22,338,943	4,416,774
Accumulated Surplus, beginning of year	<u>136,430,085</u>	<u>136,430,085</u>	<u>132,013,311</u>
Accumulated Surplus - end of year	<u>\$ 146,412,270</u>	<u>\$ 158,769,028</u>	<u>\$ 136,430,085</u>

See accompanying notes to the consolidated financial statements

TOWN OF LADYSMITH
CONSOLIDATED STATEMENT OF CASH FLOWS
AS AT DECEMBER 31, 2025

	<u>2025</u>	<u>2024</u>
Operating transactions		
Annual Surplus	\$ 9,982,185	\$ 4,416,774
Less non-cash items included in surplus:		
Amortization	4,607,298	4,557,908
Loss on disposal of tangible capital assets	400,376	344,180
Actuarial adjustments on debenture debt	(104,928)	(93,044)
Accretion expense due to asset retirement obligations	28,727	13,222
Contributed tangible capital assets	(2,987,017)	(378,548)
	<u>11,926,641</u>	<u>8,860,492</u>
Change in		
Accounts receivable	(737,145)	(40,810)
Prepaid expenses	(31,045)	(9,218)
Inventory	6,566	2,629
Accounts payable and accrued liabilities	(275,113)	118,797
Post employment benefits	24,500	23,200
Deferred revenues	2,261,330	1,414,783
Refundable deposits and other	17,556	(10,775)
Restricted reserves	20,358	25,524
Development cost charge reserve	543,638	792,838
Canada Community-Building reserve	330,081	377,492
Cash provided by operating transactions	<u>14,087,367</u>	<u>11,554,952</u>
Capital transactions		
Proceeds on sale of tangible capital assets	34,927	893,877
Cash used to settle asset retirement obligations	(1,075,274)	-
Cash used to acquire tangible capital assets	(5,320,290)	(2,573,506)
Cash used by capital transactions	<u>(6,360,637)</u>	<u>(1,679,629)</u>
Financing items		
Repayment of debt	(920,198)	(864,402)
Increase in Cash and Short-Term Deposits	6,806,532	9,010,921
Cash and Short-Term Deposits - Beginning of Year	<u>54,167,730</u>	<u>45,156,809</u>
Cash and Short-Term Deposits - End of Year	<u>\$ 60,974,262</u>	<u>\$ 54,167,730</u>

See accompanying notes to the consolidated financial statements

TOWN OF LADYSMITH
CONSOLIDATED STATEMENT OF CHANGES IN NET FINANCIAL ASSETS
AS AT DECEMBER 31, 2025

	<u>2025</u>	<u>Budget 2025</u> (Note 17)	<u>2024</u>
Annual Surplus	\$ 9,982,185	\$ 22,338,943	\$ 4,416,774
Acquisition of tangible capital assets	(8,307,307)	(55,637,086)	(2,952,054)
Amortization of tangible capital assets	4,607,298	4,513,471	4,557,908
Loss (gain) on sale of tangible capital assets	400,376	-	344,180
Proceeds from sale of tangible capital assets	34,927	-	893,877
Decrease (Increase) in inventories	6,566	-	2,629
Increase (Decrease) in prepaids	(31,045)	-	(9,218)
Change in Net Financial Assets	<u>6,693,000</u>	<u>(28,784,672)</u>	<u>7,254,096</u>
Net Financial Assets, beginning of year	<u>17,147,811</u>		<u>9,893,715</u>
Net Financial Assets, end of year	<u>\$ 23,840,811</u>		<u>\$ 17,147,811</u>

See accompanying notes to the consolidated financial statements

TOWN OF LADYSMITH
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2025

The Town of Ladysmith (the Town) was incorporated in 1904 under the provisions of the British Columbia Municipal Act. Its principal activities are the provision of local government services in the Town, as governed by the *Community Charter* and the *Local Government Act*.

Note 1 - Significant Accounting Policies

The notes to the consolidated financial statements are an integral part of these financial statements. They provide detailed information and explain the significant accounting and reporting policies and principles that form the basis of these statements. They also provide relevant supplementary information and explanations which cannot be expressed in the consolidated financial statements.

(a) Basis of Presentation

It is the Town's policy to follow Canadian public sector accounting standards for local governments and to apply such principles consistently. The financial resources and operations of the Town have been consolidated for financial statement purposes and include the accounts of all of the funds of the Town.

The consolidated financial statements are prepared using the accrual basis of accounting. The accrual basis of accounting records revenue as it is earned and measurable. Expenses are recognized as they are incurred and measurable based upon the receipt of goods and services or the creation of an obligation to pay.

The consolidated financial statements reflect the assets, liabilities, revenues and expenses and changes in fund balances and financial position of the Town. These consolidated financial statements consolidate the following operations:

General Revenue Fund	General Capital Fund
Water Revenue Fund	Water Capital Fund
Sewer Revenue Fund	Sewer Capital Fund
Reserve Fund	

(b) Reporting Entity

The consolidated financial statements include the assets, liabilities, revenue and expenses of the reporting entity. The reporting entity is comprised of all the funds, agencies, local boards, and committees of the Council which are controlled by the Town. Control is defined as the power to govern the financial and reporting policies of another organization with the

TOWN OF LADYSMITH
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2025

Note 1 - Significant Accounting Policies - (b) Reporting Entity (continued)

expected benefits of risk of loss to the Town. The controlled organizations are consolidated after adjusting their accounting policies to a basis consistent with the accounting policies of the Town. Interfund and intercompany balances and transactions have been eliminated. The controlled organizations include Ladysmith Harbour Economic Development Corporation (formally DL 2016 Holdings Corporation), a wholly owned subsidiary of the Town.

(c) Tangible Capital Assets

Tangible capital assets are recorded at cost less accumulated amortization and are classified according to their functional use. Cost includes all amounts that are directly attributable to the acquisition, construction, development or betterment of the asset. Donated assets are recorded at their estimated fair value upon acquisition. Certain tangible capital assets for which historical cost information is not available have been recorded at current fair market values discounted by a relevant inflation factor. Certain assets are disclosed at a nominal value as the determination of current fair market value was not available. The Town does not capitalize interest charges as part of the cost of its tangible capital assets.

Tangible capital assets are amortized over their estimated useful life on the straight-line method at the following annual rates:

General Tangible Capital Assets

Land	Indefinite
Land Improvements	15 to 75 years
Buildings	25 to 40 years
Equipment, Furniture and Vehicles	5 to 60 years

Engineering Structures

Transportation (Roads and Sidewalks)	20 to 75 years
Storm	25 to 75 years
Sanitary Sewer	25 to 75 years
Water	20 to 80 years

Constructions in progress contain capital projects underway but not yet complete or put into use. Once put into use, the asset will be amortized based on the above annual rates for the applicable category of work performed.

Certain assets have historical or cultural value including works of art, historical documents as well as historical and cultural artifacts that are not recognized as tangible capital assets because a reasonable estimate of the future benefits associated with such property cannot

TOWN OF LADYSMITH
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2025

Note 1 - Significant Accounting Policies – (c) Tangible Capital Assets (continued)

be made. Intangibles, Crown lands and other natural resources are not recognized as tangible capital assets.

(d) Cash and Short-Term Deposits

Cash and short-term deposits have maturities of three months or less from the date of acquisition, reported in Canadian funds using the exchange rate of the prescribed bank as of December 31.

(e) Restricted Reserves and Deferred Revenues

Receipts which are restricted by the legislation of senior governments or by agreement with external parties are deferred and reported as restricted reserves. When qualifying expenses are incurred, restricted reserves are brought into revenue at equal amounts, in accordance with Revenue Recognition Note 1 (g). These revenues are comprised of the amounts shown in Note 9, 10 and 11.

Revenues received from non-government sources in advance of expenses which will be incurred in a later period are deferred until the associated purchase or expense is incurred.

(f) Use of Estimates

The preparation of financial statements in accordance with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Significant areas requiring the use of management estimates relate to the collectability of accounts receivable, accrued liabilities, post-employment benefits, asset retirement obligations, provisions for contingencies and amortization rates, useful lives and salvage values for determining tangible capital asset values. Actual results could differ from those estimates. Adjustments, if any, will be reflected in operations in the period of settlement.

TOWN OF LADYSMITH
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2025

Note 1 - Significant Accounting Policies (continued)

(g) Revenue Recognition

Taxation revenues are recognized at the time of issuing the property tax notices for the fiscal year. Sales of services revenue are recognized when the performance obligation to the customer is satisfied. Investment income is accrued as earned. Licences, permits, rentals and penalty revenues are recognized when the service has been provided, or the amount is earned and when collection is reasonably assured.

Other revenues are recognized when earned in accordance with the terms of the agreement, when the amounts are measurable and when collection is reasonably assured.

The Town recognizes a government transfer as revenue when the transfer is authorized and all eligibility criteria, if any, have been met. Grants and donations are recognized in the financial statements in the period which the events giving rise to the transfer occur, eligibility criteria are met, and reasonable estimates of the amount can be made. A government transfer with stipulations giving rise to an obligation that meets the definition of a liability is recognized as a liability (deferred revenue). In such circumstances, the Town recognizes the revenue as the liability is settled.

Deferred revenue represents user charges and other fees which have been collected, for which the related services have yet to be provided. These amounts will be recognized as revenue in the fiscal year the services are provided.

(h) Non-financial Assets

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations. The change in non-financial assets during the year, together with the excess of revenues over expenses, provides the change in net financial assets for the year.

(i) Inventory

Inventory is valued at the lower of cost and net realizable value, determined on an average cost basis.

TOWN OF LADYSMITH
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2025

Note 1 - Significant Accounting Policies (continued)

(j) Liability for contaminated sites

A liability for remediation of a contaminated site is recognized at the best estimate of the amount required to remediate the contaminated site when contamination exceeding an environmental standard exists, the Town of Ladysmith is either directly responsible or accepts responsibility, it is expected that future economic benefits will be given up, and a reasonable estimate of the amount is determinable. Liabilities for contaminated sites are estimated based on the best information available regarding potentially contaminated sites that the Town is responsible for. The best estimate of the liability includes all costs directly attributable to remediation activities and is reduced by expected net recoveries based on information available on December 31, 2025.

Included in tangible capital assets are specific properties that have been determined to be contaminated in excess of Provincial environmental standards and that require remediation activities. As the Town has not accepted responsibility for the contamination, no liability has been recorded for the estimated remediation costs. Future events may confirm the Town's responsibility, at which point a liability would be recorded. Any remediation activities that occur prior to the determination of responsibility will be expensed as incurred.

(k) Asset Retirement Obligations

A liability for an asset retirement obligation is recognized at the best estimate of the amount required to retire a tangible capital asset (or a component thereof) at the financial statement date when there is a legal obligation for the Town to incur retirement costs in relation to a tangible capital asset (or component thereof), the past transaction or event giving rise to the liability has occurred, it is expected that future economic benefits will be given up, and a reasonable estimate of the amount can be made. The best estimate of the liability includes all costs directly attributable to asset retirement activities, based on information available on December 31, 2025. The best estimate of an asset retirement obligation incorporates a present value technique, when the cash flows required to settle or otherwise extinguish an asset retirement obligation are expected to occur over extended future periods.

When a liability for an asset retirement obligation is initially recognized, a corresponding asset retirement cost is capitalized to the carrying amount of the related tangible capital asset (or component thereof). The asset retirement cost is amortized over the useful life of the related asset.

TOWN OF LADYSMITH
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2025

Note 1 - Significant Accounting Policies - (k) Asset Retirement Obligations (continued)

At each financial reporting date, the Town reviews the carrying amount of the liability. The Town recognizes period-to-period changes to the liability due to the passage of time as accretion expense. Changes to the liability arising from revisions to either the timing, the amount of the original estimate of undiscounted cash flows or the discount rate are recognized as an increase or decrease to the carrying amount of the related tangible capital asset.

The Town continues to recognize the liability until it is settled or otherwise extinguished. Disbursements made to settle the liability are deducted from the reported liability when they are made.

(l) Financial Instruments

The Town recognizes its financial instruments when the Town becomes party to the contractual provisions of the financial instrument. All financial instruments are initially recorded at their fair value.

At initial recognition, the Town may irrevocably elect to subsequently measure any financial instrument at fair value. The Town has not made such an election during the year.

The Town subsequently measures investments in equity instruments quoted in an active market and all derivative instruments, except those that are linked to, and must be settled by delivery of, unquoted equity instruments of another entity, at fair value. Fair value is determined by published price quotations. Transactions to purchase or sell these items are recorded on the trade date. Net gains and losses arising from changes in fair value are recognized in the statement of remeasurement gains and losses. The Town has not presented a statement of remeasurement gains and losses as it does not have any items giving rise to remeasurement gains (losses). Interest income is recognized in the statement of operations. Investments in equity instruments not quoted in an active market and derivatives that are linked to, and must be settled by delivery of, unquoted equity instruments of another entity, are subsequently measured at cost. With the exception of those instruments designated at fair value, all other financial assets and liabilities are subsequently measured at amortized cost using the effective interest rate method.

Transaction costs directly attributable to the origination, acquisition, issuance or assumption of financial instruments subsequently measured at fair value are immediately recognized in operating annual surplus. Conversely, transaction costs are added to the carrying amount for those financial instruments subsequently measured at cost or amortized cost.

TOWN OF LADYSMITH
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2025

Note 2 - Cash and Cash Equivalents

Cash and cash equivalents were comprised as follows:

	<u>2025</u>	<u>2024</u>
Cash	\$ 60,032,100	\$ 53,251,892
Short-term deposits	<u>942,162</u>	<u>915,838</u>
	<u>\$ 60,974,262</u>	<u>\$ 54,167,730</u>

Included in Cash is a deposit of \$226,562 (the equivalent of \$165,233 US Funds based on the exchange rate at the Ladysmith and District Credit Union on December 31, 2025) (\$230,673 equivalent of \$159,589 US Funds - 2024). Short-term deposits consist of short-term investments in the Municipal Finance Authority of B.C. money market fund. The market value is equal to the carrying value.

Included in cash and short-term deposits are the following restricted amounts that are expended in accordance with the terms of the restricted reserves.

	<u>2025</u>	<u>2024</u>
Restricted reserves	\$ 578,748	\$ 560,984
Canada Community-Building Fund reserve	2,397,781	2,067,700
Development cost charges reserve	<u>10,280,517</u>	<u>9,736,879</u>
Total restricted cash	<u>\$ 13,257,046</u>	<u>\$ 12,365,563</u>

These notes form an integral part of these consolidated financial statements.

TOWN OF LADYSMITH
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2025

Note 3 – Financial Instruments

The Town is exposed to various risks through its financial assets and liabilities. The following analysis provides an assessment of those risks at December 31, 2025. There have been no changes to exposure of these risks from the prior year.

Credit Risk

Credit risk primarily arises from cash, investments and accounts receivable. The risk exposure is limited to their carrying amounts as at the date of the statement of financial position.

Accounts receivable primarily consist of amounts receivable from other government organizations and residents. To reduce the risk, the Town regularly reviews the collectability of its accounts receivable and if needed, will establish an allowance based on its best estimate of potentially uncollectible amounts. As at December 31, 2025, the amount of allowance for uncollectible amounts was \$394,384 (2024 – \$393,436).

Interest Rate Risk

Interest rate risk arises when the fair value or future cash flows of a financial instrument fluctuate because of changes in market interest rates. Investments bear some interest rate risk but these risks are mitigated through the diversification of the portfolio.

Market Risk

Market risk arises when the value of an investment fluctuates as a result of changes in market prices, whether those changes are caused by factors specific to the individual investment, or factors affecting all securities traded in the market.

The Town manages its market risk by holding cash balances with top rated Canadian Schedule I financial institutions. Investments are managed following the investment policy which is approved by the Town Council. The Town periodically reviews its investments and is satisfied that the investments are being managed in accordance with the investment policy.

Liquidity Risk

Liquidity risk is the risk that the Town will not be able to meet its obligations as they become due. The Town manages liquidity risk by monitoring actual and forecasted cash flows and maintaining adequate levels of working capital to ensure all its obligations can be met when they fall due.

TOWN OF LADYSMITH
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2025

Note 4 - Accounts Receivable

	<u>2025</u>	<u>2024</u>
Employee receivables	\$ 4,523	\$ 2,364
Other government	1,001,432	383,364
Property taxes	1,037,304	964,169
User fees and other	<u>1,158,581</u>	<u>1,114,798</u>
	<u>\$ 3,201,840</u>	<u>\$ 2,464,695</u>

Note 5 - Accounts Payable and Accrued Liabilities

	<u>2025</u>	<u>2024</u>
General	\$ 1,193,300	\$ 1,601,981
Other governments	559,811	722,839
Salaries and wages	273,820	225,657
Contractor holdbacks	272,339	20,591
Accrued interest	<u>88,696</u>	<u>92,011</u>
	<u>\$ 2,387,966</u>	<u>\$ 2,663,079</u>

These notes form an integral part of these consolidated financial statements.

TOWN OF LADYSMITH
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2025

Note 6 - Post-Employment Benefits

The Town provides compensated absences to its employees to a maximum of 120 days. The Town also allows employees to defer unused vacation without any maximum. Any deferred vacation time remaining at retirement or termination is paid out at that time. The amount recorded for these benefits is based on an actuarial evaluation done by an independent firm using a projected benefit actuarial valuation method prorated on services. The last actuarial valuation was calculated at November 1, 2023 and has been extrapolated to December 31, 2025. The change in the liability in the financial statements in respect of obligations under the plan amounts to \$24,500 (\$23,200 - 2024).

The accrued post-employment benefits are as follows:

	<u>2025</u>	<u>2024</u>
Balance, beginning of year	\$ 357,400	\$ 334,200
Current service costs	52,700	50,600
Benefits paid	(15,600)	(26,800)
Actuarial gain	<u>(12,600)</u>	<u>(600)</u>
Balance, end of year	<u>\$ 381,900</u>	<u>\$ 357,400</u>

The significant actuarial assumptions adopted in measuring the Town's post-employment benefits are as follows:

	<u>2025</u>	<u>2024</u>
Discount Rate	4.40%	4.20%
Expected Inflation Rate and Wage & Salary Increases	3.00%	3.00%

TOWN OF LADYSMITH
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2025

Note 7 - Deferred Revenue

	<u>2025</u>	<u>2024</u>
Licence fees & charges	\$ 238,421	\$ 78,262
Rental payments	14,020	15,183
Property tax prepayments	882,640	823,522
Subdivisions prepayments	166,450	166,450
Recreation prepayments	91,341	82,049
Utilities prepayments	29,094	26,876
Government grant prepayments	4,258,691	2,232,870
Other	11,504	5,619
	<u>\$ 5,692,161</u>	<u>\$ 3,430,831</u>

Note 8 - Refundable Deposits and Other

	<u>2025</u>	<u>2024</u>
Developer performance deposits	\$ 1,557,825	\$ 1,301,386
Damage deposits	435,123	338,630
Other	116,085	451,461
	<u>\$ 2,109,033</u>	<u>\$ 2,091,477</u>

These notes form an integral part of these consolidated financial statements.

TOWN OF LADYSMITH
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2025

Note 9 - Restricted Reserves

There are two reserves, LRCA Capital and B&G Capital for the replacement of specific building components located at 630 2nd Avenue and 220 High Street. The Town renewed the operating leases with the Ladysmith Seniors Society and the Ladysmith Resources Community Association (LRCA) in 2021.

Description	Balance Dec. 31, 2024	Interest	Contributions	Expenditures	Balance Dec. 31, 2025
Parking	\$ 126,945	\$ 4,490	\$ -	\$ -	\$ 131,435
Amphitheatre	13,979	499	400	-	14,878
B&G - Capital	86,907	3,165	5,064	-	95,136
LRCA/Seniors - Capital	333,153	4,146	2,594	-	339,893
TOTAL	\$ 560,984	\$ 12,300	\$ 8,058	\$ -	\$ 581,342

Note 10 - Development Cost Charges Reserve

Restricted reserves include Development Cost Charges (DCC's) which are charged to developers and utilized for infrastructure development.

DCC	Balance Dec. 31, 2024	Interest	Contributions	Expenditures	Balance Dec. 31, 2025	Credits
Roads	\$ 1,703,113	\$ 61,836	\$ 132,015	\$ (44,799)	\$ 1,852,164	\$ 25,154
Parks	1,060,127	38,712	49,973	-	1,148,811	23,900
Water	3,536,628	132,498	314,480	-	3,983,606	132,666
Sewer	2,243,810	78,978	12,884	(291,556)	2,044,116	173,581
Storm	621,947	22,463	15,886	-	660,296	3,287
Parks Dedication	571,255	20,270	-	-	591,525	-
TOTAL	\$ 9,736,879	\$ 354,756	\$ 525,237	\$ (336,355)	\$ 10,280,517	\$ 358,588

Developers may be entitled to DCC credits in certain circumstances (\$0 – 2024).

TOWN OF LADYSMITH
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2025

Note 11 – Canada Community-Building Fund Reserve

The Canada Community-Building (CCB) funding (formally known as Gas Tax funding) is provided by the Government of Canada. The use of the funding is established by a funding agreement between the Town and the Union of British Columbia Municipalities. Canada Community-Building funding may be used towards designated public transit, community energy, water, wastewater, solid waste and capacity building projects, as specified in the funding agreements. The funds are recorded on the consolidated financial statements as a restricted reserve.

	2025	2024
Opening balance of unspent funds	\$ 2,067,700	\$ 1,690,208
Add: Amounts received during the year	472,761	472,761
Interest earned	74,988	93,900
Less: Canada Community-Building funds utilized	(217,668)	(189,169)
	\$ 2,397,781	\$ 2,067,700

Note 12 - Equipment Financing

The total equipment financing outstanding with the Municipal Finance Authority of BC (MFABC) as at December 31, 2025, was \$2,499,313 (\$2,659,293 – 2024). This balance is made up of:

	Balance Dec 31, 2024	Principal Payments	Balance Dec 31, 2025
Spartan Fire Truck	\$ 75,926	\$ 38,681	\$ 37,245
Pumper Truck	564,056	30,166	533,890
Aerial Truck	2,019,311	91,133	1,928,178
	\$ 2,659,293	\$ 159,980	\$ 2,499,313

Interest in the consolidated statement of operations is calculated as \$86,671 (\$142,466 - 2024).

TOWN OF LADYSMITH
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2025

Note 12 - Equipment Financing (continued)

- 1) A five-year equipment loan agreement with the MFABC renewed June of 2022 in the amount of \$166,214 for the purchase of a 2012 Spartan fire truck. The balance of the loan at December 31, 2025 was \$37,245 (\$75,926 - 2024). The remaining obligation will be repaid with monthly loan payments in the amount of \$3,388 including interest at a monthly varying rate (December 2025 was 2.91%) (4.25%- 2024). Loan to is set to expire July 2026.

- 2) A five-year equipment loan agreement with the MFABC renewed October of 2024 in the amount of \$586,408 for the purchase of a 2018 Spartan fire truck. The balance of the loan at December 31, 2025 was \$533,890 (\$564,056 - 2024). The remaining obligation will be repaid with monthly loan payments in the amount of \$4,050 including interest at a monthly varying rate (December 2025 was 2.91%) (4.25%- 2024). The loan is set to expire September 2028.

- 3) A new five-year equipment loan agreement with the MFABC renewed December of 2024 in the amount of \$2,069,380 for the purchase of an Aerial fire truck. The balance of the loan at December 31, 2025 was \$1,928,178 (\$2,019,311 - 2024). The remaining obligation will be repaid with monthly loan payments in the amount of \$13,116 including interest at a monthly varying rate (December 2025 was 2.91%) (4.25% - 2024). The loan is set to expire December 2028.

The future minimum loan payments payable to MFABC for all three equipment loan obligations are as follows:

2026	\$	174,868
2027		141,598
2028		2,182,847

TOWN OF LADYSMITH
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2025

Note 13 - Debenture Debt

The Town of Ladysmith secures its long-term borrowing through the Municipal Finance Authority of BC (MFABC). As a condition of each borrowing, a portion of the debenture proceeds is retained by the MFABC as a debt reserve fund. As at December 31, 2025, the cash balance of the Town's debt reserve funds was \$260,641 (\$253,063 - 2024). As receipt of these amounts is contingent on future repayment of debt principal, debt reserve funds are not recorded elsewhere in the financial statements.

The total long-term debt issued and outstanding with MFABC as at December 31, 2025, was \$11,951,733 (\$12,816,879 as at December 31, 2024). This balance is made up of:

	Original Amount	Balance Dec 31, 2024	Principal Payments	Balance Dec 31, 2025
<u>General Capital Fund</u>				
RCMP Building Issue #97 Term 2006-2031	\$ 2,750,000	\$ 1,056,559	\$ 133,770	\$ 922,789
<u>Water Capital Fund</u>				
Water Improvements Issue #118 Term 2012-2037	1,000,000	634,030	\$ 40,597	593,433
Water Filtration Plant Issue #147 Term 2019-2044	6,000,000	5,126,290	\$ 190,779	4,935,511
<u>Sewer Capital Fund</u>				
Sewer Treatment Plant Issue #138 Term 2016-2036	10,000,000	6,000,000	\$ 500,000	5,500,000
	<u>\$ 19,750,000</u>	<u>\$ 12,816,879</u>	<u>\$ 865,146</u>	<u>\$ 11,951,733</u>

Debt interest, net of actuarial adjustment included in the consolidated statement of operations, is calculated at \$244,832 (\$266,716- 2024).

TOWN OF LADYSMITH
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2025

Note 13 - Debenture Debt (continued)

The following principal payments are payable over the next five years:

	General		Water		Sewer		Total
	Principal Repayment	Actuarial Sinking Fund Earnings	Principal Repayment	Actuarial Sinking Fund Earnings	Principal Repayment	Actuarial Sinking Fund Earnings	Net
2026	66,033	73,088	194,185	44,132	500,000	-	877,438
2027	66,033	78,653	194,185	51,281	500,000	-	890,152
2028	66,033	84,441	194,185	58,645	500,000	-	903,304
2029	66,033	90,460	194,185	66,230	500,000	-	916,907
2030	66,033	96,719	194,185	74,042	500,000	-	930,980
Thereafter	66,033	103,229	2,511,264	1,752,427	3,000,000	-	7,432,953

On February 18, 2020, the electors approved an additional \$6.2 million dollars in long-term debt to increase the Town's water supply. This new debt has not been executed.

Note 14 - Asset Retirement Obligations

The Town has buildings containing asbestos, lead paint, and other hazardous materials and is legally required to remove the noted items when it becomes necessary to repair or replace the buildings. The Town recognized a liability of \$373,469 (\$350,092 - 2024) for the asset retirement obligation and a corresponding amount has been expensed as the effective buildings have been fully amortized.

The Town has a water course with several weirs and is legally required to decommission the weirs as they have reached the end of their useful life. The Town recognized a liability of \$1,680,076 (\$2,750,000 - 2024) for the asset retirement obligation and a corresponding amount has been expensed.

The Town estimated the amount of the liabilities using undiscounted future expenditures estimated to retire the tangible capital asset.

	Buildings	Weirs	Total
Opening balance	\$ 350,092	\$ 2,750,000	\$ 3,100,092
Settlement	(5,350)	(1,069,924)	(1,075,274)
Accretion	28,727	-	28,727
Ending Balance	\$ 373,469	\$ 1,680,076	\$ 2,053,545

TOWN OF LADYSMITH
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2025

Note 15 - Commitments and Contingencies

(a) Contingent Liabilities

- i) The Town, as a member of the Cowichan Valley Regional District, is jointly and severally liable for operational deficits or long-term debt related to functions in which it participates.
- ii) The loan agreements with the Municipal Finance Authority provide that if the Authority does not have sufficient funds to meet payments on its obligations it shall make payments from the Debt Reserve Fund which in turn is established by a similar Debt Reserve Fund in the Town and all other borrowing participants. If the Debt Reserve Fund is deficient the Authority's obligations become a liability of the regional district and may become a liability of the participating municipalities.
- iii) There were various claims made against the Town as at December 31, 2025 for incidents that arose in the ordinary course of operations. In the opinion of management and legal counsel, the outcomes of the lawsuits, now pending, are not determinable. As the outcomes are not determinable at this time, no amount has been accrued in the financial statements. Should any loss result from the resolution of these claims, such loss will be charged to operations in the year of resolution.

(b) Pension Liability

The Town 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, 2024, the plan has about 273,000 active members and approximately 133,000 retired members. Active members include approximately 47,000 contributors from local governments.

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

TOWN OF LADYSMITH
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2025

Note 15 - Commitments and Contingencies – (b) Pension Liability (continued)

The most recent actuarial valuation for the Municipal Pension Plan as of December 31, 2024, indicated a \$2.675 billion funding surplus for basic pension benefits on a going concern basis.

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

The Town of Ladysmith paid \$528,378 (2024 - \$508,202) for employer contributions to the plan in fiscal 2025.

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.

(c) Reciprocal Insurance Exchange Agreement

The Town is a subscribed member of the Municipal Insurance Association of British Columbia (The "Exchange") as provided by Section 3.02 of the Insurance Act of the Province of British Columbia. The main purpose of the Exchange is to pool the risks of liability so as to lessen the impact upon any subscriber. Under the Reciprocal Insurance Exchange Agreement, the Town is assessed a premium and specific deductible for its claims based on population. The obligation of the Town with respect to the Exchange and/or contracts and obligations entered into by the Exchange on behalf of its subscribers in connection with the Exchange are in every case several, and not joint and several. The Town irrevocably and unconditionally undertakes and agrees to indemnify and save harmless the other subscribers against liability losses and costs which the other subscriber may suffer.

TOWN OF LADYSMITH
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2025

Note 15 - Commitments and Contingencies (continued)

(d) Service Agreements & Rental Payments

	2025	2024
Ladysmith & District Historical Society	\$ 31,316	\$ 26,699
Ladysmith Resources Centre Association	47,452	46,520
Ladysmith Chamber of Commerce & Visitor Centre	66,400	63,900
	\$ 145,168	\$ 137,119

The Town provides the Ladysmith & District Historical Society (LDHS) funding for the occupancy, operation and management of the museum and archives. The latest 2-year agreements expire June, 2026 and may be renegotiated. The future monthly payment to LDHS for the management of the museum is \$655 (Jan – June, 2026).

The Town provides the Ladysmith Resources Centre Association with funding to support programs and partnerships to people in need. The latest 2-year agreement expires June, 2026 and may be renegotiated.

The Town provides the Ladysmith Chamber of Commerce & Visitor Centre annual funding to operate the visitor centre, provide support services for local businesses, and to promote economic development and tourism services. The agreement is year-to-year.

Rental payments under operating leases are expensed as incurred.

	2025	2024
132c Roberts Street - office space	\$ 32,826	\$ 32,780
17 & 25 Roberts Street - parking lot	11,400	10,800
	\$ 44,226	\$ 43,580

The Town has signed a 2-year lease with Ivory Tower Investments Ltd for the use of office space at 132c Roberts Street which expires January, 2028. The future monthly payments are \$3,167 for the term of the agreement.

The Town signed a 5-year lease agreement with Paul Jorjorian for the rental of the 17 & 25 Roberts Street Parking Lot which expires December, 2028. The future monthly payments are 2026 for \$1,000, 2027 for \$1,000 and 2028 for \$1,000.

TOWN OF LADYSMITH
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2025

Note 16 - Funds Held in Trust

These funds account for assets which must be administered as directed by agreement or statute for certain beneficiaries; in particular, these funds are for the Cemetery Trust Fund. In accordance with PSAB recommendations on financial statement presentation, trust funds are not included in the Town's Consolidated Financial Statements.

A summary of trust fund activities by the Town is as follows:

	<u>2025</u>	<u>2024</u>
Assets		
Cash and short term investment	<u>\$ 191,769</u>	<u>\$ 185,009</u>
Equity		
Opening balance	\$ 185,009	\$ 179,999
Interest	6,631	9,960
Transfer interest to fund cemetery costs	(6,631)	(9,960)
Contributions	6,760	5,010
Refunds	-	-
Balance, end of year	<u>\$ 191,769</u>	<u>\$ 185,009</u>

Note 17 - Annual Budget

Fiscal plan amounts represent the Financial Plan Bylaw adopted by Council on March 4th, 2025.

The Financial Plan anticipated the use of surpluses accumulated in previous years to balance against current year expenses in excess of current year revenues. In addition, the Financial Plan anticipated capital expenses rather than amortization expense.

The following shows how these amounts were combined:

Financial Plan Balance for the year	\$ -
Add back:	
Amortization	(4,513,471)
Proceeds from new debt	(19,056,099)
Transfers to/from own funds	(11,024,273)
Less:	
Principal payments on debt	1,295,700
Capital expenditures per budget	61,457,336
Capital Expenditures expensed according to Tangible Capital Asset Policy	<u>(5,820,250)</u>
Adjusted Annual Surplus	<u>\$ 22,338,943</u>

These notes form an integral part of these consolidated financial statements.

TOWN OF LADYSMITH
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2025

Note 18 - Comparative Figures

Certain comparative figures have been reclassified to conform to the current year's presentation.

Note 19 - Accumulated Surplus

The Town segregates its accumulated surplus in the following categories:

	<u>2025</u>	<u>2024</u>
Appropriated Equity <i>(Note 27)</i>		
Continuing projects	\$ 9,513,840	\$ 6,892,044
General fund	12,327,908	10,524,258
Water fund	1,047,185	-
Sewer fund	1,525,203	1,361,220
	<u>24,414,136</u>	<u>18,777,522</u>
Unappropriated Equity		
General fund	4,512,692	3,908,332
Water fund	325,109	596,416
Sewer fund	1,801,806	1,645,828
General capital fund	366,846	369,784
Sewer capital fund	32,530	32,530
Water capital fund	-	-
	<u>7,038,983</u>	<u>6,552,889</u>
Reserve Funds		
Reserve funds <i>(Note 27)</i>	<u>7,047,522</u>	<u>7,477,872</u>
Equity in Tangible Capital Assets	<u>107,911,628</u>	<u>103,621,802</u>
Total Accumulated Surplus	<u>\$ 146,412,270</u>	<u>\$ 136,430,085</u>

These notes form an integral part of these consolidated financial statements.

TOWN OF LADYSMITH
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2025

Note 20 – Ladysmith Harbour Economic Development Corporation

The Town of Ladysmith has an investment in the Ladysmith Harbour Economic Development Corporation (formerly DL 2016 Holdings Corporation or DL 2016), a wholly owned subsidiary company of the Town.

Up until December 31, 2023, the Town of Ladysmith leased portions of its waterfront from the Province of British Columbia parts of which were subleased to the Corporation which entered in an operating and maintenance agreement with Ladysmith Maritime Society (LMS). A portion of the moorage revenues from LMS are owed to the Corporation.

As of December 31, 2023, the Town no longer leases the area from the Province of British Columbia.

Note 21 - Significant Taxpayers

The Town is reliant upon 10 taxpayers for approximately 11.51% (11.48% - 2024) of the total property tax revenue which includes Western Forest Products at approximately 5.90% (5.87% - 2024) of the total property tax revenue.

Note 22 – Growing Communities Fund

The Province of British Columbia distributed conditional Growing Communities Fund (GCF) grants to communities at the end of March 2024 to help local governments build community infrastructure and amenities to meet the demands of population growth. The GCF provided a one-time total of \$1 billion in grants to all 161 municipalities and 27 regional districts in British Columbia.

The Town of Ladysmith received \$3,406,000 of GCF funding in March 2024. No funds have been used, and the balance accrues interest. The balance at December 31, 2025 was \$3,717,512 and is recorded in Reserves and Appropriated Equity (Note 27).

TOWN OF LADYSMITH
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2025

Note 23 – Taxation

	<u>Actuals 2025</u>	<u>Actuals 2024</u>
Taxes Collected:		
General municipal purposes	\$ 8,722,175	\$ 8,407,689
Police taxation	1,995,391	1,795,292
Grants in lieu	41,085	32,262
1% utility tax	163,464	157,004
Water and sewer parcel tax	3,340,258	3,303,645
School district	4,677,282	4,452,620
Regional hospital district	1,288,022	1,207,505
Regional district	4,656,362	3,707,461
BCAA and MFA	131,308	124,042
Library	609,356	578,764
	<u>25,624,703</u>	<u>23,766,286</u>
 Less transfer to other governments		
Province of BC (school taxes)	4,677,282	4,452,620
Cowichan Valley Regional Hospital District	1,288,022	1,207,505
Cowichan Valley Regional District	4,656,362	3,707,461
BC Assessment & Municipal Finance Authority	131,308	124,042
Vancouver Island Regional Library	609,356	578,764
	<u>11,362,330</u>	<u>10,070,394</u>
 Net taxation for municipal purposes	 <u><u>\$ 14,262,373</u></u>	 <u><u>\$ 13,695,892</u></u>

These notes form an integral part of these consolidated financial statements.

TOWN OF LADYSMITH
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2025

Note 24 - Sale of Services

	<u>Actuals 2025</u>	<u>Budget 2025</u>	<u>Actuals 2024</u>
Administration recoveries	\$ 78,916	\$ 23,941	\$ 75,822
Cemetery services	58,256	42,000	38,635
Fire service agreements	169,452	136,500	137,162
Public Works recoveries	155,600	-	19,072
Recreation services	735,369	562,375	684,870
Sewer utility fees	1,972,962	1,934,518	1,960,872
Solid waste fees	784,414	780,220	735,874
Water utility fees	1,819,331	1,714,287	1,680,973
	<u>\$ 5,774,300</u>	<u>\$ 5,193,841</u>	<u>\$ 5,333,278</u>

Note 25 – Licences, Permits, Rentals & Penalties

	<u>Actuals 2025</u>	<u>Budget 2025</u>	<u>Actuals 2024</u>
Facility Rentals & Leases	\$ 411,221	\$ 366,255	\$ 451,956
Fines	7,584	2,350	7,226
Licences	105,521	91,000	98,048
Penalties and interest	189,710	153,788	171,599
Permits, Licences & Fees	492,779	293,353	375,343
	<u>\$ 1,206,815</u>	<u>\$ 906,746</u>	<u>\$ 1,104,172</u>

These notes form an integral part of these consolidated financial statements.

TOWN OF LADYSMITH
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2025

Note 26 – Grants

	<u>Actuals 2025</u>	<u>Budget 2025</u>	<u>Actuals 2024</u>
Operating Grants			
Traffic Fines Revenue	\$ 59,000	\$ 43,000	\$ 51,000
Small Communities	417,000	425,000	469,900
Climate Action Program	-	-	290,317
Development Approval Process	-	-	191,995
CVRD Recreation	2,649,087	2,640,576	1,773,999
Community to Community	-	-	5,000
Other	19,816	15,064	22,164
	<u>3,144,903</u>	<u>3,123,640</u>	<u>2,804,375</u>
Capital Grants			
Amphitheatre Event Tent	-	-	8,650
Decontamination Washer & Dryer	33,737	-	-
Dogwood Culvert Replacement	-	875,000	-
Downtown Refresh	-	-	86,605
Holland Creek Weir Removals	1,223,844	2,721,666	28,334
Holland Dam Storage Upgrade	138,700	10,768,295	89,704
Indigenous Engagement	48,000	-	48,000
Heart of Hub	2,457,285	2,798,694	265,338
Mountain Bike Network	12,734	100,000	-
Next Generation 911	-	45,000	-
Poverty Reduction - Stream 3	-	-	22,710
Youth in Bloom	39,046	39,045	10,560
	<u>3,953,346</u>	<u>17,347,700</u>	<u>559,900</u>
Total Grants	<u>\$ 7,098,249</u>	<u>\$ 20,471,340</u>	<u>\$ 3,364,275</u>

These notes form an integral part of these consolidated financial statements.

TOWN OF LADYSMITH
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2025

Note 27 – Reserves & Appropriated Equity

	Balance Dec 31, 2024	Interest Allocated	Contributions	Funding	Balance Dec 31, 2025
Reserves					
Amenity Funds	\$ 194,354	\$ 7,465	\$ 25,690	\$ -	\$ 227,509
Covid Safe Restart	1,215,571	-	-	(270,347)	945,224
Growing Communities Fund (Note 22)	3,590,402	127,110	-	-	3,717,512
Climate Action Program	443,417	-	-	(178,718)	264,699
Municipal Office reserve	715,000	-	60,000	-	775,000
Filming reserve	673	24	-	-	696
Perpetual Safety Fund	16,026	567	-	-	16,593
Sale Real Property	1,270,222	42,792	-	(246,073)	1,066,941
Tax Sale	32,207	1,140	-	-	33,347
Total Reserves	\$ 7,477,872	\$ 179,098	\$ 85,690	\$ (695,138)	\$ 7,047,522
Appropriated Equity					
General Operating Fund					
Continuing Projects	2,279,556	-	2,060,761	(1,005,300)	3,335,017
Future Projects	4,436,292	-	1,092,695	(747,674)	4,781,313
Equipment	2,192,641	-	650,663	(159,363)	2,683,941
Land & Building	701,651	-	270,224	-	971,875
Tax Contingency	7,986	-	-	-	7,986
Snow & Ice Removal	130,000	-	70,000	-	200,000
Infrastructure Deficit	1,765,016	-	1,388,105	(806,000)	2,347,121
Solid Waste	1,290,672	-	45,000	-	1,335,672
	<u>12,803,814</u>	<u>-</u>	<u>5,577,448</u>	<u>(2,718,337)</u>	<u>15,662,925</u>
Water Operating Fund					
Continuing Projects	2,094,188	-	1,792,000	(113,437)	3,772,751
Future Projects	-	-	1,047,185	-	1,047,185
Water Operating Fund Total	<u>2,094,188</u>	<u>-</u>	<u>2,839,185</u>	<u>(113,437)</u>	<u>4,819,935</u>
Sewer Operating Fund					
Continuing Projects	2,518,294	-	789,203	(901,424)	2,406,073
Future Projects	1,361,220	-	376,685	(212,703)	1,525,203
Sewer Operating Fund	<u>3,879,514</u>	<u>-</u>	<u>1,165,888</u>	<u>(1,114,127)</u>	<u>3,931,275</u>
Total Appropriated Equity	<u>\$ 18,777,516</u>	<u>\$ -</u>	<u>\$ 9,582,521</u>	<u>\$ (3,945,901)</u>	<u>\$ 24,414,136</u>
Total Reserves & Appropriated Equity	<u>\$ 26,255,388</u>	<u>\$ 179,098</u>	<u>\$ 9,668,211</u>	<u>\$ (4,641,040)</u>	<u>\$ 31,461,657</u>

These notes form an integral part of these consolidated financial statements.

TOWN OF LADYSMITH
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2025

Note 28 - Segmented Information

The Town is a diversified municipal government institution that provides a wide range of services to its citizens such as roads, water, sewer and drainage infrastructure, fire protection, police protection (RCMP), cemetery, recreation centre, garbage collection and parkland. Distinguishable functional segments have been separately disclosed in the segmented information. The nature of the segments and the activities they encompass are:

General Government Services

General Government provides the administrative and legislative activities that supports Council and the departments of the Town. Also included in General Government Services is the financial planning and reporting, Information Technology, Human Resources, and Waterfront Area Plan Implementation.

Protective Services

Fire protection includes a full-time Fire Chief and deputy Fire chief, and the fire department consists of paid on-call fire fighters who volunteer their service and receive compensating for each callout in which they take part. The fire department oversees a fleet of fire vehicles necessary to respond to calls.

Policing services is provided under contract with the RCMP. The Town is responsible for funding eight of the members within the detachment. The detachment occupies a building located in and owned by the Town of Ladysmith.

Bylaw enforcement administers, monitors, and seeks compliance with the bylaws enacted by the Mayor and Council to regulate the conduct of affairs in the Town of Ladysmith.

Transportation

The Transportation (Public Works) Department is responsible for the infrastructure of the Town. Public works provides and maintains Town's roads, sidewalks, streetlights, signage and line markings, storm drainage and hydrants.

Solid Waste

Solid Waste (Public Works) is responsible for the garbage collection, kitchen organics and recycling programs operating in the Town of Ladysmith. Solid waste collection is performed by a contractor.

TOWN OF LADYSMITH
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2025

Note 28 - Segmented Information (continued)

Cemetery Services

Cemetery (Public Works) provides cemetery services including the maintenance of the cemetery grounds.

Development Services

The Development Services Department provides short-term and long-term land use planning services. Long-term Planning includes work with the community on reviewing the Town's Official Community Plan, developing new Neighborhood Plans, the Trail Plan and the review of relevant bylaws. Short term Planning includes the processing of development applications.

Recreation and Cultural Services

The Parks, Recreation and Culture Department contribute to the quality of life and personal wellness of the community through the provision of a variety of special events, programs, services and facilities. The Frank Jameson Community Centre (FJCC) is the location where the majority of the programs are offered. Funding from the regional partially funds the FJCC facility.

Parks Operation Services

Parks includes and provides maintenance of beach area, trails, golf course, spray-park, ball parks, and any other civic grounds.

Water Services

Water includes all of the operating activities related to the treatment and distribution of water throughout the Town as well as ensuring clean and safe water to the Town, supplied through underground pipes and reservoirs,

Sewer Services

Sewer includes all of the operating activities related to the collection and treatment of wastewater (sewage) and bio-solids composting throughout the Town as well as maintaining a separate system of underground pipes to collect sewer or wastewater for proper treatment prior to discharging it.

TOWN OF LADYSMITH
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2025

Note 29 – Subsequent Events

As of the financial statement date, the Town is evaluating the impact of new tariffs, implemented by the United States of America, on procurement and overall financial performance. While the full implications are not yet known, management anticipates that higher tariffs will increase both operating and capital expenses.



TOWN OF LADYSMITH
STATEMENT OF OPERATIONS BY SEGMENT
FOR THE YEAR ENDED DECEMBER 31, 2025

SCHEDULE I

	General Government		Protective Services		Transportation, Solid Waste & Cemetery Services		Development Services	
	2025	2024	2025	2024	2025	2024	2025	2024
REVENUE								
Tax	\$ 10,922,114	\$ 10,392,247	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sale of services	37,356	41,891	169,452	143,136	911,164	784,962	22,363	21,463
Investment income	1,613,888	2,011,086	-	-	-	-	-	-
Licence, Permits, Rentals & Penalties	144,564	121,983	188,320	246,216	233,470	149,827	328,709	291,938
Grants	417,000	765,217	140,738	99,000	-	86,605	-	191,995
Donations & contributed property	25,690	-	-	-	1,521,860	262,100	-	-
Loss on foreign exchange	(9,755)	25,423	-	-	-	-	-	-
Loss (gain) on disposal	(242,640)	(107,929)	-	-	32,359	28,127	-	-
Development fees	-	-	-	-	44,799	-	-	-
CCB funds utilized	-	-	-	-	117,688	144,169	-	-
Total revenue	12,908,218	13,249,918	498,510	488,353	2,861,339	1,455,790	351,072	505,396
EXPENSES								
Contracted Services	459,912	401,312	1,914,458	1,732,307	1,007,966	934,000	64,031	47,991
Service Agreements/Grants In Aid	217,713	202,614	-	-	-	-	-	-
Insurance	99,197	89,318	20,257	16,316	-	-	-	-
Interest	-	-	61,008	121,948	-	-	-	-
Materials & Supplies	22,677	61,377	113,766	116,186	107,919	147,027	24,250	19,413
Utilities & Telephone	10,552	11,527	8,258	8,238	124,766	121,469	3,875	4,527
Wages & Benefits	2,219,029	2,076,896	605,546	402,496	1,134,332	1,165,299	846,810	811,117
Other	(203,137)	(280,090)	54,720	40,842	149,533	160,540	9,318	6,367
Amortization/accretion	286,464	296,807	270,988	267,369	1,228,796	1,173,482	2,347	2,345
Total expenses	3,112,406	2,859,760	3,049,001	2,705,702	3,753,313	3,701,817	950,630	891,760
Surplus (Deficit)	\$ 9,795,812	\$ 10,390,159	\$ (2,550,492)	\$ (2,217,349)	\$ (891,973)	\$ (2,246,027)	\$ (599,558)	\$ (386,364)

These notes form an integral part of these consolidated financial statements.

TOWN OF LADYSMITH
STATEMENT OF OPERATIONS BY SEGMENT
FOR THE YEAR ENDED DECEMBER 31, 2025

SCHEDULE I - CONTINUED

Recreation & Culture Services		Parks Operations Services		Sewer Services		Water Services		Total Actual	Total Actual
2025	2024	2025	2024	2025	2024	2025	2024	2025	2024
\$ -	\$ -	\$ -	\$ -	\$ 1,436,418	\$ 1,415,870	\$ 1,903,840	\$ 1,887,775	\$ 14,262,373	\$ 13,695,602
735,369	684,870	-	7,500	1,973,409	1,960,872	1,925,187	1,688,585	5,774,300	5,333,278
-	-	-	-	598	-	-	-	1,614,486	2,011,086
261,657	245,527	-	-	25,223	25,304	24,873	23,375	1,206,815	1,104,172
5,160,303	2,096,820	17,665	6,600	-	-	1,362,544	118,038	7,098,249	3,364,275
5,050	19,444	5,000	2,400	948,188	-	554,378	116,448	3,060,166	400,392
-	-	-	-	-	-	-	-	(9,755)	25,423
(8,052)	750	-	-	(102,892)	(238,648)	(79,151)	(26,480)	(400,376)	(344,180)
-	-	-	-	291,556	59,131	-	-	336,355	59,131
-	-	99,981	-	-	-	-	45,000.00	217,668	189,169
<u>6,154,326</u>	<u>3,047,411</u>	<u>122,645</u>	<u>16,500</u>	<u>4,572,499</u>	<u>3,222,529</u>	<u>5,691,671</u>	<u>3,852,741</u>	<u>33,160,282</u>	<u>25,838,348</u>
641,556	606,258	151,972	93,383	1,039,241	436,174	407,733	288,239	5,686,870	4,539,663
-	-	-	-	-	-	-	-	217,713	202,614
75,267	64,181	6,805	5,999	49,390	46,501	37,683	34,776	288,599	257,091
-	-	-	-	114,185	124,185	156,310	163,049	331,503	409,182
195,964	205,495	93,751	98,893	255,810	254,209	398,866	346,381	1,213,003	1,248,981
240,308	218,624	8,671	7,720	146,544	149,497	64,949	62,521	607,922	584,122
2,440,847	2,369,565	607,922	587,537	867,612	764,017	833,795	801,430	9,555,892	8,978,358
29,045	29,512	88,583	106,381	249,914	246,765	262,595	320,408	640,570	630,724
357,651	327,126	298,804	290,802	1,239,755	1,249,955	951,220	963,244	4,636,023	4,571,130
<u>3,980,637</u>	<u>3,820,761</u>	<u>1,256,508</u>	<u>1,190,714</u>	<u>3,962,450</u>	<u>3,271,303</u>	<u>3,113,151</u>	<u>2,980,047</u>	<u>23,178,096</u>	<u>21,421,864</u>
<u>\$ 2,173,689</u>	<u>\$ (773,350)</u>	<u>\$ (1,133,863)</u>	<u>\$ (1,174,214)</u>	<u>\$ 610,049</u>	<u>\$ (48,774)</u>	<u>\$ 2,578,520</u>	<u>\$ 872,694</u>	<u>\$ 9,982,186</u>	<u>\$ 4,416,484</u>

These notes form an integral part of these consolidated financial statements.

TOWN OF LADYSMITH
CONSOLIDATED STATEMENT OF TANGIBLE CAPITAL ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2025

SCHEDULE II

	<u>Land</u>		<u>Land Improvements</u>		<u>Buildings</u>		<u>Vehicle Furniture & Equipment</u>		<u>Transportation</u>
	<u>2025</u>	<u>2024</u>	<u>2025</u>	<u>2024</u>	<u>2025</u>	<u>2024</u>	<u>2025</u>	<u>2024</u>	<u>2025</u>
COST									
Opening Balance	\$ 12,032,100	\$ 12,526,778	\$ 10,777,619	\$ 10,527,410	\$ 27,057,919	\$ 27,425,221	\$ 11,729,911	\$ 11,256,181	\$ 36,867,674
Add: Additions	296,802	29,742	57,266	250,209	587,125	86,723	541,273	752,579	1,148,888
Less: Disposals	-	524,420	-	-	268,076	454,025	175,657	278,849	142,816
Less: Write-downs	-	-	-	-	-	-	-	-	-
Closing Balance	<u>12,328,902</u>	<u>12,032,100</u>	<u>10,834,885</u>	<u>10,777,619</u>	<u>27,376,968</u>	<u>27,057,919</u>	<u>12,095,527</u>	<u>11,729,911</u>	<u>37,873,746</u>
ACCUMULATED AMORTIZATION									
Opening Balance	-	-	5,042,293	4,731,164	10,827,059	10,120,746	5,591,942	5,232,711	19,893,683
Add: Amortization	-	-	320,543	311,129	779,236	777,937	602,082	608,006	826,944
Less: Write-downs	-	-	-	-	-	-	-	-	-
Less: Disposals	-	-	-	-	135,862	71,624	158,657	248,775	142,438
Closing Balance	<u>-</u>	<u>-</u>	<u>5,362,836</u>	<u>5,042,293</u>	<u>11,470,433</u>	<u>10,827,059</u>	<u>6,035,367</u>	<u>5,591,942</u>	<u>20,578,189</u>
Net Book Value	<u>\$ 12,328,902</u>	<u>\$ 12,032,100</u>	<u>\$ 5,472,049</u>	<u>\$ 5,735,326</u>	<u>\$ 15,906,535</u>	<u>\$ 16,230,860</u>	<u>\$ 6,060,160</u>	<u>\$ 6,137,969</u>	<u>\$ 17,295,557</u>

These notes form an integral part of these consolidated financial statements.

TOWN OF LADYSMITH
CONSOLIDATED STATEMENT OF TANGIBLE CAPITAL ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2025

SCHEDULE II (CONTINUED)

Linear Infrastructure											
Transportation	Sanitary Sewer		Storm		Water		Assets Under Construction		Total		
	2024	2025	2024	2025	2024	2025	2024	2025	2024	2025	
\$ 36,173,448	\$ 38,685,189	\$ 39,006,158	\$ 12,874,514	\$ 12,653,980	\$ 37,070,664	\$ 36,678,499	\$ 862,412	\$ 520,664	\$ 187,958,005	\$ 186,768,342	
780,031	1,187,803	-	530,530	229,591	516,969	431,939	3,481,145	704,201	8,347,801	3,265,015	
85,805	147,784	320,969	-	9,057	6,743	39,774	238,259	362,453	979,335	2,075,352	
-	-	-	-	-	-	-	-	-	-	-	
<u>36,867,674</u>	<u>39,725,208</u>	<u>38,685,189</u>	<u>13,405,044</u>	<u>12,874,514</u>	<u>37,580,890</u>	<u>37,070,664</u>	<u>4,105,298</u>	<u>862,412</u>	<u>195,326,471</u>	<u>187,958,005</u>	
19,172,278	14,506,000	13,601,968	3,341,308	3,154,820	9,657,750	8,812,777	-	-	68,860,037	64,826,464	
804,350	1,017,268	1,008,753	195,370	189,466	865,855	858,267	-	-	4,607,298	4,557,908	
-	-	-	-	-	-	-	-	-	-	-	
82,945	60,344	104,721	-	2,978	6,237	13,294	-	-	503,538	524,337	
<u>19,893,683</u>	<u>15,462,924</u>	<u>14,506,000</u>	<u>3,536,678</u>	<u>3,341,308</u>	<u>10,517,368</u>	<u>9,657,750</u>	<u>-</u>	<u>-</u>	<u>72,963,797</u>	<u>68,860,037</u>	
<u>\$ 16,973,991</u>	<u>\$ 24,262,284</u>	<u>\$ 24,179,189</u>	<u>\$ 9,868,366</u>	<u>\$ 9,533,206</u>	<u>\$ 27,063,522</u>	<u>\$ 27,412,914</u>	<u>\$ 4,105,298</u>	<u>\$ 862,412</u>	<u>\$ 122,362,674</u>	<u>\$ 119,097,968</u>	

These notes form an integral part of these consolidated financial statements.