

Consolidated Financial Statements of

SURREY CITY DEVELOPMENT CORPORATION

Year ended December 31, 2014



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INDEPENDENT AUDITORS' REPORT

To the shareholder of Surrey City Development Corporation

We have audited the accompanying consolidated financial statements of Surrey City Development Corporation, which comprise the consolidated statement of financial position as at December 31, 2014, the consolidated statements of operations, changes in net debt and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Surrey City Development Corporation as at December 31, 2014 and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Accountants

April 14, 2015
Burnaby, Canada

SURREY CITY DEVELOPMENT CORPORATION

Consolidated Statement of Financial Position

As at December 31, 2014, with comparative information for 2013

	2014	2013
Financial assets:		
Cash	\$2,477,915	\$ 931,213
Due from government and other government organizations (note 3)	1,237,258	1,010,995
Due from joint venture partners (note 4(a))	3,233,394	6,912,815
Accounts receivable (note 5)	976,947	1,595,820
Properties held-for-sale (note 6)	31,867,348	15,237,059
Investment in partnership (note 7)	303,498	700,000
Performance bonds and deposits	211,087	253,157
Tenant inducements	283,538	30,348
	<u>40,590,985</u>	<u>26,671,407</u>
Liabilities:		
Accounts payable and accrued liabilities (note 8)	5,136,091	2,818,341
Loans payable (note 9)	40,541,244	39,222,670
Deposits payable to income property tenants	397,232	542,001
Deferred gains (note 4(b))	4,763,743	4,764,721
Due to joint venture partners (note 4(c))	3,140,135	4,939,486
Due to City of Surrey (note 10)	90,801,439	70,505,390
	<u>144,779,884</u>	<u>122,792,609</u>
Net debt	(104,188,899)	(96,121,202)
Non-financial assets:		
Tangible capital assets (note 11):		
Properties under development	55,247,896	46,980,885
Income properties	61,460,685	62,381,963
Tangible capital assets in use	103,334	109,706
	<u>116,811,915</u>	<u>109,472,554</u>
Prepaid expenses	223,319	119,184
	<u>117,035,234</u>	<u>109,591,738</u>
Accumulated surplus (note 12)	\$ 12,846,335	\$ 13,470,536

Contractual obligations (note 13)

Subsequent events (note 19)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

Director

Director

SURREY CITY DEVELOPMENT CORPORATION

Consolidated Statement of Operations

Year ended December 31, 2014, with comparative information for 2013

	Budget 2014	2014	2013
	(note 17)		
Revenues:			
Property sales	\$ 57,487,243	\$ 36,857,059	\$ 36,952,463
Less: property sales direct costs	(47,284,459)	(29,875,940)	(28,865,692)
Property sales income, net	10,202,784	6,981,119	8,086,771
Income property lease revenue, gross (note 5 and note 17(a))	6,653,456	5,520,159	4,673,094
Less: Income property lease direct costs - operating	(3,787,520)	(2,588,831)	(2,310,441)
Less: Income property lease direct costs - interest	(2,298,295)	(2,209,228)	(1,980,092)
Property lease income, net	567,641	722,100	382,561
Other income	-	38,213	368,219
	10,770,425	7,741,432	8,837,551
Corporate operating expenses:			
Administration	168,048	153,712	186,667
External consulting services	-	-	373,334
Income properties	504,145	461,134	186,667
Real estate development and sales	1,008,290	922,269	1,120,001
	1,680,483	1,537,115	1,866,669
Partnership operating expenses	1,000,754	335,118	899,967
	2,681,237	1,872,233	2,766,636
Annual surplus from operations	8,089,188	5,869,199	6,070,915
Preferred shares issued	-	-	842,000
Preferred shares redeemed	(2,245,307)	(1,993,400)	(41,190,638)
Distribution of earnings to shareholder	(4,500,000)	(4,500,000)	(4,500,000)
Annual surplus (deficiency)	1,343,881	(624,201)	(38,777,723)
Accumulated surplus, beginning of year	13,470,536	13,470,536	52,248,259
Accumulated surplus, end of year	\$ 14,814,417	\$ 12,846,335	\$ 13,470,536

See accompanying notes to consolidated financial statements.

SURREY CITY DEVELOPMENT CORPORATION

Consolidated Statement of Changes in Net Debt

Year ended December 31, 2014, with comparative information for 2013

	Budget 2014 (note 17)	2014	2013
Annual surplus (deficiency)	\$ 1,343,881	\$ (624,201)	\$ (38,777,723)
Acquisition of tangible capital assets:			
Properties under development (note 17(b)(i))	(75,019,404)	(48,618,232)	(28,279,037)
Administration	(40,000)	(71,785)	(76,736)
Income properties (note 17(b)(ii))	(20,000,000)	(64,284)	(161,815)
Capitalization of wages	(1,021,325)	(874,971)	(807,643)
	(96,080,729)	(49,629,272)	(29,325,231)
Disposal of tangible capital assets:			
Properties under development (note 17(b)(iii))	24,747,790	219,793	3,055,785
Amortization of tangible capital assets:			
Administration	74,412	78,157	82,471
Income properties	1,173,889	985,562	758,325
	1,248,301	1,063,719	840,796
Transfer to assets held-for-sale (note 17(c))	4,557,569	41,006,399	25,812,574
Change in prepaid expenses	(60,000)	(104,135)	(57,349)
Increase in net debt	(64,243,188)	(8,067,697)	(38,451,148)
Net debt, beginning of year	(96,121,202)	(96,121,202)	(57,670,054)
Net debt, end of year	\$ (160,364,390)	\$ (104,188,899)	\$ (96,121,202)

See accompanying notes to consolidated financial statements.

SURREY CITY DEVELOPMENT CORPORATION

Consolidated Statement of Cash Flows

Year ended December 31, 2014, with comparative information for 2013

	2014	2013
Cash provided by (used in):		
Operations:		
Annual surplus from operations	\$ 5,869,199	\$ 6,070,915
Items not involving cash:		
Amortization	1,063,719	840,796
Recognition of deferred gains	(978)	-
Gain on disposal of properties held-for-sale and properties under development	(6,981,119)	(7,870,406)
Change in non-cash working capital:		
Decrease in accounts receivable	618,873	358,534
Decrease in performance bonds and deposits	42,070	8,919
Increase in tenant inducements	(253,190)	(30,348)
Decrease (increase) in due from government and other government organizations	(226,263)	770,441
Increase (decrease) in accounts payable and accrued liabilities	2,317,750	(733,292)
Decrease in deposits payable to income property tenants	(144,769)	(604,463)
Increase in prepaid expenses	(104,135)	(57,349)
	2,201,157	(1,246,253)
Capital:		
Purchase of tangible capital assets	(54,909,309)	(17,264,056)
Investing:		
Proceeds from disposal of properties held-for-sale and properties under development	36,857,059	36,952,463
Decrease (increase) in investment in partnership	396,502	(700,000)
	37,253,561	36,252,463
Financing:		
Distribution of earnings to shareholder	(4,500,000)	(4,500,000)
Decrease in due from joint venture partners	3,679,421	1,767,923
Decrease in due to joint venture partners	(1,799,351)	-
Issuance of loans payable	2,664,630	7,301,527
Increase in (repayment of) debt due to City of Surrey	20,296,049	(18,569,691)
Repayment on loans payable	(1,346,056)	(957,104)
Redemption of preferred shares	(1,993,400)	(3,883,137)
	17,001,293	(18,840,482)
Net change in cash	1,546,702	(1,098,328)
Cash, beginning of year	931,213	2,029,541
Cash, end of year	\$ 2,477,915	\$ 931,213
Supplementary cash flow information:		
Non-cash transactions:		
Land transfers in exchange for preferred shares	\$ -	\$ 842,000
Properties received in exchange for debt with the City	24,183,523	12,017,890
Redemption of preferred shares in exchange for promissory notes to the City	-	37,307,501

See accompanying notes to consolidated financial statements.

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

Year ended December 31, 2014

1. Nature of operations:

Surrey City Development Corporation (the "Corporation") is a corporation established on April 24, 2007. The Corporation is a wholly owned subsidiary of the City of Surrey (the "City"), and its Board is appointed by the Council of the City. The Corporation has broad powers to advance the commercial, industrial and residential development of the City. The Corporation is classified as an Other Government Organization as it is not yet considered self-sustaining. The Corporation is exempt from income tax under section 141(a) of the Income Tax Act (Canada).

These consolidated financial statements have been prepared on a going concern basis which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. Accordingly, these consolidated financial statements do not include any adjustments to the specific amounts which might be necessary should the Corporation be unable to continue as a going concern. As at December 31, 2014, the Corporation had an accumulated operating surplus (note 12) of \$7,251,935 (2013 – operating surplus of \$5,882,736). The City has funded the Corporation through property transfers at historical values, cash transfers, loans and further equity investments (note 16). The City has confirmed that it will continue to support the Corporation. The Corporation's ability to continue operations is dependent upon continued future profitable operations and continued support by the City.

2. Summary of significant accounting policies:

(a) Basis of accounting:

These consolidated financial statements are prepared by management in accordance with Canadian Public Sector Accounting Standards ("PSAS") established by the Canadian Public Sector Accounting Board.

(b) Basis of consolidation:

The consolidated financial statements reflect the proportionate share of the assets, liabilities, revenues, and expenses of the controlled or jointly controlled organizations listed below. The proportionate share of all inter-departmental and inter-entity accounts and transactions between these organizations are eliminated upon consolidation.

All controlled entities are consolidated at the Corporation's ownership percentage, with the exception of government business enterprises which are accounted for using the modified equity method.

All government partnerships are proportionately consolidated. All government business partnerships are accounted for using modified equity method.

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2014

2. Summary of significant accounting policies (continued):

(b) Basis of consolidation (continued):

The Corporation has ownership in the following entities:

(i) Surrey City Investment Corporation ("SCIC"):

SCIC is an investment holding entity set up for the mixed-use real estate development projects in the City. The Corporation owns 100% of SCIC.

Surrey Centre Limited Partnerships

SCIC has a 50% ownership in the following corporate entities (proportionately consolidated) referred to as the "Surrey Centre Tower Holdings" (note 4 (c)(vi)):

- Surrey Centre Tower Holdings (Office #1) Ltd.
- Surrey Centre Tower Holdings (Office #2) Ltd.
- Surrey Centre Tower Holdings (Office #3) Ltd.
- Surrey Centre Tower Holdings (Office #4) Ltd.
- Surrey Centre Tower Holdings (Office #5) Ltd.
- Surrey Centre Tower Holdings (Hotel #1) Ltd.
- Surrey Centre Tower Holdings (Parking #1) Ltd.
- Surrey Centre Tower Holdings (Retail #1) Ltd.
- Surrey Centre Tower Holdings (Residential #1) Ltd.

SCIC has a 29.4% ownership in the following government partnerships, collectively referred to as the Surrey Centre Limited Partnerships (note 4 (c)(ii)):

- Surrey Centre Office Limited Partnership
- Surrey Centre Hotel Limited Partnership
- Surrey Centre Residential Limited Partnership

These government partnerships are proportionately consolidated in the Corporation's consolidated financial statements.

Croydon Drive Development Limited Liability Partnership:

SCIC has 50% ownership in the Croydon Drive Development Limited Liability Partnership ("Croydon LLP") (note 4(c)(i)). Croydon LLP is a government partnership and is proportionately consolidated into the Corporation's consolidated financial statements.

SCIC has a 50% ownership in 0918387 BC Ltd. (note 4 (c)(v)), the General Partner of Croydon LLP. 0918387 BC Ltd is a corporation and is proportionately consolidated into the Corporation's consolidated financial statements.

(ii) Grove Limited Partnership:

The Corporation has 50% ownership in the Grove Limited Partnership ("Grove LP") (note 4 (c)(iii)). Grove LP is a government partnership and is proportionately consolidated into the Corporation's consolidated financial statements.

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2014

2. Summary of significant accounting policies (continued):

(b) Basis of consolidation (continued):

(iii) Grove (G.P.) Inc.:

Grove (G.P.) Inc. is the General Partner of Grove LP (note 4(c)(vii)). The Corporation has 50% ownership in Grove (G.P.). Grove (G.P.) Inc. is a corporation and is proportionately consolidated into the Corporation's consolidated financial statements.

(iv) Surrey City Investment (Industrial) Corporation ("SCIIC"):

SCIIC is an investment holding entity set up for mixed-use real estate development projects in the City. The Corporation owns 100% of SCIIC.

SCIIC has 50% ownership in the Beedie SCDC (34A Ave) Limited Partnership ("Beedie LP") (note 4 (c)(iv)). Beedie LP is a government partnership and is proportionately consolidated into the Corporation's consolidated financial statements.

SCIIC has a 50% ownership in the Beedie SCDC (34A Ave) G.P. Ltd., the General Partner of Beedie LP (note 4 (c)(viii)). Beedie SCDC (34A Ave) G.P. Ltd is a corporation and is proportionately consolidated into the Corporation's consolidated financial statements.

(c) Properties held-for-sale:

Properties held-for-sale include real estate properties which are ready and available to be sold and for which there is an available market. They are valued at the lower of cost or expected net realizable value. No amortization is recorded for properties held-for-sale.

(d) Non-financial assets:

(i) Tangible capital assets:

Tangible capital assets are recorded at cost, which includes amounts that are directly related to the acquisition, design, construction, development, improvement or betterment of the assets. Cost includes overhead directly attributable to construction and development, as well as interest costs that are directly attributable to the acquisition or construction of the asset.

(a) Properties under development:

Properties under development include costs related to projects currently under planning, development or construction that will result in a finished real estate asset at a future date. Interest incurred on the development project is capitalized. Completed assets will either be reclassified as income properties, or properties held-for-sale. Costs related to planning, development or construction are capitalized until such time as the property is ready for use or sale.

(b) Income properties:

Properties held with the expectation of earning rental income are considered to be income properties. These properties include retail or commercial space that the Corporation leases to third parties.

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2014

2. Summary of significant accounting policies (continued):

(d) Non-financial assets (continued):

(i) Tangible capital assets (continued):

(c) Tangible capital assets in use:

Tangible capital assets for administration relate to assets required by the Corporation to operate and manage overhead and administrative activities. These include computer equipment and software, furniture and fixtures, tenant improvements and other related assets.

(ii) Amortization of tangible capital assets:

The cost, less residual value, of tangible capital assets, excluding land, is amortized on a straight-line basis over their estimated useful lives as follows:

Furniture and fixtures	5 years
Computer equipment	3 years
Tenant improvements	5 years

The useful lives of income properties are determined on an asset-by-asset basis upon acquisition or completion of construction, based on estimated remaining useful lives at the time of acquisition or completion of construction.

No amortization is recorded on properties under development. Amortization commences once the development is complete if the property is held or used as an income property.

(iii) Impairment of properties held-for-sale and tangible capital assets:

Properties held-for-sale and tangible capital assets are written down when conditions indicate that they no longer contribute to the Corporation's ability to provide goods and services, or when the value of future economic benefits are less than their net book value. Any impairment is accounted for as an expense in the consolidated statement of operations. No impairments were identified or recorded during the year ended December 31, 2014 (2013 - nil).

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2014

2. Summary of significant accounting policies (continued):

(d) Non-financial assets (continued):

(iv) Contributions and transfers of tangible capital assets:

Contributed tangible capital assets received from third parties are recorded as revenues at their fair value on the date of donation, except in circumstances where fair value cannot be reasonably determined, in which case they are recognized at nominal value. No contributions of tangible capital assets occurred in fiscal 2014 (2013 - nil).

Certain transfers of tangible capital assets to joint venture partners are recorded at agreed-upon values, representing market values. Any gains on such transfers, realizable from third parties are deferred and will be recognized once the assets are sold outside the related group, or utilized in the future operations of such assets.

Transfers of tangible capital assets from the City are recorded at exchange amounts.

(e) Prepaid expenses:

Prepaid expenses include insurance and other items paid in advance and are recognized as an expense over the period of expected benefits.

(f) Revenues:

Revenues are recognized in the period in which the transactions or events occurred that gave rise to the revenues. All revenues are recorded on an accrual basis, except when the accruals cannot be determined with a reasonable degree of certainty or when their estimation is impracticable.

(i) Sales of properties:

Revenue recognition on sale of properties occurs when the Corporation has transferred the significant risks and rewards of ownership to the purchaser.

The cost of sale of a property or unit is allocated on the basis of the estimated total cost of the project prorated by the selling price of the property or unit over the anticipated sales proceeds from the entire project.

(ii) Property lease revenue:

Property lease revenue includes all amounts earned from tenants including property tax and operating cost recoveries. Lease revenues are recognized on a straight-line basis over the term of the lease.

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2014

2. Summary of significant accounting policies (continued):

(g) Expenses:

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year is expensed. Interest expense is recorded using effective interest method which includes all debt servicing costs.

(h) Measurement uncertainty:

The preparation of consolidated financial statements 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 consolidated financial statements and the reported amounts of the revenues and expenses during the period. Items requiring the use of significant estimates include useful life, impairment and net recoverable values of tangible capital assets, provisions for accrued liabilities, and commitments.

Estimates are based on the best information available at the time of preparation of the consolidated financial statements and are reviewed annually to reflect new information as it becomes available. Measurement uncertainty exists in these consolidated financial statements. Actual results could differ from these estimates.

3. Due from government and other government organizations:

	2014	2013
GST receivable	\$ 236,479	\$ 106,637
Development costs recoverable from the City of Surrey (a)	1,000,779	904,358
	\$ 1,237,258	\$ 1,010,995

- (a) The Corporation has commenced development of certain properties that are owned by the City of Surrey. The development costs have been incurred on the City's behalf. The City is in the process of transferring the beneficial title of the lands and related improvements in trust to the Corporation. Until such time that the properties are legally transferred, the costs are recoverable from the City of Surrey. Upon transfer, these costs will be incorporated with the acquisition price of the properties.

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2014

4. Investments in government partnerships:

(a) Due from joint-venture partners:

	2014	2013
Due from Grove LP partners (iii)	\$ -	\$ 172,697
Due from Surrey Centre Partners (ii)	3,233,394	6,740,118
	<u>\$ 3,233,394</u>	<u>\$ 6,912,815</u>

(b) Deferred gains:

	2014	2013
Deferred gain on Croydon LLP land (i)	\$ 1,220,600	\$ 1,220,600
Deferred gain on SCLP land (ii)	3,541,547	3,541,547
Deferred gain on Grove LP land (iii)	1,596	2,574
	<u>\$ 4,763,743</u>	<u>\$ 4,764,721</u>

(c) Due to joint-venture partners:

	2014	2013
Due to Surrey Centre Partners (ii)	\$ 3,140,135	\$ 4,939,486

(i) Croydon LLP:

Croydon LLP was established on November 14, 2011 for the purpose of developing two office buildings to be built, leased and managed as a long-term investment. The partnership is held through Surrey City Investment Corporation ("SCIC"). SCIC is an equal partner in Croydon LLP and has and will provide equal capital contributions to fund the operations of Croydon LLP in the form of land, financial and intellectual capital. Croydon LLP's financial results are proportionately consolidated with those of the Corporation based upon the Corporation's partnership interest of 50%. Decision making is equal amongst the partners and the Corporation will be active in the day-to-day management and control of the operations of Croydon LLP.

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2014

4. Investments in government partnerships (continued):

(c) Due to joint-venture partners (continued):

(i) Croydon LLP (continued):

The amounts included in these consolidated financial statements under proportionate consolidation are as follows:

	2014	2013
Financial assets:		
Cash	\$ 24,237	\$ 330,020
Accounts receivable	13,913	-
Deposits	34,869	29,350
Tenant inducements	235,396	-
Due from government and other government organizations	13,804	22,847
	<u>322,219</u>	<u>382,217</u>
Liabilities:		
Accounts payable and accrued liabilities	97,768	162,856
Deposits payable	30,022	-
Holdbacks payable	-	201,099
Deferred gain	1,220,600	1,220,600
Long-term debt	5,059,415	2,394,855
	<u>6,407,805</u>	<u>3,979,410</u>
Net Debt	(6,085,586)	(3,597,193)
Tangible capital assets	6,784,793	4,204,465
Prepaid expenses	5,170	1,091
Accumulated surplus	\$ 704,377	\$ 608,363
	<u>2014</u>	<u>2013</u>
Income property lease revenue, gross	\$ 19,739	\$ -
Income property lease direct costs	56,825	-
General administration expense	16,901	55,476
Net loss	\$ (53,987)	\$ (55,476)

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2014

4. Investments in government partnerships (continued):

(c) Due to joint-venture partners (continued):

(ii) Surrey Centre Limited Partnerships ("SCLPs"):

SCLPs were established on December 16, 2011 and are in the business of real estate investment and development of a mixed-use real estate development in the City. The SCLPs are held through SCIC, which will provide contributions of cash and land to fund the SCLPs operations. The SCLPs financial results are proportionately consolidated with those of the Corporation based upon the Corporation's partnership interest of 29.4%. The liability of the Corporation is limited to the cash and land it has contributed to the SCLPs through SCIC.

The amounts included in these consolidated financial statements under proportionate consolidation are as follows:

	2014	2013
Financial assets:		
Cash	\$ 162,904	\$ -
Accounts receivable from SCLP partners	3,233,394	6,740,118
Accounts receivable	104	6,244
Due from government and other government organizations	80,257	12,913
	<u>3,476,659</u>	<u>6,759,275</u>
Liabilities:		
Accounts payable and accrued liabilities	1,699,182	296,781
Accounts payable to SCLP partners	3,140,135	4,939,486
Deferred gain	3,541,547	3,541,547
	<u>8,380,864</u>	<u>8,777,814</u>
Net Debt	(4,904,205)	(2,018,539)
Tangible capital assets	8,264,719	2,981,636
Accumulated surplus	<u>\$ 3,360,514</u>	<u>\$ 963,097</u>
	2014	2013
Revenues	\$ -	\$ -
Real estate marketing expenses	152,585	617,903
Net loss	<u>\$ (152,585)</u>	<u>\$ (617,903)</u>

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2014

4. Investments in government partnerships (continued):

(c) Due to joint-venture partners (continued):

(ii) Surrey Centre Limited Partnerships ("SCLP") (continued):

As at December 31, 2011, the other partners were obligated to contribute assets totaling \$32.6 million to the partnerships in exchange for partnership units. During fiscal 2012, 2013 and 2014, the outside partners contributed \$21.6 million of assets at their fair value, resulting in a net obligation to the partnerships of \$11.0 million, of which 29.4%, or \$3.2 million (2013 - \$6.7 million), is effectively receivable by the Corporation.

(iii) Grove LP:

Grove LP was established on September 1, 2011 and for the purpose of developing 141 market townhomes in the East Clayton neighbourhood of Surrey.

In 2012, the Corporation transferred property with a net book value of \$2,844,000 to Grove LP in exchange for its 50% limited partnership units, resulting in a deemed disposition of 50% of the property and a deferred gain of \$3,000 on the transfer. \$978 of the deferred gain was taken into income in 2014 (2013 - \$426) in proportion to the townhomes sold during the year.

Decision making for Grove LP is vested in the General Partner, the Grove (G.P.), of which the Corporation holds 50% of the issued and outstanding shares. The Limited Partners do not exercise day-to-day management or control of the operations of Grove. Grove's financial results are proportionately consolidated with those of the Corporation based upon the Corporation's partnership interest of 50%.

The Corporation provides a limited guarantee in support of the financing obtained or to be obtained by Grove LP to fund its operations. Grove LP began property development during fiscal 2011. All related costs to date have been capitalized.

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2014

4. Investments in government partnerships (continued):

(c) Due to joint-venture partners (continued):

(iii) Grove LP (continued):

The amounts included in these consolidated financial statements under proportionate consolidation are as follows:

	2014	2013
Financial assets:		
Cash	\$ 55,819	\$ 31,725
Accounts receivable	79,235	103,261
Deposits	162,126	216,307
Properties held-for-sale	2,367,393	-
	<u>2,664,573</u>	<u>351,293</u>
Liabilities:		
Accounts payable and accrued liabilities	503,060	426,843
Deferred gain	1,596	2,574
Long-term debt	2,997,890	3,496,066
	<u>3,502,546</u>	<u>3,925,483</u>
Net Debt	(837,973)	(3,574,190)
Tangible capital assets	5,447,066	7,711,074
Prepaid expenses	-	55,522
Accumulated surplus	\$ 4,609,093	\$ 4,192,406
	2014	2013
Revenues, net of direct costs	\$ 362,527	\$ 194,158
Amortization and real estate marketing expenses	165,632	226,592
Net gain (loss)	\$ 196,895	\$ (32,434)

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2014

4. Investments in government partnerships (continued):

(c) Due to joint-venture partners (continued):

(iv) Beedie LP:

Beedie LP was established on September 9, 2014 and is in the business of real estate investment and development of a build-to-suit industrial building in the City. The Corporation's partnership interest is held through SCIIC, which will provide contributions of cash and land to fund development. Beedie LP results are proportionately consolidated with those of the Corporation based upon the Corporation's partnership interest of 50%. The liability of the Corporation is limited to the cash and land which it will contribute to Beedie LP through SCIIC.

The amounts included in these consolidated financial statements under proportionate consolidation are as follows:

	2014
Financial assets:	
Accounts receivable	\$ 8,375
	8,375
Liabilities:	
Accounts payable and accrued liabilities	177,561
	177,561
Net Debt	(169,186)
Tangible capital assets	9,917
Prepaid expenses	159,269
Accumulated surplus	\$ -
	2014
Revenues, net of direct costs	\$ -
General administration expense	-
Net gain	\$ -

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2014

4. Investments in government partnerships (continued):

(c) Due to joint-venture partners (continued):

(v) 0918387 BC Ltd.:

0918387 BC Ltd. is the General Partner of Croydon LLP and the Corporation holds 50% of its issued and outstanding shares. There were no significant transactions in fiscal 2014. There was no significant impact on the consolidated financial statements in 2014.

(vi) Surrey Centre Tower Holdings:

The Corporation holds a 50% interest in nine holding companies to facilitate the Surrey Centre Partnerships. These are bare trust entities, in which there were no significant transactions in fiscal 2014. There was no significant impact on the consolidated financial statements in 2014.

(vii) Grove (G.P.):

Grove (G.P.) is the General Partner of Grove LP and the Corporation holds 50% of its issued and outstanding shares. There were no significant transactions in fiscal 2014. There was no significant impact on the consolidated financial statements in 2014.

(viii) Beedie SCDC (34A Ave) G.P. Ltd.:

Beedie SCDC (34A Ave) G.P. Ltd is the General Partner of Beedie LP and the Corporation holds 50% of its issued and outstanding shares. There were no significant transactions in fiscal 2014. There was no significant impact on the consolidated financial statements in 2014.

5. Accounts receivable:

	2014	2013
Straight-line rent receivable	\$ 297,903	\$ -
Receivable from property sales	-	881,490
Other	679,044	714,330
	<u>\$ 976,947</u>	<u>\$ 1,595,820</u>

The straight-line rent receivable includes \$263,595 relating to escalating rent on a twenty year lease, during which time the tenant has purchase options at each five-year anniversary. The first option is available to the tenant in July 2018.

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2014

6. Properties held-for-sale:

	2014	2013
Opening balance	\$ 15,237,059	\$ 14,788,247
Transfer from property under development and income properties	41,006,399	25,812,573
Disposal on sale	(29,448,556)	(26,083,475)
Additions	5,072,446	719,714
	<u>\$ 31,867,348</u>	<u>\$ 15,237,059</u>

7. Investment in partnership:

During 2013, the Corporation invested \$700,000 for a 20% limited partnership interest in Bosa Properties (Bright A.1) Limited Partnership ("Bosa LP"). During 2014 the Corporation received a \$396,502 distribution from Bosa LP, as a distribution was made to each partner in proportion to their ownership interest. Accordingly, the Corporation's investment in the partnership has been reduced to \$303,498 at December 31, 2014.

The Corporation does not share control of Bosa LP and accordingly, the Corporation has accounted for this investment as a portfolio investment, carried at cost.

8. Accounts payable and accrued liabilities:

	2014	2013
Trade accounts payables and accrued liabilities	\$ 4,813,808	\$ 2,299,637
Holdbacks payable	322,283	518,704
	<u>\$ 5,136,091</u>	<u>\$ 2,818,341</u>

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2014

9. Loans payable:

	2014	2013
Croydon Drive Development LLP loan payable, bearing interest at the bank's prime lending rate plus 0.75% per annum, secured by the underlying property and repayable on the earlier of the receipt of commercial financing and May 31, 2015	\$ 5,059,415	\$ 2,394,785
Demand loan, Grove LP, in the form of bankers' acceptances, bearing a stamping fee of 2.25% plus interest at the monthly bankers' acceptance rate, secured by the underlying property and repayable on the sale of the development	2,997,889	3,496,066
Murray Latta loan payable, 7-year term maturing May 1, 2020, payable in monthly payments of blended principal and interest in the amount of \$22,942, with interest at 3.86% per annum, secured by a mortgage on the commercial property	4,252,497	4,362,658
Boundary Park loan payable, 10-year term maturing January 1, 2023, payable in monthly payments of blended principal and interest in the amount of \$77,625 with interest at 4.05% per annum, secured by a mortgage on the commercial property	14,000,245	14,361,574
Cedar Hills loan payable, 10-year term maturing November 1, 2022, payable in monthly payments of blended principal and interest in the amount of \$78,497 with interest at 3.95% per annum, secured by a mortgage on the commercial property	14,231,198	14,607,587
	\$ 40,541,244	\$ 39,222,670

Scheduled principal payments on the loans payable over the next five years and thereafter are as follows:

2015	\$ 881,966
2016	917,105
2017	954,556
2018	992,681
2019	1,032,594
Thereafter	27,705,038
	32,483,940
Loans payable within 12 months or on demand	8,057,304
	\$ 40,541,244

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2014

10. Due to City of Surrey:

	2014	2013
Cash transfers made on behalf of the Corporation by the City, non-interest bearing, payable on demand (development cost charges on Campbell Heights North)	\$ 5,412,817	\$ 1,982,533
Loan payable #1, interest charged at Bank of Canada prime rate, payable on demand, (interim project financing)	14,616,564	23,709,221
Loan payable #2, payable in monthly installments of blended principal and interest in the amount of \$50,800, with interest at 2.75%, maturing annually (Grove)	894,727	1,470,983
Loan payable #3, payable in monthly installments of blended principal and interest in the amount of \$6,652, with interest at 3.00%, maturing annually (Schmidt Berg)	1,472,927	2,409,255
Loan payable #4, payable in monthly installments of blended principal and interest in the amount of \$5,228, with interest at 3.30%, maturing annually (Murray Latta)	1,017,427	1,046,230
Loan payable #5, payable in monthly installments of blended principal and interest in the amount of \$30,090, with interest at 3.00%, maturing annually (Cedar Hills)	5,963,626	6,126,869
Loan payable #6, payable in monthly installments of blended principal and interest in the amount of \$23,634, with interest at 3.00%, maturing annually (Boundary Park)	4,696,004	4,822,592
Loan payable #7, payable in monthly installments of blended principal and interest in the amount of \$34,120, with interest at 3.25%, maturing annually (Campbell Heights North 2)	-	6,942,079
Loan payable #8, payable in monthly installments of blended principal and interest in the amount of \$85,351, with interest at 3.00%, maturing annually (Campbell Heights North 3)	17,382,469	21,995,628
Loan payable #9, payable in monthly installments of blended principal and interest in the amount of \$114,681, with interest at 3.00%, maturing annually (Campbell Heights North 4)	24,084,444	-
Loan payable #10, payable in monthly installments of blended principal and interest in the amount of \$75,754, with interest at 3.30%, maturing annually (Bridgeview Phase 1). Prior to June 2014 development costs were financed through the interim project financing loan	15,260,434	-
	\$ 90,801,439	\$ 70,505,390

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2014

11. Tangible capital assets:

Year ended December 31, 2014	Properties under development	Income properties			Total
		Land	Buildings	Administration	
Cost					
Opening balance	\$ 46,980,885	\$ 26,628,578	\$ 36,702,776	\$ 259,014	\$ 110,571,253
Additions	49,493,203	-	64,284	73,595	49,631,082
Disposals	(219,793)	-	-	(1,810)	(221,603)
Transfer to properties held for sale	(41,006,399)	-	-	-	(41,006,399)
Closing balance	55,247,896	26,628,578	36,767,060	330,799	118,974,333
Accumulated amortization					
Opening balance	-	-	949,391	149,308	1,098,699
Current year amortization	-	-	985,562	79,364	1,064,926
Disposals	-	-	-	(1,207)	(1,207)
Closing balance	-	-	1,934,953	227,465	2,162,418
Net book value	\$ 55,247,896	\$ 26,628,578	\$ 34,832,107	\$ 103,334	\$ 116,811,915

During the year, \$1,099,799 of interest was capitalized to properties under development (2013 - \$1,897,848).

Year-ended December 31, 2013	Properties under development	Income properties			Total
		Land	Buildings	Administration	
Cost					
Opening balance	\$ 62,635,565	\$ 26,107,033	\$ 21,189,505	\$ 182,278	\$ 110,114,381
Additions	29,086,680	98,383	63,432	76,736	29,325,231
Disposals	(3,055,785)	-	-	-	(3,055,785)
Transfer to properties held for sale	(25,812,574)	-	-	-	(25,812,574)
Transfer to income property	(15,873,001)	423,162	15,449,839	-	-
Closing balance	46,980,885	26,628,578	36,702,776	259,014	110,571,253
Accumulated amortization					
Opening balance	-	-	191,066	66,837	257,903
Current year amortization	-	-	758,325	82,471	840,796
Disposals	-	-	-	-	-
Closing balance	-	-	949,391	149,308	1,098,699
Net book value	\$ 46,980,885	\$ 26,628,578	\$ 35,753,385	\$ 109,706	\$ 109,472,554

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2014

12. Accumulated surplus:

Accumulated surplus is comprised of:

	2014	2013
Share capital, common shares (a)(i)	\$ 100	\$ 100
Share capital, preferred shares (a)(ii)	5,594,300	7,587,700
Accumulated operating surplus (b)	7,251,935	5,882,736
	<u>\$ 12,846,335</u>	<u>\$ 13,470,536</u>

(a) Share capital:

The Corporation was established by the City pursuant to Section 185 of the Community Charter with the intent that, until the City Council otherwise determines, all shares will be held by the City.

(i) Common shares:

The authorized capital of the Corporation includes 100 common shares without par value which are issued and outstanding as fully paid and non-assessable by the City.

(ii) Preferred shares:

The Corporation is authorized to issue an unlimited number of preferred shares without par value. As of December 31, 2014, the Corporation has issued 5,594.3 preferred shares (2013 - 7,587.7), with certain redemption provisions at the option of the Corporation.

No preferred shares were issued by the Corporation to the City during 2014 (2013 - 842 shares totaling \$842,000) in exchange for beneficial ownership of real estate property.

During the year, the Corporation redeemed 1,993.4 (2013 - 41,192) preferred shares for \$1,993,400 (2013 - \$41,190,638).

(b) The accumulated operating surplus is made up as follows:

	2014	2013
Accumulated operating surplus (deficit), opening	\$ 5,882,736	\$ 4,311,821
Annual surplus current year	5,869,199	6,070,915
Distribution of earnings to shareholder	(4,500,000)	(4,500,000)
	<u>\$ 7,251,935</u>	<u>\$ 5,882,736</u>

13. Contractual obligations:

The Corporation is obligated to reimburse the City for all operating costs incurred by the City on behalf of the Corporation; all such amounts have been accrued as incurred.

The Corporation has entered into various agreements and contracts for services and construction. Commitments outstanding as at December 31, 2014 are \$37.4 million (2013 - \$41.9 million), inclusive of the Corporations proportionate share of Partnership commitments of \$33.6 million (2013 - \$39.7 million).

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2014

14. Operating leases:

The Corporation leases office space under operating leases. Future payments are as follows:

2015	\$	123,442
2016		123,442
2017		123,442
2018		92,582
	\$	462,908

15. Operating expenses by object:

The following is a summary of operating expenses by object:

	2014	2013
Advertising and promotion	\$ 22,493	\$ 16,927
Amortization	79,364	82,904
Communication	27,772	24,282
Consulting and professional	211,796	278,747
Directors' fees	230,781	254,312
Grants and sponsorship	16,911	34,923
Insurance	24,030	25,145
Interest	783,929	789,245
Lease and rentals	187,273	141,391
Marketing	303,806	803,376
Membership and training	31,863	31,867
Research and investigation	46,957	2,441
Salaries and benefits	1,672,939	1,935,040
Supplies and materials	64,851	63,265
Service maintenance	23,647	18,507
Travel	9,397	12,860
	\$ 3,737,809	\$ 4,515,232
Capitalized interest to development projects	(494,573)	(602,368)
Interest expensed to income property direct costs	(289,356)	(169,000)
Capitalized salaries and benefits to development projects	(1,081,647)	(977,228)
	\$ 1,872,233	\$ 2,766,636

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2014

16. Related party transactions:

Related parties include the City and its related entities as well as the government partnerships that the Corporation has an ownership interest in. 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.

Transactions with government partnerships have been disclosed in note 4. Preferred share transactions have been disclosed in note 12.

- (i) The Corporation incurred interest expense of \$2,083,232 (2013 - \$1,453,474) on the Corporation's loans payable to the City.
- (ii) In fiscal 2014, management fees of nil (2013 - \$1,009,471) were recorded by the Corporation as payable to the City. In 2013 the agreed amount was equal to the interest income foregone by the City during the year for previously invested funds expended to acquire a specific property for the benefit of the Corporation. During October 2013 the debt for this property was converted to a promissory note and the interest thereon is included in (i) above.
- (iii) The Corporation earned revenue from the City of nil (2013 - \$197,293) for consulting services provided in the year.
- (iv) Property taxes, utilities and ancillary items of \$891,215 (2013 - \$669,256) were incurred by the Corporation and payable to the City.
- (v) Permits, deposits and related fees of \$4,027,796 (2013 - \$5,869,053) were incurred by the Corporation and payable to the City.
- (vi) The Corporation incurred development costs of \$191,846 (2013 - \$745,748) on land owned by the City. This amount is included in development costs recoverable from the City of Surrey (note 3(a)).

17. Budgeted Figures

- (a) Budgeted figures are provided for comparative purposes and were derived from the budget approved by the Board of Directors on February 28, 2014. The budgeted figure for income property lease revenue has been updated to include \$297,903 of rental income for following the straight-line revenue recognition accounting policy.
- (b) The budgeted figures included the following items which did not occur in 2014:
 - (i) The acquisition and development of certain development projects through partnerships
 - (ii) The purchase of income properties
 - (iii) The transfer of land to a prospective partnership
- (c) The budget did not anticipate the completion of development of certain properties and their resulting transfer to assets held-for-sale.

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2014

18. Comparative information:

Certain comparative information has been reclassified to conform with the financial statement presentation adopted for the current year.

19. Subsequent events:

Subsequent to year-end, SCIC entered into an agreement to sell its 50% ownership in Croydon Drive Development Limited Liability Partnership and its 50% ownership in 0918387 BC Ltd., the General Partner of Croydon Drive Development Limited Liability Partnership, for total proceeds of \$3.5 million. The disposition resulted in a \$2.2 million gain to be recognized through the 2015 annual surplus.