

Consolidated Financial Statements of

SURREY CITY DEVELOPMENT CORPORATION

Year ended December 31, 2015



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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, 2015, 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, 2015 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 Professional Accountants

April 12, 2016
Burnaby, Canada

SURREY CITY DEVELOPMENT CORPORATION

Consolidated Statement of Financial Position

As at December 31, 2015, with comparative information for 2014

	2015	2014
Financial assets:		
Cash	\$ 485,983	\$ 2,477,915
Due from government and other government organizations (note 3)	1,485,348	1,237,258
Due from joint venture partners (note 4(a))	1,459,733	3,233,394
Accounts receivable (note 5)	925,429	976,947
Properties held-for-sale (note 6)	43,983,070	31,867,348
Investment in partnership (note 7)	303,498	303,498
Performance bonds and deposits	123,189	211,087
Tenant inducements	32,343	283,538
	<u>48,798,593</u>	<u>40,590,985</u>
Liabilities:		
Accounts payable and accrued liabilities (note 8)	4,228,666	5,136,091
Loans payable (note 9)	31,601,973	40,541,244
Deposits payable to income property tenants	522,400	397,232
Deferred gains (note 4(b))	3,958,213	4,763,743
Due to joint venture partners (note 4(c))	1,339,971	3,140,135
Due to City of Surrey (note 10)	79,219,385	90,801,439
	<u>120,870,608</u>	<u>144,779,884</u>
Net debt	(72,072,015)	(104,188,899)
Non-financial assets:		
Tangible capital assets (note 11):		
Properties under development	53,791,121	48,086,669
Income properties	36,069,601	68,621,912
Tangible capital assets in use	93,379	103,334
	<u>89,954,101</u>	<u>116,811,915</u>
Prepaid expenses	235,161	223,319
	<u>90,189,262</u>	<u>117,035,234</u>
Accumulated surplus (note 12)	\$ 18,117,247	\$ 12,846,335

Contractual obligations (note 13)

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, 2015, with comparative information for 2014

	Budget 2015 (note 17)	2015	2014
Income from sales of development properties:			
Proceeds of sales	\$ 51,689,211	\$ 66,189,582	\$ 35,722,059
Less: Cost of sales	(44,165,309)	(57,501,895)	(28,874,131)
Development property sales income, net	7,523,902	8,687,687	6,847,928
Gain on sale of income properties (note 17(c)(ii))	53,893	2,523,845	133,191
Income property lease revenue, gross (note 5)	6,102,587	5,257,368	5,520,159
Less: Income property lease direct costs - operating	(3,459,338)	(2,538,044)	(2,588,831)
Less: Income property lease direct costs - interest	(2,199,749)	(1,943,582)	(2,209,228)
Property lease income, net	443,500	775,742	722,100
Other income	16,264	22,032	38,213
	8,037,559	12,009,306	7,741,432
Corporate operating expenses:			
Administration	176,292	162,734	153,712
Income properties	528,875	488,203	461,134
Real estate development and sales	1,057,748	976,405	922,269
	1,762,915	1,627,342	1,537,115
Partnership operating expenses	824,905	291,252	335,118
	2,587,820	1,918,594	1,872,233
Annual surplus from operations	5,449,739	10,090,712	5,869,199
Preferred shares issued	88,947	80,000	-
Preferred shares redeemed	(305,677)	(399,800)	(1,993,400)
Distribution of earnings to shareholder	(4,500,000)	(4,500,000)	(4,500,000)
Annual surplus (deficiency)	733,009	5,270,912	(624,201)
Accumulated surplus, beginning of year	12,846,335	12,846,335	13,470,536
Accumulated surplus, end of year	\$ 13,579,344	\$ 18,117,247	\$ 12,846,335

See accompanying notes to consolidated financial statements.

SURREY CITY DEVELOPMENT CORPORATION

Consolidated Statement of Changes in Net Debt

Year ended December 31, 2015, with comparative information for 2014

	Budget 2015 (note 17)	2015	2014
Annual surplus (deficiency)	\$ 733,009	\$ 5,270,912	\$ (624,201)
Acquisition of tangible capital assets:			
Properties under development (note 17(b)(i))	(64,661,800)	(45,915,783)	(48,618,232)
Administration	(40,000)	(66,535)	(71,785)
Income properties (note 17(b)(ii))	(5,000,000)	(70,265)	(64,284)
Capitalization of wages	(1,073,435)	(1,053,212)	(874,971)
	(70,775,235)	(47,105,795)	(49,629,272)
Disposal of tangible capital assets:			
Properties under development (note 17(b)(iii))	680,000	1,909,185	219,793
Income properties (note 17(c)(ii))	-	7,187,944	-
	680,000	9,097,129	219,793
Amortization of tangible capital assets:			
Administration	73,805	76,491	78,157
Income properties	1,199,860	953,306	985,562
	1,273,665	1,029,797	1,063,719
Transfer to properties held-for-sale (note 17(c)(i))	12,824,360	63,836,683	41,006,399
Transfer to Due to from City of Surrey	(827,920)	-	-
	11,996,440	63,836,683	41,006,399
Change in prepaid expenses	(40,000)	(11,842)	(104,135)
Decrease (increase) in net debt	(56,132,121)	32,116,884	(8,067,697)
Net debt, beginning of year	(104,188,899)	(104,188,899)	(96,121,202)
Net debt, end of year	\$ (160,321,020)	\$ (72,072,015)	\$ (104,188,899)

See accompanying notes to consolidated financial statements.

SURREY CITY DEVELOPMENT CORPORATION

Consolidated Statement of Cash Flows

Year ended December 31, 2015, with comparative information for 2014

	2015	2014
Cash provided by (used in):		
Operations:		
Annual surplus from operations	\$ 10,090,712	\$ 5,869,199
Items not involving cash:		
Amortization	1,029,797	1,063,719
Recognition of deferred gains	(1,244,217)	(978)
Gain on disposal of properties held-for-sale, properties under development, and income properties	(11,211,532)	(6,981,119)
Change in non-cash working capital:		
Decrease in accounts receivable	51,518	618,873
Decrease in performance bonds and deposits	87,898	42,070
Decrease (increase) in tenant inducements	251,195	(253,190)
Increase in due from government and other government organizations	(248,090)	(226,263)
Increase (decrease) in accounts payable and accrued liabilities	(907,425)	2,317,750
Increase (decrease) in deposits payable to income property tenants	125,168	(144,769)
Increase in prepaid expenses	(11,842)	(104,135)
	(1,986,818)	2,201,157
Capital:		
Purchase of tangible capital assets	(49,393,399)	(54,909,309)
Investments:		
Proceeds from disposal of properties held-for-sale and properties under development	66,189,582	35,722,059
Proceeds from disposal of income properties	8,127,644	1,135,000
Decrease in investment in partnership	-	396,502
Deferred gain on transfer of land to joint venture partners	438,687	-
	74,755,913	37,253,561
Financing:		
Distribution of earnings to shareholder	(4,500,000)	(4,500,000)
Decrease in due from joint venture partners	1,773,661	3,679,421
Decrease in due to joint venture partners	(1,800,164)	(1,799,351)
Issuance of loans payable	2,910,000	2,664,630
Increase in (repayment of) debt due to City of Surrey	(11,582,054)	20,296,049
Repayment on loans payable	(11,849,271)	(1,346,056)
Redemption of preferred shares	(319,800)	(1,993,400)
	(25,367,628)	17,001,293
Net change in cash	(1,991,932)	1,546,702
Cash, beginning of year	2,477,915	931,213
Cash, end of year	\$ 485,983	\$ 2,477,915
Supplementary cash flow information:		
Non-cash transactions:		
Properties received in exchange for debt with the City	\$ 21,040,546	\$ 24,183,523
Land transfers in exchange for preferred shares	80,000	-

See accompanying notes to consolidated financial statements.

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

Year ended December 31, 2015

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, 2015, the Corporation had an accumulated operating surplus (note 12) of \$12,842,647 (2014 – accumulated operating surplus of \$7,251,935). The City has funded the Corporation through property transfers at historical values, 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, 2015

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 29.9% 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.

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.

Croydon Drive Development Limited Liability Partnership:

SCIC held a 50% ownership in the Croydon Drive Development Limited Liability Partnership ("Croydon LLP") (note 4(c)(i)) prior to March 27, 2015 (note 18). Croydon LLP was a government partnership and was proportionately consolidated into the Corporation's consolidated financial statements.

SCIC held a 50% ownership in 0918387 BC Ltd. (note 4(c)(v)), the General Partner of Croydon LLP. 0918387 BC Ltd was a corporation and was proportionately consolidated into the Corporation's consolidated financial statements prior to March 27, 2015 (note 18).

(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, 2015

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.

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

2. Summary of significant accounting policies (continued):

(d) Non-financial assets (continued):

(i) Tangible capital assets (continued):

(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.

(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 based on estimated remaining useful lives at the time of acquisition or completion of construction, ranging from 15 – 40 years.

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, 2015 (2014 - nil).

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

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 2015 (2014 - 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, 2015

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 these 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:

	2015	2014
GST receivable	\$ 205,218	\$ 236,479
Development costs recoverable from the City of Surrey (a)	1,280,130	1,000,779
	\$ 1,485,348	\$ 1,237,258

- (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, 2015

4. Investments in government partnerships:

(a) Due from joint-venture partners:

	2015	2014
Due from Surrey Centre Partners (ii)	\$ 164,334	\$ 3,233,394
Due from Grove LP Partners (iii)	1,150,000	-
Due from Beedie LP Partners (iv)	145,399	-
	<u>\$ 1,459,733</u>	<u>\$ 3,233,394</u>

(b) Deferred gains:

	2015	2014
Deferred gain on Croydon LLP land (i)	\$ -	\$ 1,220,600
Deferred gain on SCLP land (ii)	3,519,378	3,541,547
Deferred gain on Grove LP land (iii)	148	1,596
Deferred gain on Beedie LP land (iv)	438,687	-
	<u>\$ 3,958,213</u>	<u>\$ 4,763,743</u>

(c) Due to joint-venture partners:

	2015	2014
Due to Surrey Centre Partners (ii)	\$ 1,267,271	\$ 3,140,135
Due to Beedie LP Partners (iv)	72,700	-
	<u>\$ 1,339,971</u>	<u>\$ 3,140,135</u>

(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 was held through Surrey City Investment Corporation ("SCIC") prior to the disposition of their interest in the partnership on March 27, 2015 (as described in Note 18). SCIC was an equal partner in Croydon LLP and provided equal capital contributions to fund the operations of Croydon LLP in the form of land, financial and intellectual capital. Croydon LLP's financial results were proportionately consolidated with those of the Corporation based upon the Corporation's partnership interest of 50%. Decision making was equal amongst the partners and the Corporation was 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, 2015

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:

	2015	2014
Financial assets:		
Cash	\$ -	\$ 24,237
Accounts receivable	-	13,913
Deposits	-	34,869
Tenant inducements	-	235,396
Due from government and other government organizations	-	13,804
	-	322,219
Liabilities:		
Accounts payable and accrued liabilities	-	97,768
Deposits payable	-	30,022
Deferred gain	-	1,220,600
Long-term debt	-	5,059,415
	-	6,407,805
Net Debt	-	(6,085,586)
Tangible capital assets	-	6,784,793
Prepaid expenses	-	5,170
Accumulated surplus	\$ -	\$ 704,377
	2015	2014
Income property lease revenue, gross	\$ -	\$ 19,739
Income property lease direct costs	-	56,825
General administration expense	-	16,901
Net loss	\$ -	\$ (53,987)

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

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 has provided 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 29.9%. 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:

	2015	2014
Financial assets:		
Cash	\$ 354	\$ 162,904
Accounts receivable from SCLP partners	164,334	3,233,394
Accounts receivable	39,743	104
Due from government and other government organizations	98,702	80,257
	<u>303,133</u>	<u>3,476,659</u>
Liabilities:		
Accounts payable and accrued liabilities	1,484,618	1,699,182
Accounts payable to SCLP partners	1,267,272	3,140,135
Deferred gain	3,519,378	3,541,547
	<u>6,271,268</u>	<u>8,380,864</u>
Net Debt	(5,968,135)	(4,904,205)
Tangible capital assets	19,764,964	8,264,719
Accumulated surplus	<u>\$ 13,796,829</u>	<u>\$ 3,360,514</u>
	2015	2014
Real estate marketing expenses	\$ 116,626	\$ 152,585
Net loss	<u>\$ (116,626)</u>	<u>\$ (152,585)</u>

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

4. Investments in government partnerships (continued):

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

(ii) Surrey Centre Limited Partnerships ("SCLPs") (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 2015, the other partners were obligated to contribute additional assets of \$13.7 million for a total of \$46.3 million to the partnerships in exchange for partnership units. During fiscal 2012, 2013, 2014 and 2015, the outside partners contributed \$45.7 million of assets at their fair value, resulting in a net obligation to the partnerships of \$0.6 million, of which 29.9%, or \$0.2 million (2014 - \$3.2 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.

The Corporation has provided contributions of land to Grove LP in exchange for its 50% limited partnership units.

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, 2015

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:

	2015	2014
Financial assets:		
Cash	\$ 6,509	\$ 55,819
Accounts receivable	9,398	79,235
Deposits	81,201	162,126
Properties held-for-sale	566,066	2,367,393
	<u>663,174</u>	<u>2,664,573</u>
Liabilities:		
Accounts payable and accrued liabilities	49,515	503,060
Deferred gain	148	1,596
Long-term debt	-	2,997,890
	<u>49,663</u>	<u>3,502,546</u>
Net Financial Assets (Debt)	613,511	(837,973)
Tangible capital assets	62,197	5,447,066
Accumulated surplus	<u>\$ 675,708</u>	<u>\$ 4,609,093</u>
	2015	2014
Revenues, net of direct costs	\$ 894,819	\$ 362,527
Amortization and real estate marketing expenses	174,626	165,632
Net gain	<u>\$ 720,193</u>	<u>\$ 196,895</u>

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

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:

	2015	2014
Financial assets:		
Cash	\$ 843	\$ -
Accounts receivable	144	8,375
Accounts receivable from Beedie LP	145,399	-
	<u>146,386</u>	<u>8,375</u>
Liabilities:		
Accounts payable and accrued liabilities	980,354	177,561
Accounts payable to Beedie LP partners	72,700	-
Deferred gain	438,687	-
	<u>1,491,741</u>	<u>177,561</u>
Net Debt	(1,345,355)	(169,186)
Tangible capital assets	3,117,124	9,917
Prepaid expenses	159,269	159,269
Accumulated surplus	\$ 1,931,038	\$ -
	<u>2015</u>	<u>2014</u>
Revenues, net of direct costs	\$ -	\$ -
General administration expense	-	-
Net gain	\$ -	\$ -

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

4. Investments in government partnerships (continued):

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

(v) 0918387 BC Ltd.:

0918387 BC Ltd. was the General Partner of Croydon LLP and the Corporation held 50% of its issued and outstanding shares prior to March 27, 2015 (note 18). There were no significant transactions in fiscal 2015. There was no significant impact on the consolidated financial statements in 2015.

(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 2015. There was no significant impact on the consolidated financial statements in 2015.

(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 2015. There was no significant impact on the consolidated financial statements in 2015.

(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 2015. There was no significant impact on the consolidated financial statements in 2015.

5. Accounts receivable:

	2015	2014
Straight-line rent receivable	\$ 498,718	\$ 297,903
Other	426,711	679,044
	<u>\$ 925,429</u>	<u>\$ 976,947</u>

The straight-line rent receivable includes \$461,291 (2014 - \$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, 2015

6. Properties held-for-sale:

	2015	2014
Opening balance	\$ 31,867,348	\$ 15,237,059
Transfer from property under development and income properties	63,836,684	41,006,399
Disposal on sale	(61,717,110)	(29,448,556)
Additions	9,996,148	5,072,446
	\$ 43,983,070	\$ 31,867,348

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 was 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:

	2015	2014
Trade accounts payables and accrued liabilities	\$ 3,970,763	\$ 4,813,808
Holdbacks payable	257,903	322,283
	\$ 4,228,666	\$ 5,136,091

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

9. Loans payable:

	2015	2014
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
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
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	4,138,042	4,252,497
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	13,624,135	14,000,245
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	13,839,796	14,231,198
	\$ 31,601,973	\$ 40,541,244

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

2016	\$ 917,105
2017	954,556
2018	992,681
2019	1,032,594
2020	1,073,821
Thereafter	26,631,216
	\$ 31,601,973

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

10. Due to City of Surrey:

	2015	2014
Cash transfers made on behalf of the Corporation by the City, non-interest bearing, payable on demand (development cost charges on Campbell Heights North)	\$ 6,858,279	\$ 5,412,817
Loan payable #1, interest charged at Royal Bank of Canada prime rate, payable on demand, (interim project financing)	16,103,934	14,616,564
Loan payable #2, payable in monthly installments of blended principal and interest in the amount of \$50,800, with interest at 2.76%, maturing annually (Grove)	-	894,727
Loan payable #3, payable in monthly installments of blended principal and interest in the amount of \$3,216, with interest at 3.00%, maturing annually (Schmidt Berg)	-	1,472,927
Loan payable #4, payable in monthly installments of blended principal and interest in the amount of \$4,667, with interest at 2.20%, maturing annually (Murray Latta)	984,596	1,017,427
Loan payable #5, payable in monthly installments of blended principal and interest in the amount of \$19,356, with interest at 2.75%, maturing annually (Cedar Hills)	3,809,628	5,963,626
Loan payable #6, payable in monthly installments of blended principal and interest in the amount of \$13,042, with interest at 2.75%, maturing annually (Boundary Park)	2,573,978	4,696,004
Loan payable #7, payable in monthly installments of blended principal and interest in the amount of \$21,485, with interest at 2.75%, maturing annually (Campbell Heights North 3)	4,351,443	17,382,469
Loan payable #8, payable in monthly installments of blended principal and interest in the amount of \$41,683, with interest at 2.75%, maturing annually (Campbell Heights North 4)	8,759,228	24,084,444
Loan payable #9, payable in monthly installments of blended principal and interest in the amount of \$67,132, with interest at 2.75%, maturing annually (Campbell Heights North 5)	14,515,454	-
Loan payable #10, payable in monthly installments of blended principal and interest in the amount of \$67,336, with interest 2.20%, maturing annually (Bridgeview Phase 1)	14,816,815	15,260,434
Loan payable #11, payable in monthly installments of blended principal and interest in the amount of \$29,930, with interest 2.75%, maturing annually (Brooksdale).	6,446,030	-
	<u>\$ 79,219,385</u>	<u>\$ 90,801,439</u>

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

11. Tangible capital assets:

Year ended December 31, 2015	Properties under development	Income properties			Total
		Land	Buildings	Administration	
Cost					
Opening balance	\$ 48,086,669	\$ 29,175,578	\$ 41,381,287	\$ 330,799	\$ 118,974,333
Additions	46,942,278	-	96,982	66,536	47,105,796
Disposals	(1,909,185)	(2,547,000)	(4,640,944)	-	(9,097,129)
Transfer to properties held for sale	(39,328,641)	(13,625,734)	(10,882,309)	-	(63,836,684)
Closing balance	53,791,121	13,002,844	25,955,016	397,335	93,146,316
Accumulated amortization					
Opening balance	-	-	1,934,953	227,465	2,162,418
Current year amortization	-	-	953,306	76,491	1,029,797
Disposals	-	-	-	-	-
Closing balance	-	-	2,888,259	303,956	3,192,215
Net book value	\$ 53,791,121	\$ 13,002,844	\$ 23,066,757	\$ 93,379	\$ 89,954,101

During the year, \$799,516 of interest was capitalized to properties under development (2014 - \$1,099,799).

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 income properties	(7,161,227)	2,547,000	4,614,227	-	-
Transfer to properties held for sale	(41,006,399)	-	-	-	(41,006,399)
Closing balance	48,086,669	29,175,578	41,381,287	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	\$ 48,086,669	\$ 29,175,578	\$ 39,446,334	\$ 103,334	\$ 116,811,915

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

12. Accumulated surplus:

Accumulated surplus is comprised of:

	2015	2014
Share capital, common shares (a)(i)	\$ 100	\$ 100
Share capital, preferred shares (a)(ii)	5,274,500	5,594,300
Accumulated operating surplus (b)	12,842,647	7,251,935
	<u>\$ 18,117,247</u>	<u>\$ 12,846,335</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, 2015, the Corporation has issued 5,274.5 preferred shares (2014 - 5,594.3), with certain redemption provisions at the option of the Corporation.

80 preferred shares were issued by the Corporation to the City during 2015 (2014 – nil) totaling \$80,000 in exchange for beneficial ownership of real estate property.

During the year, the Corporation redeemed 399.8 (2014 - 1,993.4) preferred shares for \$399,800 (2014 - \$1,993,400).

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

	2015	2014
Accumulated operating surplus (deficit), opening	\$ 7,251,935	\$ 5,882,736
Annual surplus current year	10,090,712	5,869,199
Distribution of earnings to shareholder	(4,500,000)	(4,500,000)
	<u>\$ 12,842,647</u>	<u>\$ 7,251,935</u>

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

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, 2015 are \$35.6 million (2014 - \$37.4million), inclusive of the Corporations proportionate share of Partnership commitments of \$33.1 million (2014 - \$33.6 million).

14. Operating leases:

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

2016	\$	123,442
2017		123,442
2018		92,582
	\$	339,466

15. Operating expenses by object:

The following is a summary of operating expenses by object:

	2015	2014
Advertising and promotion	\$ 15,279	\$ 22,493
Amortization	76,491	79,364
Communication	31,030	27,772
Consulting and professional	205,357	211,796
Directors' fees	248,978	230,781
Grants and sponsorship	22,988	16,911
Insurance	21,757	24,030
Interest	444,863	783,929
Lease and rentals	192,611	187,273
Marketing	276,811	303,806
Membership and training	56,430	31,863
Research and investigation	2,467	46,957
Salaries and benefits	1,755,353	1,672,939
Supplies and materials	48,362	64,851
Service maintenance	12,876	23,647
Travel	5,015	9,397
	3,416,668	3,737,809
Capitalized interest to development projects	(337,947)	(494,573)
Interest expensed to income property direct costs	(106,916)	(289,356)
Capitalized salaries and benefits to development projects	(1,053,211)	(1,081,647)
	\$ 1,918,594	\$ 1,872,233

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

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 \$2,297,340 (2014 - \$2,083,232) on the Corporation's loans payable to the City.
- (ii) Property taxes, utilities and ancillary items of \$883,674 (2014 - \$891,215) were incurred by the Corporation and payable to the City.
- (iii) Permits, deposits and related fees of \$6,552,610 (2014 - \$4,027,796) were incurred by the Corporation and payable to the City.
- (vi) The Corporation incurred development costs of \$506,371 (2014 - \$191,846) 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 City Council for the City of Surrey.
- (b) The budgeted figures included the following items which did not occur in 2015:
 - (i) The development of certain projects through partnerships was less than budgeted;
 - (ii) The purchase of income properties; and
 - (iii) The transfer of land to a prospective partnership.
- (c) The budget did not anticipate the following items which occurred in 2015:
 - (i) The completion of development of certain properties and the reclassification of certain income properties and their resulting transfer to properties held-for-sale; and
 - (ii) The sale of SCIC's ownership interest in the Croydon LLP.

18. Disposition of Croydon LLP:

On March 27, 2015, SCIC disposed of its ownership interest in Croydon LLP and its shares of 0918387, the General Partner of Croydon LLP. The Corporation has effectively disposed of the land contributed to this partnership for net proceeds of \$3.5 million, after settlement of SCIC's portion of partnership debt in the amount of \$5.3 million. The disposition has resulted in a net gain on the sale of land contributed to the partnership totaling \$2.2 million, including previously deferred gains of \$1.2 million (note 4(b)).

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

19. Comparative information:

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