

Consolidated Financial Statements of

SURREY CITY DEVELOPMENT CORPORATION

Year ended December 31, 2016



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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, 2016, 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, 2016 and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Professional Accountants

April 12, 2017
Burnaby, Canada

SURREY CITY DEVELOPMENT CORPORATION

Consolidated Statement of Financial Position

As at December 31, 2016, with comparative information for 2015

	2016	2015
Financial assets:		
Cash	\$ 3,826,759	\$ 485,983
Due from governments (note 3)	1,465,763	1,485,348
Due from joint venture partners (note 4(a))	82,167	1,459,733
Accounts receivable (note 5)	804,733	925,429
Properties held-for-sale (note 6)	-	43,983,070
Investment in partnership (note 7)	303,498	303,498
Performance bonds and deposits	181,201	123,189
Tenant inducements	9,036	32,343
	<u>6,673,157</u>	<u>48,798,593</u>
Liabilities:		
Accounts payable and accrued liabilities (note 8)	3,258,956	4,228,666
Loans payable (note 9)	33,569,284	31,601,973
Deposits (note 10)	5,514,687	522,400
Deferred gains (note 4(b))	3,957,409	3,958,213
Due to joint venture partners (note 4(c))	4,120,875	1,339,971
Due to City of Surrey (note 11)	22,960,955	79,219,385
	<u>73,382,166</u>	<u>120,870,608</u>
Net debt	(66,709,009)	(72,072,015)
Non-financial assets:		
Tangible capital assets (note 12):		
Properties under development	66,320,624	53,791,121
Income properties	30,801,157	36,069,601
Tangible capital assets in use	153,780	93,379
	<u>97,275,561</u>	<u>89,954,101</u>
Prepaid expenses	357,304	235,161
	<u>97,632,865</u>	<u>90,189,262</u>
Accumulated surplus (note 13)	\$ 30,923,856	\$ 18,117,247

Contractual obligations (note 14)

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, 2016, with comparative information for 2015

	Budget 2016 (Note 19)	2016	2015
Income from sales of development properties:			
Proceeds of sales	\$ 46,499,201	\$ 33,527,764	\$ 66,189,582
Less: Cost of sales	(37,267,647)	(24,055,504)	(57,501,895)
Development property sales income, net	9,231,554	9,472,260	8,687,687
Gain on sale of income properties (note 19(c)(ii))			
	1,801,119	12,150,356	2,523,845
Income property lease revenue, gross (note 5)			
	5,482,580	2,445,790	5,257,368
Less: Income property lease direct costs - operating	(3,078,335)	(2,021,183)	(2,538,044)
Less: Income property lease direct costs - interest	(1,689,411)	(323,334)	(1,943,582)
Property lease income, net	714,834	101,273	775,742
Other income			
	-	58,898	22,032
Write-off of development costs (notes 15 and 19(c)(i))			
	-	(903,227)	-
	11,747,507	20,879,560	12,009,306
Corporate operating expenses:			
Administration	181,646	200,524	162,734
Income properties	544,938	601,573	488,203
Real estate development and sales	1,089,877	1,203,145	976,405
	1,816,461	2,005,242	1,627,342
Partnership operating expenses			
	267,462	137,909	291,252
	2,083,923	2,143,151	1,918,594
Annual surplus from operations			
	9,663,584	18,736,409	10,090,712
Preferred shares issued			
	1,688,947	-	80,000
Preferred shares redeemed			
	(763,000)	(1,429,800)	(399,800)
Distribution of earnings to shareholder			
	(4,500,000)	(4,500,000)	(4,500,000)
Annual surplus			
	6,089,531	12,806,609	5,270,912
Accumulated surplus, beginning of year			
	18,117,247	18,117,247	12,846,335
Accumulated surplus, end of year			
	\$ 24,206,778	\$ 30,923,856	\$ 18,117,247

See accompanying notes to consolidated financial statements.

SURREY CITY DEVELOPMENT CORPORATION

Consolidated Statement of Changes in Net Debt

Year ended December 31, 2016, with comparative information for 2015

	Budget 2016 (Note 19)	2016	2015
Annual surplus	\$ 6,089,531	\$ 12,806,609	\$ 5,270,912
Acquisition of tangible capital assets:			
Properties under development (notes 19(b)(i) and 19(b)(ii))	(43,717,372)	(23,563,883)	(45,915,783)
Administration	(79,800)	(79,120)	(66,535)
Income properties (note 19(b)(iii))	(181,000)	-	(70,265)
Capitalization of wages	(1,173,750)	(871,859)	(1,053,212)
	(45,151,922)	(24,514,862)	(47,105,795)
Disposal of tangible capital assets:			
Properties under development (note 19(b)(iv))	681,667	146,985	1,909,185
Income properties	-	-	7,187,944
	681,667	146,985	9,097,129
Amortization of tangible capital assets:			
Administration	65,283	18,719	76,491
Income properties (note 16(c)(ii))	1,036,855	495,857	953,306
	1,102,138	514,576	1,029,797
Write-downs of tangible capital assets (note 19(c)(i))	-	903,227	-
Transfer to properties held-for-sale (notes 19(b)(v) and 19(c)(ii))	22,482,441	15,628,614	63,836,683
Change in prepaid expenses	(120,000)	(122,143)	(11,842)
Decrease (increase) in net debt	(14,916,145)	5,363,006	32,116,884
Net debt, beginning of year	(72,072,015)	(72,072,015)	(104,188,899)
Net debt, end of year	\$ (86,988,160)	\$ (66,709,009)	\$ (72,072,015)

See accompanying notes to consolidated financial statements.

SURREY CITY DEVELOPMENT CORPORATION

Consolidated Statement of Cash Flows

Year ended December 31, 2016, with comparative information for 2015

	2016	2015
Cash provided by (used in):		
Operations:		
Annual surplus from operations	\$ 18,736,409	\$ 10,090,712
Items not involving cash:		
Amortization	514,576	1,029,797
Recognition of deferred gains	(804)	(1,244,217)
Gain on disposal of properties held-for-sale, properties under development, and income properties	(21,622,616)	(11,211,532)
Changes in non-cash working capital:		
Decrease in accounts receivable	120,696	51,518
Decrease (increase) in performance bonds and deposits	(58,012)	87,898
Decrease in tenant inducements	23,307	251,195
Decrease (increase) in due from government and other government organizations	19,585	(248,090)
Decrease in accounts payable and accrued liabilities	(969,710)	(907,425)
Increase in deposits payable	4,992,287	125,168
Increase in prepaid expenses	(122,143)	(11,842)
	1,633,575	(1,986,818)
Capital:		
Purchase of tangible capital assets	(28,908,114)	(49,393,399)
Investments:		
Proceeds from disposal of properties held-for-sale and properties under development	33,527,764	66,189,582
Proceeds from disposal of income properties	53,150,000	8,127,644
Deferred gain on transfer of land to joint venture partners	-	438,687
	86,677,764	74,755,913
Financing:		
Distribution of earnings to shareholder	(4,500,000)	(4,500,000)
Decrease in due from joint venture partners	1,377,566	1,773,661
Increase (decrease) in due to joint venture partners	2,780,904	(1,800,164)
Issuance of loans payable	27,703,577	2,910,000
Repayment of debt due to City of Surrey	(56,258,430)	(11,582,054)
Repayment on loans payable	(25,736,266)	(11,849,271)
Redemption of preferred shares	(1,429,800)	(319,800)
	(56,062,449)	(25,367,628)
Net change in cash	3,340,776	(1,991,932)
Cash, beginning of year	485,983	2,477,915
Cash, end of year	\$ 3,826,759	\$ 485,983
Supplementary cash flow information:		
Non-cash transactions:		
Properties received in exchange for debt with the City	\$ -	\$ 21,040,546
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, 2016

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, 2016, the Corporation had an accumulated operating surplus (note 13) of \$27,079,056 (2015 - \$12,842,647). The City has funded the Corporation through property transfers at historical values, loans and further equity investments (note 18). 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. 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, 2016

2. 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)(i)):

- 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)(iv)):

- 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") prior to March 27, 2015 (note 20). 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, the General Partner of Croydon LLP. 0918387 BC Ltd was proportionately consolidated into the Corporation's consolidated financial statements prior to March 27, 2015 (note 20).

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2016

2. Significant accounting policies (continued):

(b) Basis of consolidation (continued):

(ii) Grove Limited Partnership:

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

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

Grove (G.P.) Inc. is the General Partner of Grove LP (note 4(c)(v)). 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)(iii)). 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)(vi)). 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.

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2016

2. Significant accounting policies (continued):

(d) Non-financial assets:

(i) Tangible capital assets:

(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.

(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:

Asset	Rate
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.

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2016

2. Significant accounting policies (continued):

(d) Non-financial assets:

(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.

(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.

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, 2016

2. 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:

	2016	2015
GST receivable	\$ 126,895	\$ 205,218
Development costs recoverable from the City of Surrey (a)	1,338,868	1,280,130
	\$ 1,465,763	\$ 1,485,348

- (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, 2016

4. Investments in government partnerships:

(a) Due from joint-venture partners:

	2016	2015
Due from Surrey Centre Partners (i)	\$ 82,167	\$ 164,334
Due from Grove LP Partners (ii)	-	1,150,000
Due from Beedie LP Partners (iii)	-	145,399
	\$ 82,167	\$ 1,459,733

(b) Deferred gains:

	2016	2015
Deferred gain on SCLP land (i)	\$ 3,519,378	\$ 3,519,378
Deferred gain on Grove LP land (ii)	3,000	148
Deferred gain on Beedie LP land (iii)	435,031	438,687
	\$ 3,957,409	\$ 3,958,213

(c) Due to joint-venture partners:

	2016	2015
Due to Surrey Centre Partners (i)	\$ 4,119,690	\$ 1,267,271
Due to Beedie LP Partners (iii)	1,185	72,700
	\$ 4,120,875	\$ 1,339,971

(i) 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.

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2016

4. Investments in government partnerships (continued):

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

(i) Surrey Centre Limited Partnerships ("SCLPs") (continued):

The Corporation's proportionate share included in these consolidated financial statements is as follows:

	2016	2015
Financial assets:		
Cash	\$ 115,315	\$ 354
Accounts receivable from SCLP partners	82,167	164,334
Accounts receivable	72,135	39,743
Due from government and other government organizations	94,610	98,702
	<u>364,227</u>	<u>303,133</u>
Liabilities:		
Accounts payable and accrued liabilities	61,416	1,484,618
Loans payable	10,409,174	-
Deposits payable	4,481,831	-
Accounts payable to SCLP partners	4,119,690	1,267,272
Deferred gain	3,519,378	3,519,378
	<u>22,591,489</u>	<u>6,271,268</u>
Net debt	(22,227,262)	(5,968,135)
Tangible capital assets	35,989,487	19,764,964
Accumulated surplus	\$ 13,762,225	\$ 13,796,829
	<u>2016</u>	<u>2015</u>
Real estate marketing expenses	\$ 28,563	\$ 116,626
General administration expense	6,042	-
Loss for the year	\$ (34,605)	\$ (116,626)

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2016

4. Investments in government partnerships (continued):

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

(i) 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, 2015, and 2016, the outside partners contributed \$46.0 million of assets at their fair value, resulting in a net obligation to the partnerships of \$0.3 million, of which 29.9%, or \$0.1 million (2015 - \$0.2 million), is effectively receivable by the Corporation.

(ii) Grove LP:

Grove LP was established on September 1, 2011, 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, 2016

4. Investments in government partnerships (continued):

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

(ii) Grove LP (continued):

The Corporation's proportionate share included in these consolidated financial statements is as follows:

	2016	2015
Financial assets:		
Cash	\$ 42,395	\$ 6,509
Accounts receivable	77	9,398
Deposits	81,201	81,201
Properties held-for-sale	-	566,066
	<u>123,673</u>	<u>663,174</u>
Liabilities:		
Accounts payable and accrued liabilities	24,210	49,515
Deferred gain	3,000	148
	<u>27,210</u>	<u>49,663</u>
Net Financial Assets	96,463	613,511
Tangible capital assets	-	62,197
Accumulated surplus	<u>\$ 96,463</u>	<u>\$ 675,708</u>
	2016	2015
Revenues, net of direct costs	\$ 436,196	\$ 894,819
Amortization and real estate marketing expenses	103,305	174,626
Net gain	<u>\$ 332,891</u>	<u>\$ 720,193</u>

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2016

4. Investments in government partnerships (continued):

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

(iii) 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 has contributed to Beedie LP through SCIIC.

The Corporation's proportionate share included in these consolidated financial statements is as follows:

	2016	2015
Financial assets:		
Cash	\$ 25,203	\$ 843
Accounts receivable	72,168	144
Accounts receivable from Beedie LP	-	145,399
	<u>97,371</u>	<u>146,386</u>
Liabilities:		
Accounts payable and accrued liabilities	15,107	980,354
Accounts payable to Beedie LP partners	1,185	72,700
Deferred gain	435,031	438,687
Deposits payable	34,649	-
Long-term debt	9,727,169	-
	<u>10,213,141</u>	<u>1,491,741</u>
Net Debt	(10,115,770)	(1,345,355)
Tangible capital assets	9,678,731	3,117,124
Prepaid expenses	305,305	159,269
Accumulated surplus (deficit)	\$ (131,734)	\$ 1,931,038
	<u>2016</u>	<u>2015</u>
Income property lease revenue, gross	\$ 332,467	\$ -
Income property lease direct costs	611,502	-
Loss for the year	\$ (279,035)	\$ -

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2016

4. Investments in government partnerships (continued):

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

(iv) 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 2016. There was no significant impact on the consolidated financial statements in 2016.

(v) 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 2016. There was no significant impact on the consolidated financial statements in 2016.

(vi) 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 2016. There was no significant impact on the consolidated financial statements in 2016.

5. Accounts receivable:

	2016	2015
Straight-line rent receivable	\$ 32,981	\$ 498,718
Other	771,752	426,711
	<hr/> \$ 804,733	<hr/> \$ 925,429

Straight-line rent receivable of \$32,981 in 2016 relates to escalating rent on a twenty year lease in the Beedie LP. Straight-line rent receivable of \$498,718 in 2015 related to escalating rent on two income properties which were sold during 2016.

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2016

6. Properties held-for-sale:

	2016	2015
Opening balance	\$ 43,983,070	\$ 31,867,348
Transfer from property under development and income properties	15,628,614	63,836,684
Disposal on sale	(65,089,411)	(61,717,110)
Additions	5,477,727	9,996,148
	\$ -	\$ 43,983,070

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:

	2016	2015
Trade accounts payables and accrued liabilities	\$ 3,139,774	\$ 3,970,763
Holdbacks payable	119,182	257,903
	\$ 3,258,956	\$ 4,228,666

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2016

9. Loans payable:

	2016	2015
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
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
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	13,432,941	13,839,796
Term loan, Beedie LP, 5-year term maturing November 1, 2021, payable in monthly payments of blended principal and interest in the amount of \$90,473, with interest at 2.8% per annum, secured by the underlying property	9,727,169	-
Construction loan, Surrey Centre LP's bearing interest at the bank's prime lending rate, secured by the underlying property, and repayable upon the earlier of the receipt of the net proceeds from sales, take-out financing, lease prepayments, or upon the maturity date of October 31, 2017	10,409,174	-
	\$ 33,569,284	\$ 31,601,973

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2016

9. Loans payable (continued):

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

2017	\$	11,106,502
2018		720,452
2019		748,134
2020		773,720
2021		749,848
Thereafter		19,470,628
	\$	33,569,284

10. Deposits:

	2016	2015
Deposits received from income property tenants	\$ 64,507	\$ 238,900
Deposits received from development property purchasers (i)	5,450,180	283,500
	\$ 5,514,687	\$ 522,400

(i) The deposits received from development property purchasers includes \$4,481,831 (2015 - nil) relating to the Corporation's proportionate share of Partnership deposits.

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2016

11. Due to City of Surrey:

	2016	2015
Cash transfers made on behalf of the Corporation by the City, non-interest bearing, payable on demand (development cost charges on Campbell Heights North)	\$ 2,276,829	\$ 6,858,279
Loan payable #1, interest charged at Royal Bank of Canada prime rate, payable on demand, (interim project financing)	323,755	16,103,934
Loan payable #2, payable in monthly installments of blended principal and interest in the amount of \$4,858, with interest at 2.60%, maturing annually (Murray Latta)	-	984,596
Loan payable #3, 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
Loan payable #4, 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
Loan payable #5, payable in monthly installments of blended principal and interest in the amount of \$3,568, with interest at 2.75%, maturing annually (Campbell Heights North 3)	-	4,351,443
Loan payable #6, 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
Loan payable #7, payable in monthly installments of blended principal and interest in the amount of \$62,541, with interest at 2.10%, maturing annually (Campbell Heights North 5)	14,100,897	14,515,454
Loan payable #8, payable in monthly installments of blended principal and interest in the amount of \$70,216, with interest at 2.60%, maturing annually (Bridgeview Phase 1)	-	14,816,815
Loan payable #9, payable in monthly installments of blended principal and interest in the amount of \$27,837, with interest at 2.10%, maturing annually (Brooksdale).	6,259,474	6,446,030
	<u>\$ 22,960,955</u>	<u>\$ 79,219,385</u>

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2016

12. Tangible capital assets:

Year ended December 31, 2016	Properties under development	Income properties				Administration	Total
		Land	Building	Total			
Cost							
Opening balance	\$ 53,791,121	\$ 13,002,844	\$ 25,955,016	\$ 38,957,860	\$ 397,335		93,146,316
Additions	24,435,742	-	-	-	79,120		24,514,862
Disposals and write downs	(1,050,212)	-	-	-	-		(1,050,212)
Transfer to assets held for sale	(741,795)	(423,162)	(16,775,328)	(17,198,490)	-		(17,940,285)
Transfer to income property	(10,114,232)	2,479,723	7,634,509	10,114,232	-		-
Closing balance	66,320,624	15,059,405	16,814,197	31,873,602	476,455		98,670,681
Accumulated amortization							
Opening balance	-	-	2,888,259	2,888,259	303,956		3,192,215
Current year amortization	-	-	495,857	495,857	18,719		514,576
Disposals	-	-	-	-	-		-
Transfer to assets held for sale	-	-	(2,311,671)	(2,311,671)	-		(2,311,671)
Closing balance	-	-	1,072,445	1,072,445	322,675		1,395,120
Net book value	\$ 66,320,624	\$ 15,059,405	\$ 15,741,752	\$ 30,801,157	\$ 153,780		\$ 97,275,561

During the year, \$1,153,128 of interest was capitalized to properties under development (2015 – \$799,516). No contributions of tangible capital assets occurred in fiscal 2016 (2015 - nil).

Year ended December 31, 2015	Properties under development	Income properties				Administration	Total
		Land	Building	Total			
Cost							
Opening balance	\$ 48,086,669	\$ 29,175,578	\$ 41,381,287	\$ 70,556,865	\$ 330,799		118,974,333
Additions	46,942,278	-	96,982	96,982	66,536		47,105,796
Disposals	(1,909,185)	(2,547,000)	(4,640,944)	(7,187,944)	-		(9,097,129)
Transfer to assets held for sale	(39,328,641)	(13,625,734)	(10,882,309)	(24,508,043)	-		(63,836,684)
Closing balance	53,791,121	13,002,844	25,955,016	38,957,860	397,335		93,146,316
Accumulated amortization							
Opening balance	-	-	1,934,953	1,934,953	227,465		2,162,418
Current year amortization	-	-	953,306	953,306	76,491		1,029,797
Disposals	-	-	-	-	-		-
Closing balance	-	-	2,888,259	2,888,259	303,956		3,192,215
Net book value	\$ 53,791,121	\$ 13,002,844	\$ 23,066,757	\$ 36,069,601	\$ 93,379		\$ 89,954,101

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2016

13. Accumulated surplus:

Accumulated surplus is comprised of:

	2016	2015
Share capital, common shares (a)(i)	\$ 100	\$ 100
Share capital, preferred shares (a)(ii)	3,844,700	5,274,500
Accumulated operating surplus (b)	27,079,056	12,842,647
	<u>\$ 30,923,856</u>	<u>\$ 18,117,247</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, 2016, the Corporation has issued 3,844.7 preferred shares (2015 - 5,274.5), with certain redemption provisions at the option of the Corporation.

No preferred shares were issued by the Corporation to the City during 2016 (2015 - 80) in exchange for beneficial ownership of real estate property.

During the year, the Corporation redeemed 1,429.8 (2015 - 399.8) preferred shares for \$1,429,800 (2015 - \$399,800)

(b) The change in accumulated operating surplus is as follows:

	2016	2015
Accumulated operating surplus, opening	\$ 12,842,647	\$ 7,251,935
Annual surplus current year	18,736,409	10,090,712
Distribution of earnings to shareholder	(4,500,000)	(4,500,000)
	<u>\$ 27,079,056</u>	<u>\$ 12,842,647</u>

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2016

14. 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, 2016 are \$21.0 million (2015 - \$35.6 million), inclusive of the Corporation's proportionate share of Partnership commitments of \$19.1 million (2015 - \$33.1 million).

15. Write-off of development costs:

During 2016, the Corporation wrote-off \$903,227 (2015 - nil) of development costs incurred on a specific property. The write-off resulted from a change in the development plan for that property. The value of the land was not impaired and was transferred to a new development project.

The development costs identified were written off as they are not expected to contribute to the future economic benefit of the new project under development.

16. Operating leases:

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

2017	\$ 123,502
2018	92,627
	<hr/>
	\$ 216,129

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2016

17. Operating expenses by object:

The following is a summary of operating expenses by object:

	2016	2015
Advertising and promotion	\$ 14,832	\$ 15,279
Amortization	127,841	76,491
Communication	32,032	31,030
Consulting and professional	313,620	205,357
Directors' fees	171,062	248,978
Donations	34,924	22,988
Insurance	18,666	21,757
Interest	602,532	444,863
Lease and rentals	190,726	192,611
Marketing	69,671	276,811
Membership and training	79,304	56,430
Research and investigation	508,978	2,467
Salaries and benefits	1,368,799	1,755,353
Supplies and materials	49,054	48,362
Service maintenance	30,299	12,876
Travel	5,176	5,015
	3,617,516	3,416,668
Capitalized interest to development projects	(601,917)	(337,947)
Interest expensed to properties held for sale	(589)	(106,916)
Capitalized salaries and benefits to development projects	(821,459)	(1,053,211)
Capitalized consulting fees to development projects	(50,400)	-
	\$ 2,143,151	\$ 1,918,594

18. 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 13.

- (i) The Corporation incurred interest expense of \$1,148,192 (2015 - \$2,297,340) on the Corporation's loans payable to the City.
- (ii) Property taxes, utilities and ancillary items of \$503,940 (2015 - \$883,674) were incurred by the Corporation and payable to the City.
- (iii) Permits, deposits and related fees of \$4,756,829 (2015 - \$6,552,610) were incurred by the Corporation and payable to the City.

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2016

18. Related party transactions (continued):

- (iv) The Corporation incurred development costs of \$219,052 (2015 - \$506,371) on land owned by the City. This amount is included in development costs recoverable from the City of Surrey (note 3(a)).
- (v) The Corporation recovered development costs of \$160,313 (2015 - nil) on land owned by the City.

19. 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 2016:
 - (i) The development of certain projects, including the development of projects through partnerships, was less than budgeted;
 - (ii) The transfer of land to SCDC from the City;
 - (iii) Capital improvements to an income property;
 - (iv) The transfer of land to prospective partnerships; and
 - (v) The completion of development of a certain property and its resulting transfer to properties held-for-sale.
- (c) The budget did not anticipate the following items which occurred in 2016:
 - (i) The write-down of a certain development project; and
 - (ii) The reclassification of certain income properties to properties held-for-sale and the resulting sale of those properties.

20. Disposition of Croydon LLP:

On March 27, 2015, SCIC disposed of its ownership interest in Croydon LLP and its shares of 0918387 BC Ltd, the General Partner of Croydon LLP. The Corporation 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 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.