

Consolidated Financial Statements of

SURREY CITY DEVELOPMENT CORPORATION

Year ended December 31, 2018

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The accompanying financial statements of Surrey City Development Corporation (the "Corporation") are the responsibility of management and have been prepared in accordance with Canadian public sector accounting standards as recommended by the Public Sector Accounting Board of Chartered Professional Accountants Canada. A summary of the significant accounting policies are described in the financial statements. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods.

The Corporation's management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded in compliance with legislative and regulatory requirements, and reliable financial information is available on a timely basis for preparation of the financial statements. These systems are monitored and evaluated by management.

The Board of Directors meets with management and the external auditors to review the financial statements and discuss any significant financial reporting or internal control matters prior to their approval of the financial statements.

The financial statements have been audited by BDO Canada LLP, independent external auditors appointed by the Corporation. The accompanying Independent Auditor's Report outlines their responsibilities, the scope of their examination and their opinion on the Corporation's financial statements.



President and Chief Executive Officer



Chief Finance Officer

April 17, 2019



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INDEPENDENT AUDITOR'S REPORT

To the Shareholder of Surrey City Development Corporation

Opinion

We have audited the consolidated financial statements of Surrey City Development Corporation and its controlled entities (the "Consolidated Entity") which comprise the Consolidated Statement of Financial Position as at December 31, 2018 and the Consolidated Statements Operations, Consolidated Changes in Net Debt, and Consolidated Cash Flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Consolidated Entity as at December 31, 2018 and its consolidated results of operations, consolidated changes in net debt, and consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

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

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Consolidated Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Consolidated Entity, or to cease operations, or has no realistic alternative but to do so.

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



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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally-accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally-accepted auditing standards we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances. But not for the purpose of expressing an opinion on the effectiveness of the Consolidated Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Consolidated Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However future events or conditions may cause the Consolidated Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

BDO Canada LLP

Chartered Professional Accountants

Vancouver, British Columbia

April 17, 2019

SURREY CITY DEVELOPMENT CORPORATION

Consolidated Statement of Financial Position

As at December 31, 2018, with comparative information for 2017

	2018	2017
Financial assets:		
Cash	\$ 1,606,317	\$ 509,755
Due from governments (note 3)	167,577	704,105
Due from partners (note 4(a))	-	924,629
Investment in government business partnership (note 5)	444,339	373,606
Accounts receivable (note 6)	4,202,859	267,873
Portfolio investments (note 7)	6,838,877	7,303,523
Performance bonds and deposits	30,000	30,000
Tenant inducements	111,487	40,428
	<u>13,401,456</u>	<u>10,153,919</u>
Liabilities:		
Accounts payable and accrued liabilities (note 8)	1,373,643	2,885,730
Due to governments (note 9)	153,911	1,004,695
Loans payable (note 10)	12,569,437	32,078,624
Deposits (note 11)	547,177	4,531,387
Deferred gains (note 12)	416,097	4,220,601
Unearned revenue (note 13)	3,885,366	34,555
Due to partners (note 4(b))	-	3,668,421
Due to City of Surrey (note 14)	11,548,135	9,557,422
	<u>30,493,766</u>	<u>57,981,435</u>
Net debt	(17,092,310)	(47,827,516)
Non-financial assets:		
Tangible capital assets (note 15):		
Properties under development	59,376,784	86,906,925
Income properties	20,727,748	20,883,973
Tangible capital assets in use	79,264	126,665
	<u>80,183,796</u>	<u>107,917,563</u>
Prepaid expenses	50,077	64,931
	<u>80,233,873</u>	<u>107,982,494</u>
Accumulated surplus (note 16)	<u>\$ 63,141,563</u>	<u>\$ 60,154,978</u>

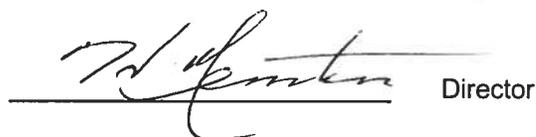
Contractual obligations (note 17)

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, 2018, with comparative information for 2017

	Budget 2018 (Note 22)	2018	2017
Income from sales of development properties:			
Proceeds of sales	\$ -	\$ 283,984	\$ 37,770,787
Less: Cost of sales	-	(8,564)	(27,530,132)
Development property sales income, net	-	275,420	10,240,655
Gain on sale of partnership interest (note 18)	6,499,980	7,338,183	-
Income property lease revenue, gross	1,932,000	1,925,745	1,796,772
Less: Income property lease direct costs - operating	(876,034)	(819,565)	(1,031,977)
Less: Income property lease direct costs - interest	(500,366)	(500,366)	(517,306)
Property lease income, net	555,600	605,814	247,489
Income from government business partnership (note 5)	267,250	273,922	267,824
Other income	80,000	195,212	256,712
	7,402,830	8,688,551	11,012,680
Corporate operating expenses (note 20):			
Administration	753,699	620,940	457,512
Income properties	251,233	206,980	91,502
Properties under development	1,507,398	1,241,880	1,281,034
	2,512,330	2,069,800	1,830,048
Partnership operating expenses	89,500	4,166	29,810
	2,601,830	2,073,966	1,859,858
Annual surplus from operations	4,801,000	6,614,585	9,152,822
Preferred shares issued	32,778,000	6,700,000	25,482,000
Preferred shares redeemed	(5,828,000)	(5,828,000)	(903,700)
Distribution of earnings to shareholder	(4,500,000)	(4,500,000)	(4,500,000)
Annual surplus	27,251,000	2,986,585	29,231,122
Accumulated surplus, beginning of year	60,154,978	60,154,978	30,923,856
Accumulated surplus, end of year	\$ 87,405,978	\$ 63,141,563	\$ 60,154,978

See accompanying notes to consolidated financial statements.

SURREY CITY DEVELOPMENT CORPORATION

Consolidated Statement of Changes in Net Debt

Year ended December 31, 2018, with comparative information for 2017

	Budget 2018	2018	2017
	(Note 22)		
Annual surplus:			
Annual surplus from operations	\$ 4,801,000	\$ 6,614,585	\$ 9,152,822
Preferred shares issued (note 22(b)(ii))	32,778,000	6,700,000	25,482,000
Preferred shares redeemed	(5,828,000)	(5,828,000)	(903,700)
Distribution of earnings to shareholder	(4,500,000)	(4,500,000)	(4,500,000)
	(27,251,000)	2,986,585	(29,231,122)
Acquisition of tangible capital assets:			
Properties under development (notes 22(b)(i) and 22(b)(ii))	(49,425,000)	(15,284,766)	(45,047,423)
Administration	(31,000)	(8,266)	(34,649)
Income Properties	(231,000)	(90,803)	-
Capitalization of wages	(1,140,000)	(976,910)	(919,527)
	(50,827,000)	(16,360,745)	(46,001,599)
Disposal of tangible capital assets:			
Properties under development	800,000	-	-
Amortization of tangible capital assets:			
Administration	61,600	55,667	61,764
Income properties	254,400	247,028	250,700
	316,000	302,695	312,464
Transfer to properties held-for-sale	46,969,000	43,791,817	25,368,401
Transfer to investment in government business partnership	-	-	9,678,732
Change in prepaid expenses	15,000	14,854	292,373
Decrease in net debt	24,524,000	30,735,206	18,881,493
Net debt, beginning of year	(47,827,516)	(47,827,516)	(66,709,009)
Net debt, end of year	\$ (23,303,516)	\$ (17,092,310)	\$ (47,827,516)

See accompanying notes to consolidated financial statements.

SURREY CITY DEVELOPMENT CORPORATION

Consolidated Statement of Cash Flows

Year ended December 31, 2018, with comparative information for 2017

	2018	2017
Cash provided by (used in):		
Operations:		
Annual surplus from operations	\$ 6,614,585	\$ 9,152,822
Items not involving cash:		
Amortization	302,695	312,464
Increase (decrease) in deferred gains	(10,966)	263,192
Gain on disposal of properties held-for-sale, properties under development, and income properties	(7,613,603)	(10,240,655)
Changes in non-cash working capital:		
Decrease (increase) in accounts receivable	(251,952)	464,692
Decrease in performance bonds and deposits	-	151,201
Increase in tenant inducements	(71,059)	(31,392)
Decrease in due from governments	451,502	761,658
Decrease in accounts payable and accrued liabilities	(1,486,655)	(322,379)
Increase (decrease) in due to governments	(850,784)	1,004,685
Decrease in deposits	(130,901)	(948,651)
Decrease (increase) in prepaid expenses	452	(12,932)
	(3,046,686)	554,705
Capital:		
Purchase of tangible capital assets	(9,660,745)	(20,519,599)
Investment in available for sale properties	(48,394)	(2,161,731)
	(9,709,139)	(22,681,330)
Investments:		
Increase in investment in government business partnership	(278,733)	(276,309)
Distribution of cash from Beedie LP	208,000	206,000
Decrease (increase) in portfolio investments	464,646	(7,000,025)
Net proceeds from disposal of properties held-for-sale and properties under development	22,235,894	37,770,787
	22,629,807	30,700,453
Financing:		
Distribution of earnings to shareholder	(4,500,000)	(4,500,000)
Increase in due from partners	-	(842,462)
Decrease in due to partners	-	(452,454)
Issuance of loans payable	-	8,659,880
Increase (decrease) in due to City of Surrey	1,990,713	(13,403,533)
Repayment of loans payable	(440,133)	(423,371)
Redemption of preferred shares	(5,828,000)	(903,700)
	(8,777,420)	(11,865,640)
Net change in cash	1,096,562	(3,291,812)
Cash, beginning of year	509,755	3,826,759
Adjustment due to change in accounting treatment of LPs	-	(25,192)
Cash, end of year	\$ 1,606,317	\$ 509,755
Supplementary cash flow information:		
Non-cash transactions:		
Land transfers in exchange for preferred shares (note 16(a)(ii))	\$ 6,700,000	\$ 25,482,000

See accompanying notes to consolidated financial statements.

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

Year ended December 31, 2018

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's mandate is to advance the commercial, industrial and residential development of the City. The Corporation is exempt from income tax under section 149(1) of the Income Tax Act (Canada).

As at December 31, 2018, the Corporation had an accumulated operating surplus (note 16) of \$33,846,463 (2017 - \$31,731,878). The City has supported the Corporation through property transfers, loans and equity investments. 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 for Other Government Organizations.

(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 controlled government business enterprises being 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, 2018

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 mixed-use real estate development projects in the City. The Corporation owns 100% of SCIC.

Surrey Centre Limited Partnerships

Prior to October 9, 2018 SCIC held a 24.4% ownership in the following government partnerships, collectively referred to as the Surrey Centre Limited Partnerships (note 4(b)(i)):

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

The Surrey Centre Limited Partnerships were previously proportionately consolidated into the Corporation's consolidated financial statements.

Prior to October 9, 2018 SCIC held a 50% ownership in the following corporate entities (proportionately consolidated) referred to as the "Surrey Centre Tower Holdings" (note 4(b)(iii)):

- 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.

On October 9, 2018 SCIC disposed of its ownership interest in the Surrey Centre Limited Partnerships and its shares of the Surrey Centre Tower Holdings (note 18).

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018

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 (b)(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. ("Grove GP") is the General Partner of Grove LP (note 4(b)(iv)). The Corporation has 50% ownership in Grove GP. Grove GP 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 5). Beedie LP meets the criteria of a government business partnership and is accounted for using the modified equity method.

SCIIC has 50% ownership in the Beedie SCDC (34A Ave) G.P. Ltd. ("Beedie GP"), the General Partner of Beedie LP (note 5). Beedie GP is a corporation and is accounted for using the modified equity method.

(v) Kwantlen Park Development Corporation ("KPDC"):

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

(c) 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, 2018

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 projects 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 in use relate to administrative 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
Administration assets:	
Furniture and fixtures	5 years
Computer equipment and software	3 years
Tenant improvements	5 years
Income properties	40 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.

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

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018

2. Significant accounting policies (continued):

(d) Non-financial assets:

(iii) Impairment of tangible capital assets:

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) Transfers of tangible capital assets:

Certain transfers of tangible capital assets to 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.

(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, 2018

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 are expensed. Interest expense is recorded using the 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, commitments, and fair value of non-monetary land transfers.

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 governments:

	2018	2017
GST receivable	\$ -	\$ 126,833
Receivable from the City of Surrey	6,668	249,878
Development costs recoverable from the City of Surrey (a)	160,909	327,394
	<u>\$ 167,577</u>	<u>\$ 704,105</u>

(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, 2018

4. Investments in government partnerships:

(a) Due from partners:

	2018	2017
Due from Surrey Centre Partners (note 4(b)(i))	\$ -	\$ 924,629
	\$ -	\$ 924,629

(b) Due to partners:

	2018	2017
Due to Surrey Centre Partners (note 4(b)(i))	\$ -	\$ 3,668,421
	\$ -	\$ 3,668,421

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

On October 9, 2018 SCIC disposed of its ownership interest in the Surrey Centre Limited Partnerships and its shares of the Surrey Centre Tower Holdings (note 18).

(ii) Grove LP:

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

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

Decision making for the 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 the Grove LP. Financial results are proportionately consolidated with those of the Corporation based upon the Corporation's partnership interest of 50%.

The Grove LP began property development during fiscal 2011. All related costs to date have been capitalized. All market townhomes have been completed and sold. The project is in the maintenance and warranty period.

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018

4. Investments in government partnerships (continued):

(b) Due to partners (continued):

(ii) Grove LP (continued):

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

	2018	2017
Financial assets:		
Cash	\$ 84,483	\$ 87,236
Accounts receivable	370	368
Deposits	25,000	25,000
	<u>109,853</u>	<u>112,604</u>
Liabilities:		
Accounts payable and accrued liabilities	13	9
Deferred gain	3,000	3,000
	<u>3,013</u>	<u>3,009</u>
Net Financial Assets	106,840	109,595
Accumulated surplus	<u>\$ 106,840</u>	<u>\$ 109,595</u>
	2018	2017
Revenues, net of direct costs	\$ 1,410	\$ 13,156
Operating expenses	(4,165)	(24)
Annual surplus (loss) from operations	<u>\$ (2,755)</u>	<u>\$ 13,132</u>

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018

4. Investments in government partnerships (continued):

(b) Due to partners (continued):

(iii) Surrey Centre Tower Holdings:

Prior to October 9, 2018 (note 18) the Corporation held a 50% interest in nine holding companies to facilitate the Surrey Centre Limited Partnerships. These are bare trust entities, in which there were no significant transactions in fiscal 2018. There was no significant impact on the consolidated financial statements in 2018.

(iv) Grove GP:

The Grove GP is the General Partner of the Grove LP and the Corporation holds 50% of its issued and outstanding shares. There were no significant transactions in fiscal 2018. There was no significant impact on the consolidated financial statements in 2018.

5. Investment in government business partnership:

Beedie LP:

The Beedie LP was established on September 9, 2014 to develop a build-to-suit industrial building in Surrey. Development of the industrial building was completed in 2016 and the building has since been occupied by a tenant under a long term lease. The Corporation's partnership interest is held through SCIIC, which provided contributions of cash and land to fund development. Beedie LP meets the criteria of a government business partnership and results are accounted for under the modified equity method. The liability of the Corporation is limited to the cash and land which it has contributed to the Beedie LP through SCIIC.

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018

5. Investment in government business partnership (continued):

Beedie LP (continued):

Financial information in respect of this entity is as follows:

	2018	2017
Financial assets:		
Cash	\$ 65,324	\$ 159,620
Accounts receivable	5,474	-
Straight-line rent receivable	230,863	131,916
	<u>301,661</u>	<u>291,536</u>
Liabilities:		
Accounts payable and accrued liabilities	14,968	18,209
Accounts payable to Beedie LP partners	9,405	2,478
Deposits payable	47,629	128,052
Long-term debt	9,172,927	9,453,207
	<u>9,244,929</u>	<u>9,601,946</u>
Net Debt	(8,943,268)	(9,310,410)
Tangible capital assets	9,105,168	9,391,949
Prepaid expenses	282,439	292,067
Accumulated surplus	\$ 444,339	\$ 373,606
	<u>2018</u>	<u>2017</u>
Income property lease revenue, gross	\$ 1,045,093	\$ 1,034,422
Income property lease direct costs	(771,171)	(766,598)
Annual surplus from operations	\$ 273,922	\$ 267,824

Beedie GP:

The Beedie GP is the General Partner of the Beedie LP and the Corporation holds 50% of its issued and outstanding shares. There were no significant transactions in fiscal 2018 or 2017.

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018

6. Accounts receivable:

Accounts receivable includes \$4,012,120 (2017 - nil) relating to development cost charges that were billed and receivable from a future tenant with respect to a property under development.

7. Portfolio investments:

	2018	2017
Term deposits (a)	\$ 5,500,025	\$ 7,000,025
GIC (b)	955,000	-
Investment in Bosa Properties (Bright A.1) LP (c)	383,852	303,498
	<u>\$ 6,838,877</u>	<u>\$ 7,303,523</u>

(a) Term deposits had an average portfolio yield of 2.07% (2017 – 1.60%) and can be liquidated on demand without penalty.

(b) The GIC has a maturity date of September 17, 2019 with a yield of 1.90%.

(c) During 2013, the Corporation invested \$700,000 for a 20% interest in Bosa Properties (Bright A.1) Limited Partnership (“Bosa LP”). During 2014, the Corporation received a \$396,502 distribution from the 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. During 2018 the Corporation invested an additional \$80,354 in proportion to their ownership interest bringing the Corporation’s investment in the partnership to \$383,852.

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

8. Accounts payable and accrued liabilities:

	2018	2017
Trade accounts payables and accrued liabilities	\$ 1,273,213	\$ 2,333,150
Holdbacks payable	100,430	552,580
	<u>\$ 1,373,643</u>	<u>\$ 2,885,730</u>

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018

9. Due to governments:

	2018	2017
GST payable	\$ 153,659	\$ -
Development costs payable to the City of Surrey (a)	252	1,004,695
	<u>\$ 153,911</u>	<u>\$ 1,004,695</u>

(a) Development costs payable to the City of Surrey represents amounts owing to the City of Surrey for development work performed by the City on lands prior to the transfer of beneficial interest of the property to the Corporation.

10. Loans payable:

	2018	2017
Cedar Hills loan payable, 10-year term due for renewal on 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 with a carrying value that exceeds the loan amount	\$ 12,569,437	\$ 13,009,570
Construction loan, SCLPs, 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 August 31, 2018	-	19,069,054
	<u>\$ 12,569,437</u>	<u>\$ 32,078,624</u>

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

2019	\$ 457,690
2020	475,803
2021	495,037
January 1 – November 1, 2022	470,537
Thereafter	10,670,370
	<u>\$ 12,569,437</u>

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018

11. Deposits:

	2018	2017
Deposits received from income property tenants	\$ 127,177	\$ 105,878
Deposits received from development property purchasers (i)	420,000	4,425,509
	\$ 547,177	\$ 4,531,387

(i) The deposits received from development property purchasers includes nil (2017 - \$3,853,309) relating to the Corporation's proportionate share of Partnership deposits.

12. Deferred gains:

	2018	2017
Deferred gain on SCLP land	\$ -	\$ 3,793,538
Deferred gain on Grove LP land (note 4(b)(ii))	3,000	3,000
Deferred gain on Beedie LP land	413,097	424,063
	\$ 416,097	\$ 4,220,601

The Corporation has transferred land to the partnerships in lieu of their equity contributions to the development projects. As the land is being transferred at its estimated fair market value, there is an inherent gain on the transfer. The portion of the gain related to the Corporation's partnership interest has been eliminated. The portion of the gain attributed to the non-related parties has been deferred and will be recognized either upon the sale of the project to unrelated parties or once the project begins generating income.

13. Unearned revenue:

Unearned revenue represents development cost charges with respect to a property under development.

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018

14. Due to City of Surrey:

	2018	2017
Cash transfers made on behalf of the Corporation by the City, non-interest bearing, payable on demand (Development cost charges on Campbell Heights North)	\$ 5,600,532	\$ 3,311,728
Loan payable #1, interest charged at Royal Bank of Canada prime rate, payable on demand, (Interim project financing)	72,509	186,534
Loan payable #2, payable in monthly installments of blended principal and interest in the amount of \$31,191, with interest at 3.20%, maturing annually (Brooksdale).	5,875,094	6,059,160
	<hr/> \$ 11,548,135	<hr/> \$ 9,557,422

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018

15. Tangible capital assets:

	Properties under development	Income properties			Administration	Total
		Land	Building	Total		2018 Net book value
Cost						
Opening balance	\$ 86,906,925	\$ 12,579,682	\$ 9,531,745	\$ 22,111,427	\$ 511,104	109,529,456
Additions	16,261,676	-	90,803	90,803	8,266	16,360,745
Transfer to assets held for sale	(43,791,817)	-	-	-	-	(43,791,817)
Closing balance	59,376,784	12,579,682	9,622,548	22,202,230	519,370	82,098,384
Accumulated amortization						
Opening balance	-	-	1,227,454	1,227,454	384,439	1,611,893
Current year amortization	-	-	247,028	247,028	55,667	302,695
Disposals	-	-	-	-	-	-
Closing balance	-	-	1,474,482	1,474,482	440,106	1,914,588
Net book value	\$ 59,376,784	\$ 12,579,682	\$ 8,148,066	\$ 20,727,748	\$ 79,264	\$ 80,183,796

During the year, \$192,138 of interest was capitalized to properties under development (2017 – \$1,015,071).

	Properties under development	Income properties			Administration	Total
		Land	Building	Total		2017 Net book value
Cost						
Opening balance	\$ 66,320,624	\$ 15,059,405	\$ 16,814,197	\$ 31,873,602	\$ 476,455	98,670,681
Additions	45,954,702	-	12,248	12,248	34,649	46,001,599
Transfer to assets held for sale	(25,368,401)	-	-	-	-	(25,368,401)
Transfer to investment in government business partnership	-	(2,479,723)	(7,294,700)	(9,774,423)	-	(9,774,423)
Closing balance	86,906,925	12,579,682	9,531,745	22,111,427	511,104	109,529,456
Accumulated amortization						
Opening balance	-	-	1,072,445	1,072,445	322,675	1,395,120
Current year amortization	-	-	250,700	250,700	61,764	312,464
Disposals	-	-	-	-	-	-
Transfer to investment in government business partnership	-	-	(95,691)	(95,691)	-	(95,691)
Closing balance	-	-	1,227,454	1,227,454	384,439	1,611,893
Net book value	\$ 86,906,925	\$ 12,579,682	\$ 8,304,291	\$ 20,883,973	\$ 126,665	\$ 107,917,563

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018

16. Accumulated surplus:

Accumulated surplus is comprised of:

	2018	2017
Share capital, common shares (a)(i)	\$ 100	\$ 100
Share capital, preferred shares (a)(ii)	29,295,000	28,423,000
Accumulated operating surplus (b)	33,846,463	31,731,878
	<u>\$ 63,141,563</u>	<u>\$ 60,154,978</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, 2018, the Corporation has issued 29,295 preferred shares (2017 - 28,423), with certain redemption provisions.

6,700 preferred shares were issued by the Corporation to the City during 2018 (2017 - 25,482) in exchange for beneficial ownership of real estate property with an estimated fair market value of \$6,700,000 (2017 - \$25,482,000).

During the year, the Corporation redeemed 5,828 preferred shares (2017 - 903.7) for \$5,828,000 (2017 - \$903,700).

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

	2018	2017
Accumulated operating surplus, opening	\$ 31,731,878	\$ 27,079,056
Annual surplus current year	6,614,585	9,152,822
Distribution of earnings to shareholder	(4,500,000)	(4,500,000)
	<u>\$ 33,846,463</u>	<u>\$ 31,731,878</u>

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018

17. 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, 2018 are \$3.1 million (2017 - \$6.0 million), inclusive of the Corporation's proportionate share of Partnership commitments of nil (2017 \$4.4 million).

The Corporation has a letter of credit outstanding for \$955,000. The letter of credit is required as an environmental security. To date, no draws have been made against it.

18. Disposition of Surrey Centre Limited Partnerships:

On October 9, 2018, SCIC disposed of its ownership interest in the Surrey Centre Limited Partnerships and its shares of the Surrey Centre Tower Holdings, the bare trust entities created to facilitate the Surrey Centre Limited Partnerships for proceeds of \$22 million which resulted in a net gain on the sale of SCIC's partnership interests totaling \$7.3 million, including previously deferred gains of \$3.8 million.

The Corporation is still responsible for a proportionate share of warranty and indemnity provided to the purchaser of the 5 corporate office entities. The warranty and indemnity is equivalent to the 2/5/10 warranty insurance customary for residential units. The warranty and indemnity provided by SCDC was made in proportion to SCIC's ownership percentage of the Surrey Centre Office Limited Partnership. The Corporation has assessed the potential risk and believes there is no material exposure and therefore no accrual has been recognized.

19. Operating lease:

The Corporation leases office space. The lease expires on September 30, 2023. Future payments are as follows:

2019	\$125,504
2020	125,504
2021	125,504
2022	125,504
2023	94,128
Total	\$596,144

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018

20. Operating expenses by object:

The following is a summary of operating expenses by object:

	2018	2017
Advertising and promotion	\$ 20,981	\$ 27,772
Amortization	55,667	61,765
Communication	32,000	30,962
Consulting and professional	225,621	287,684
Directors' fees	135,501	148,195
Donations	48,297	45,907
Insurance	19,038	18,794
Interest on operating loan	5,785	15,957
Lease and rentals	203,140	195,277
Marketing	-	29,564
Membership and training	64,375	61,621
Predevelopment costs	432,681	641,609
Salaries and benefits	1,726,608	1,476,052
Supplies and materials	55,960	49,043
Service maintenance	25,511	25,013
Travel	5,497	4,264
	3,056,662	3,119,479
Consulting fees capitalized to development projects	-	(4,375)
Interest expensed to properties held for sale	(2,358)	(951)
Interest on operating loan capitalized to development projects	(3,428)	(15,006)
Predevelopment costs capitalized to development projects	-	(324,137)
Salaries and benefits capitalized to development projects	(976,910)	(915,152)
	\$ 2,073,966	\$ 1,859,858

21. 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 16.

- (i) The Corporation incurred interest expense of \$194,495 (2017 - \$339,927) on the Corporation's loans payable to the City.
- (ii) Property taxes, utilities and ancillary items of \$340,910 (2017 - \$324,434) were incurred by the Corporation and payable to the City.
- (iii) Permits, deposits and related fees of \$4,569,719 (2017 - \$4,317,425) were incurred by the Corporation and payable to the City.

SURREY CITY DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018

21. Related party transactions (continued):

- (iv) The Corporation recovered development costs of \$166,484 (2017 - \$20,000) on land owned by the City.
- (v) Development coordinated works and bonds total \$6,668 (2017 – \$249,878) and are payable by the City to the Corporation (note 3).
- (vi) The Corporation is obligated to reimburse the City for development costs of \$252 (2017 – \$1,004,695) expended by the City during the year prior to the transfer of beneficial interest of a property to the Corporation (note 9).

22. 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 2018:
 - (i) The development of certain projects, including the development of projects through partnerships;
 - (ii) The transfer of certain lands to the Corporation from the City.

23. Contractual rights:

The Corporation is party to several fixed term lease agreements on income properties that are anticipated to provide it with future revenues. These agreements are for terms that vary from 1 year to 8 years. Amounts anticipated to be received over future years are as follows:

2019	\$1,432,059
2020	1,442,327
2021	1,381,820
2022	1,182,003
2023	836,216
2024-2026	946,003

24. Comparative figures:

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