

A Growing Community. A Prosperous Future.

2016 Annual Report



scdc

A Growing Community. A Prosperous Future.

SCDC is proud to be part of Surrey's prosperity through strategic projects that support current and future generations.



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Our Commitment to Surrey

SCDC was created to accelerate the growth of the City of Surrey through strategic real estate development.

OUR MANDATE IS THREE-FOLD:

To develop City-owned land as well as other acquired land for financial profits.

To build an income producing real estate portfolio.

To help advance the City of Surrey's financial, social, business and community objectives.

SCDC's strategic plan has two primary components:

- To generate profitable returns from both real estate development projects and an income portfolio.
- To help advance the City's financial, social and community goals while establishing strong partnerships with private sector companies to encourage development within Surrey.

SCDC operates under the business practices consistent with a private sector organization. This includes having an expert, non-political Board of Independent Directors. Our Board is comprised of respected, private sector professionals with experience in diverse aspects of real estate, urban development and finance, as well as two City appointed Directors. The Board reports to the Shareholder, which is the City of Surrey. Since incorporation, SCDC has repaid all its operating loans from the City of Surrey, and is into its fifth year of paying an annual dividend of \$4.5 million to the City. In addition, SCDC's efforts are supporting the social, cultural, community and environmental objectives of the City.

SCDC aims to optimize the use and value of City-owned lands by developing these properties to their highest and best use. As a City owned company, SCDC ensures that all our developments are thoughtfully planned and executed with a focus on building a prosperous future for all Surrey residents. In addition to developing City owned land, SCDC looks for opportunities to strategically purchase and develop parcels which support the City's vision for growth.

SCDC's industrial projects, including Bridgeview Industrial and Campbell Heights North, bring vitality and jobs to previously vacant areas in Surrey, thus solidly adding to both economic and social growth. SCDC is proud to be a catalyst and facilitator in helping to accelerate community-building development throughout the City of Surrey.

SCDC welcomes questions and is committed to transparency. Please feel free to send an email to info@scdc.ca, call **604.581.8787, or visit www.scdc.ca if you would like to learn more about us.**

Letter from the Chair

I am pleased and proud to highlight SCDC's key accomplishments from the Board Chair's perspective for the year ending 2016.

Fiscal 2016 represented the ninth year since SCDC was incorporated, and it certainly was a busy year that included many facets of change, opportunities, challenges and significant successes for the Company.

Perhaps the most significant change was movement at the Board level, where the Company welcomed four new independent directors, Bruce Joyce, Howard Nemin, Suki Sekhon and Scott Dutchak. All four Directors bring a wealth of expertise and experience in critical areas including Real Estate Development, Finance, Governance and Construction Management. I would also like to take this opportunity to thank the previous independent Directors, all of whom have provided key leadership and expertise that have facilitated the Company's growth and maturity over the last several years.

SCDC also experienced some changes at the staffing level in 2016, with this change came opportunity for incumbent staff to take on new challenges within the company and for new external staff to join the team at SCDC.

In regards to the Company's financial performance for 2016, it was a very strong year with profits of \$18.7M. This in fact represents the strongest financial year for SCDC since incorporation. The strong performance was anchored with final sales of Campbell Heights North Phases 3 & 4, and the sale of Murray Latta, Bridgeview and Boundary Park properties. SCDC's accumulated surplus for the year ended 2016 has increased by \$12.8M to \$30.9M and the company was able to once again make a \$4.5M dividend payment to its Shareholder, marking the fourth consecutive year this dividend has been paid.

As I write this letter in April 2017, I cannot help but get excited at SCDC's future. The company already has key land holdings that will ultimately translate into successful projects and is continuing to work very closely with the City in exploring new opportunities, including the vast potential of Campbell Heights East. SCDC's future success however is more than just financially based; it will include key City and Social build projects that will certainly leave an everlasting impact on our City and its residents. Equally important to the company's promising strategic outlook is the strength and determination of the Management team, this coupled with the Board's dedication, expertise and engagement will certainly make for a bright future for SCDC.

SCDC will celebrate its ten year anniversary in the upcoming year, and while there is no question it has already left an everlasting impact on the City with key projects including the new City Hall, 3 Civic Plaza and Campbell Heights North, I truly believe that in the next ten years SCDC will help grow and transform the City – making it a world class City to work, live and play.

Respectfully,



Kam Grewal, CPA, BBA
Chair of the Board, SCDC

Letter from our President & CEO

On behalf of the team at SCDC, I am pleased to present our 2016 Annual Report.

The hard work of everyone at SCDC, along with the support of the Board of Directors and the Staff and Council of the City of Surrey, has resulted in profitable financial results and significant progress in our various development projects. The team at SCDC is proud of what has been accomplished.

With an annual surplus from operations of \$18.7M, 2016 has been the most profitable since SCDC's inception in 2007. Significant gains were realized from well-positioned real estate development investments and partnerships that benefited from a low interest rate environment, a strong economy, and well managed costs. Strong financial returns in 2016 enabled the Corporation to pay a dividend of \$4.5M to the City of Surrey for the fourth consecutive year and will help to ensure that SCDC is financially well positioned to make positive, sustainable contributions to Surrey.

As we look to the future we remain committed to profitable operations and achieving long-term value for the City of Surrey. Our strategy will focus on value creation through our development projects and continuing to build our financial base through long-term real estate investment. We will continue to focus on projects that support the citizens and community of Surrey by stimulating economic activity, helping to create jobs, and providing housing options. Continued profitable operations from our development projects will enable the Corporation to maintain the annual dividend to the City of Surrey, which in turn will be invested into public infrastructure projects by the City.

We are honoured to have been able to partner with respected and successful private sector developers on several joint venture projects over the last few years. These projects are an important part of our real estate development portfolio and align with the City of Surrey's vision and priorities. We appreciate the expertise, support and investments made by our joint venture partners.

During 2016, we saw the departure of several Board members: Anne Bancroft-Jones, Denise Turner, Don Murray, Gary Cowan, Pehlaj Malhotra and the Chair,

Michael Goldberg. I've had the pleasure of working with these Board members for several years and am very grateful to them for their dedicated service to SCDC, their sound advice and support. SCDC would not be where it is today without their vital contributions.

We welcomed four new Directors in 2016: Howard Nemtin, Suki Sekhon, Scott Dutchak and Bruce Joyce. Our new Directors come from diverse backgrounds and together have proven to be a collaborative team that is able to provide sound oversight and guidance. We look forward to working with them in the coming years.

During the 2016 operating year the Corporation was under the presidency of Norman Laube. His leadership and enthusiasm for growth and development in Surrey is infectious and we are grateful to him for the contributions he made during his time at SCDC.

In addition, Gary Cowan stepped in as the Interim President & CEO prior to Norman's arrival at the beginning of 2016. We are indebted to Gary for his positive leadership and for the invaluable experience that he brought to the table.

I would like to thank Surrey City Council for its continued support and trust. Council has been instrumental in providing guidance to us as we set our priorities and has been an integral part of SCDC's success.

Last, but certainly not least, I would like to sincerely thank the hardworking, talented team of individuals at SCDC that I am so fortunate to be able to work with. Their professionalism, skill, dedication and positive attitudes are integral to our success and make it a pleasure to come to work every day.

Together, we are looking forward to a growing community and a prosperous future.



Emily Taylor, CPA, CA
Interim President & CEO, SCDC

Meet the Board

The SCDC Board of Directors is comprised of four independent Directors and two City-appointed Directors.



Kam Grewal – *Chair*

Kam Grewal is responsible for the City of Surrey's Financial Reporting, Corporate Audit, Risk Management and Corporate Procurement services. Kam has over 15 years of financial experience in the public sector and has held various leadership roles since joining the City of Surrey in 2008.

Kam is a Chartered Professional Accountant and has a Bachelor of Business Administration degree from Simon Fraser University.



Scott Dutchak

Scott Dutchak has more than 20 years of real estate experience including real estate development, asset management and portfolio strategies. Scott is currently with British Columbia Investment Management Corporation and invests pension funds in development projects across Canada, as well as acting as a fiduciary on behalf of clients. He has held senior management positions with several major real estate organizations, as well as a leading multi-national retailer.

Scott is a professional urban planner with a Bachelor of Applied Arts from Ryerson University and a member of the Canadian Institute of Planners.



Bruce Joyce

Bruce Joyce was a Senior Partner at Deloitte in Ottawa where he served terms as the Office Managing Partner National Capital Region and the National Leader of the Federal Government Practice. He currently serves as Chair of the Audit Committee of the Auditor General of Canada and is on the Advisory Board of Armstrong Monitoring, a private Ottawa manufacturing company. Mr. Joyce also Chairs the Audit Committees of two publicly listed technology companies, CounterPath Corporation in Vancouver and ProntoForms Corporation in Ottawa. He is Chair of the Audit Committee for Ross Video, a private global production technology company based in Ottawa.

Bruce has an FCPA, FCA (Fellow of the Chartered Professional Accountants of Ontario), has his ICD.D from the Institute of Corporate Directors and is Human Resources and Compensation Committee Certified through The Directors College.



Vincent LaLonde

Vincent is the City Manager of the City of Surrey, and leads an innovative and dynamic Senior Management team to help shape and guide the City's strategic and corporate goals. Through value-based leadership, a commitment to continuous improvement, and a focus on inspiring and empowering his teams, Vincent is committed to working with Mayor and Council to deliver a thriving, green, inclusive city.

Vincent is a Professional Engineer with his Bachelor and Master of Science degrees from McGill University.



Howard Nemtin

Howard Nemtin established Nemtin Consultants Limited in Vancouver and provides project management, consulting and real estate development expertise to institutional, government and large private clients throughout British Columbia. Prior to this, Howard worked with Marathon Realty developing shopping centres in western Canada and Narod Construction in project management. Howard has served as Chairman of Coast Mountain Bus Company and Vice-Chair of Translink. He is a Director of SFU Community Trust (Univercity) and Chair of the Finance & Audit Committee.

Howard has been on the BC Mediator Roster since 2003 and is the author of "Communities in Cooperation – A Guide to Alternate Dispute Resolution for First Nations and Local Governments in British Columbia". Mr. Nemtin has a Bachelor of Science from York University and an MBA from the University of Western Ontario. He is a practicing mediator with over 1,700 commercial mediations. Howard is a member of the Institute of Corporate Directors.



Suki Sekhon

Suki Sekhon is the President and CEO of CRS Group of Companies. The company has a diverse portfolio of retail shopping centres, office and warehouse buildings in the Lower Mainland, Vancouver Island and Calgary, AB. Suki's business portfolio includes over 25 years of experience in the commercial real estate industry. CRS Group of Companies built the Seniors Centre (Independent Living Facility and Assisted Living Facility) for Progressive Intercultural Community Services Society (PICS) in Surrey with BC Housing.

Suki attended the University of British Columbia before obtaining a Marketing Real Estate Diploma from BCIT. He is currently a member of the Real Estate Board of Greater Vancouver and NAIOP Commercial Real Estate Development Association, and a Board member of the Rick Hansen Foundation.



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Meet the Team

1 EMILY TAYLOR, CPA, CA

Interim President & CEO

Emily Taylor joined SCDC in 2012 as VP Finance, became CFO in 2013 and Interim President and CEO in 2017. Emily has over ten years of experience and leadership within the development industry. She offers well-rounded and versatile knowledge of real estate and corporate development initiatives. Prior to her work in real estate development, Emily worked in finance for a nationally branded hotel. She obtained her CPA, CA designation in 1995 with KPMG, Peat Marwick Thorne.

2 ERIKA ULINDER BELL

Senior Development Manager

Erika has extensive experience in property acquisitions, pre-development, design and all phases of development through construction. She has worked across BC and the Lower Mainland with both commercial and residential developers, and was most recently with BC Housing Management Commission before joining SCDC. Erika received her Bachelor of Arts from McGill University, and a Diploma of Urban Land Economics from the University of BC.

3 ROSS YAMAGUCHI

Senior Development Manager

Ross brings his experience in real estate development, construction, and infrastructure to SCDC. Beginning his educational journey in Business/Economics from the University of California Riverside, then

continuing with a Masters in Intercultural Studies at Biola University and certificate programs of Light Construction and Land Development and Project Management at University of California Irvine, Ross is professionally driven by the creation of a community that shares opportunity for both public and private realm benefits.

4 AMANDA ZIZEK, CPA, CGA

Senior Accounting Manager

Amanda focuses on the preparation of SCDC's quarterly and annual financial statements. She oversees accounting for asset acquisitions and disposals, and ensures that project budgets are on track. Prior to completing her CPA, CGA designation in 2014, Amanda graduated with distinction from both the Bachelor of Technology in Accounting and Financial Management Diploma programs through BCIT.

5 MONICA NILES, CPHR

Manager Human Resources & Administration

Monica provides inclusive direction on Human Resources, corporate governance, risk management, and policies and procedures that align with SCDC's strategic direction. Monica received her Chartered Professional in Human Resources designation in 2008.

6 JAYME GREIG

Staff Accountant

Jayme brings accounting experience within the real

estate industry to her role. Jayme holds a Diploma in Accounting and is currently working towards a Bachelor of Technology in Accounting from BCIT.

7 BINDI WATTS

Executive Assistant & Development Coordinator

Bindi brings over 10 years of real estate experience to her role as Development Coordinator. Bindi holds a Bachelor of Arts from the University of British Columbia, and is a Licensed Real Estate Broker having completed her Real Estate Trading Services Licensing Course at UBC Sauder School of Business.

8 THOMAS ROWE

Development Assistant

Thomas brings his prior experience working on community based real estate projects to SCDC. Thomas holds a Bachelor of Commerce from the University of British Columbia and is interested in pursuing a diploma in Urban Land Economics.

9 JULIA ERRIDGE

Administrative Assistant

Julia provides support to both the Development and Accounting teams. Her background in the customer service industry brings energy to each day. Julia holds a Bachelor of Arts in Psychology from Kwantlen Polytechnic University.

About SCDC

SCDC was incorporated in 2007 with the aim to assist in realizing and advancing the transformation of the City of Surrey into a more modern, vibrant, sustainable and complete community. Through its real estate development activities, SCDC enables the City to achieve strategic community objectives by optimizing the use and value of city-owned lands, leveraging civic facilities, and encouraging private sector development in Surrey. SCDC is a for-profit real estate development company and is an entity separate from the City of Surrey with independent finance, operation, and governance procedures.

SCDC is governed by an independent professional Board of Directors who form the Audit and Finance Committee, and a Governance and Human Resources/Compensation Committee. The City is not involved in the day-to-day management of SCDC. Rather, it has indirect control as Shareholder through a Partnering Agreement outlining the Company's directives and authorities. SCDC aligns its goals with the City of Surrey by way of the Partnering Agreement.



Financial Goals

SCDC's financial objective, which is established based on the Company's strategic plan, is to generate profitable returns from both real estate development projects and an income property portfolio. Generating profitable returns enables the Company to build equity and support continued payment of an annual dividend to the City of Surrey.

SCDC has been generating an annual surplus from operations since 2011 and has been able to provide an annual dividend of \$4.5 million to the City of Surrey since 2013. The annual dividend is funded from SCDC's consolidated annual surplus from operations.

In order to sustain and grow SCDC's financial success, projects are carefully analyzed to ensure maximum profitability and contribution to the City. We have a team of specialized real estate development professionals, each of whom has a significant amount of accumulated experience within the industry. Together they evaluate the risks and options associated with a project prior to receiving approvals and engaging with partnerships.

Community & Social Goals

SCDC is committed to helping shape the City of Surrey by adding to its vibrancy, sustainability, and economic competitiveness. Through community relationships, SCDC aims to serve as a catalyst in creating a City Centre which provides a wide range of high-value jobs, services, educational opportunities, along with housing options for Surrey's growing labour force.

It is SCDC's goal to be a key player in shaping the new Surrey City Centre into a dynamic and pedestrian-friendly community. This is a work in progress that includes the new City Hall, Library, and 3 Civic Plaza. 3 Civic Plaza is a joint venture between SCDC and Century Group that includes Kwantlen Polytechnic University, a Marriott Signature Collection Hotel, and luxury condominiums.

Future projects will include the redevelopment of the Ice Rinks and Pool, and various partnerships with nonprofit organizations. Planning has commenced on the relocation and redevelopment of the North Surrey Recreational Centre lands as well as several other projects that will increase rental housing throughout Surrey City Centre.

Creating Opportunities

Surrey's growth rate averages nearly 10,000 new residents annually. In support of this growth, SCDC is providing land and facilities to encourage businesses to locate here, thereby adding high-value jobs to the community which provides residents with more opportunities to work close to home. SCDC's work in South Surrey at Campbell Heights has brought numerous leading industrial enterprises including Starline Windows, Weir Canada Inc. and Garaventa Lift as long-term investors in Surrey's economy. Their commitment to Surrey adds solidly to economic and social growth, and brings vitality and high-value jobs to these formerly vacant lands.





“While creating an economic return is a key objective of SCDC, one of the pleasures of being part of SCDC is the equal focus on social goals and community building. Working on rental projects and developments that provide diverse employment opportunities in Surrey is an honor and a great reward.”

Erika Ulinder Bell

A Growing Community. A Prosperous Future.

The City of Surrey's financial, social, business, environmental and community objectives collectively form the lens through which we evaluate business opportunities and development projects. Our mandate is to be a catalyst in development projects that align with these diverse, community based objectives.

SCDC's industrial, residential and build-to-suit projects stimulate economic activity and bring vitality and jobs to the City. Economic diversity and growth contribute to the well-being of the citizens of Surrey.

SCDC is proud to have been a facilitator in helping to accelerate beneficial development throughout the City. We are committed to continue along this path towards a bright and prosperous future.



Project Portfolio



WHALLEY

Central City Brewing & Distillery

1

3 Civic Plaza

SURREY CITY CENTRE

Cedar Hills Shopping Centre

KING GEORGE BLVD.

FLEET

152 ST.

72 AVE.

120 ST.

Boundary Park Plaza

NEWTON

91

10

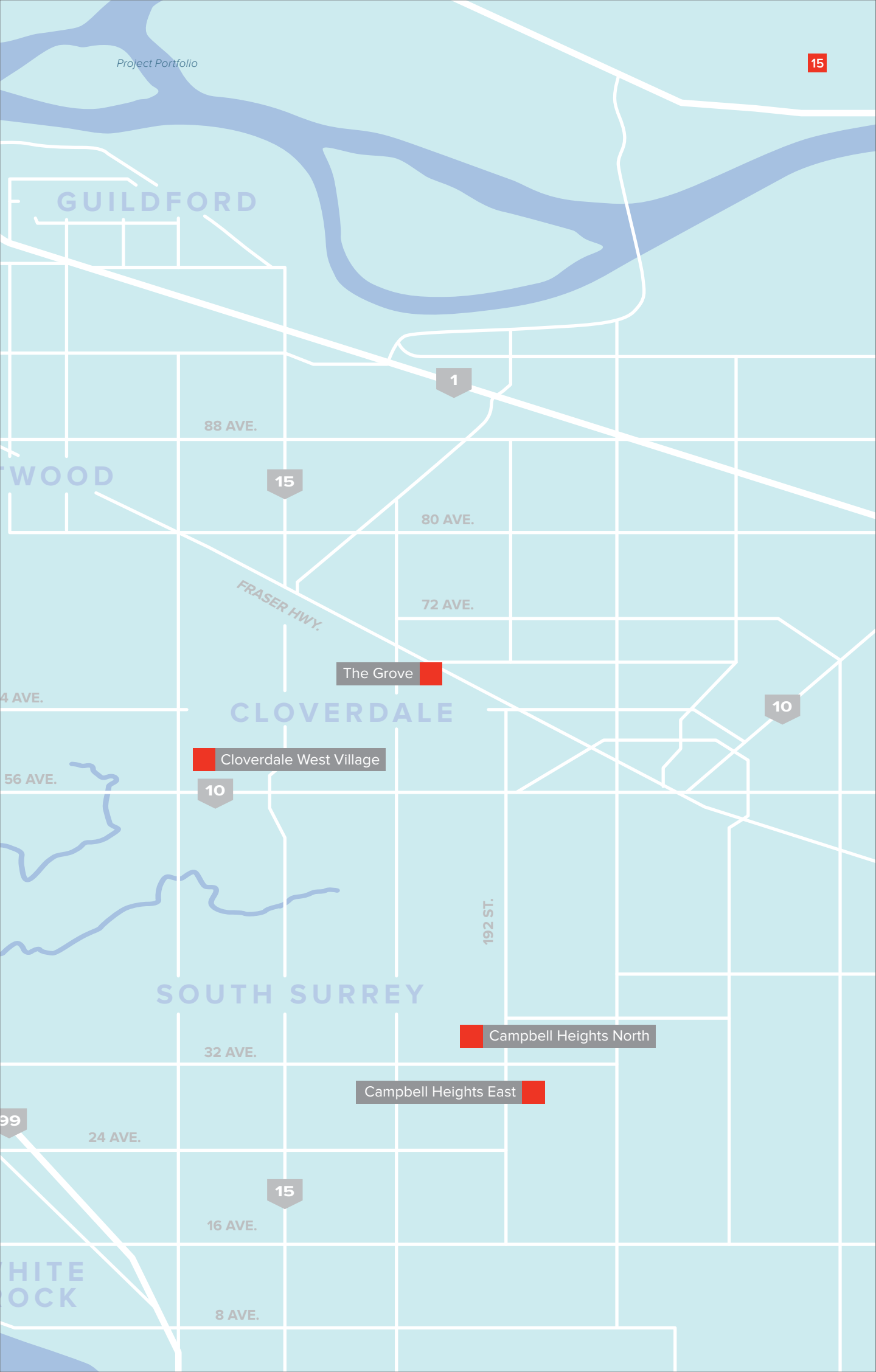
99A

99

24 AVE.

KING GEORGE BLVD.

W R



GUILDFORD

WOOD

88 AVE.

15

80 AVE.

72 AVE.

FRASER HWY.

The Grove

CLOVERDALE

4 AVE.

10

Cloverdale West Village

56 AVE.

10

192 ST.

SOUTH SURREY

32 AVE.

Campbell Heights North

Campbell Heights East

99

24 AVE.

15

16 AVE.

HITE
OCK

8 AVE.



3 Civic Plaza

3 Civic Plaza is a partnership between SCDC, Century Group, and Delta West Developments who are developing a 52-storey mixed-use building within the heart of the new Surrey City Centre. This landmark will be home to the Marriott Autograph Collection Civic Hotel, Kwantlen Polytechnic University, and new residents excited to experience Surrey's evolving City Centre.

This building, the tallest south of the Fraser River, will add significantly to Surrey City Centre's sophistication, business profile, and provide much needed social spaces for a vibrant and pedestrian-friendly core, while also providing excellent access to public transit. It is focused around the City Plaza which provides a new central social hub by hosting events varying from local farmers' markets to live concerts.

Century Group is a real estate development and property management company committed to building community. In business for more than 50 years, Century Group's vision is to create beautiful, sustainable buildings, public spaces and neighbourhoods where people can access jobs, transportation and local amenities. With continued increase of demand for housing, services, and amenities in Surrey, the sales for both the residential and office portions have performed well in these market conditions.



Campbell Heights North

SCDC has undertaken zoning, subdivision, and servicing of the 250 acre light industrial business park in Campbell Heights. This development has been very successful and is within close proximity to major transportation routes and the US Border.

In addition to leading the process to bring new industrial land into Surrey, SCDC became involved with Campbell Heights North as a way to create opportunities for new jobs and economic growth for the City. The majority of land sales have been to owner-occupiers who are seeing to either expand their business and/or realize the benefits of the development's strategic location. Sales for lots in the last phase, Phase 5, are close to being sold out with only 2 lots remaining.



Weir Facility

SCDC has partnered with Beedie Development Group to develop a 114,000 sq.ft. custom-built facility for Weir Canada Inc. (Weir) on a 5.9-acre site in Phase 3 of Campbell Heights North.

The development is designed to house engineering services and the manufacturing of state-of-the-art resource processing equipment for clientele throughout the world. Weir's 20-year commitment to Campbell Heights North illustrates the rise in business and economic development in Surrey, which is aligned with one of SCDC's mandates to attract skilled and high-value jobs to the City.

Beedie Development Group is one of the largest privately held development companies in western Canada. Established in 1954, Beedie Development Group is a fully integrated developer, builder and owner of real estate in all categories including industrial, commercial, residential and mixed use, primarily in BC, but with interests all across Canada.



The Grove at Clayton

A family-friendly 141-unit townhome complex in Clayton Heights, in joint venture with Townline Homes.

SCDC partnered with award-winning Townline Homes in developing The Grove: a family oriented community of 141 park homes, nestled in the heart of the vibrant enclave of Clayton Heights. The Grove's unique "two ringed" site design, with a forested inner courtyard, provides green space for all, maximizing livability and intelligent design. This site is projected to have final close out in 2017.



Cloverdale West Village

Cloverdale West Village (CWV) is comprised of 3 legal lots in the heart of Cloverdale.

The lots were formerly the Cloverdale Plaza Mall, a community shopping centre anchored by grocery store with several small Commercial Retail Units including a drycleaner. The property had significant contamination issues and required remediation. SCDC successfully remediated the site, allowing for the residential neighborhood developments to move forward. A local developer is currently constructing a rental apartment on one lot, with the remaining two lots under contract to be sold in 2017.



Income Properties

Cedar Hills Shopping Centre

Cedar Hills Shopping Centre is a 55,000 sq.ft. high traffic shopping centre located in Surrey's northwest sector at 96th Avenue and 128th Street. The Centre is shadow anchored by No Frills grocery store. Major tenants include Shoppers Drug Mart, Starbucks, Anytime Fitness and VanCity.

Bridgeview Industrial

In 2016, SCDC sold the Bridgeview Industrial property to Central City Brewers & Distillers, the long-term tenant of the 65,000 sq.ft. industrial facility, developed by SCDC in 2013. The development brought new jobs and reinvigorated the Bridgeview industrial area of Surrey. The project received the 2014 Award of Excellence at the Fraser Valley Industrial Commercial Building Awards.

Boundary Park Plaza

In 2016, SCDC sold Boundary Park Plaza, a 54,000 sq.ft. neighborhood retail centre. It is located in Surrey's Boundary Park area, at the intersection of Scott Road and 64th Avenue. Its location allows it to conveniently service both Delta and Surrey residents. Major tenants include Pharmasave, M&M Meat Shops, Coast Capital Savings and Benjamin Moore Paint.

Management's Discussion & Analysis

Fiscal 2016 was another successful year for SCDC. Financial returns exceeded the annual budget, resulting in SCDC's most profitable year to date. The Annual Surplus from Operations came in at \$18.7M which represents a \$9.0M increase over the budget of \$9.7M. Financial results for 2016 exceeded budget due to the sale of two income properties which were not budgeted to be sold. This freed up capital to be used for future development work and property acquisitions on projects that will contribute to the City's financial, social, and economic goals.

As a result of the profits earned on property sales in 2016, SCDC paid down significant levels of debt and paid a \$4.5M dividend to the City of Surrey. Cumulatively, since 2013, \$18.0M of dividends have been paid to the City of Surrey.

SCDC's tangible capital assets can be broadly classified into two categories:

1. Real estate development assets: as at December 31st 2016 SCDC held \$66.3M of real estate development assets, and
2. Income producing properties: as at December 31st 2016 SCDC held \$31.0M of income producing properties.

In accordance with generally accepted accounting principles real estate development assets and income producing properties are recorded at cost on the summarized financial statements which does not represent the fair market value of those properties. (See Note 6 to the Summarized Consolidated Financial Statements). The market value of SCDC's properties is greater than the cost/book value.

FINANCIAL PERFORMANCE - 2016

Highlights from the 2016 Consolidated Statement of Operations include the following:

- Net income from property sales increased 9% from \$8.7M in 2015 to \$9.5M in 2016 due to a strong market for industrial lands.
- Three income properties were sold in 2016 to take advantage of favourable cap rates generating a net gain of \$12.2M (2015: \$2.5M). The 2016 budget included the sale of one income property.
- Property lease income in 2016 decreased \$674K as compared to 2015 due to an increase in predevelopment work on future projects.
- Consolidated corporate operating expenses increased 12% overall to those in 2015 due to increased research and investigation costs relating to future projects.
- The Annual Surplus from Operations increased 86% from \$10.1M in 2015 to \$18.7M in 2016 which represents a \$9.0M increase to the budget of \$9.7M. Profits in 2016 were generated from development sales in the Campbell Heights industrial area and from the sale of three of SCDC's income properties.

Profits from operations in 2016 helped to strengthen SCDC's Consolidated Statement of Financial Position:

- Financial Assets decreased from \$48.8M in 2015 to \$6.7M in 2016, a decrease of \$42.1M. In 2015, Financial Assets included \$44.0M of properties held-for-sale, all of which sold during 2016. SCDC had additional properties actively for sale at the end of 2016, however they did not meet the accounting criteria for held-for-sale, and are therefore included in Non-Financial Assets.
- Liabilities decreased from \$120.9M in 2015 to \$73.4M in 2016, a decrease of \$47.5M primarily due to a reduction in amounts owing to the City of Surrey. Amounts owing to the City of Surrey bear interest at market rates (see Notes 4 and 5 to the Summarized Consolidated Financial Statements).
- Net Debt, which represents the difference between Financial Assets and Liabilities, decreased from \$72.1M in 2015 to \$66.7M in 2016 as a result of the disposition of various properties. As described in Note 6 to the Summarized Consolidated Financial Statements, the calculation of Net Debt excludes the value of Tangible Capital Assets.
- Non-Financial Assets increased from \$90.2M in 2015 to \$97.6M in 2016 as development continued on several projects.
- The \$18.7M Annual Surplus from Operations in 2016 was used to fund a \$4.5M dividend to the City of Surrey with the remainder increasing Accumulated Surplus, which sits at \$30.9M as at December 31st 2016.

ENTERPRISE RISK MANAGEMENT

SCDC has a well-defined and disciplined approach to Risk Management. The Board of Directors and Management meet on a regular basis to identify current organizational, operational and environmental risks and proactive mitigating strategies.

Financial Performance

Management and Board Responsibilities for Reporting

The 2016 Annual Report, including the summarized consolidated financial statements, were prepared by the management of SCDC. These summarized statements are based on complete consolidated financial statements prepared in accordance with the Canadian public sector accounting standards, and the integrity and objectivity of these statements are management's responsibility. Management is also responsible for implementing and maintaining a system of internal controls to provide reasonable assurance that reliable financial information is produced.

The summarized consolidated financial statements do not contain all the disclosures required by Canadian public sector accounting standards and readers are cautioned these statements may not be appropriate for their specific purposes. Management considers that the basis of presentation is appropriate to summarize financial information for inclusion in the annual report. The complete consolidated financial statements including Auditors' Report are available on request.

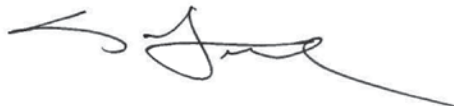
The Board of Directors are responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls and exercises these responsibilities through the Board and through an Audit Committee. Internal financial reports are reviewed on a quarterly basis and externally audited financial statements are reviewed annually. The Board of Directors has approved this Annual Report.

The external auditors, KPMG, conduct an independent examination, in accordance with Canadian auditing standards, and express their opinion on the statements. The external auditors have full and free access to financial management of SCDC and meet when required. KPMG's report on the summarized consolidated financial statements appears herein.

On behalf of SCDC



EMILY TAYLOR
Interim President & CEO



KAM GREWAL
Chair of the Board

Report of the Independent Auditors on the Summary Financial Statements

To the Board of Directors of SCDC

The accompanying summary consolidated financial statements of Surrey City Development Corporation, which comprise the summary consolidated statement of financial position as at December 31, 2016, the summary consolidated statements of operations, changes in net debt and cash flows for the year then ended, and related notes, are derived from the audited consolidated financial statements, prepared in accordance with Canadian public sector accounting standards, of Surrey City Development Corporation as at and for the year ended December 31, 2016.

We expressed an unmodified audit opinion on those consolidated financial statements in our report dated April 12, 2017. Those consolidated financial statements, and the summary consolidated financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on those consolidated financial statements.

The summary consolidated financial statements do not contain all the disclosures required by Canadian public sector accounting standards applied in the preparation of the audited consolidated financial statements of Surrey City Development Corporation. Reading the summary consolidated financial statements, therefore, is not a substitute for reading the audited consolidated financial statements of Surrey City Development Corporation.

Management's Responsibility for the Consolidated Financial Statements

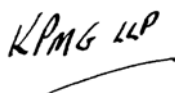
Management is responsible for the preparation of the summary consolidated financial statements in accordance with Canadian public sector accounting standards.

Auditors' Responsibility

Our responsibility is to express an opinion on the summary consolidated financial statements based on our procedures, which were conducted in accordance with Canadian Auditing Standard 810, "Engagements to Report on Summary Financial Statements."

Opinion

In our opinion, the summary consolidated financial statements derived from the audited consolidated financial statements of Surrey City Development Corporation as at and for the year ended December 31, 2016 are a fair summary of those consolidated financial statements, in accordance with Canadian public sector accounting standards.



Chartered Professional Accountants
Date: May 29, 2017
Burnaby, Canada



KPMG LLP Chartered Accountants

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SCDC

Summarized Consolidated Statement of Financial Position As at December 31, 2016, with comparative figures for 2015

	2016	2015
FINANCIAL ASSETS		
Cash	\$ 3,826,759	\$ 485,983
Due from government and other government organizations	1,465,763	1,485,348
Due from joint venture partners	82,167	1,459,733
Accounts receivable	771,752	426,711
Straight-line rent receivable (Note 2)	32,981	498,718
Properties held-for-sale (Note 3)	–	43,983,070
Investment in partnership	303,498	303,498
Performance bonds and deposits	181,201	123,189
Tenant inducements	9,036	32,343
	6,673,157	48,798,593
LIABILITIES		
Accounts payable and accrued liabilities	3,258,956	4,228,666
Loans payable	33,569,284	31,601,973
Deposits	5,514,687	522,400
Deferred gains	3,957,409	3,958,213
Due to joint venture partners	4,120,875	1,339,971
Due to City of Surrey – interim project financing (Note 4)	2,600,584	22,962,213
Due to City of Surrey – promissory notes (Note 5)	20,360,371	56,257,172
	73,382,166	120,870,608
NET DEBT (Note 6)	(66,709,009)	(72,072,015)
NON-FINANCIAL ASSETS		
Tangible capital assets	97,275,561	89,954,101
Prepaid expenses	357,304	235,161
	97,632,865	90,189,262
ACCUMULATED SURPLUS	\$ 30,923,856	\$ 18,117,247

See accompanying notes to summarized consolidated financial statements.

SCDC

Summarized Consolidated Statement of Operations

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

	BUDGET 2016	2016	2015
PROPERTY AND OTHER INCOME, NET			
Development property sales income, net	\$ 9,231,554	\$ 9,472,260	\$ 8,687,687
Gain on sale of income properties, net (Note 8)	1,801,119	12,150,356	2,523,845
Property lease income, net (Note 9)	714,834	101,273	775,742
Other income	–	58,898	22,032
Write-off of development costs (Note 10)	–	(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 summarized consolidated financial statements.

SCDC

Summarized Consolidated Statement of Changes in Net Debt Year ended December 31, 2016, with comparative figures for 2015

	BUDGET 2016	2016	2015
ANNUAL SURPLUS	\$ 6,089,531	\$ 12,806,609	\$ 5,270,912
Acquisition of tangible capital assets	(43,978,172)	(23,643,003)	(46,052,583)
Disposal of tangible capital assets	681,667	146,985	9,097,129
Amortization of tangible capital assets	1,102,138	514,576	1,029,797
Capitalization of wages	(1,173,750)	(871,859)	(1,053,212)
Write-off of development costs	–	903,227	–
	(43,368,117)	(22,950,074)	(36,978,869)
Transfer to properties held-for-sale	22,482,441	15,628,614	63,836,683
Change in pre-paid assets	(120,000)	(122,143)	(11,842)
	22,362,441	15,506,471	63,824,841
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 (Note 6)	\$ (86,988,160)	\$ (66,709,009)	\$ (72,072,015)

See accompanying notes to summarized consolidated financial statements.

SCDC

Summarized Consolidated Statement of Cash Flows

Year ended December 31, 2016, with comparative figures 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)
Change 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)
Net change in cash from operating activities	1,633,575	(1,986,818)
CAPITAL		
Purchase of tangible capital assets	(28,908,114)	(49,393,399)
INVESTING		
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
Net change in cash from investing activities	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)
Net change in cash from financing activities	(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

SCDC

Summarized Consolidated Statement of Cash Flows, Continued

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

	2016	2015
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

NOTES TO THE SUMMARIZED CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 2016

1. Summarized consolidated financial statements:

The summarized consolidated financial statements are derived from the audited complete consolidated financial statements and notes, prepared in accordance with Canadian PSAS established by the Canadian Public Sector Accounting Board, as at and for the year ended December 31, 2016. Those audited complete financial statements were approved by the Board of Directors on April 12, 2017, and are available on request.

The summarized consolidated financial statements were prepared by management based on the following criteria:

To fairly summarize financial information, extracted from the audited complete financial statements, for inclusion in the 2016 Annual Report, which provides the public with relevant information on the financial performance of SCDC.

2. Straight-line rent receivable:

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.

3. Properties held-for-sale:

As at December 31, 2016 the balance of properties held-for-sale is nil (2015 - \$43,983,070). The Corporation had various properties actively for sale at the end of 2016, however they did not meet all of the accounting criteria to be classified as held-for-sale for financial statement reporting purposes. As a result, these properties are included in tangible capital assets. Once the properties are in a condition to be sold they will be reclassified to properties held-for-sale.

4. Due to City of Surrey – interim project financing:

Interim project financing is provided by the City of Surrey to fund development projects in progress and bears interest at market rates. Funds are repaid to the City upon the sale of development projects or as external financing becomes available.

5. Due to City of Surrey – promissory notes:

Promissory notes are exchanged for land when the City of Surrey expends funds on behalf of SCDC to purchase the associated lands. The promissory notes bear interest at the Municipal Finance Authority of BC's 10-year lending rate. Promissory notes are repaid to the City on a monthly basis and upon the sale of the development projects they relate to. The issuance of debt results in an increase in Net Debt, with the offsetting asset included in tangible capital assets, reported below the net debt line.

6. Net Debt:

Consistent with Public Sector Accounting Standards (PSAS) real estate assets are included in one of three categories on the Consolidated Statement of Financial Position:

1. Where investment has been made towards the development of a City-owned property, costs are classified as "Due from government and other government organizations".
2. Where properties are ready and available to be sold they are classified as "Properties held-for-sale". These assets are valued at the lower of cost and net realizable value. As at December 31, 2016 (and at December 31, 2015) the net realizable value of the assets in this category was determined to be higher than the cost; "Properties held-for-sale" as at December 31, 2016 (and at December 31, 2015) is therefore valued at cost.
3. Income properties, properties-under-development and administrative assets are classified as "Tangible capital assets".
 - Income properties represent the cost of properties held with the expectation of earning rental income and include retail or commercial space that the Corporation leases to third parties. Income properties are recorded at cost less accumulated amortization.
 - 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.
 - Administrative assets include assets required by the Corporation to operate and manage overhead and administrative activities and include computer equipment and software, furniture and fixtures, tenant improvements and other related assets. Administrative assets are amortized on a straight-line basis over their estimated useful lives.

Under PSAS "Due from government and other government organizations" and "Properties held-for-sale" are considered to be Financial assets. Tangible capital assets are considered to be Non-financial assets.

The calculation of Net Debt under PSAS represents the difference between Financial assets and liabilities. Tangible capital assets are therefore specifically excluded in the calculation of Net Debt. Further, Financial assets are recorded at cost and do not represent the potential market value of those properties.

7. Accumulated surplus:

Accumulated surplus is comprised of:

	2016		2015	
Share capital, common shares	\$	100	\$	100
Share capital, preferred shares		3,844,700		5,274,500
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)
	\$	30,923,856	\$	18,117,247

8. Gain on sale of income properties, net:

During 2016, the Corporation sold three income properties resulting in a net gain of \$12.2 million (2015 - \$2.5 million). The 2016 budget anticipated the sale of one income property for a net gain of \$1.8 million.

9. Property lease income:

Property lease income represents net income on retail and industrial rental properties owned by the Corporation. During 2016, three properties were sold resulting in a decrease in lease income as compared to the prior year.

10. Write-off of development costs:

During 2016, SCDC 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 development costs identified were written off as they are not expected to contribute to the future economic benefit of the new project under development. The value of the land was not impaired.

Thank You

SCDC is proud of the development projects and economic stimulus we have brought to the City of Surrey. Looking to the future, we will remain committed to projects that support the businesses, citizens and the community of Surrey.

We welcome your questions and comments. Please feel free to send an email to info@scdc.ca, call **604-581-8787**, or visit www.scdc.ca if you would like to learn more about us.



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