

2018
Annual Report



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

OUR MANDATE IS THREE-FOLD:

To act as a catalyst for positive development that will support and accelerate the City of Surrey's social, cultural, community, economic and environmental objectives

To generate revenue through its real estate activity including building an income producing real estate portfolio

To provide strategic real estate advice in support of the City's vision for redeveloping areas of the City including the best use of surplus City-owned lands

The City of Surrey is SCDC's sole shareholder. SCDC operates under the business practices consistent with a private sector real estate company. This includes having an expert non-political Board consisting of independent Directors who are respected external professionals involved in diverse aspects of real estate and urban development, as well as having two City appointed Directors represented by senior City staff. The Board reports to the Shareholder which is the City of Surrey.

SCDC is a for-profit real estate development company and is separate from the City of Surrey with independent finance, operations, and governance. As noted above, SCDC is governed by a professional Board of Directors. SCDC has generated an annual surplus from operations since 2011 and has paid an annual dividend to the City of Surrey since 2013. The annual dividend is funded from SCDC's consolidated annual surplus from operations; the six year cumulative total of dividends to the City now stands at \$27M. These funds have contributed to the City's budget for a number

of important special initiatives including the biodiversity conservation program, technological infrastructure and library capital improvements.

The City of Surrey's population has grown to over 500,000 people, and the city has matured into one of the most thriving and exciting communities in Western Canada. Through this journey SCDC has supported Surrey's growth into becoming a vibrant and complete community through their progressive real estate activities. Whether facilitating job creation and growing the commercial tax base through extensive industrial developments, remediation of abandoned and contaminated land so that it can be repurposed as a vibrant new residential community or expanding Metro's second downtown in Surrey City Centre, SCDC has contributed in many meaningful and positive ways to Surrey's growth. In developing lands that bring vitality and work opportunities, our citizens are able to live and work within the same community.

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Letter from the Chair

SCDC has a mandate to assist the City in achieving its social, cultural, community, economic and environmental objectives while also providing a profitable return on its real estate holdings. 2018 was a very successful year for the Company in fulfilling its mandate and I am proud as Chair to be reporting on our activities.

SCDC has the unique ability to work with significant partners on complex developments to enhance growth, opportunities and the social well-being of the City of Surrey. This year saw the completion of 3 Civic Plaza and Hotel. SCDC served as a partner and catalyst in bringing this exciting development to reality. Not only does it provide much-needed facilities to Surrey, it sets a standard of quality for the future of the City Centre. After the successful completion of the project SCDC was able to reinvest earned profit in further growth opportunities.

In Campbell Heights, SCDC signed a multi-year lease with Wal-Mart who are constructing a \$175M innovative distribution facility that will provide SCDC and the City with long term revenue on this very valuable industrial land asset. Wal-Mart's presence adds prestige and value to the significant remaining land holdings of SCDC and the City.

Financially, 2018 was another strong year for the Company with annual surplus from operations of \$6.6M. The Company paid its shareholder its 6th consecutive dividend of \$4.5M. Cumulatively, the \$27M that SCDC has provided in dividends to the city represent a significant contribution toward the City's capital program. Since its beginning in 2007 SCDC has generated cumulative operating profits in excess of \$60M.

A new member was welcomed to the Board this year thereby filling its requirement of five independent directors. Christine Lundvall brings to the Board thirty years' experience in major project development, financing, and strategic corporate planning. She joins a Board of dedicated professionals whose skill, engagement and generosity towards our Company and its goals are commendable and I thank them most sincerely.

In 2018 the City of Surrey welcomed a new City Council. This affords SCDC the opportunity to collaborate and refocus our energies and direction in a manner that will help fulfill Council's future vision for the City and the exciting role SCDC can play. We welcome this new energy with a shared spirit of community building.

I have assumed the role of Chair from Kam Grewal who served as Chair during the strategic rebuilding process of the Board, a new CEO and other key members of the management team. Kam earned the admiration and respect of the Board and management during his three-year tenure. We are all grateful to him.

There are many exciting challenges and opportunities ahead for Surrey and SCDC. I look forward to combining the talents of the Board and working with Council for the positive growth of the City of Surrey.

Respectfully,



Howard Nemin,
Chair of the Board, SCDC

Letter from the President & CEO

On behalf of the entire team here at SCDC I am delighted to present our 2018 Annual Report.

2018 has been another successful year for SCDC financially and I am pleased to report that we achieved gross revenue of \$29.7M and profit of \$6.6M due to the sale of our interests in the 3 Civic Plaza LP at a profit, and ongoing revenue from our Weir Industrial and Cedar Hills Shopping Centre rental portfolio properties. This has enabled us to pay a \$4.5M dividend to our shareholder, the City of Surrey, for the sixth consecutive year.

SCDC has much to be proud of. Our cumulative operating profits in excess of \$60M and we have contributed \$27M in dividends to the City of Surrey, our shareholder. The financial fruits of our real estate activity, however, are only part of the story and by no means reflects the entirety of SCDC's positive impact. Aside from their financial benefits, SCDC's projects also have long lasting positive social, economic, community and environmental impacts on the City. These long lasting impacts include serving the citizens of Surrey by facilitating the creation of high-value jobs, modernizing the City Centre, stewarding ecologically sensitive areas and generating housing options.

2018 saw a range of SCDC activities continue throughout the city. In particular, our ongoing industrial development activity has now expanded to include a substantial new development area in Campbell Heights East. Site preparation and servicing is underway and a land lease agreement has been negotiated with Wal-Mart for a net developable 26.65 acres. Construction completed on 3 Civic Plaza, a landmark mixed use development project in the City Centre. These activities have benefited from our working with a complement of top-notch development partners whose contributions, collaboration and investment have been so important to our success. With a renewed commitment to 'city building', planning work is underway for significant smart growth projects adjacent to the Gateway and Surrey Central SkyTrain stations. This will complement our ongoing industrial development activity in Campbell Heights.

Ultimately, SCDC's past success as well as our future potential lies with the SCDC team. For that reason, I want to express again my gratitude to the extraordinary staff at SCDC, who have worked so hard and with such dedication for the benefit of our shareholder. My thanks also extends to the amazing and hardworking SCDC Board of Directors. SCDC is a frequent beneficiary of their collected wisdom, as well as their generous and collaborative natures.

We are looking forward to continuing to work with Surrey's Mayor and Council to ensure SCDC activities are aligned with the City's priorities. We continue to be grateful for this amazing opportunity to help shape this extraordinary city in meaningful ways.



Michael Heeney, Architect AIBC, FRAIC, RI (BC)
President & CEO, SCDC

Meet the Board

THE SCDG BOARD OF DIRECTORS IS COMPRISED OF FIVE INDEPENDENT DIRECTORS AND TWO CITY-APPOINTED DIRECTORS.



HOWARD NEMTIN – Board Chair

Howard Nemtin established Nemtin Consultants Limited in Vancouver in 1976. The firm 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 Committees.

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 2,000 successful commercial mediations. Howard is a member of the Institute of Corporate Directors.



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 TELUS Corporation and leads their corporate real estate function. He has held senior management positions with BCI (*British Columbia Investment Management Corporation*), several major real estate organizations, including three of North America’s largest investors, owners and managers of commercial real estate, as well as a leading multi-national retailer.

Scott is a professional urban planner with a Bachelor of Applied Arts from Ryerson University, a member of the Canadian Institute of Planners, and holds a Master of Business Administration from the Australian Institute of Business.



KAM GREWAL

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.



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 Board and Audit Committee Chair of Saegis, a CMPA 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 lives in South Surrey, with a second home 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 as set by Council. 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.



CHRISTINE LUNDVALL

Christine has nearly 30 years' experience in the Canadian real estate sector; specializing in portfolio strategy, asset management, development as well as acquisitions and dispositions. Christine worked primarily at Bentall Kennedy, one of North America's largest real estate investment managers. As a senior executive, she was dedicated to the growth and performance of the firm's largest client, the British Columbia Investment Management Corporation (BCI). Christine also led the Responsible Property Investing initiatives for the BCI account.

Christine was a management partner at Bentall Kennedy, involved in the transformational growth of the firm. Key programs included; strategic corporate planning, growth initiatives, risk management and governance frameworks. Christine holds an MBA from Dalhousie University and a BA (Economics) from the University of Western Ontario. She is a member of the Institute of Corporate Directors.



SUKI SEKHON

Suki Sekhon is President and CEO of CRS Group of Companies. The company has a diverse portfolio of retail shopping centres, office and warehouse buildings hotels and vineyards in western Canada. Suki's business portfolio includes 30 years of experience in the commercial real estate industry and he is well versed in the main sectors of the real estate market.

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, AIOF Commercial Real Estate Development Association, and a Board member of the Rick Hansen Foundation.

Meet the Team



MICHAEL HEENEY
ARCHITECT AIBC, FRAIC, RI (BC)
President & CEO

A nationally and internationally recognized city builder, architect and urban strategist with over 25 years experience guiding organizations and leading diverse projects, Michael Heeney joined SCDC as President and CEO in 2017. Michael has led local and international projects, often ones without precedent and in highly complex situations and jurisdictions. With a long-term and deep commitment to Surrey, some of his project experience prior to SCDC includes Surrey Central City, the City Centre Library, the Guildford Aquatic Centre and the recently completed SFU Surrey Sustainable Engineering complex. Michael is passionate about enhancing communities through innovative urban design and architecture and sees the importance of creativity and culture in contributing to the health and vitality of urban centers.

Michael sits on the Boards of the Downtown Surrey Business Improvement Association (DSBIA) and Ballet BC. He also sits on the Executive of the Vancouver Chapter of Lambda Alpha International, an international land economics organization.

Michael is a member of both the Architectural Institute of BC and the Real Estate Institute of BC; a Fellow of both the Royal Architectural Institute of Canada and the Real Estate Institute of Canada; and a LEED Accredited Professional. He holds degrees from the University of British Columbia and the University of Toronto.



EMILY TAYLOR
CPA, CA, ICD.D
Chief Financial Officer

Emily is a senior executive with over 20 years of experience in the real estate development and hospitality sectors. Her focus has been on providing financial and strategic leadership and creating strong relationships with development partners, the City of Surrey and the business community.

Emily has been with SCDC since 2012 and completed the Directors Education Program through the Institute of Corporate Directors. She sits on the Economic Development Committee of the Downtown Surrey Business Improvement Association and is a Board Director for the Royal Columbian Hospital Foundation as well as the Whistler 2020 Development Corporation.



BARRY GILBERT
Managing Director Real Estate & Investment

Barry brings depth and experience in the areas of acquisition, development and partnerships in residential, commercial, retail and industrial. Prior to joining SCDC, Barry spent over 30 years in real estate development including senior positions in the private sector with several high profile developers including Bentall, Leducor and Bosa Properties as well as operating his own consulting business.

Barry received his Bachelor of Commerce from the University of BC majoring in urban land economics and finance.



ROSS YAMAGUCHI
Senior Development Manager

Ross Yamaguchi has over 18 years experience in real estate development, construction, and infrastructure. Ross is committed to the positive growth of Surrey and is professionally driven by the creation of a community that shares opportunity for both public and private realm benefits.

Ross' educational background includes a degree in Business/Economics from the University of California Riverside, 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.



THOMAS ROWE
Development Manager

Thomas is responsible for leading project consultant teams, communicating with municipal government, managing project budgets, as well as the creation and evaluation of RFP/RFQ documents. He supports SCDC's strategic decision making through market research and financial analysis. Thomas is passionate about how real estate projects can be leveraged to create benefit to the wider community. He has volunteered with community-based organizations to assist with the use of their real estate assets. Thomas has been working with SCDC for the past three years.

Thomas holds a Bachelor of Commerce from the University of British Columbia.



AMANDA ZIZEK
CPA, CGA
Senior Accounting Manager

Working closely with the CFO, Amanda focuses on the preparation of SCDC's quarterly and annual financial statements. She oversees the day-to-day accounting functions of the organization and ensures that project budgets are on track and that forecasts are up-to-date.

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. She began her career in public practice before joining SCDC in 2013.



JAYME KRAUSE
Accountant

A key member of the accounting team, Jayme brings several years of accounting experience within the real estate industry to her role. Jayme supports the development team and corporate accounting through full cycle accounting activities. Jayme holds a Diploma in Accounting and completed her Bachelor of Technology in Accounting from BCIT in 2018.



MONICA NILES
CPHR, SHRM-SCP
Manager Human Resources & Administration

Having worked in the Human Resources field for nearly 15 years, Monica brings a broad spectrum of HR knowledge to SCDC. Monica manages the implementation of Human Resource programs and corporate governance, ensuring policies and procedures align with SCDC's strategic direction.

Monica is a Society for Human Resource Management Senior Certified Professional and a Chartered Professional in Human Resources.

About SCDC

SCDC is proud to be a part of realizing and advancing the transformation of the City of Surrey. 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 high quality private sector development in Surrey. Through community relationships, SCDC aims to serve as a catalyst in creating a city which provides a wide range of high-value jobs, services, educational opportunities, along with housing options for Surrey's growing population.

SCDC operates under the business practices consistent with a private sector real estate company. 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 its operating loans from the City of Surrey and is into its sixth year of paying an annual dividend of \$4.5M to the City. In addition, SCDC's efforts support the social, cultural, community and environmental objectives of the City.

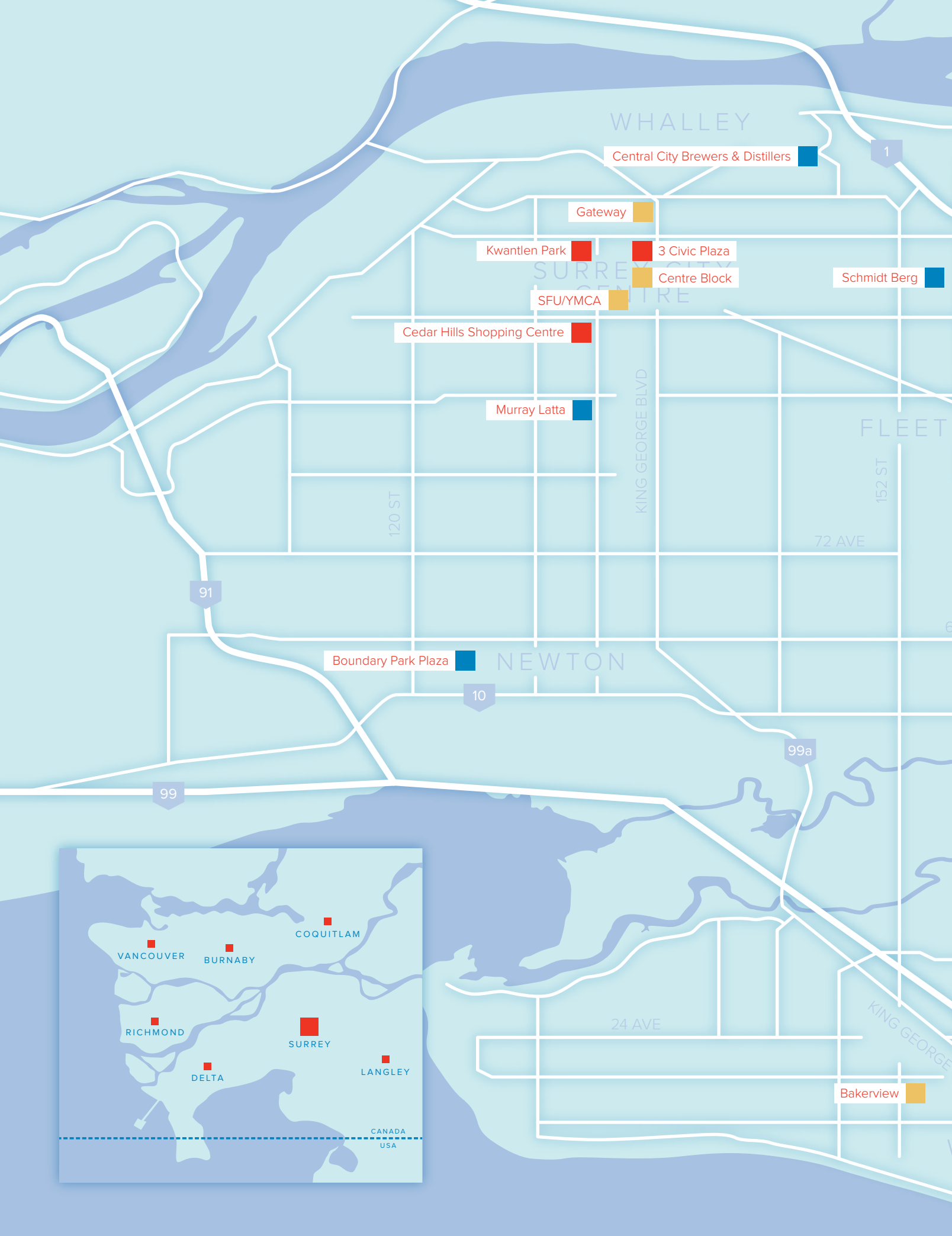
SCDC has an ongoing commitment to assist the City achieve its broad civic goals as well as fulfilling its financial objectives. On the financial side, SCDC's business strategy has two primary components; firstly, to generate profits from real estate developments, and secondly, to generate net income from investments and an income-producing portfolio of properties. These two sources provide the funds for SCDC operations and from which dividends are paid to the City of Surrey.

As SCDC enters its second decade of operation, the opportunity exists for the operation to be much more strategic and deliberate in its activities with the goal of having an even greater positive 'city building' impact on the City of Surrey.

2018 marks the 6th consecutive year in which a \$4.5M dividend has been paid to the City of Surrey. Cumulative dividends of \$27.0M have been provided to the City of Surrey to support the city's budget for special initiatives.

Project Portfolio

Whether facilitating job creation and growing the commercial tax base through extensive industrial developments, remediation of abandoned and contaminated land so that it can be repurposed as a vibrant new residential community, or expanding Metro's second downtown in Surrey City Centre, SCDC has contributed in many meaningful and positive ways to Surrey's growth.





- Past Projects
- Current Projects
- Future Projects

■ The Grove

■ Cloverdale West Village

■ Campbell Heights North

■ Campbell Heights East

■ Brooksdale



3 Civic Plaza

SCDC was proud to have been a partner in this transformational project that has helped define the Surrey City Centre. One of SCDC's most ambitious city building projects, 3 Civic Plaza was completed in 2018 after which the Company sold its remaining interest in the property to its partner, Century Group. This 512,202 sqft mixed-use project includes a combination of a hotel, office space/academic and residential units. At 52 stories, it is the tallest structure south of the Fraser River, classifying Surrey City Centre's place as the second downtown for Metro Vancouver. The design of the tower was carefully considered to complement City Hall and City Centre Library, the original anchors of the Civic Centre. 3 Civic Plaza includes the Civic Hotel, a Marriott Autograph Collection hotel, Kwantlen Polytechnic University and a residential tower.

3 Civic Plaza is a great example of the value that SCDC can bring to the City of Surrey. SCDC partnered with Century Group to create a development that has accelerated positive growth within the city in a way that neither the city nor the private sector could have accomplished on their own. 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 to create beautiful, sustainable buildings, public spaces, livable and walkable transit-oriented neighbourhoods where people can access jobs, transportation and local amenities is well aligned with SCDC.



Campbell Heights North

One of SCDC's early and ongoing initiatives is the development of the industrial lands in Campbell Heights in the southeastern end of the city. These lands are well positioned to major transportation routes and the US Border. This development involved the master planning, rezoning, subdivision and servicing of approximately 250 acres of much needed new industrial lands.

The importance of this economically to both the City and the region as a whole cannot be overstated. Critical shortages of industrial land in the region has been identified as a threat to their future by the Port of Vancouver amongst others, so

increasing supply as SCDC has done is hugely beneficial. Furthermore, this development significantly increases opportunities for local jobs and helps build the City of Surrey's commercial tax base.

SCDC's work in 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.



Campbell Heights East

Similar to Campbell Heights North, with land now coming onstream in Campbell Heights East, the ongoing development of industrial lands remains at the forefront of SCDC's activities.

SCDC has been leading the rezoning process for these lands and the Company is particularly proud of the balance that the development plan has found between ecological sensitivity and commercial requirements.

SCDC received support from the Department of Fisheries & Oceans and the Ministry of Environment to ensure development on this ecological sensitive site would be appropriately managed. Land servicing has incorporated the

dedication of significant amounts of land for conservation purposes, assisting the City in achieving its objectives of the Biodiversity Conservation Strategy and emphasizing SCDC's ongoing stewardship of environmentally sensitive lands.

2018 saw Wal-Mart Canada select this location to build a high-tech state-of-the-art 300,000 sqft fulfilment centre on 26.65 acres in order to support their fast-growing grocery business in Western Canada. This represents an investment of over \$175M into the Surrey economy.



Revenue Properties

Weir Canada Inc

SCDC partnered with Beedie Development Group to develop a custom-built facility for Weir Canada Inc (Weir) in Campbell Heights North. This development houses Weir's engineering services and the manufacturing activities for clientele throughout the world, and is aligned with one of SCDC's mandates to attract skilled and high-value jobs to the City.

Beedie Development Group has been an excellent partner with SCDC and is one of the largest privately held real estate development companies in western Canada.

Cedar Hills Shopping Centre

Cedar Hills Shopping Centre is a retail shopping centre located approximately 1 km southwest of Surrey City Centre. The 55,000 sqft centre has a wide variety of tenant uses anchored by Shoppers Drug Mart, Starbucks and VanCity.

Surrey City Development Corporation

2018 Statement of Governance Practices

Surrey City Development Corporation is incorporated under the Business Corporations Act of BC. Accordingly, the primary role of the Board of Directors is to provide direction and oversight to the Company's affairs. It has the responsibility to make a recommendation to appoint the CEO and to provide direction and oversight regarding the conduct of the Company's business and the management team which has been delegated the responsibility for the day-to-day operation of SCDC.

The Board of Directors is appointed by the City of Surrey, who is the sole shareholder. The Board is made up of the City Manager and a senior manager of the City of Surrey, along with five independent Directors who have no direct or indirect material relations with the Company or its subsidiaries and who are independent of management. Each term appointment is established by the City of Surrey. Re-appointment is recommended by the Board and approved by the City of Surrey. Directors are required to affirm annually that they will abide with the Director Code of Conduct and must declare any actual or potential conflicts of interest on an ongoing basis. Directors are selected based on expertise and competencies in areas such as risk management, finance, real estate law, and real estate development as established by the Board.

The Board is responsible for appointing the Chair, who makes recommendations regarding the composition of Board Committees and the Committee Chairs. The Board is also

responsible for appointing and evaluating the performance of the President & CEO and Officers of the Company and ensuring a succession plan is in place for the company. At this time, the Board has established two standing Committees: an Audit & Finance Committee which advises the Board on the adequacy and effectiveness of the Company's financial reporting, internal controls, information systems and risk management; and the Governance Human Resources & Compensation Committee which advises on the adequacy and effectiveness of the corporate governance practices and procedures, human resources, and compensation policies.

A Board evaluation process is completed each year, and time is set aside at each Board or Committee meeting for an in camera discussion.

In 2018, Directors Bruce Joyce and Suki Sekhon's terms were renewed for two and three years respectively. A fifth independent director, Christine Lundvall, was appointed to the Board for a term of two years. The Board held a strategic planning session in November. Late in 2018, the Board reconstituted the two standing Committees: the Audit and Finance Committee and the Governance Human Resources Compensation Committee.

As ongoing business, the Board Chair was pleased to report completion of the annual board evaluation, a review of director competencies, as well as compliance with various governance and company policies.

Management's Discussion & Analysis

With an Annual Surplus from Operations of \$6.6M fiscal 2018 was another profitable year for SCDC. Construction was completed on the 3 Civic Plaza partnership and SCDC disposed of its interest in this immensely successful partnership. In addition, SCDC's income property portfolio continued to generate strong returns for the Corporation. The 2018 annual surplus from operations of \$6.6M represents an increase of \$1.8M over the budget of \$4.8M.

Strong financial results enabled the Corporation to pay down significant levels of debt and pay a \$4.5M dividend to the City of Surrey. Cumulatively, since 2013, \$27.0M of dividends have been paid to the City of Surrey.

The book value of SCDC's tangible capital assets as at December 31, 2018 was \$80.2M comprised of:

- Properties under development of \$59.4M,
- Income producing properties of \$20.7M, and
- Administrative assets of \$0.1M.

In accordance with generally accepted accounting principles tangible capital assets are recorded at cost on the summary financial statements which does not represent the higher market value of those assets. (See Note 7 to the Summary Consolidated Financial Statements).

FINANCIAL PERFORMANCE – 2018

Highlights from the 2018 Consolidated Statement of Operations include the following:

- Consistent with budget, there were no significant sales of development properties in 2018 as much of SCDC's property was either under development or being held to generate recurring profits.
- A gain of \$7.3M was generated in 2018 from the sale of the Corporation's interest in the 3 Civic Plaza partnership (see Note 9 to the Summary Consolidated Financial Statements).
- Property lease income increased from \$247K in 2017 to \$606K in 2018 as SCDC's income properties are becoming more established.
- Income from government business partnership represents the net profit from the Beedie SCDC (34A Ave) Limited Partnership which is accounted for under the modified equity method of accounting (see Note 2 to the Summary Consolidated Financial Statements).
- Consolidated corporate operating expenses increased 12% overall to those in 2017 due to a combination of factors including predevelopment activities. Corporate operating expenses came in 20% below budget.
- The 2018 Annual Surplus from Operations of \$6.6M was used to pay a dividend of \$4.5M to the City of Surrey.

Profits from operations in 2018 helped to strengthen SCDC's Consolidated Statement of Financial Position:

- Financial Assets increased \$3.2M, from \$10.2M in 2017 to \$13.4M in 2018, due to increases in cash and accounts receivable (see *Note 3 to the Summary Consolidated Financial Statements*).
- Liabilities decreased from \$58.0M in 2017 to \$30.5M in 2018, a decrease of \$27.5M, primarily due to the repayment of construction loans on the 3 Civic project which was completed during the year. Amounts due to the City of Surrey bear interest at market rates (see *Notes 5 and 6 to the Summary Consolidated Financial Statements*).
- Net Debt, which represents the difference between Financial Assets and Liabilities, decreased from \$47.8M in 2017 to \$17.1M in 2018 as a result of the disposition of SCDC's interest in the 3 Civic Plaza partnership. As described in Note 7 to the Summary Consolidated Financial Statements, the calculation of Net Debt excludes the value of Tangible Capital Assets.
- Non-Financial Assets decreased from \$108.0M in 2017 to \$80.2M in 2018 due to the sale of SCDC's interest in the 3 Civic Plaza partnership.
- Accumulated Surplus as at December 31, 2018 sits at \$63.1M as compared to \$60.2M as at December 31, 2017. As shown in Note 8 to the Summary Financial Statements, Accumulated Surplus increased during 2018 as a result of profitable operations and due to the issuance of preferred shares.

Financial Performance

Management and Board Responsibilities for Reporting

The 2018 Annual Report, including the summary consolidated financial statements, was prepared by the management of Surrey City Development Corporation (“SCDC”). These summary 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 summary 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, BDO, 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. BDO’s report on the summary consolidated financial statements appears herein.

On behalf of SCDC



MICHAEL HEENEY
President & CEO



EMILY TAYLOR
Chief Financial Officer



HOWARD NEMTIN
Chair of the Board

Report of the Independent Auditor on the Summary Consolidated Financial Statements

To the Shareholder of Surrey City Development Corporation

Opinion

The summary consolidated financial statements, which comprise the summary consolidated statement of financial position as at December 31, 2018, the summary consolidated statement of operations, the summary consolidated statement of changes in net debt and the summary consolidated statement of cash flows for the year then ended, and related notes, are derived from the audited consolidated financial statements of Surrey City Development Corporation for the year ended December 31, 2018.

In our opinion, the accompanying summary consolidated financial statements are a fair summary of the audited consolidated financial statements, in accordance with the criteria disclosed in Note 1.

Summary Consolidated Financial Statements

The summary consolidated financial statements do not contain all the disclosures required by the Canadian public sector accounting standards. Reading the summary consolidated financial statements and the auditor's report thereon, therefore, is not a substitute for reading the Entity's audited consolidated financial statements and the auditor's report thereon.

The Audited Consolidated Financial Statements and Our Report Thereon

We expressed an unmodified audit opinion on the audited consolidated financial statements in our report dated April 17, 2019.

Management's Responsibility for the Summary Consolidated Financial Statements

Management is responsible for the preparation of the summary consolidated financial statements in accordance with the criteria disclosed in Note 1.

Auditor's Responsibility

Our responsibility is to express an opinion on whether the summary consolidated financial statements are a fair summary of the audited consolidated financial statements based on our procedures, which were conducted in accordance with Canadian Auditing Standard (CAS) 810, Engagements to Report on Summary Financial Statements.

BDO Canada LLP



Canada

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SCDC

Summary Consolidated Statement of Financial Position

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

	2018	2017
FINANCIAL ASSETS		
Cash	\$ 1,606,317	\$ 509,755
Due from governments	167,577	704,105
Due from partners	–	924,629
Investment in government business partnership (Note 2)	444,339	373,606
Accounts receivable (Note 3)	4,202,859	267,873
Portfolio investments	6,838,877	7,303,523
Performance bonds and deposits	30,000	30,000
Tenant inducements	111,487	40,428
	13,401,456	10,153,919
LIABILITIES		
Accounts payable and accrued liabilities	1,373,643	2,885,730
Due to governments	153,911	1,004,695
Loans payable	12,569,437	32,078,624
Deposits	547,177	4,531,387
Deferred gains	416,097	4,220,601
Unearned revenue (Note 4)	3,885,366	34,555
Due to partners	–	3,668,421
Due to City of Surrey – interim project financing (Note 5)	5,673,041	3,498,262
Due to City of Surrey – promissory notes (Note 6)	5,875,094	6,059,160
	30,493,766	57,981,435
NET DEBT (Note 7)	(17,092,310)	(47,827,516)
NON-FINANCIAL ASSETS		
Tangible capital assets	80,183,796	107,917,563
Prepaid expenses	50,077	64,931
	80,233,873	107,982,494
ACCUMULATED SURPLUS (Note 8)	\$ 63,141,563	\$ 60,154,978

See accompanying notes to summary consolidated financial statements.

SCDC

Summary Consolidated Statement of Operations

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

	BUDGET 2018	2018	2017
PROPERTY AND OTHER INCOME, NET			
Development property sales income, net	\$ –	\$ 275,420	\$ 10,240,655
Gain on sale of partnership interest (Note 9)	6,499,980	7,338,183	–
Property lease income, net	555,600	605,814	247,489
Income from government business partnership (Note 2)	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			
Administration	753,699	620,940	457,512
Income properties	251,233	206,980	91,502
Real estate development and sales	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 summary consolidated financial statements.

SCDC

Summary Consolidated Statement of Changes in Net Debt

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

	BUDGET 2018		2018	2017
ANNUAL SURPLUS	\$	27,251,000	\$ 2,986,585	\$ 29,231,122
Acquisition of tangible capital assets		(49,687,000)	(15,383,835)	(45,082,072)
Disposal of tangible capital assets		800,000	–	–
Amortization of tangible capital assets		316,000	302,695	312,464
Capitalization of wages		(1,140,000)	(976,910)	(919,527)
		(49,711,000)	(16,058,050)	(45,689,135)
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 assets		15,000	14,854	292,373
		46,984,000	43,806,671	35,339,506
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 (Note 6)	\$	(23,303,516)	\$ (17,092,310)	\$ (47,827,516)

See accompanying notes to summary consolidated financial statements.

SCDC

Summary Consolidated Statement of Cash Flows

Year ended December 31, 2018, with comparative figures 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) of 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)
Change in non-cash working capital	(2,339,397)	1,066,882
Net change in cash from operating activities	(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)
Net change in cash from capital investments	(9,709,139)	(22,681,330)
INVESTING		
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)
Proceeds from disposal of properties held-for-sale and properties under development	22,235,894	37,770,787
Net change in cash from investing activities	22,629,807	30,700,453
FINANCING		
Distribution of earnings to shareholder	(4,500,000)	(4,500,000)
Increase in due to / from partners	-	(1,294,916)
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)
Net change in cash from financing activities	(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 LP'S	-	(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	\$ 6,700,000	\$ 25,482,000

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Notes to the Summary Consolidated Financial Statements

Year ended December 31, 2018

1. Summary consolidated financial statements:

The summary 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, 2018. Those audited complete consolidated financial statements were approved by the Board of Directors on April 17, 2019 and are available on request.

The preparation of these summary consolidated financial statements requires management to determine the information that needs to be reflected in them so that they are consistent in all material respects with, or represent a fair summary of, the audited consolidated financial statements.

The summary 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 2018 Annual Report, which provides the public with relevant information on the financial performance of SCDC.

- a. *the summary consolidated financial statements include a statement for each statement included in the audited consolidated financial statements;*
- b. *information in the summary consolidated financial statements agrees with the related information in the audited consolidated financial statements;*
- c. *major subtotals, totals and comparative information from the audited consolidated financial statements are included; and*
- d. *the summary consolidated financial statements contain the information from the audited consolidated financial statements dealing with matters having a pervasive or otherwise significant effect on the summary consolidated financial statements.*

2. Investment in government business partnership:

The Beedie LP meets the criteria of a government business partnership and results are accounted for under the modified equity method. Under the modified equity method, the Corporation's share of net assets are reflected in a single line item on the Statement of Financial Position and the Corporation's share of net profits are reflected in a single line item on the Statement of Operations.

3. 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.

4. Unearned revenue:

Unearned revenue represents development cost charges with respect to a property under development, as described in Note 3.

5. 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.

6. 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 or 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.

7. Net debt:

Consistent with Public Sector Accounting Standards (PSAS) real estate assets are included in one of two 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 governments".
2. 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 governments" 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.

SCDC

Notes to the Summary Consolidated Financial Statements (continued)

Year ended December 31, 2018

8. Accumulated surplus:

Accumulated surplus is comprised of:

	2018	2017
Share capital, common shares	\$ 100	\$ 100
Share capital, preferred shares	29,295,000	28,423,000
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)
	\$ 63,141,563	\$ 60,154,978

9. Gain on sale of partnership interest:

On October 9, 2018, SCIC, a wholly owned subsidiary of SCDC, disposed of its ownership interest in the Surrey Centre Limited Partnerships and its shares of Surrey Centre Tower Holdings for proceeds of \$22M which resulted in a net gain on sale totaling \$7.3M, including previously deferred gains of \$3.8M.

Thank You

SCDC has contributed to creating a positive financial, economic, social and physical legacy for the City of Surrey and remains committed to positively impacting this extraordinary city in the years to come.

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..



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