



2019
Annual Report

scdc

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. Established in 2007 by Mayor Diane Watts, 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 seven year cumulative total of dividends to the City now stands at \$31.5M. 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 well 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

I am honoured to once again outline, from the Chair's perspective, the significant accomplishments of SCDC as set out in this 2019 Annual Report. As Chair of the Board, I am delighted to be able to report another active and successful year. Our financial strength has grown, and our goal of building an increasingly strong, successful and sustainable company for the people of Surrey was achieved.

Since its establishment in 2007, SCDC has created a strong reputation through its profitable and progressive development work. It has optimized the value of surplus City-owned lands while also enhancing the City financially, environmentally, socially and culturally through its "City Building" projects.

SCDC has been profitable since 2011, and since 2013 it has contributed an annual \$4.5 million dividend to the City. It is on track to deliver another \$4.5 million to the City by the end of 2020, for a total of \$36 million over the past eight years. Surrey's Mayor and Council have used these funds for several special initiatives in the City, including funding library enhancements and purchasing bio-diversity lands.

2019 has been another successful year for SCDC financially. The company achieved gross revenue of \$12.4 million and profit of \$6.6 million due to the sale of an industrial lot in Campbell Heights North, the sale of its interest in the Bosa LP at a profit, and ongoing revenues from our Weir Industrial and Cedar Hills Shopping Centre rental properties. SCDC's cumulative operating profits are in excess of \$67 million, of which \$31.5 million have been contributed in dividends to our shareholder, the City of Surrey.

SCDC has had the unique ability to work with both private and public sector partners on complex developments to enhance growth, opportunities and the economic well-being of the City of Surrey. Over the years the company has developed projects that would not otherwise have been advanced by either the public or the private sectors on their own.

In April 2020, Surrey's Mayor advised SCDC that he and Council had voted to dissolve the company and transfer SCDC's assets and activities to the City to operate directly, in-house. SCDC was directed to work with City staff to create a transition plan that would allow for the company's orderly dissolution. This planning work is presently in progress and SCDC will continue to operate until the transition to the City is complete.

I would like to take this opportunity to thank the talented and dedicated Board of Directors who have worked selflessly to create great benefit for the City of Surrey. I also wish to recognize and thank our CEO, Michael Heeney, and his SCDC Team for their loyalty and hard work in continuing to advance projects that will produce a better and more rewarding place to live for the residents of 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 it is a pleasure to present our 2019 Annual Report.

2019 was yet another successful year for SCDC financially and I am pleased to report that we achieved gross revenue of \$12.4M and profit of \$6.6M. This revenue was achieved due to the ongoing revenue from our Weir Industrial and Cedar Hills Shopping Centre rental portfolio properties and the strategic profitable sales of an industrial lot in Campbell Heights North and our interest in the Bosa Limited Partnership. This has enabled us to again pay a \$4.5M dividend to our shareholder, the City of Surrey, for the seventh consecutive year. SCDC has much to be proud of with our cumulative operating profits now in excess of \$67M which have provided the basis of \$31.5M in dividend payments to the City of Surrey. The remaining surplus has been reinvested into our real estate portfolio which now has an appraised market value approaching \$250M.

SCDC's solid financial performance is just part of the story, and it represents only one dimension of our mission to harness the power of real estate to make the City of Surrey better for its citizens. SCDC's projects will also have long-lasting positive social, economic, community and environmental impacts on the City. These initiatives create high-value jobs, advance our nascent downtown, protect ecologically sensitive areas and generate different housing options. As you will see in this report, in 2019 the Company's activities were effectively focused on advancing meaningful real estate projects in Campbell Heights and the City Centre.

I want to take this opportunity to thank the highly talented people who have made the aforementioned results possible. Firstly, I would like to acknowledge my SCDC colleagues whose skill and dedication are the cornerstone of all our work. The advice, support and tireless work of our dedicated Board of Directors has also been vital to our success. Last but not least, we most certainly could not have achieved what we have without our private sector partners who have provided us with invaluable expertise, support and investment as we jointly developed projects over these past dozen years.

SCDC's 2019 activities were positively capped off with Mayor and Council strongly supporting our 2020 Business Plan projecting the company's main activities for the next 5 years. Despite this, and SCDC's significant past contributions, it is with a great deal of disappointment that I must report that in April 2020, we were suddenly advised by the Mayor that he and Council had voted to dissolve the company.

As SCDC works toward the transition of our assets and activities over to the City of Surrey, I again have to call out the outstanding professionalism and commitment of my colleagues and Board. SCDC is immensely proud of our track record advancing the City of Surrey's interests and I am hopeful that the City will continue work on many of our initiatives into the future.

I have been very proud to lead SCDC and feel privileged to have had this amazing opportunity to help shape this extraordinary city in meaningful ways. As the City of Surrey continues on its rapid growth trajectory, I wish it the very best as it charts a course to become the dynamic and complete city its citizens deserve.



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

Meet the Board



1 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.



2 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.



3 KAM GREWAL (*up until September 2019*)

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.

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



4 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.



5 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.



6 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.

Meet the Team



1 **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.



2 **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.



3 **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 financial analysis and market research. 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 and a half years.

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



4 AMANDA ZIZEK
CPA, CGA
Controller

Amanda Zizek joined SCDC in 2013. She is part of the senior management team and brings over 10 years of experience in the real estate development and public accounting sectors. She provides financial leadership through the management of the day-to-day operations as well as the financial planning and analysis for the company.

Prior to completing her CPA, CGA designation, Amanda graduated with distinction from both the Bachelor of Technology in Accounting and the Financial Management Diploma programs through BCIT.



5 JAYME KRAUSE
Senior 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.



6 RENY KAHLON
Office Manager / Executive Assistant

As a dedicated and knowledgeable professional with 20+ years of senior management experience in Board Governance and operations, Reny works closely with the CEO and President to ensure procedures and policies align with SCDC strategic vision. She is responsible for administrative operations and corporate governance.



7 AVNOOR NIJJAR
Accountant

Avnoor is SCDC's staff accountant who is responsible for its full cycle accounting activities. He works closely with both the senior accountant and controller to support the development team.

Avnoor completed his Bachelor of Accounting and Diploma in Accounting through BCIT. He is currently pursuing his CPA designation.

Recent Developments

In 2018, the City of Surrey welcomed a new City Council. Throughout 2019, SCDC's management and Board met extensively with the new Mayor and Council to collaborate on a new set of priorities for the SCDC to help fulfill Council's vision for the City and its real-estate holdings. This cooperative effort culminated in SCDC's 2020 Business Plan which charted a new 5-year plan for SCDC, which Surrey City Mayor and Council overwhelmingly approved on December 16, 2019. Part of this plan involved the repositioning of the company to emphasize its city-building activities and it was agreed that the company should be renamed and branded to better reflect this mandate.

While regular discussions continued with the City on a rebranding and renaming for SCDC well into the first quarter of 2020, on April 22, 2020 Mayor Doug McCallum unexpectedly wrote to the company advising that Council had voted to dissolve SCDC. They instructed SCDC's management and Board to work with City staff to prepare a plan for the orderly transition of the company's assets and activities into the City of Surrey.

SCDC is currently working with City staff on this transition plan in a way that will continue the many positive activities and initiatives that SCDC has been undertaking over the past 13 years to ensure that they will continue on after the transition.



Credit: Hariri Pontarini Architects and Urban Strategies

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.



Surrey City Centre

Metro Vancouver's growth is physically constrained by the Pacific Ocean and the Coastal Mountains. As a result, as the region has grown over the past few decades the centre point of the region's population has been steadily moving south east, further and further away from Vancouver's downtown peninsula. This highly inefficient growth pattern was recognized as a challenge decades ago by Metro Vancouver who identified Surrey City Centre as the preferred location for a second downtown to serve the southern portion of the region. Rapid population growth south of the Fraser has brought us to the point where more people live proximate to Surrey City Centre than Downtown

Vancouver. Despite this, Surrey City Centre has not developed a robust central business district sufficient to serve this part of region. For this reason, SCDC was asked early on in its mandate to undertake projects that would accelerate this transformation. To this end, last year SCDC completed in partnership with the Century Group, the 3 Civic Plaza project, a 52-story tower containing 500,000 sf of hotel, academic, office and residential uses. This building has gone a long way to building momentum in the city centre and has laid the groundwork for two other significant and impactful projects that you will see on the following pages.







Credit: Hariri Pontarini Architects and Urban Strategies

Centre Block

The excitement is building for Centre Block, a 2+ million sq. ft. commercial and institutional project that will significantly advance the development of Surrey's central business district and grow the City's commercial tax base. SCDC led the development of a master plan for this strategically important site in partnership with Simon Fraser University and the City. The master plan can be executed in up to 4 phases, depending on the market and other factors.

This plan outlines the comprehensive development of the decommissioned North Surrey Recreation Centre site and SFU land to the south. Emphasizing high-quality architecture, the plan provides for a generous public realm, integrating

pedestrian crossings, improved transit access and beautiful outdoor gathering spaces. The initial two phases will be developed on the city-owned property on the northern half of the site.

This impactful development will effectively double the total office and academic space in the City Centre and will provide the critical mass necessary to establish Surrey City Centre as the region's second business core. SCDC's unique structure has provided the ability to collaborate effectively with senior levels of government (Federal and Provincial), their agencies and the private sector to accelerate this development.





Credit: ZGF Architects

Gateway

The Gateway project is SCDC's other priority project in the City Centre. The scale and high quality of this project will provide a powerful opportunity to ignite positive development in this transitional neighbourhood, ensuring its evolution into a vibrant and amenity rich, high-density residential neighbourhood within easy walking distance of both transit and the City's emerging downtown.

The site will be created through a consolidation of City owned properties with 2 adjacent lots that have been assembled and purchased by SCDC. A portion of the City's property is leased until 2023 to the Sunshine Co-op, a series of 39 low density townhouses reaching the end of their useful life.

Once developed, the Gateway project will provide for approximately 1600 units of housing to support the growing Central Business District to the south. The master plan contemplates the development being undertaken in up to six building phases clustered around a magnificent fully restored natural landscape.

SCDC has purchased a nearby site to facilitate the creation of a new affordable housing development that can accommodate the Sunshine Co-op residents after their lease expires.



Kwantlen Park

The Kwantlen Park project is an affordable housing project that SCDC is facilitating in order to support the relocation of the Sunshine Co-op and improve access to affordable housing in the Surrey City Centre. Located on land purchased by SCDC within a ten-minute walk of the present Sunshine Co-op site, the development is expected to create approximately 70 affordable units, of which approximately 40 will be earmarked for the Sunshine Co-op.

SCDC is working closely with the Community Land Trust and BC Housing to deliver the new facility. In addition to providing the development with a 60 year land lease on the property, SCDC has been assisting with the entitlement process to ensure that as much affordable housing as possible will be provided in addition to rehousing the Sunshine Co-op.



Credit: NSDA Architects



Campbell Heights North

One of SCDC's early and ongoing initiatives is the development of the industrial lands in Campbell Heights North, located 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 development has attracted and supported the growth of many of Surrey's most successful companies, including Garaventa, Weir Canada and Starline Windows, the City's largest private sector employer.

The economic importance of this development to both the City and the region as a whole cannot be overstated. This development has meaningfully grown the City's industrial tax base and supported the growth of well-paid jobs for its citizens. Critical shortages of industrial land in the region has been identified as a major threat to our future by the Port of Vancouver amongst others, so increasing the supply of new industrial land as SCDC has done is hugely beneficial.



Credit: D-Squared Architects

Lot 10

In close consultation with the City, SCDC has chosen to retain its last undeveloped lot in Campbell Heights North and to develop it as a long-term revenue property. This strategy will provide a sustainable revenue stream as well as the ability to use the property to support the City's economic development initiatives in the long term.

Preliminary design work has been initiated and Management has been working with the brokerage community and the City's Economic Development team to seek out potential "build to suit" tenant opportunities.



Weir Canada Inc

SCDC partnered with Beedie Development Group to develop a custom-built facility for Weir Canada Inc in Campbell Heights North. This development houses Weir's engineering services and the manufacturing activities for clientele throughout the world. Not only does this property provide the company with a sustainable revenue source, it is also aligned with SCDC's mandate 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.



Campbell Heights East

The ongoing development of industrial lands in Surrey has remained at the forefront of SCDC's activities. The Campbell Heights East development represents the next stage of SCDC's industrial land initiatives and will provide a major new contribution of industrial lands to the region.

SCDC has led the rezoning and development process for the 80 acres of 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 ecologically 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.

Prior to completion of site development, SCDC entered into a land lease with Walmart Canada and is presently working with the City's economic development team and brokerage community to find a suitable tenant for the remaining 14 acres of the first phase. SCDC has also initiated the rezoning for the remaining forty acres representing the second phase of these lands. By choosing to retain ownership of these lands for the long term, SCDC and the City will be generating a long term sustainable revenue stream as well as advancing the City's future economic development agenda.



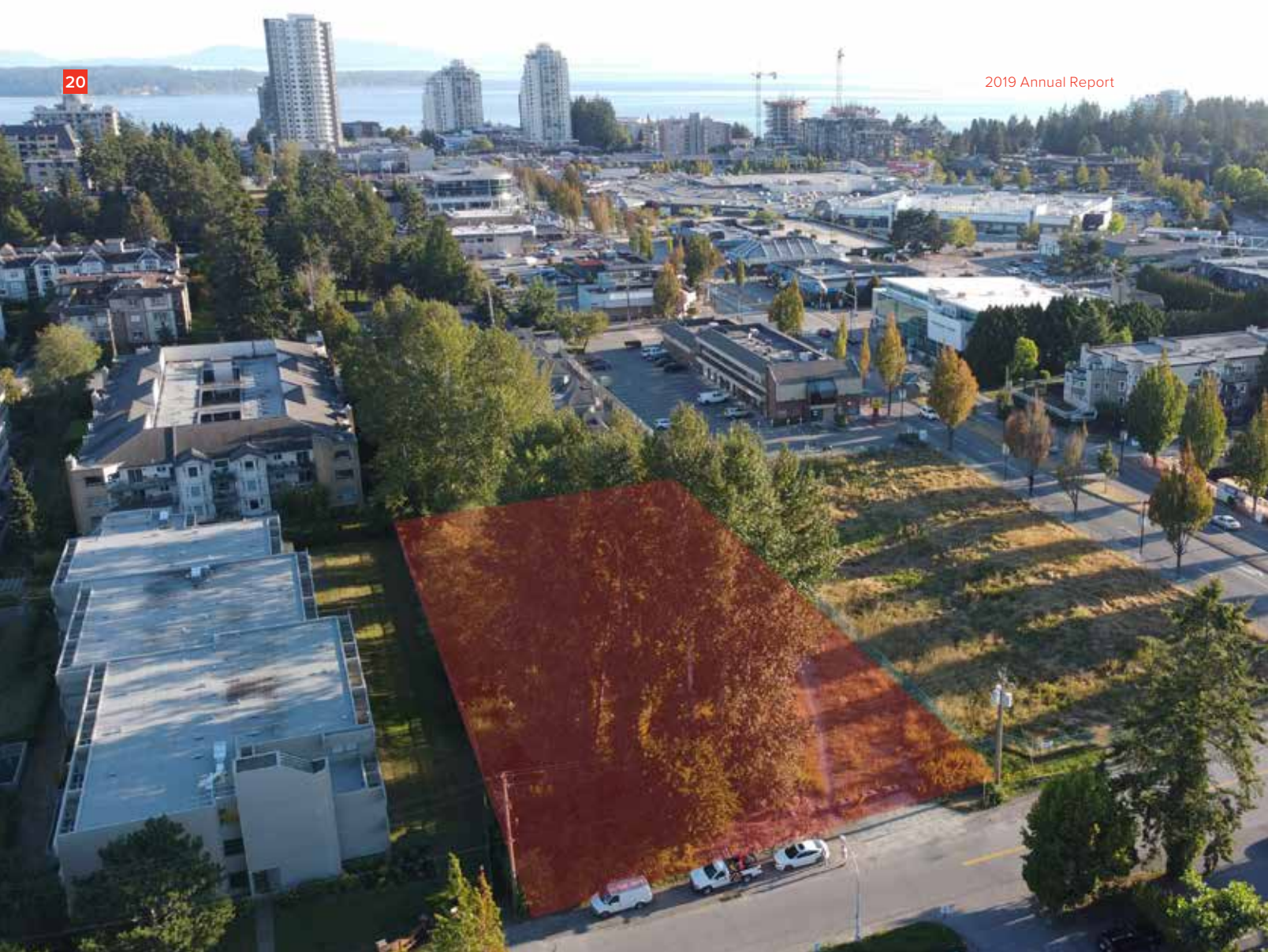
Walmart

Walmart is the first tenant that SCDC secured on the Campbell Heights East development. They have signed a 30-year land lease with options for six 5-year extensions. This 300,000 sq. ft. state-of-the-art fulfilment centre represents the most advanced and sophisticated industrial building in Canada. Representing an investment in Surrey by Walmart of over \$175 million, the 90 ft. high structure integrates the latest in robotics and automation, utilizing land much more efficiently than traditional industrial development. The project is under construction and expected to open in 2021.

14 Acres (Remainder Parcel)

Approximately 14 acres of land will remain available for development after the Walmart site is accounted for. Services for this property will be completed in early 2020.

SCDC will work closely with the City's Economic Development team to determine the types of tenants that should be prioritized in order to advance the City's broader economic aspirations. SCDC will then work with Economic Development to attract potential build-to-suit tenants for the property.



Bakerview

The Bakerview site is regarded as a high profile 'gateway' site into South Surrey. The site was originally obtained from the City with the intention of developing a mixed-use project in partnership with the private sector that would accommodate a market residential tower and a community arts facility. That proposal was ultimately not supported by the local community and the adjacent site was sold to BC Housing by SCDC's original partner.

SCDC and BC Housing, are actively exploring what type and form of development will best meet their mutual requirements for the site.



Image credit: Google Maps

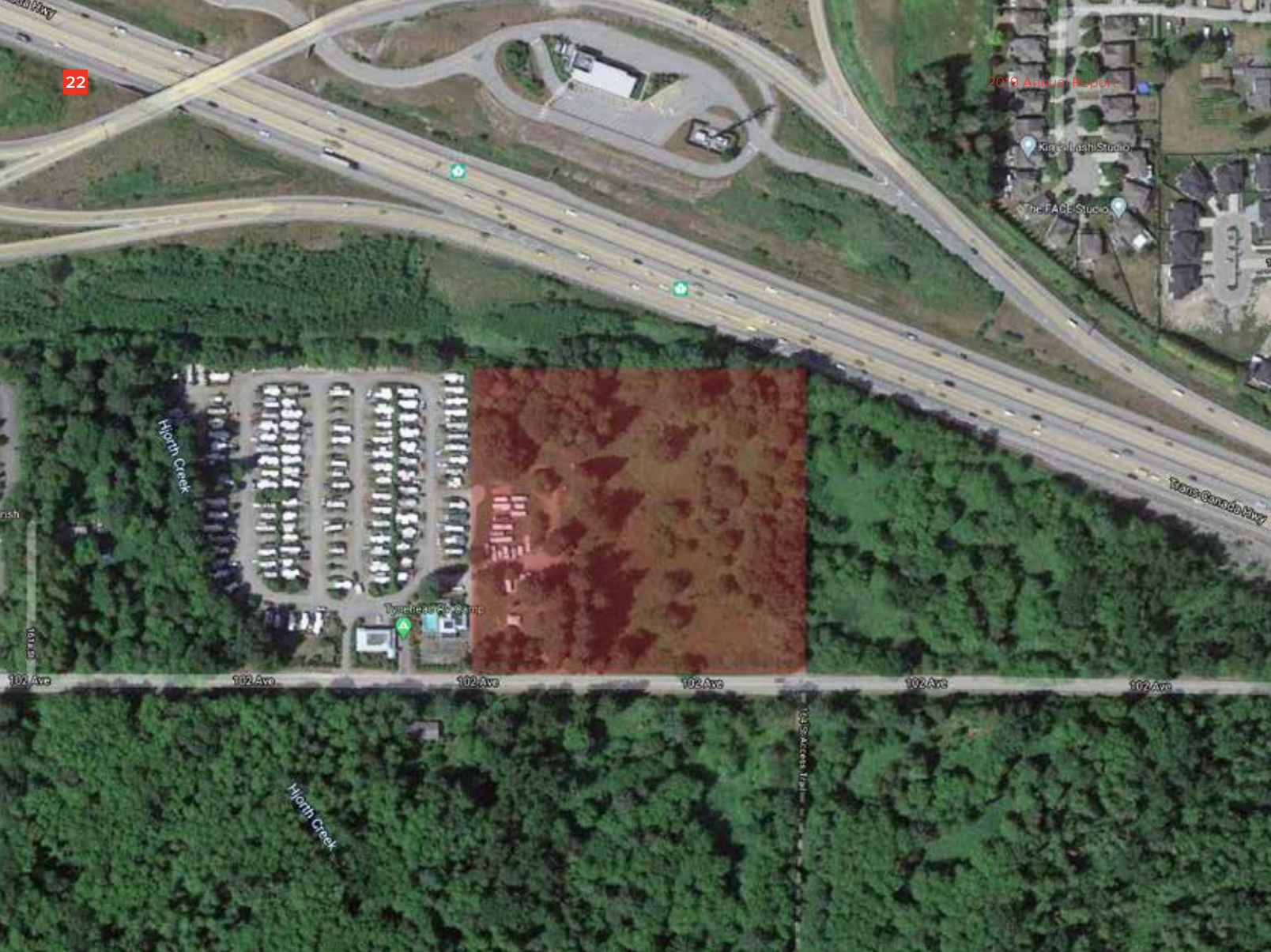
Brooksdale

The Brooksdale site is a 58.5 acre property that SCDC has been holding with the plan to eventually developing it in a way that is compatible with its highly sensitive ecology. Presently in the Agricultural Land Reserve, with the neighbouring A Rocha organization farming a portion of the property, it requires approval of Metro before development can proceed.

The South Campbell Heights Land Use Plan that includes the SCDC site within a much larger boundary successfully obtained third reading on November 6th, 2017, supporting the removal of these lands from the ALR. A Regional Growth Strategy Amendment was subsequently submitted to Metro Vancouver

Board for consideration of a Type 3 minor amendment to allow the rezoning to proceed. Metro Vancouver Board voted to send the proposal back to the City of Surrey for reconsideration, although Metro did not have concerns about the portion of the submission that included the SCDC property.

In addition to supporting A Rocha's farming efforts, SCDC has been facilitating short-term revenue opportunities through rentals to the film industry and is monitoring ongoing progress on the South Campbell Heights Land Use Plan. It is anticipated that the City will be revising their proposal to Metro Vancouver at some point in the future.



Tynehead

The Tynehead property was acquired from the City by SCDC in 2018 with the intention of increasing the land value by rezoning it to support townhouse development. Once rezoned, SCDC was planning to sell the property to the private sector for market housing, anticipating a significant gain in value for the corporation.

Conceptual planning work had been completed in preparation to submit the rezoning application when the directive changed and the project was put on hold due to concerns raised by the new Mayor and Council.



Cedar Hills

Cedar Hills shopping centre was purchased by SCDC at a time that the company was building a revenue portfolio. The asset has been improved and fully leased out by SCDC (the last two vacant units being leased in 2019) and is now performing very well.

Cedar Hills has been an excellent investment for SCDC, providing a strong income stream and significantly increasing in value.



Surrey City Development Corporation

2019 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 is 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 Committees 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. The Board held a strategic planning session in November 2019, 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 2019 was another profitable year for SCDC. The main factors contributing to the financial success in 2019 were due to increasing values of industrial lands, SCDC's disposal of its ownership interest in the Bosa Limited Partnership, and strong financial returns on SCDC's income properties. The 2019 annual surplus from operations came in slightly ahead of the budget of \$6.3M.

Strong financial results enabled the Corporation to re-invest its profits into site preparation works in Campbell Heights East. This has allowed SCDC to expand its income property portfolio to generate a long-term revenue stream. Additionally, SCDC's profits were used to pay the annual \$4.5M dividend to the City of Surrey for the seventh consecutive year. Since 2013, SCDC has paid cumulative dividends of \$31.5M to the City of Surrey.

The book value of SCDC's tangible capital assets as at December 31st 2019 was \$98.9M comprised of:

- Properties under development of \$78.2M,
- Income producing properties of \$20.6M, 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 8 to the 2019 Summary Consolidated Financial Statements). The fair market value of SCDC's tangible capital assets at December 31st 2019 totaled approximately \$250M.

FINANCIAL PERFORMANCE – 2019

Highlights from the 2019 Consolidated Statement of Operations include the following:

- Net income from development property sales came in at \$4.8M, representing profit from the sale of industrial land in Campbell Heights North.
- A gain of \$2.6M was generated from SCDC's disposal of its 20% ownership interest in the Bosa Limited Partnership (see Note 11 to the 2019 Summary Consolidated Financial Statements).
- Property lease income in 2019 increased 16% as compared to 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 2019 Summary Consolidated Financial Statements).
- Consolidated corporate operating expenses increased 3% overall to those in 2018. Corporate operating expenses came in 46% below budget primarily due to decreased spending on projects in the predevelopment phase as certain projects were delayed.
- The 2019 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 2019 helped to strengthen SCDC's Consolidated Statement of Financial Position:

- Financial Assets decreased \$9.4M, from \$13.4M in 2018 to \$4.0M in 2019, due to the receipt of a \$4.0M accounts receivable from a future tenant (see Note 3 to the 2019 Summary Consolidated Financial Statements), SCDC's sale of its ownership interest in the Bosa LP, and cash drawn from short term investments to invest into various properties under development.
- Liabilities increased \$7.3M, from \$49.4M in 2018 to \$56.7M in 2019, primarily due to an increase in project financing from the City of Surrey as a result of ongoing development work on various properties. Loans from the City of Surrey bear interest at market rates (see Notes 6 and 7 to the 2019 Summary Consolidated Financial Statements).
- Net Debt, which represents the difference between Financial Assets and Liabilities, increased from \$36.0M in 2018 to \$52.7M in 2019 as a result of increased project financing from the City of Surrey to fund development work included in tangible capital assets. As described in Note 8 to the 2019 Summary Consolidated Financial Statements, the calculation of Net Debt excludes the value of Tangible Capital Assets.
- Non-Financial Assets increased from \$80.2M in 2018 to \$99.0M in 2019 as development work continued on properties under development.
- Accumulated Surplus as at December 31, 2019 sits at \$46.3M as compared to \$44.2M as at December 31, 2018. As shown in Note 9 to the 2019 Summary Consolidated Financial Statements, Accumulated Surplus increased during 2019 as a result of profitable operations.

Financial Performance

SCDC has provided consistent revenues for the City to support its goals. Since 2013, SCDC has paid a \$4.5 million annual dividend to the City. By the end of 2019, SCDC had paid cumulative dividends of \$31.5 million to the City of Surrey.

The corporation is on track to pay another \$4.5-million dividend by the end of 2020, bringing the total of dividends provided by SCDC to the City to \$36 million.

Management and Board Responsibilities for Reporting

The 2019 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



AMANDA ZIZEK
Controller



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, 2019, and 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 of Surrey City Development Corporation (the Entity) for the year ended December 31, 2019.

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 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 15, 2020.

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

Chartered Professional Accountants
April 15, 2020
Vancouver, Canada



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SCDC

Summary Consolidated Statement of Financial Position

As at December 31, 2019, with comparative figures for 2018

	2019	2018
		RESTATED (NOTE 12)
FINANCIAL ASSETS		
Cash	\$ 2,104,659	\$ 1,606,317
Due from governments	187,323	167,577
Investment in government business partnership (Note 2)	530,591	444,339
Accounts receivable (Note 3)	97,848	4,202,859
Portfolio investments	955,025	6,838,877
Performance bonds and deposits	35,000	30,000
Tenant inducements	90,009	111,487
	4,000,455	13,401,456
LIABILITIES		
Accounts payable and accrued liabilities	2,132,377	1,373,643
Due to governments	252	153,911
Loans payable	12,111,747	12,569,437
Deposits	541,943	547,177
Deferred gains	405,130	416,097
Unearned revenue (Note 4)	5,600,652	3,885,366
Due to City of Surrey – preferred shares with specific redemption provisions (Note 5)	14,667,372	18,914,372
Due to City of Surrey – interim project financing (Note 6)	15,581,752	5,673,041
Due to City of Surrey – promissory notes (Note 7)	5,682,361	5,875,094
	56,723,586	49,408,138
NET DEBT (Note 8)	(52,723,131)	(36,006,682)
NON-FINANCIAL ASSETS		
Tangible capital assets	98,950,829	80,183,796
Prepaid expenses	52,041	50,077
	99,002,870	80,233,873
ACCUMULATED SURPLUS (Note 9)	\$ 46,279,739	\$ 44,227,191

See accompanying notes to summary consolidated financial statements.

SCDC

Summary Consolidated Statement of Operations

Year ended December 31, 2019, with comparative figures for 2018

	BUDGET 2019	2019	2018
			RESTATED (NOTE 12)
PROPERTY AND OTHER INCOME, NET			
Development property sales income, net	\$ 9,252,389	\$ 4,780,498	\$ 275,420
Gain on sale of partnership interest (Note 10)	-	-	7,338,183
Gain on sale of portfolio investment (Note 11)	-	2,641,520	-
Property lease income, net	671,876	703,741	605,814
Income from government business partnership (Note 2)	275,287	301,436	273,922
Other income	40,000	262,389	195,212
	10,239,552	8,689,584	8,688,551
CORPORATE OPERATING EXPENSES			
Administration	1,186,899	640,469	620,940
Income properties	593,450	320,235	206,980
Real estate development and sales	2,175,981	1,174,193	1,241,880
	3,956,330	2,134,897	2,069,800
PARTNERSHIP OPERATING EXPENSES			
	-	2,139	4,166
	3,956,330	2,137,036	2,073,966
ANNUAL SURPLUS FROM OPERATIONS	6,283,222	6,552,548	6,614,585
Preferred shares redeemed	(1,360,000)	-	(1,581,000)
Distribution of earnings to shareholder	(4,500,000)	(4,500,000)	(4,500,000)
ANNUAL SURPLUS	423,222	2,052,548	533,585
ACCUMULATED SURPLUS, BEGINNING OF YEAR	44,227,191	44,227,191	43,693,606
ACCUMULATED SURPLUS, END OF YEAR	\$ 44,650,413	\$ 46,279,739	\$ 44,227,191

SCDC

Summary Consolidated Statement of Changes in Net Debt

Year ended December 31, 2019, with comparative figures for 2018

	BUDGET 2019		2019	2018		
				RESTATED (NOTE 12)		
ANNUAL SURPLUS	\$	423,222	\$	2,052,548	\$	533,585
Acquisition of tangible capital assets		(63,395,137)		(19,388,273)		(15,383,835)
Amortization of tangible capital assets		288,587		285,015		302,695
Capitalization of wages		(1,075,000)		(853,369)		(976,910)
		(64,181,550)		(19,956,627)		(16,058,050)
Transfer to properties held-for-sale		4,200,868		1,189,594		43,791,817
Change in prepaid assets		(20,000)		(1,964)		14,854
		4,180,868		1,187,630		43,806,671
DECREASE (INCREASE) IN NET DEBT		(59,577,460)		(16,716,449)		28,282,206
NET DEBT, BEGINNING OF YEAR		(36,006,682)		(36,006,682)		(64,288,888)
NET DEBT, END OF YEAR (Note 8)	\$	(95,584,142)	\$	(52,723,131)	\$	(36,006,682)

See accompanying notes to summary consolidated financial statements.

SCDC

Summary Consolidated Statement of Cash Flows

Year ended December 31, 2019, with comparative figures for 2018

	2019	2018
CASH PROVIDED BY (USED IN):		
OPERATIONS		
Annual surplus from operations	\$ 6,552,548	\$ 6,614,585
Items not involving cash:		
Amortization	285,015	302,695
Amortization of deferred gains	(10,967)	(10,966)
Gain on sale of properties under development	(4,780,498)	(7,613,603)
Gain on sale of Investment in Bosa Properties (Bright A.1) LP	(2,641,520)	-
Increase in investment in government business partnership	(302,252)	(278,733)
Change in non-cash working capital	6,414,906	(2,339,397)
Net change in cash from operating activities	5,517,232	(3,325,419)
CAPITAL		
Purchase of tangible capital assets	(20,241,642)	(9,660,745)
Increase in costs on projects sold in prior years	(199,848)	-
Investment in available-for-sale properties	(181,244)	(48,394)
Net change in cash from capital investments	(20,622,734)	(9,709,139)
INVESTING		
Distribution of cash from Beedie LP	216,000	208,000
Change in term deposits and GIC	5,500,000	545,000
Increase in Investment in Bosa Properties (Bright A.1) LP	-	(80,354)
Net proceeds from disposal of Investment in Bosa Properties (Bright A.1) LP	3,025,372	-
Net proceeds from disposal of properties held-for-sale and properties under development	6,351,184	22,235,894
Net change in cash from investing activities	15,092,556	22,908,540
FINANCING		
Distribution of earnings to shareholder	(4,500,000)	(4,500,000)
Increase (decrease) in due to City of Surrey	5,468,978	(2,256,287)
Repayment on loans payable	(457,690)	(440,133)
Redemption of preferred shares	-	(1,581,000)
Net change in cash from financing activities	511,288	(8,777,420)
NET CHANGE IN CASH	498,342	1,096,562
CASH, BEGINNING OF YEAR	1,606,317	509,755
CASH, END OF YEAR	\$ 2,104,659	\$ 1,606,317
SUPPLEMENTARY CASH FLOW INFORMATION:		
Non cash transactions:		
Land transfers in exchange for preferred shares	\$ -	\$ 6,700,000

SCDC

Notes to the Summary Consolidated Financial Statements

Year ended December 31, 2019

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, 2019. Those audited complete consolidated financial statements were approved by the Board of Directors on April 15, 2020 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 2019 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 nil (2018 – \$4,012,120) 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 and additional site work performed for a future tenant with respect to a property under development, as described in Note 3.

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Notes to the Summary Consolidated Financial Statements (continued)

Year ended December 31, 2019

5. Due to City of Surrey – preferred shares with specific redemption provisions:

Class A preferred shares were issued to the City of Surrey in exchange of land. These shares are non-interest bearing and are classified as debt as the Corporation is obligated to redeem the shares on set timelines or events, depending on the development project 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. 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.

7. 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.

8. 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, 2019

9. Accumulated surplus:

Accumulated surplus is comprised of:

	2019	2018
		RESTATED (NOTE 12)
Share capital, common shares	\$ 100	\$ 100
Share capital, preferred shares	10,380,628	10,380,628
Accumulated operating surplus, opening	33,846,463	31,731,878
Annual surplus current year	6,552,548	6,614,585
Distribution of earnings to shareholder	(4,500,000)	(4,500,000)
	\$ 46,279,739	\$ 44,227,191

10. 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 \$22 million which resulted in a net gain on sale totaling \$7.3 million, including previously deferred gains of \$3.8 million.

11. Gain on sale of portfolio investment:

On August 29, 2019, the Corporation disposed of its 20% ownership interest in the Bosa Properties (Bright A.1) LP for net proceeds of \$3.0 million, after settlement of SCDC's portion of partnership debt and other costs of sales. The disposition has resulted in a net gain on sale of portfolio investment of \$2.6 million.

SCDC

Notes to the Summary Consolidated Financial Statements (continued)

Year ended December 31, 2019

12. Prior period restatement:

The Corporation identified a difference in classification that required a restatement of previously issued consolidated financial statements. Preferred shares which the Corporation is obligated to redeem were misclassified as accumulated surplus as opposed to liabilities.

The impact of these changes in the prior period was a decrease in opening accumulated surplus by \$16,461,372 and closing accumulated surplus by \$18,914,372 and a decrease in the annual surplus by \$2,453,000 as follows:

	AS PREVIOUSLY STATED	ADJUSTMENT	RESTATED
Statement of Financial Position:			
Due to City of Surrey	11,548,135	18,914,372	30,462,507
Accumulated surplus	63,141,563	(18,914,372)	44,227,191
Statement of Operations:			
Preferred shares issued	6,700,000	(6,700,000)	-
Preferred shares redeemed	(5,828,000)	4,247,000	(1,581,000)
Annual surplus	2,986,585	(2,543,000)	533,585
Accumulated surplus, beginning of year	60,154,978	(16,461,372)	43,693,606
Accumulated surplus, end of year	63,141,563	(18,914,372)	44,227,191
Statement of Changes in Net Debt:			
Annual surplus	2,986,585	(2,453,000)	533,585
Decrease in net debt	30,735,206	(2,453,000)	28,282,206
Net debt, beginning of year	(47,827,516)	(16,461,372)	(64,288,888)
Net debt, end of year	(17,092,310)	(18,914,372)	(36,006,682)

13. Subsequent events:

- (a) Subsequent to year end, the impact of COVID-19 in Canada and on the global economy increased significantly. As the impacts of COVID-19 continue, there could be further impact on the Corporation, its shareholder, employees, suppliers, tenants and other third party business associates that could impact the timing and amounts realized on the Corporation's assets and future ability to deliver projects. At this time, the full potential impact of COVID-19 on the Corporation is not known. Although the disruption from the virus is expected to be temporary, given the dynamic nature of these circumstances, the duration of disruption and the related financial impact cannot be reasonably estimated at this time. The Corporation may have experienced a decline in the fair value of some of its properties since December 31, 2019, but the fair values still significantly exceed the net book values and therefore the Corporation still expects to generate future profits once properties are fully developed and disposed. The Corporation is able to alleviate the future profitability risk by employing a longer term focus and awaiting markets to recover. The Corporation's ability to continue to deliver projects and employ staff will depend on the legislative mandates from the various levels of government. The Corporation will continue to focus on managing collections from lessees, monitoring expenditures, and leveraging existing reserves and available credit facilities to ensure it is able to continue operations and fulfill external obligations.
- (b) Subsequent to year end, the Surrey City Council gave support to a motion to dissolve the Corporation. The specific plans have not yet been finalized, but it is expected that the assets and liabilities will be transferred from the Corporation to the City in an orderly manner. As such, there is no expected impairment of the Corporation's assets or limitations to settling any of the obligations in accordance with the stated terms.

Thank You

Over the past thirteen years, SCDC is proud to have had an opportunity to create a positive financial, economic, social and physical legacy for the City of Surrey that will provide benefits for all its citizens well into the future.

Throughout its existence, SCDC has been fully committed to transparency. Please visit our web page at www.scdc.ca where you can find out more about SCDC including a record of all our Annual Reports and audited financial statements.

Please also feel free to email info@scdc.ca or call **604 581 8787**.



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