

Financial Statements of

**SURREY CITY DEVELOPMENT
CORPORATION**

For the year ended December 31, 2008



KPMG LLP
Chartered Accountants
Metrotower II
Suite 2400 - 4720 Kingsway
Burnaby BC V5H 4N2

Telephone (604) 527-3600
Fax (604) 527-3636
Internet www.kpmg.ca

AUDITORS' REPORT TO THE SHAREHOLDER

We have audited the balance sheet of Surrey City Development Corporation (the "Corporation") as at December 31, 2008 and the statements of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Burnaby, Canada

March 27, 2009

SURREY CITY DEVELOPMENT CORPORATION

Balance sheet

As at December 31, 2008

	2008	2007
Assets		
Current assets:		
Cash	\$ 71,148	\$ 18,053
Accounts receivable	-	3,838
Prepaid expenses	15,594	-
GST receivable	30,043	17,128
	<u>116,785</u>	<u>39,019</u>
Capital assets (note 3)	2,444,210	373,246
	<u>\$ 2,560,995</u>	<u>\$ 412,265</u>
Liabilities and Shareholder's Deficiency		
Current liabilities		
Accounts payable and accrued liabilities	\$ 299,322	\$ 182,119
Due to City of Surrey (note 4)	3,431,518	489,376
	<u>3,730,840</u>	<u>671,495</u>
Shareholder's deficiency		
Share capital (note 6)	100	100
Deficit	(1,169,945)	(259,330)
	<u>(1,169,845)</u>	<u>(259,230)</u>
Future operations (note 1)		
Commitments (note 7)		
	<u>\$ 2,560,995</u>	<u>\$ 412,265</u>

SURREY CITY DEVELOPMENT CORPORATION

Statement of Operations and Deficit

Year ended December 31, 2008

	2008	2007
Expenses		
Amortization	\$ 3,366	\$ 1,069
Consulting	91,008	23,376
Communication	1,696	3,603
Interest	36,656	3,886
Lease and rentals	72,572	28,191
Liability insurance	6,160	20,998
Membership & Training	3,519	399
Travel	29,214	15,762
Salaries and benefits	413,419	156,710
Supplies and materials	5,864	5,336
Service maintenace	5,960	-
Advertising (promotion)	1,345	-
	<u>670,779</u>	<u>259,330</u>
Other expense		
Loss on joint venture (note 8)	239,836	
Loss for the year	<u>(910,615)</u>	<u>(259,330)</u>
Deficit, beginning of the year	<u>(259,330)</u>	<u>-</u>
Deficit, end of the year	<u>\$ (1,169,945)</u>	<u>\$ (259,330)</u>

SURREY CITY DEVELOPMENT CORPORATION

Statement of Cash Flow

Year ended December 31, 2008

	2008	2007
Cash provided by (used in):		
Operations:		
Loss for the year	\$ (910,615)	\$ (259,330)
Amortization	3,366	1,069
Change in non-cash operating working capital:		
Accounts receivable	3,838	(3,838)
Prepaid expenses	(15,594)	-
GST receivable	(12,915)	(17,128)
Accounts payable and accrued liabilities	117,203	182,119
	(814,717)	(97,108)
Investment:		
Purchase of capital assets	(258,376)	(374,315)
Financing:		
Due to City of Surrey	1,126,188	489,376
Cash received on issuance of share capital	-	100
	1,126,188	489,476
Net increase in cash	53,095	18,053
Cash, beginning of year	18,053	-
Cash, end of year	\$ 71,148	\$ 18,053
Supplementary information:		
Non-cash transactions:		
Land transfer from City of Surrey	\$ 1,815,954	\$ -

SURREY CITY DEVELOPMENT CORPORATION

Notes to Financial Statements

For the year ended, December 31, 2008

The Surrey City Development Corporation (the "Corporation"), which is funded and supported primarily by the City of Surrey ("City"), was incorporated on April 24, 2007 by the City of Surrey with broad powers to advance the commercial, industrial and residential development of the City. The Corporation's Board is appointed by the Council of the City of Surrey. The Corporation is non-taxable as it is owned by the City of Surrey.

1. Future operations:

These financial statements have been prepared on a going concern basis which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. Accordingly, these financial statements do not include any adjustments to the specific amounts and classifications of assets and liabilities which might be necessary should the Corporation be unable to continue as a going concern. As at December 31, 2008, the Corporation had a net loss of \$910,615 (2007 - \$259,330) and accumulated deficit of \$1,169,945 (2007 - \$259,330) and a working capital deficiency of \$3,614,055 (2007 - \$632,476). The Corporation's ability to continue operations is dependent upon future profitable operations, its ability to generate cash to fund its operations, and the continued support by the City of Surrey.

2. Significant accounting policies:

The accounting policies of the Surrey City Development Corporation conform with Canadian generally accepted accounting principles and include the following specific policies:

(a) Revenue and expense recognition:

Revenue and expenses are recorded on an accrual basis.

(b) Capital assets:

Capital assets are stated at cost. Amortization is provided using the straight-line method based on the estimated useful lives of the assets as follows:

Computer equipment	5 years
Furniture and fixtures	5 years

(c) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of net realizable value of accounts receivable, the net recoverable amount of capital assets and the estimated useful lives of capital assets. Actual results may differ from those estimates.

SURREY CITY DEVELOPMENT CORPORATION

Notes to Financial Statements

For the year ended, December 31, 2008

2. Significant accounting policies (continued):

(d) Financial instruments:

The Corporation accounts for its financial instruments in accordance with the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3855, *Financial Instruments - Recognition and Measurement*, CICA Handbook Section 3861, *Financial Instruments - Disclosure and Presentation*, CICA Handbook Section 3865, *Hedges*, CICA Handbook Section 3862, *Financial Instruments – Disclosures*, and Section 3863, *Financial Instruments – Presentation*.

These sections require that all non-derivative financial assets and liabilities be measured at fair value with the exception of (i) loans and receivables and held-to-maturity investments, which should be measured at amortized cost; and (ii) investments in equity instruments that do not have a quoted market price in an active market, which should be measured at cost, other than such instruments that are classified as held-for-trading. The section also requires that gains and losses on financial instruments measured at fair value be recognized in net income in the periods in which they arise, with the exception of (i) unrealized gains and losses on financial assets classified as available-for-sale, which are recognized directly in the appropriate fund in net assets until the financial asset is derecognized or becomes impaired; and (ii) certain financial instruments that are part of a designated hedging relationship. In addition, disclosure with an emphasis on risks associated with both recognized and unrecognized financial instruments to which an entity is exposed during the year and at the balance sheet date, and how an entity manages these risks is provided in the financial statements.

The Corporation's financial instruments are accounts receivable, accounts payable and accrued liabilities, and due to City of Surrey.

The Corporation classifies its accounts receivable as loans and receivables and records it at amortized cost which approximates fair value.

The Corporation classifies its accounts payable and accrued liabilities as other liabilities and records it at amortized cost which approximates fair value.

The fair value of amounts due to City of Surrey is not practicable to determine due to their related party nature and terms and the limited amount of comparable market information available.

Unless otherwise noted, it is management's opinion that the Corporation is not exposed to significant interest, currency, or credit risk arising from these financial instruments.

(e) Capital disclosures:

CICA Handbook Section 1535, *Capital Disclosures*, requires quantitative disclosure about what is regarded as capital and disclosure of information with respect to the objectives, policies and processes used by the Corporation to manage capital. These disclosures are included in note 9 to the financial statements.

SURREY CITY DEVELOPMENT CORPORATION

Notes to Financial Statements

For the year ended, December 31, 2008

2. Significant accounting policies (continued):

(f) Future accounting changes:

(i) Accounting framework:

The Public Sector Accounting Board ("PSAB") is currently evaluating the accounting framework for government organizations. The Corporation's accounting framework may change due to conclusions reached by PSAB which are expected in 2009.

(ii) Goodwill and intangible assets:

CICA Section 3064, *Goodwill and Intangible Assets*, will replace Section 3062, *Goodwill and Other Intangible Assets*, and Section 3450, *Research and Development Costs*. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The standard is effective for fiscal years beginning on or after October 1, 2008.

The Corporation is currently evaluating the impact of the above new accounting standard for the next fiscal year ending December 31, 2009 and expects that there will be no significant impact.

3. Capital assets:

2008	Cost	Accumulated Amortization	2008 Net book Value	2007 Net book Value
Land and improvement	\$ 2,429,161	\$ -	\$ 2,429,161	358,817
Computer equipment	7,500	1,145	6,355	3,338
Furniture and fixtures	11,984	3,290	8,694	11,091
	\$ 2,448,645	\$ 4,435	\$ 2,444,210	373,246

4. Due to the City of Surrey:

	2008	2007
Cash transfers made on behalf of the Corporation by the City, non interest bearing, payable on demand	\$ 2,481,518	\$ 189,376
Loan payable, interest charged at Bank of Canada prime rate, payable on demand	950,000	300,000
	\$ 3,431,518	\$ 489,376

SURREY CITY DEVELOPMENT CORPORATION

Notes to Financial Statements

For the year ended, December 31, 2008

5. Related party transactions:

During the year, \$1,815,954 of land was transferred from the City to the Corporation (2007 - \$0). Also, the Corporation incurred interest expense of \$36,656 (2007 - \$3,886) for the year on the Corporation's loan payable to the City.

6. Share capital:

The Corporation was established by the City pursuant to Section 185 of the Community Charter with the intent that until the City Council may otherwise determine all shares will be held by the City. The authorized capital of the Corporation consists of 100 common shares without par value which are issued and outstanding as fully paid and non-assessable to the City.

7. Commitments:

The Corporation is obligated to pay the City all operating costs incurred by the City on behalf of the Corporation as well as any loans provided by the City to the Corporation.

8. Loss on joint venture:

The Corporation set up a joint venture with Newgen Real Estate Development Inc. ("Newgen") in October 2007 to develop condominiums. The Corporation advanced \$200,000 to the joint venture for the design and development of the lands into condominiums. An agreement dated December 23, 2008 was made between the Corporation and Newgen to dissolve the joint venture. The joint venture bank account, marketing materials and any payables are to be assumed by Newgen upon dissolution. For the year ended December 31, 2008, the Corporation recorded a loss of \$239,836 on the joint venture.

9. Capital disclosures:

The Corporation's capital consists of its share capital and deficit. The Corporation's objective when managing is to safeguard its assets and to ensure that adequate capital is managed for future requirements. The procedures in place to achieve these goals include establishing effective internal controls, the review and approval of annual budgets and ongoing review of interim financial statements by the board of directors.