

Financial Statements of

**SURREY CITY DEVELOPMENT
CORPORATION**

For the years ended December 31, 2009 and 2008



KPMG Enterprise™
Metrotower II
4720 Kingsway, Suite 2400
Burnaby BC V5H 4N2
Canada

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

AUDITORS' REPORT TO THE SHAREHOLDER

We have audited the balance sheet of Surrey City Development Corporation (the "Corporation") as at December 31, 2009 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, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Burnaby, Canada

March 17, 2010

SURREY CITY DEVELOPMENT CORPORATION

Balance sheet

As at December 31

	2009	2008
Assets		
Current assets:		
Cash	\$ 50,690	\$ 71,148
Prepaid expense	15,566	15,594
GST receivable	8,902	30,043
	<u>75,158</u>	<u>116,785</u>
Capital assets (Note 3)	8,989,613	2,444,210
	<u>\$ 9,064,771</u>	<u>\$ 2,560,995</u>
Liabilities and Shareholder's Deficiency		
Current liabilities		
Accounts payable and accrued liabilities	\$ 132,161	\$ 299,322
Deferred revenue	24,676	-
Due to City of Surrey (Note 4)	4,550,136	3,431,518
	<u>4,706,973</u>	<u>3,730,840</u>
Long-term liability		
Due to City of Surrey (Note 4)	6,522,892	-
Shareholder's deficiency		
Share capital (Note 5)	100	100
Deficit	<u>(2,165,194)</u>	<u>(1,169,945)</u>
	<u>(2,165,094)</u>	<u>(1,169,845)</u>
Future operations (Note 1)		
Commitments (Note 6)		
	<u>\$ 9,064,771</u>	<u>\$ 2,560,995</u>

SURREY CITY DEVELOPMENT CORPORATION

Statement of Operations and Deficit

Years ended December 31

	2009	2008
Revenues		
Property lease revenue	\$ 98,132	\$ -
Expenses		
Advertising (promotion)	10,710	1,345
Amortization	4,526	3,366
Communication	7,596	1,696
Consulting and professional	53,258	91,008
Directors fees	65,250	-
Grants and sponsorship	4,000	-
Interest	93,168	36,656
Lease and rentals	70,653	72,572
Liability insurance	19,667	6,160
Membership and training	20,606	3,519
Property tax	23,841	-
Salaries and benefits	687,409	433,119
Supplies and materials	13,177	5,864
Service maintenance	3,914	5,960
Travel	15,606	9,514
	<u>1,093,381</u>	<u>670,779</u>
Loss before other expense	\$ (995,249)	\$ (670,779)
Other		
Loss on joint venture	-	239,836
Net Loss	<u>(995,249)</u>	<u>(910,615)</u>
Deficit, beginning of the year	(1,169,945)	(259,330)
Deficit, end of the year	<u>\$ (2,165,194)</u>	<u>\$ (1,169,945)</u>

SURREY CITY DEVELOPMENT CORPORATION

Statement of Cash Flow

Years ended December 31

	<u>2009</u>	<u>2008</u>
Cash provided by (used in):		
Operations:		
Loss for the year	\$ (995,249)	\$ (910,615)
Amortization	4,526	3,366
Change in non-cash operating working capital:		
Accounts receivable	-	3,838
Prepaid expense	28	(15,594)
GST receivable	21,141	(12,915)
Accounts payable and accrued liabilities	(167,161)	117,203
Deferred revenue	24,676	-
	<u>(1,112,039)</u>	<u>(814,717)</u>
Investment:		
Purchase of capital assets	<u>(14,929)</u>	<u>(258,376)</u>
Financing:		
Due to City of Surrey	<u>1,106,510</u>	<u>1,126,188</u>
	<u>1,106,510</u>	<u>1,126,188</u>
Net increase (decrease) in cash	(20,458)	53,095
Cash, beginning of year	71,148	18,053
Cash, end of year	<u>\$ 50,690</u>	<u>\$ 71,148</u>

Supplementary information:

Non-cash transactions:

Land and building acquired from City in exchange for a long-term loan payable to the City	6,535,000	1,815,954
---	-----------	-----------

SURREY CITY DEVELOPMENT CORPORATION

Notes to Financial Statements

For the year ended, December 31, 2009

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. The Corporation has 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 considered 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, 2009, the Corporation had an accumulated deficit of \$2,165,194 and a working capital deficiency of \$4,631,815 as the Corporation has been in a start up and development phase. The City of Surrey has funded the Corporation's deficit through cash transfers and loans payable (see note 4). Management expects to incur a deficit over the next year as operations continue to develop. Management also expects that the City of Surrey will continue to support the Corporation through cash transfers and loans payable. The Corporation's ability to continue operations is dependent upon it achieving future profitable operations and the continued financial support by the City.

2. Significant accounting policies

The accounting policies of the Corporation conform with Canadian generally accepted accounting principles and include the following significant accounting 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 at rates based on the estimated useful lives of the assets as follows:

Buildings and improvements	25 years
Computers	5 years
Furniture and fixtures	5 years

Amortization commences in the month the asset is available for productive use.

(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 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, 2009

2. Significant accounting policies (continued)

(d) Financial instruments

The Corporation classifies all financial instruments as either held for trading, loans and receivables, or other financial liabilities.

Loans and receivables and financial liabilities other than those held for trading, are measured at amortized cost.

Instruments classified as held for trading are measured at fair value with unrealized gains and losses recognized in the statement of operations.

All transaction costs relating to the acquisition of financing are netted against the carrying value of the related liability and are then amortized over the expected life of the instrument using the effective interest method.

(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 8 to the financial statements.

(f) Future accounting changes:

The Public Sector Accounting Board ("PSAB") recently approved changes to the scope of PSAB. These amendments require that government business enterprises adopt International Financial Reporting Standards ("IFRS") for periods beginning on or after January 1, 2011. A government business enterprise is one with self-sustaining commercial type operations. Government business type organizations that are not considered to be self-sustaining will be required to either adopt IFRS or to prepare their financial statements in accordance with PSAB.

As the Corporation is not expected to be self-sustaining as at January 1, 2011, management considers that the Corporation will be categorized as an other government organization and is currently evaluating the impact of adopting either PSAB or IFRS.

SURREY CITY DEVELOPMENT CORPORATION

Notes to Financial Statements

For the year ended, December 31, 2009

3. Capital assets

	Cost	Accumulated Amortization	2009 Net book Value	2008 Net book Value
Land and improvements	\$ 8,809,287	\$ -	\$ 8,809,287	\$2,429,161
Building and improvements	167,392	1,674	165,718	-
Computer equipment	5,746	1,842	3,904	2,369
Furniture and fixtures	16,149	5,445	10,704	12,680
	\$ 8,998,574	\$ 8,961	\$ 8,989,613	\$2,444,210

During the year, the Corporation acquired land and building from the City in exchange for a long-term loan payable (Note 7).

4. Due to City of Surrey

	2009	2008
Cash transfers made on behalf of the Corporation by the City, non-interest bearing, payable on demand	\$3,366,334	\$2,481,518
Loan payable #1, interest charged at Bank of Canada prime rate, payable on demand	1,174,066	950,000
Loan payable #2, payable in monthly instalments of \$23,279 including interest calculated at a rate of 4.13% annually maturing on November 1, 2014. The loan is secured by land and a building with a net book value of \$6,539,987	6,532,628	-
	11,073,028	3,431,518
Less: Current portion of long-term debt	(4,550,136)	(3,431,518)
	\$6,522,892	\$ -

Principal repayments on loan payable #2 due to City of Surrey for the next five years are as follows:

2010	\$ 9,736
2011	10,146
2012	10,573
2013	11,018
2014	6,491,155
	\$ 6,532,628

SURREY CITY DEVELOPMENT CORPORATION

Notes to Financial Statements

For the year ended, December 31, 2009

5. 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.

6. Commitments

The Corporation is obligated to pay the City all operating costs paid by the City on behalf of the Corporation.

7. Related party transactions

During the year, the Corporation acquired land and building from the City in exchange for a long-term loan payable (Note 4). The City and the Corporation also entered into a declaration of trust agreement, whereby, the City holds the property in trust as bare trustee and agent for the Corporation. The transfer price of the land and building represents management's best estimate of the current market value at the time of acquisition.

The Corporation also incurred interest expense of \$93,180 (2008 - \$36,656) on the Corporation's loans payable to the City.

8. Capital disclosures

The Corporation's capital consists of its share capital, due to City of Surrey and deficit. The Corporation's objective when managing its capital 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.

9. Financial instruments

The Corporation primarily has exposure to credit risk, liquidity risk and interest rate risk. The Corporation does not utilize any derivative instruments to mitigate these risks.

The Corporation has classified its financial instruments as follows:

(i)	Cash	-	Held for trading
(ii)	GST receivable	-	Loans and receivables
(iii)	Accounts payable and accrued liabilities and due to City of Surrey	-	Other financial liabilities

SURREY CITY DEVELOPMENT CORPORATION

Notes to Financial Statements

For the year ended, December 31, 2009

9. Financial instruments (continued)

(a) Credit risk

Credit risk is the risk that a third party to a financial instrument might fail to meet its obligations under the terms of the financial instrument. For cash and GST receivable, the Corporation's credit risk is limited to the carrying value on the balance sheet. The Corporation does not have any receivables outstanding from tenants as at December 31, 2009. Management does not believe that the Corporation is subject to any significant concentration of credit risk.

(b) Liquidity risk

Liquidity risk is the risk that an entity will not be able to meet its obligations associated with financial liabilities.

The Corporation manages liquidity risk by maintaining adequate cash and available credit facilities with the City of Surrey. The Corporation monitors the cash flow in conjunction with City of Surrey to ensure a sufficient continuity of funding.

(c) Interest rate risk

The Corporation is exposed to interest rate risk on its due to the City of Surrey, except for the non-interest bearing demand loan payable to the City of Surrey, as described in Note 4, as the instruments have variable interest rates.

A 25 bps change to interest rate on the interest bearing loans to City of Surrey would have an impact of \$19,267 on the Corporation's income statement.

(d) Fair value of financial instruments

The Corporation's financial instruments include cash, GST receivable and accounts payable and accrued liabilities, which are reflected in the financial statements at values which are measured at fair value or approximate fair values because of the short term maturities of these instruments. 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.

10. Comparative figures

Certain figures for 2008 have been reclassified to conform with the presentation adopted for 2009.