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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Surrey City Development Corporation

We have audited the accompanying consolidated financial statements of Surrey City Development Corporation, which comprise the consolidated statement of financial position as at December 31, 2011, December 31, 2010, January 1, 2010, the consolidated statements of operations, change in net debt and cash flows for the years ended December 31, 2011 and December 31, 2010, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Surrey City Development Corporation as at December 31, 2011, December 31, 2010 and January 1, 2010, its consolidated results of operations and its consolidated cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Accountants

April 12, 2012

Burnaby, Canada

SURREY CITY DEVELOPMENT CORPORATION

Consolidated Statements of Financial Position

As at December 31, 2011, December 31, 2010 and January 1, 2010

	December 31, 2011	December 31, 2010	January 1, 2010
Financial assets			
Cash	\$ 240,962	\$ 69,245	\$ 50,690
Accounts receivable (note 5)	9,598,652	2,263	-
Lease inducements	158	40,396	-
Properties available-for-sale (note 17)	8,710,587	-	-
Due from Government and Other			
Government Organizations (note 6)	1,170,538	1,857,553	603,162
	<u>19,720,897</u>	<u>1,969,457</u>	<u>653,852</u>
Liabilities			
Accounts payable and accrued liabilities (note 8)	10,343,251	1,044,053	132,161
Deposits payable	65,435	24,675	24,675
Due to City of Surrey (note 9)	24,928,637	12,341,869	11,073,029
	<u>35,337,323</u>	<u>13,410,597</u>	<u>11,229,865</u>
Net debt	(15,616,426)	(11,441,140)	(10,576,013)
Non-financial assets			
Tangible capital assets (note 10)	51,083,064	8,558,236	8,395,353
Prepaid expenses	38,544	34,941	15,566
	<u>51,121,608</u>	<u>8,593,177</u>	<u>8,410,919</u>
Accumulated surplus (deficit) (note 11)	<u>\$ 35,505,182</u>	<u>\$ (2,847,963)</u>	<u>\$ (2,165,094)</u>
Accumulated surplus (deficit) is comprised of:			
Share capital, common shares	\$ 100	\$ 100	\$ 100
Share capital, preferred shares	36,127,501	-	-
Accumulated operating deficit, opening	(2,848,063)	(2,165,194)	(2,165,194)
Annual surplus (deficit), current year	2,225,644	(682,869)	-
	<u>\$ 35,505,182</u>	<u>\$ (2,847,963)</u>	<u>\$ (2,165,094)</u>

See accompanying notes to consolidated financial statements.

SURREY CITY DEVELOPMENT CORPORATION

Consolidated Statements of Operations

Years ended December 31

	Budget 2011	2011	2010
	(unaudited - note 18)		
Revenues			
Property sales	\$ 7,250,000	\$ 7,041,767	\$ -
Less: Property sales direct costs	(5,840,000)	(4,002,941)	-
Property sales income, net	1,410,000	3,038,826	-
Income property lease revenue, gross	3,000,000	501,777	340,395
Less: Income property lease direct costs - operating	(1,070,000)	(281,105)	(106,786)
Less: Income property lease direct costs - interest	(1,130,000)	(337,876)	(242,829)
Property lease income, net	800,000	(117,204)	(9,220)
Professional consulting fees	400,000	339,540	377,073
Other income	-	317	-
	<u>2,610,000</u>	<u>3,261,479</u>	<u>367,853</u>
Operating Expenses			
Administration	115,400	103,584	105,072
External consulting services	369,280	331,467	336,231
Income properties	69,240	62,150	63,043
Real estate development and sales	600,080	538,634	546,376
	<u>1,154,000</u>	<u>1,035,835</u>	<u>1,050,722</u>
Annual surplus (deficit)	1,456,000	2,225,644	(682,869)
Accumulated operating deficit, beginning of year	(2,848,063)	(2,848,063)	(2,165,194)
Accumulated operating deficit, end of year	<u>\$ (1,392,063)</u>	<u>\$ (622,419)</u>	<u>\$ (2,848,063)</u>

See accompanying notes to consolidated financial statements.

SURREY CITY DEVELOPMENT CORPORATION

Consolidated Statements of Changes in Net Debt

Years ended December 31

	Budget 2011 (unaudited - note 18)	2011	2010
Annual surplus (deficit)	\$ 1,456,000	\$ 2,225,644	\$ (682,869)
Acquisition of tangible capital assets - properties under development	(38,710,000)	(44,542,597)	4,493
Disposal of tangible capital assets - properties under development	5,840,000	5,424,941	-
Acquisition of tangible capital assets - income properties	(50,000,000)	(11,803,003)	-
Acquisition of tangible capital assets - administration	(40,000)	(41,486)	(90,512)
Disposal of tangible capital assets - administration	-	3,755	-
Amortization of tangible capital assets - administration	30,000	22,027	11,973
Amortization of tangible capital assets - income properties	319,180	101,430	6,628
Capitalization of wages	(175,000)	(400,482)	(95,465)
	<u>(82,735,820)</u>	<u>(51,235,415)</u>	<u>(162,883)</u>
Change in prepaid assets	-	(3,603)	(19,375)
Transfer to assets held to sale	-	8,710,587	-
	<u>-</u>	<u>8,706,984</u>	<u>(19,375)</u>
Issuance of preferred shares	-	36,127,501	-
Decrease (increase) in net debt	(81,279,820)	(4,175,286)	(865,127)
Net debt, beginning of year	<u>(11,441,140)</u>	<u>(11,441,140)</u>	<u>(10,576,013)</u>
Net debt, end of year	<u>\$ (92,720,960)</u>	<u>\$ (15,616,426)</u>	<u>\$ (11,441,140)</u>

See accompanying notes to consolidated financial statements.

SURREY CITY DEVELOPMENT CORPORATION

Consolidated Statements of Cash Flows

Years ended December 31

	2011	2010
Cash provided by (used in):		
Operating Activities		
Annual surplus (deficit)	\$ 2,225,644	\$ (682,869)
Items not involving cash:		
Net gain on disposal of tangible capital assets	(3,035,071)	-
Amortization	123,457	18,601
Increase in accounts receivable	(9,596,389)	(2,263)
Decrease (increase) in lease inducements	40,238	(40,396)
Increase in due from government and other government organizations	(543,391)	(1,254,391)
Increase in accounts payable and accrued liabilities	9,299,198	911,892
Increase in deposits payable	40,760	-
Increase in prepaid expenses	(3,603)	(19,375)
Net change in cash from operating activities	<u>(1,449,157)</u>	<u>(1,068,801)</u>
Capital Activities		
Proceeds on disposal of tangible capital assets	7,041,767	-
Purchase of tangible capital assets	(3,472,402)	(181,484)
Net change in cash from capital activities	<u>3,569,365</u>	<u>(181,484)</u>
Financing Activities		
Issuance of long-term debt	6,078,664	1,268,840
Repayment of long-term debt	(8,027,155)	-
Net change in cash from financing activities	<u>(1,948,491)</u>	<u>1,268,840</u>
Net change in cash	171,717	18,555
Cash, beginning of year	69,245	50,690
Cash, end of year	<u>\$ 240,962</u>	<u>\$ 69,245</u>

Supplementary cash flow information

Non-cash transactions		
Land transfers in exchange for preferred shares	\$ 36,127,501	\$ -
Land transfers in exchange for debt with the City	14,535,259	-
Transfer of land into a government partnership in exchange for partnership units (note 7(i))	1,422,000	-
Transfer of development costs from due from government and other government partnerships to tangible capital assets	1,230,406	-

See accompanying notes to consolidated financial statements.

Surrey City Development Corporation
Notes to Consolidated Financial Statements
for the year ended December 31, 2011 and 2010

1. Nature of Operations

Surrey City Development Corporation (the “Corporation”) is a corporation established on April 24, 2007. The Corporation is a fully owned subsidiary of the City of Surrey (the “City”), and its Board is appointed by the Council of the City. The Corporation has broad powers to advance the commercial, industrial and residential development of the City. The Corporation is classified as an Other Government Organization as it is not yet considered self-sustaining. The Corporation is considered non-taxable as it is owned by the City.

These consolidated 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 consolidated financial statements do not include any adjustments to the specific amounts which might be necessary should the Corporation be unable to continue as a going concern. As at December 31, 2011, the Corporation had an accumulated operating deficit of \$622,419 as the Corporation has been in a start up and development phase. The City has funded the Corporation’s deficit through cash transfers, loans payable (see note 9) and further equity investments (note 11). The City has confirmed that it will continue to support the Corporation. The Corporation’s ability to continue operations is dependent upon it achieving future profitable operations and the continued financial support by the City.

2. Conversion to Public Sector Accounting Standards

Effective January 1, 2010, the Corporation has adopted Canadian public sector accounting standards (“PSAS”). These consolidated financial statements are the first consolidated financial statements for which the Corporation has applied PSAS.

There were no significant financial impacts of the conversion to PSAS on the accumulated deficit at the date on transition. All accounting changes have been applied retroactively with restatement of the presentation of prior periods.

The Corporation has elected to use the following exemptions:

- a. Business combinations – the Corporation has elected not to apply Business Combinations, Section PS 2510, to business combinations before transition date and has consistently applied this to all business combinations;
- b. Tangible capital asset impairment – the Corporation has elected not to reassess past write-downs recorded prior to transition date and has applied guidance for write-down of tangible capital assets in accordance with PSAS on a prospective basis from the date of transition.

Surrey City Development Corporation
Notes to consolidated financial statements
for the year ended December 31, 2011 and 2010 (continued)

3. Summary of Significant Accounting Policies

a. Basis of accounting

These consolidated financial statements are prepared by management in accordance with Canadian PSAS established by the Canadian Public Sector Accounting Board.

b. Basis of consolidation

The consolidated financial statements reflect the assets, liabilities, revenues, and expenses of the organizations, which are listed below. All inter-departmental and inter-entity accounts and transactions between these organizations are eliminated upon consolidation.

- (i) Surrey City Investment Corporation (“SCIC”) - (100% owned and fully consolidated):

SCIC has a 50% ownership in the following entities (proportionately consolidated) referred to as the “Tower Holdings”:

- Surrey Centre Tower Holdings (Office #1) Ltd.
- Surrey Centre Tower Holdings (Office #2) Ltd.
- Surrey Centre Tower Holdings (Office #3) Ltd.
- Surrey Centre Tower Holdings (Office #4) Ltd.
- Surrey Centre Tower Holdings (Office #5) Ltd.
- Surrey Centre Tower Holdings (Hotel #1) Ltd.
- Surrey Centre Tower Holdings (Restaurant #1) Ltd.
- Surrey Centre Tower Holdings (Retail #1) Ltd.
- Surrey Centre Tower Holdings (Residential #1) Ltd.

SCIC has a 29.4% ownership in the following entities (proportionately consolidated) referred to as the Surrey Centre Limited Partnerships:

- Surrey Centre Office Limited Partnership
- Surrey Centre Hotel Limited Partnership
- Surrey Centre Residential Partnership

- (ii) Grove Limited Partnership - (50% owned and proportionately consolidated)
- (iii) Grove (G.P.) Inc. – (50% owned and proportionately consolidated)
- (iv) The Croydon Drive Development Limited Liability Partnership (“Croydon”) - (50% owned and proportionately consolidated)

Surrey City Development Corporation
Notes to consolidated financial statements
for the year ended December 31, 2011 and 2010 (continued)

c. Properties available-for-sale

Properties available-for-sale include real estate properties which are ready and available to be sold and for which there is a market. They are valued at the lower of cost or expected net realizable value.

d. Non-financial assets

(i) Tangible capital assets

Tangible capital assets are recorded at cost, which includes amounts that are directly related to the acquisition, design, construction, development, improvement or betterment of the assets. Cost includes overhead directly attributable to construction and development, as well as interest costs that are directly attributable to the acquisition or construction of the asset.

a. Properties under development

Properties under development are costs related to projects currently under planning, development or construction that will result in a finished real estate asset at a future date. Costs related to planning, development or construction are capitalized until such time as the property is ready for use or sale.

b. Income properties

Properties held with the expectation of earning rental income are considered to be income properties. These properties include retail or commercial space that the Corporation will lease to other entities in return for rental payments.

c. Tangible capital assets for administration

Tangible capital assets for administration relate to assets required by the Corporation to operate and manage overhead and administrative activities. These include computer equipment and software, furniture and fixtures, and other related assets.

Surrey City Development Corporation
Notes to consolidated financial statements
for the year ended December 31, 2011 and 2010 (continued)

(ii) Amortization of tangible capital assets

The cost, less residual value, of the tangible capital assets, excluding land, is amortized on a straight-line basis over their estimated useful lives as follows:

Land improvements	No amortization
Furniture and fixtures	5 years
Computer equipment	5 years

Building useful life is determined on an asset-by-asset basis upon acquisition or completion of construction, with estimated useful lives ranging from 15-30 years from date of acquisition or date of completion of construction.

No amortization is recorded on properties under development. Any amortization will commence once the development is complete, if the property is held or used as an income property.

(iii) Impairment of properties available-for-sale and tangible capital assets

Properties available-for-sale and tangible capital assets are written down when conditions indicate that they no longer contribute to the Corporation's ability to provide goods and services, or when the value of future economic benefits are less than their net book value. Any impairment is accounted for as an expense in the consolidated statement of operations. No impairments were identified or recorded during the year ended December 31, 2011 and 2010.

(iv) Contributions and transfers of tangible capital assets

Contributed tangible capital assets from third parties are recorded into revenues at their fair market value on the date of donation, except in circumstances where fair value cannot be reasonably determined, which are then recognized at nominal value. No contributions of tangible capital assets occurred in fiscal 2011 and 2010.

Certain transfers of tangible capital assets from related parties are recorded at agreed upon value. See disclosures in note 15 of the related party transactions.

e. Prepaid expenses

Prepaid expenses include insurance and other items paid in advance and are recognized as an expense over the future period of expected benefits.

Surrey City Development Corporation
Notes to consolidated financial statements
for the year ended December 31, 2011 and 2010 (continued)

f. Revenues

Revenues are recognized in the period in which the transactions or events occurred that gave rise to the revenues. All revenues are recorded on an accrual basis, except when the accruals cannot be determined with a reasonable degree of certainty or when their estimation is impracticable.

(i) Sales of properties

Revenue recognition on sale of properties occurs when the Corporation has transferred to the purchaser the significant risks and rewards of ownership.

(ii) Property lease revenue

Property lease revenue includes all amounts earned from tenants including property tax and operating cost recoveries. Lease revenues are recognized on a straight-line basis over the term of the lease.

(iii) Professional consulting revenue

Consulting revenue is recorded at the time when services are provided.

g. Expenses

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year is expensed. Interest expense is recorded using effective interest method which includes all debt servicing costs.

h. Measurement uncertainty

The preparation of consolidated financial statements in conformity with PSAS requires management to make estimates and assumptions that affect the reporting amounts of assets and liabilities and disclosure of contingent assets and liabilities, at the date of the consolidated financial statements and the reported amounts of the revenues and expenses during the period. Items requiring the use of significant estimates include useful life, impairment and net recoverable values of tangible capital assets, provisions for accrued liabilities, and commitments.

Estimates are based on the best information available at the time of preparation of the consolidated financial statements and are reviewed annually to reflect new information as it becomes available. Measurement uncertainty exists in these consolidated financial statements. Actual results could differ from these estimates.

Surrey City Development Corporation
Notes to consolidated financial statements
for the year ended December 31, 2011 and 2010 (continued)

4. Future Changes in Accounting Standards

a. Financial instruments and foreign currency translation

PSAS Section 3450, *Financial Instruments*, has been released to provide guidance on recognition and measurement of financial instruments. Section 2601, *Foreign Currency Translation*, and Section 1201, *Financial Statement Presentation*, will replace Section 2600 and 1201, respectively, which are standards of the same titles. Together, these standards contain the following requirements:

- Equity instruments quoted in an active market and free-standing derivatives are carried at fair value. All other financial instruments, including bonds, are carried at cost or amortized cost. Entities will have an option to record any financial instrument, including bonds, at fair value. However, this election must be made on initial recognition of the financial instrument and is irrevocable.
- Hedge accounting is not permitted.
- A new statement, the Statement of Remeasurement Gains and Losses, will be included in the consolidated financial statements, if applicable. Unrealized gains and losses incurred on fair value accounted financial instruments will be presented in this statement. Realized gains and losses will continue to be presented in the consolidated statement of operations.

These standards are effective for the Corporation for fiscal year beginning January 1, 2013.

b. Liability for contaminated sites

PSAS Section 3260, *Liability for Contaminated Sites*, has been released to provide guidance on recognition and measurement of liabilities associated with contamination of sites. Recognition of liability for contaminated sites occurs when an environmental standard exists, contamination exceeds that standard, the entity is directly responsible or accepts responsibility, it is expected future economic benefits will be given up, and a reasonable estimate of the amount can be made. Additional work is expected to be performed to identify and assess the liabilities. The standard is effective for the Corporation for fiscal year beginning January 1, 2015.

The Corporation is currently evaluating the impact of the above new accounting standards on its consolidated financial statements in the future.

Surrey City Development Corporation
Notes to consolidated financial statements
for the year ended December 31, 2011 and 2010 (continued)

5. Accounts Receivable

	<u>2011</u>	<u>2010</u>
Accounts receivable	\$ 21	\$ 2,263
Due from joint venture partners (note 7)	9,598,631	-
	<u>\$ 9,598,652</u>	<u>\$ 2,263</u>

6. Due from Government and Other Government Organizations

	<u>2011</u>	<u>2010</u>
HST Receivable	\$ 177,276	\$ 69,614
Development costs recoverable from the City of Surrey	604,291	1,752,896
Deposits recoverable from the City of Surrey	388,971	35,043
	<u>\$ 1,170,538</u>	<u>\$ 1,857,553</u>

The Corporation has commenced development of certain properties that are owned by the City of Surrey. The development costs have been incurred on the City's behalf. The City is in the processing of transferring the title of the lands and related improvements in trust to the Corporation under declaration of trust agreements. Until such time that the properties are legally transferred, the costs are recoverable from the City of Surrey.

7. Investments in Government Partnerships

(i) Grove Limited Partnership

Grove Limited Partnership ("Grove") was established on September 1, 2011 and is in the business of real estate development of 141 market townhomes in the East Clayton neighbourhood of Surrey.

The Corporation transferred cash of \$1,341,597 and property with a net book value of \$2,844,000 to Grove in exchange for its 50% limited partnership units, resulting in a deemed disposition of 50% of the property and a deferred gain on the transfer of \$3,000.

Decision making for Grove is vested in the General Partner, the Grove (G.P.) Inc., of which the Corporation holds 50% issued and outstanding shares. The Limited Partners do not exercise day-to-day management or control of the operations of Grove. Grove's financial results are proportionately consolidated with those of the Corporation based upon the Corporation's partnership interest of 50%.

Surrey City Development Corporation
Notes to consolidated financial statements
for the year ended December 31, 2011 and 2010 (continued)

7. Investments in Government Partnerships (continued)

(i) Grove Limited Partnership (continued)

The Corporation will provide a limited guarantee in support of the financing obtained or to be obtained by Grove to fund its operations. No such transactions occurred until March 2012 (note 17).

Grove has started property development during fiscal 2011. All related costs were capitalized. No other transactions occurred in 2011.

The amounts included in these consolidated financial statements are as follows:

	2011
Financial assets	
Cash	\$ 16,746
Accounts receivable from related parties of Grove	2,000
Due from government and other government organizations	405,395
Liabilities	
Accounts payable from related parties of Grove	(25,840)
Accounts payable, other	(15,910)
Net Financial Assets	382,391
Non- financial assets	
Tangible Capital Assets	3,803,206
Accumulated surplus	<u><u>\$ 4,185,597</u></u>

(ii) The Grove (G.P.) Inc.

The Grove (G.P.) is the General Partner of Grove and the Corporation holds 50% of its issued and outstanding shares. There were no significant transactions in fiscal 2011. There was no impact on the consolidated financial statements in 2011.

Surrey City Development Corporation
Notes to consolidated financial statements
for the year ended December 31, 2011 and 2010 (continued)

7. Investments in Government Partnerships (continued)

- (iii) The Croydon Drive Development Limited Liability Partnership (“Croydon”)

Croydon was established on November 14, 2011 and is in the business of real estate investment and development of two office buildings to be built, leased and managed as a long-term investment. The Corporation is an equal partner in Croydon and has and will provide equal capital contributions to fund the operations of Croydon in the form of land, financial and intellectual capital. Croydon’s financial results are proportionately consolidated with those of the Corporation based upon the Corporation’s 50% share of the total contributions. Decision making is equal amongst the partners and the Corporation will be active in the day-to-day management and control of the operations of Croydon. No contingencies or contractual obligations were entered into by Croydon during 2011.

There were no operations in Croydon in fiscal 2011.

The amounts included in these consolidated financial statements are as follows:

	2011
Financial assets	
Accounts receivable	\$ 200
Liabilities	-
Net Financial Assets	200
Non-financial assets	-
Accumulated surplus	\$ 200

- (iv) Surrey Centre Tower Holdings

The Corporation holds a 50% interest in nine holding companies to facilitate the Surrey Centre Partnerships. These are bare trust entities, which have no impact on the consolidated financial statements.

Surrey City Development Corporation
Notes to consolidated financial statements
for the year ended December 31, 2011 and 2010 (continued)

7. Investments in Government Partnerships (continued)

(v) Surrey Centre Partnerships

The Surrey Centre Partnerships ("SCP") were established on December 16, 2011 and are in the business of real estate investment and development of a mixed-use real estate development in the City. The SCP are held through Surrey City Investment Corporation ("SCIC"), a wholly-owned subsidiary of the Corporation, which will provide contributions of cash and land to fund the SCP operations. The SCP financial results are proportionately consolidated with those of the Corporation based upon the ownership interest of 29.4%. The liability of the Corporation is limited to the cash and land which it will contribute to the SCP through SCIC.

There were no operations in SCP in 2011.

The amounts included in these consolidated financial statements are as follows:

	2011
Financial assets	
Accounts receivable from SCP partners	\$ 9,596,631
Liabilities	
Accounts payable to SCP partners	(9,596,631)
Net Financial Assets	-
Non-financial assets	-
Accumulated surplus	\$ -

As at December 31, 2011, SCDC is obligated to contribute assets totalling \$13.6 million to the partnerships in exchange for partnership units. Of this contribution, 70.6% or \$9.6 million is effectively payable to outside partners.

As at December 31, 2011, the outside partners are obligated to contribute assets totalling \$32.6 million to the partnerships in exchange for partnership units. Of this contribution, 29.4% or \$9.6 million is effectively receivable by SCDC.

8. Accounts Payable and Accrued Liabilities

	2011	2010
Accounts payables and accrued liabilities	\$ 576,238	\$ 924,069
Salaries and benefits payable	154,472	119,984
Due to joint venture partners	9,596,631	-
Due to related parties of Grove	15,910	-
	\$ 10,343,251	\$ 1,044,053

Surrey City Development Corporation
Notes to consolidated financial statements
for the year ended December 31, 2011 and 2010 (continued)

9. Due to City of Surrey

	<u>2011</u>	<u>2010</u>
Cash transfers made on behalf of the Corporation by the City, non-interest bearing, payable on demand	\$ 3,388,094	\$ 4,221,460
Loan payable #1, interest charged at Bank of Canada prime rate, payable on demand	969,795	1,624,303
Loan payable #2, payable in monthly instalments of \$23,279 including interest calculated at a rate of 3.05% maturing annually	6,417,597	6,496,106
Loan payable #3, payable in monthly instalments of \$50,800 including interest calculated at a rate of 2.76% maturing annually	2,576,914	-
Loan payable #4, payable in monthly instalments of \$22,849 including interest calculated at a rate of 2.25% maturing annually	5,965,815	-
Loan payable #5, payable in monthly instalments of \$23,326 including interest calculated at a rate of 2.75% maturing annually	5,610,422	-
	<u>\$ 24,928,637</u>	<u>\$ 12,341,869</u>

Surrey City Development Corporation
Notes to consolidated financial statements
for the year ended December 31, 2011 and 2010 - continued

10. Tangible Capital Assets

December 31, 2011

	Properties under development	Income Properties		Administration		Total
	Land and Improvements	Land	Building	Computer equipment	Furniture and fixtures	Net Book Value
Cost						
Opening balance	\$ 1,931,730	\$ 6,374,269	\$ 167,392	\$ 44,579	\$ 67,828	8,585,798
Additions	44,943,079	5,643,902	6,159,101	41,486	-	56,787,568
Disposals	(5,424,941)	-	-	(3,513)	(9,001)	(5,437,455)
Transfer to assets held for sale	(8,710,587)	-	-	-	-	(8,710,587)
Closing balance	32,739,281	12,018,171	6,326,493	82,552	58,827	51,225,324
Accumulated amortization						
Opening balance	-	-	8,303	6,292	12,967	27,562
Current year amortization	-	-	101,430	11,595	10,432	123,457
Disposals	-	-	-	(2,459)	(6,300)	(8,759)
Closing balance	-	-	109,733	15,428	17,099	142,260
Net book value	\$ 32,739,281	\$ 12,018,171	\$ 6,216,760	\$ 67,124	\$ 41,728	\$ 51,083,064

Surrey City Development Corporation
Notes to consolidated financial statements
for the year ended December 31, 2011 and 2010 - continued

10. Tangible Capital Assets (continued)

December 31, 2010

	Properties under Development	Income Properties		Administration		Total
	Land and Improvements	Land	Building	Computer equipment	Furniture and fixtures	Net Book Value
Cost						
Opening balance	\$ 1,840,758	\$ 6,374,269	\$ 167,392	\$ 5,746	\$ 16,149	\$ 8,404,314
Additions	90,972	-	-	38,833	51,679	181,484
Closing balance	1,931,730	6,374,269	167,392	44,579	67,828	8,585,798
Accumulated amortization						
Opening balance	-	-	1,674	1,576	5,711	8,961
Current year amortization	-	-	6,629	4,716	7,256	18,601
Closing balance	-	-	8,303	6,292	12,967	27,562
Net book value	\$ 1,931,730	\$ 6,374,269	\$ 159,089	\$ 38,287	\$ 54,861	\$ 8,558,236

Surrey City Development Corporation
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11. Accumulated Surplus (Deficit)

a. 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 otherwise determines, all shares will be held by the City.

(i) Common shares

The authorized capital of the Corporation includes 100 common shares without par value which are issued and outstanding as fully paid and non-assessable by the City

(ii) Preferred shares

The Corporation is authorized to issue an unlimited number of preferred shares without par value. As of December 31, 2011, the Corporation has issued 36,128.5 preferred shares, with certain redemption provisions at the option of the Corporation.

b. The accumulated surplus (deficit) is made up as follows:

	2011	2010
Accumulated operating deficit	\$ (622,419)	\$ (2,848,063)
Share capital, common shares	100	100
Share capital, preferred shares	36,127,501	-
	\$ 35,505,182	\$ (2,847,963)

Surrey City Development Corporation
Notes to consolidated financial statements
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12. Contractual Obligations

The Corporation is obligated to reimburse the City for all operating costs incurred by the City on behalf of the Corporation; all such amounts have been accrued as incurred.

The Corporation has entered in to various agreements and contracts for services and construction. There are commitments outstanding as at December 31, 2011 of \$827,807 (2010 - \$1,119,690).

13. Operating Leases

The Corporation leases office space under operating leases. Future payments are as follows:

2012	<u>\$ 56,405</u>
2013	69,068
2014	72,478
2015	<u>42,279</u>
	<u>\$ 240,230</u>

Surrey City Development Corporation
Notes to consolidated financial statements
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14. Expenses by Object

The following is a summary of expenses by object:

	<u>2011</u>	<u>2010</u>
Advertising and promotion	\$ 2,614	\$ 3,812
Amortization	25,782	11,972
Communication	21,735	14,174
Consulting and professional	76,357	62,340
Directors' fees	107,442	88,660
Grants and sponsorship	1,150	150
Insurance	27,016	28,141
Interest	105,857	35,592
Lease and rentals	78,218	72,412
Membership and training	20,827	42,989
Research and investigation	5,925	14,367
Salaries and benefits	520,760	632,953
Supplies and materials	18,196	22,221
Service maintenance	9,232	9,223
Travel	14,724	11,716
	<u>\$ 1,035,835</u>	<u>\$ 1,050,722</u>

As of December 31, 2011, the Corporation's actual expenses did not exceed its approved budgeted expense limit.

15. Related Party Transactions

Related parties include the City and its related entities as well as the government partnerships that the Corporation has an ownership interest in. These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Surrey City Development Corporation
Notes to consolidated financial statements
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15. Related Party Transactions (continued)

Transactions with government partnerships have been disclosed in note 7.

- (i) The Corporation incurred interest expense of \$475,552 (2010 - \$277,688) on the Corporation's loans payable to the City.
- (ii) The Corporation earned revenue from the City of \$339,540 (2010 - \$377,074) for consulting services provided in the year.
- (iii) Property taxes, utilities and ancillary items of \$175,837 (2010 - \$99,606) were incurred by the Corporation and payable to the City.
- (iv) Permits, deposits and related fees of \$239,699 (2010 - \$45,252) were incurred by the Corporation and payable to the City.
- (v) Consulting fees of \$7,704 (2010 - \$4,294) were incurred by the Corporation and payable to the City.
- (vi) Preferred shares were issued by the Corporation to the City totalling \$36,127,501 in exchange for beneficial ownership of real estate property.
- (vii) Other real estate property totalling \$14,535,259 was transferred beneficially from the City to the Corporation in exchange for loans.

16. Economic Dependence

The Corporation's operations are currently funded by the City and accordingly, future operations of the Corporation are currently dependent upon the continued financial support of the City. The City provided a letter to the Corporation, confirming their intent to continue supporting the corporation to ensure all liabilities can be settled as they come due.

Surrey City Development Corporation
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17. Subsequent Events

At December 31, 2011, the Corporation had entered into tentative agreements to sell properties in future years, which were subject to certain conditions and clauses in favour of the purchaser. The agreements were therefore not binding as at December 31, 2011. The properties had an estimated carrying value at year-end of \$8,573,681, with estimated proceeds of \$14,263,840. The properties were classified as held-for-sale as at year end. All subject conditions were removed in February 2012.

The Corporation is a beneficiary to trust funds of \$350,000, subject to the successful completion of certain sale transactions. At December 31, 2011, these funds were not recognized in these consolidated financial statements.

On February 23, 2012, the Corporation redeemed 2,175.2 Class A Preferred shares at a redemption price of \$2,175,200. The redemption resulted in an increase to the operating loan due to the City of Surrey.

On February 23, 2012, the Corporation issued 22,171 Class A Preferred shares in exchange for beneficial ownership of real estate property with a carrying value of \$22,171,000.

On February 28, 2012, a credit facility was entered into by Grove for a maximum of \$32,900,000, for which the Corporation provided a corporate guarantee limited to the lesser of 50% of the indebtedness or \$15,500,000.

18. Budgeted figures

Budgeted annual surplus was provided for comparison purposes and was derived from the budget approved by the Board of Directors on May 19, 2011. The cash flow figures required for the Consolidated Statement of Changes in Net Debt were subsequently derived from the original budget and cash flow projections prepared by management.

Budget figures have not been audited and are presented only for information purposes.