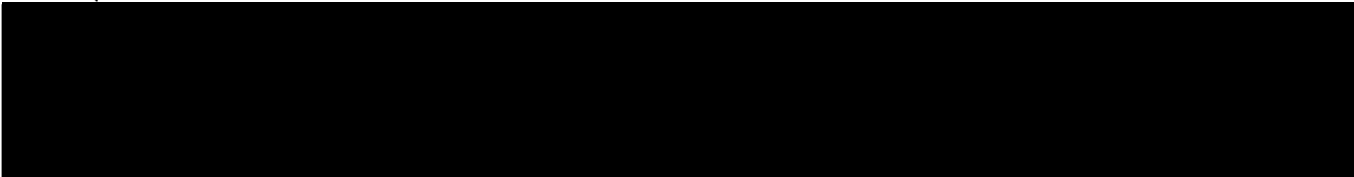


Quest University Canada

Financial Statements For the year ended August 31, 2009

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Auditors' Report

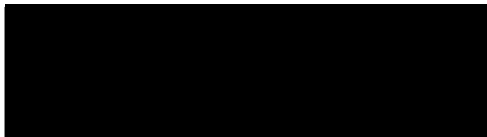
**To the Members of:
Quest University Canada**

We have audited the statement of financial position of Quest University Canada as at August 31, 2009 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. These financial statements are the responsibility of the University'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 University as at August 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.

Vancouver, British Columbia
November 20, 2009



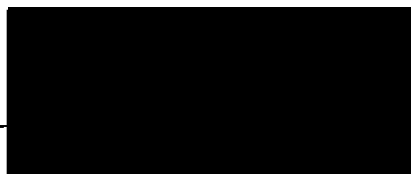
Chartered Accountants

Quest University Canada
Statement of Financial Position

August 31	2009	2008
Assets		
Current		
Cash	\$ 1,012,803	\$ 971,331
Term deposits	772,298	156,984
Accounts receivable	108,338	87,938
Prepaid expenses & other current assets	130,334	99,566
Advances receivable	-	524,906
	<u>2,023,773</u>	<u>1,840,725</u>
Restricted cash (Note 3)	351,506	210,000
Construction in progress (Note 4)	-	4,127,820
Capital assets (Note 5)	89,337,189	85,437,097
	<u>\$ 91,712,468</u>	<u>\$ 91,615,642</u>
Liabilities, Deferred Contributions and Net Assets		
Current		
Accounts payable & accrued liabilities	\$ 640,496	\$ 904,128
Current portion of capital lease obligations (Note 7)	162,318	153,569
Deferred tuition revenues	1,343,883	935,260
Deferred contributions	203,986	-
Demand loan (Note 6)	75,023,352	75,276,316
	<u>77,374,035</u>	<u>77,269,273</u>
Capital lease obligations (Note 7)	55,399	218,574
Deferred library contributions (Note 8)	153,720	113,400
	<u>77,583,154</u>	<u>77,601,247</u>
Net Assets		
Unrestricted	(164,592)	1,337
Invested in construction in progress & capital assets (Note 9)	13,904,605	13,742,699
Invested in library collection	37,795	60,359
Restricted for certification (Note 3)	351,506	210,000
	<u>14,129,314</u>	<u>14,014,395</u>
	<u>\$ 91,712,468</u>	<u>\$ 91,615,642</u>

Commitments (Note 10)

Approved on behalf of the Board of Governors:



Director



Director

Quest University Canada
Statement of Operations

For the year ended August 31

	2009	2008
Revenues		
Tuition	\$ 3,324,361	\$ 1,770,907
Room and boarding	1,267,041	822,615
School operations	619,151	146,306
	5,210,553	2,739,828
Expenses		
Administration and office	497,732	482,037
Advertising, promotion and student recruitment	61,008	387,126
Amortization of capital assets	2,678,786	2,459,649
Campus and residence operations	1,335,987	1,216,867
Consulting and conference	295,058	355,266
Financial aid	2,263,396	1,170,272
Occupancy and utilities	1,859,132	1,077,296
Professional fees	53,656	80,838
Salaries and employee benefits	2,414,383	3,353,177
	11,459,138	10,582,528
Loss from operations before other items	(6,248,585)	(7,842,700)
Other items		
Donations	4,330,634	6,000,000
Interest	3,190	22,319
Amortization of deferred library contributions	29,680	19,600
Sale of intangible asset	2,000,000	-
	6,363,504	6,041,919
Income (loss) from operations	\$ 114,919	\$ (1,800,781)

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Quest University Canada
Statement of Changes in Net Assets
For the year ended August 31, 2009

	Unrestricted	Invested in construction in progress & capital assets	Internally restricted for property held for development	Invested in library collection	Externally restricted for certification	Total
Net Assets, August 31, 2007	\$ 10,478	\$ 608,132	\$(55,949,118)	\$ 68,467	\$ 180,000	\$(55,082,041)
Income (loss) from operations	658,868	(2,425,735)	-	(33,914)	-	(1,800,781)
Investment in construction in progress & capital assets	(15,638,009)	15,560,302	51,901	25,806	-	-
Donation of loan receivable from a related party	-	-	64,657,408	-	-	64,657,408
Difference between proceeds and carrying cost on related party sale	-	-	6,239,809	-	-	6,239,809
Interfund transfers	14,970,000	-	(15,000,000)	-	30,000	-
Net Assets, August 31, 2008	\$ 1,337	\$ 13,742,699	\$ -	\$ 60,359	\$ 210,000	\$ 14,014,395
Income (loss) from operations	2,793,706	(2,638,201)	-	(40,586)	-	114,919
Investment in construction in progress & capital assets	(2,818,129)	2,800,107	-	18,022	-	-
Interfund transfers	(141,506)	-	-	-	141,506	-
Net Assets, August 31, 2009	\$ (164,592)	\$ 13,904,605	\$ -	\$ 37,795	\$ 351,506	\$ 14,129,314

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Quest University Canada
Statement of Cash Flows

For the year ended August 31

2009

2008

Cash provided by (used in):

Operating activities

Income (loss) from operations	\$ 114,919	\$ (1,800,781)
Items not involving cash:		
Amortization of deferred library contributions	(29,680)	(19,600)
Amortization of capital assets	2,678,786	2,459,649
Donation of marketable securities	(13,236)	-
Donation of loan payable	(2,400,000)	-
	<u>350,789</u>	<u>639,268</u>
Changes in non-cash working capital:		
Accounts receivable	(20,400)	(9,421)
Prepaid expenses & other current assets	(30,768)	58,148
Accounts payable & accrued liabilities	(263,632)	81,714
Deferred tuition revenues	408,623	338,065
Deferred contributions	203,986	-
Advances receivable	524,906	(505,448)
	<u>1,173,504</u>	<u>602,326</u>

Investing activities

Proceeds from term deposits	99,000	769,080
Purchases of term deposits	(701,078)	(9,089)
Purchase of capital assets	(304,022)	(598,380)
Increase in construction in progress	(2,147,036)	(10,182,724)
Proceeds from sale of property held for development	-	15,000,000
Increase in property held for development	-	(51,901)
	<u>(3,053,136)</u>	<u>4,926,986</u>

Financing activities

Demand loan	2,147,036	(4,805,092)
Library contributions received	70,000	70,000
Capital lease payments	(154,426)	(90,029)
	<u>2,062,610</u>	<u>(4,825,121)</u>

Increase in cash during the year

182,978 **704,191**

Cash, beginning of year

1,181,331 **477,140**

Cash, end of year

\$ 1,364,309 **\$ 1,181,331**

Supplemental cash flow information (Note 13)

Cash comprised of:

Cash	\$ 1,012,803	\$ 971,331
Restricted cash (Note 3)	351,506	210,000
	<u>\$ 1,364,309</u>	<u>\$ 1,181,331</u>

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Quest University Canada

Notes to Financial Statements

August 31, 2009

1. Nature of Operations

Quest University Canada (the "University") is incorporated under the Sea to Sky University Act of the Province of British Columbia. The University began operations in September 2007 as an independent university and focuses exclusively on liberal arts and sciences.

The University is registered with the Canada Revenue Agency as a charitable organization and is therefore exempt from income tax under section 149 of the Income Tax Act. The University is also exempt from provincial property taxes as the land is used exclusively for educational purposes.

2. Significant Accounting Policies

(a) Use of estimates

The financial statements of the University have been prepared by management in accordance with Canadian generally accepted accounting principles, which require management to make estimates and assumptions that could affect the reported amounts of assets, liabilities, deferred contributions, revenues and expenses in the financial statements and accompanying disclosures. Specific areas of estimate include allowance for doubtful accounts, the rate of amortization of capital assets, accrued liabilities and deferred library contributions. Actual results may differ from those estimates.

(b) Revenue recognition

The University uses the deferral method of accounting for contributions.

Under the deferral method of accounting for contributions, unrestricted contributions are recognized as revenue in the year received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred.

Restricted contributions relating to the library collection are deferred and amortized to revenue on a basis consistent with the amortization rate for the library collection.

Revenues from tuition, room and boarding, and University operations are recognized when earned.

(c) Term deposits

Term deposits consist of guaranteed investment certificates with maturities greater than 90 days with an interest rate ranging from 0.05% - 0.20%.

(d) Accounts receivable

Accounts receivable are stated net of allowances for uncollectible accounts. Management develops the estimate of the allowance based on the University's assessment of its accounts.

(e) Deferred tuition

Deferred tuition is comprised of prepaid tuition fees.

Quest University Canada
Notes to Financial Statements

August 31, 2009

2. Significant Accounting Policies (continued)

(f) Financial instruments

During 2009, the CICA announced that not-for-profit organizations could elect to continue to apply CICA Handbook Section 3861, Financial Instruments - Disclosure and Presentation in place of CICA Handbook Sections 3862, Financial Instruments - Disclosure and 3863, Financial Instruments - Presentation. The University has elected to continue to apply the financial instrument disclosure and presentation standards in accordance with CICA Handbook Section 3861.

The University has designated cash, restricted cash and term deposits as "held for trading"; accounts receivable as "loans and receivables"; accounts payable and accrued liabilities and demand loan as "other financial liabilities". All financial instruments are recognized at fair value on initial recognition.

Subsequent to initial recognition, financial assets designated as "held for trading" are recorded at fair value. Gains and losses realized on disposal, unrealized gains and losses from market fluctuations and other investment income are reported in the statement of operations.

Subsequent to initial recognition, financial instruments classified as loans and receivables are measured at amortized cost using the effective interest rate method.

U.S. currency denominated items as at August 31, 2009 include cash \$242,345 (\$262,833 Canadian) and accounts payable & accrued liabilities \$110,087 (\$120,545 Canadian). The University manages its exposure to foreign exchange fluctuations by maintaining a foreign currency bank account. It is management's opinion that the University is not exposed to significant currency risk on these financial instruments. The University is exposed to interest rate risk on fixed income term deposits held. The risk arises from fluctuations in interest rates and the degree of volatility of these risks. The University is exposed to credit risk. Credit risk is monitored on a regular basis, and management determines the probable losses and sets up a provision for doubtful accounts, as needed, based on the estimated realizable value. The University is exposed to market risk as the fair value or future cash flows from investments will fluctuate due to changes in market prices.

The carrying value and fair value of the University's financial instruments are as follows:

	<u>Carrying Value</u>	<u>Fair Value</u>
Held for trading	\$ 2,136,607	\$ 2,136,607
Loans and receivables	108,338	108,338
Other financial liabilities	75,663,848	75,663,848

Quest University Canada
Notes to Financial Statements

August 31, 2009

2. Significant Accounting Policies (continued)

(g) Capital assets and construction in progress

Capital assets are recorded at cost and are amortized in the following manner:

Buildings		straight-line over 40 years
Computer equipment	30%	declining balance
Equipment under capital lease	20%	declining balance
Furniture and equipment	20%	declining balance
Leasehold improvements		straight-line over the lease term
Library collection	20%	declining balance
Vehicles	20%	declining balance
Website	30%	declining balance

Amortization is calculated at one-half of the rate in the year of acquisition except for buildings and leasehold improvements.

Construction in progress includes land and related carrying costs, together with costs associated with the design and construction of the university campus and are transferred to capital assets at the earlier of date of completion or when the buildings become available for use. During 2009, the University completed the construction of all buildings and other facilities on campus and transferred \$6,274,856 (2008 - \$86,096,59) from construction in progress to capital assets.

3. Restricted Cash

Restricted cash is a guaranteed investment certificate held in trust [REDACTED] for \$351,506 (2008 - \$210,000). This asset is held in accordance with an agreement with the Ministry of Education, and is a requirement of certification as a post-secondary and degree granting institution.

4. Construction in Progress

Sea to Sky Foundation is responsible for managing the construction of the University campus.

During fiscal 2009, the University completed the construction of all buildings and other facilities on campus. The construction in progress is comprised of the following:

	<u>2009</u>	<u>2008</u>
Construction costs	\$ -	\$ 4,127,820

Quest University Canada
Notes to Financial Statements

August 31, 2009

5. Capital Assets

	Cost	Accumulated amortization	Net 2009
Buildings	\$ 91,721,451	\$ 4,429,201	\$ 87,292,250
Computer equipment	808,438	474,945	333,493
Equipment under capital lease	460,727	128,722	332,005
Furniture and equipment	576,577	148,438	428,139
Land	650,000	-	650,000
Leasehold improvements	58,803	39,202	19,601
Library collection	280,160	88,645	191,515
Vehicles	98,133	25,185	72,948
Website	70,594	53,356	17,238
	\$ 94,724,883	\$ 5,387,694	\$ 89,337,189

	Cost	Accumulated amortization	Net 2008
Buildings	\$ 85,446,595	\$ 2,136,165	\$ 83,310,430
Computer equipment	781,726	339,190	442,536
Equipment under capital lease	462,172	46,217	415,955
Furniture and equipment	370,849	67,119	303,730
Land	650,000	-	650,000
Leasehold improvements	58,803	19,601	39,202
Library collection	221,818	48,059	173,759
Vehicles	85,400	8,540	76,860
Website	70,594	45,969	24,625
	\$ 88,147,957	\$ 2,710,860	\$ 85,437,097

Quest University Canada
Notes to Financial Statements

August 31, 2009

6. Demand loan

The University has a non-interest bearing demand loan payable at the earlier of written demand or August 15, 2017. This loan has registered security on the University's property up to \$75,000,000.

	2009	2008
Balance, beginning of year	\$ 75,276,316	\$ 80,081,408
Construction costs	2,147,036	10,182,724
Donation of loan payable	(2,400,000)	-
Advances (repayments) not related to construction	-	12,184
Assignment of proceeds from sale of property held for development	-	(15,000,000)
	\$ 75,023,352	\$ 75,276,316

7. Capital Lease Obligations

	2009	2008
Capital lease repayable at \$6,735 per month interest free, due February 2011. Secured by specific equipment.	\$ 127,114	\$ 208,793
Capital lease repayable at \$4,877 per month including interest at 3.17% per annum, due September 2010. Secured by specific equipment.	66,734	122,187
Capital lease repayable at \$1,523 per month including interest at 2.95% per annum, due November 2010. Secured by specific equipment.	23,869	41,163
	217,717	372,143
Less: current portion	162,318	153,569
	\$ 55,399	\$ 218,574

Estimated principal payments due in the next two years are as follows:

2010	162,318
2011	55,399
	\$ 217,717

Quest University Canada
Notes to Financial Statements

August 31, 2009

8. Deferred Library Contributions

Deferred library contributions represent the unamortized amount of contributions received for the purchase of the library collection. The amortization of deferred contributions for library collection is recorded as revenue in the statement of operations.

	2009	2008
Balance, beginning of year	\$ 113,400	\$ 63,000
Contributions received during the year	70,000	70,000
Amortization	(29,680)	(19,600)
	\$ 153,720	\$ 113,400

9. Net Assets Invested in Construction in Progress & Capital Assets

Net assets invested in construction in progress & capital assets is calculated as follows:

	2009	2008
Capital assets	\$ 89,337,189	\$ 85,437,097
Construction in progress	-	4,127,820
Less: Library collection	(191,515)	(173,759)
Due to Sea to Sky Foundation	(75,023,352)	(75,276,316)
Capital lease obligations	(217,717)	(372,143)
	\$ 13,904,605	\$ 13,742,699

10. Commitments

The University has various operating leases for equipment & student residences. The annual commitments for the next four years are as follows:

2010	\$ 2,280,895
2011	1,161,078
2012	1,161,078
2013	1,059,800
	\$ 5,662,851

11. Related Party Transactions

The University is related to Quest University Canada Foundation due to common economic interest. During the year, Quest University Canada Foundation donated \$121,800 (2008 - \$1,000,000) to the University.

Quest University Canada
Notes to Financial Statements

August 31, 2009

12. Major Contributors

The University is supported by tuition, room and boarding, school operations and donation revenues. Two major contributors provided 95% of donation revenue during fiscal 2009.

13. Supplemental Cash Flow Information

	2009	2008
Non-cash transactions not disclosed elsewhere in the financial statements:		
Donation of loan receivable	\$ -	\$ 64,657,408
Assets acquired under capital lease	-	462,172

14. Capital Disclosures

The University's objective when managing capital is to safeguard its ability to continue operating as an independent liberal arts and sciences university. Therefore, it strives to hold sufficient unrestricted net assets to enable it to withstand unexpected financial events.

The University maintains sufficient liquidity to meet its obligations as they become due.

15. Future Accounting Changes

The Accounting Standards Board (AcSB) has announced that all Canadian reporting entities, subject to certain exemptions (which include not-for-profit organizations), will adopt international financial reporting standards (IFRS) as Canadian generally accepted accounting principles for years beginning on or after January 1, 2011. The AcSB is currently considering alternatives for those organizations that are not required to adopt IFRS - specifically private enterprises and not-for-profit organizations. The School will evaluate the implications of the various options as information becomes available.

The AcSB has issued the following new standards that affect not-for-profit organizations: Section 4400 - Financial Statement Presentation by Not-for-Profit Organizations; Section 4460 - Disclosure of Related Party Transactions by Not-for-Profit Organizations and Section 4470 - Disclosure of Allocated Expenses by Not-for-Profit Organizations. These standards are effective for the University's reporting period beginning September 1, 2009, and the University is assessing the impact of these new standards on the financial statements, noting that the implementation of these standards would only affect the disclosures contained in the notes to the financial statements.

16. Comparative Figures

Certain comparative figures have been reclassified to conform with the current year's presentation.