

Quest University Canada

Financial Statements For the nine month period ended May 31, 2010

	Contents
Auditors' Report	2
Financial Statements	
Statement of Financial Position	3
Statement of Operations	4
Statement of Changes in Net Assets	5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 13



Auditors' Report

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

We have audited the statement of financial position of Quest University Canada as at May 31, 2010 and the statements of operations, changes in net assets and cash flows for the nine month period 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.

As is common with many charitable organizations, the University derives revenue from donations, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of the University and we were not able to determine whether any adjustments might be necessary to donations, operating (loss) income, current assets, and net assets.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the University as at May 31, 2010 and the results of its operations and its cash flows for the nine month period then ended in accordance with Canadian generally accepted accounting principles.

Vancouver, British Columbia
August 12, 2010



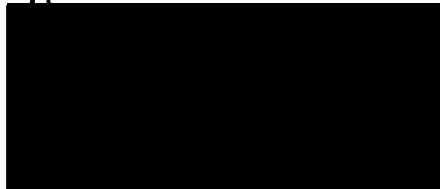
Chartered Accountants

Quest University Canada
Statement of Financial Position

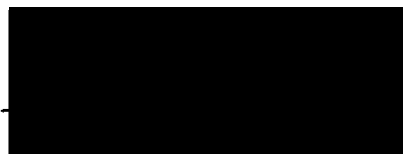
May 31	2010	2009
Assets		
Current		
Cash	\$ 297,100	\$ 1,012,803
Term deposits	171,361	772,298
Accounts receivable	212,962	108,338
Prepaid expenses & other current assets	505,115	130,334
	<u>1,186,538</u>	<u>2,023,773</u>
Restricted cash (Note 3)	351,506	351,506
Property & equipment (Note 4)	87,510,366	89,337,189
	<u>\$ 89,048,410</u>	<u>\$ 91,712,468</u>
Liabilities, Deferred Contributions and Net Assets		
Current		
Accounts payable & accrued liabilities	\$ 625,253	\$ 640,496
Current portion of capital lease obligations (Note 6)	94,245	162,318
Deferred tuition revenues	196,442	1,343,883
Deferred contributions	152,906	203,986
Demand loan (Note 5)	75,023,352	75,023,352
	<u>76,092,198</u>	<u>77,374,035</u>
Capital lease obligations (Note 6)	-	55,399
Deferred library contributions (Note 7)	167,976	153,720
	<u>76,260,174</u>	<u>77,583,154</u>
Net Assets		
Unrestricted	211,937	(164,592)
Invested in property & equipment (Note 8)	12,189,254	13,904,605
Invested in library collection	35,539	37,795
Restricted for certification (Note 3)	351,506	351,506
	<u>12,788,236</u>	<u>14,129,314</u>
	<u>\$ 89,048,410</u>	<u>\$ 91,712,468</u>

Commitments (Note 9)

Approved on behalf of the Board of Governors:



Director



Director

Quest University Canada
Statement of Operations

For the nine month period ended May 31

2010

2009

(with comparatives for the twelve month period ended August 31, 2009)

Revenues

Tuition	\$ 4,588,750	\$ 3,330,479
Room and boarding	1,307,020	1,267,041
School operations	423,025	613,033
	<hr/>	<hr/>
	6,318,795	5,210,553

Expenses

Administration	409,212	497,199
Advertising, promotion and student recruitment	160,891	62,176
Amortization of property & equipment	1,979,054	2,678,786
Campus accommodations	2,183,876	2,089,753
Campus operations	1,099,443	1,006,766
Consulting and conference	314,756	103,053
Financial aid	2,926,756	2,263,396
Professional fees	46,052	53,656
Programs	364,419	286,928
Salaries and employee benefits	2,298,099	2,417,425
	<hr/>	<hr/>
	11,782,558	11,459,138

Loss from operations before other items

(5,463,763) (6,248,585)

Other items

Donations	1,885,163	4,330,634
Interest	100	3,190
Amortization of deferred library contributions	35,744	29,680
Amortization of deferred athletic contributions	1,080	-
Other income	2,200,598	-
Sale of intangible asset	-	2,000,000
	<hr/>	<hr/>
	4,122,685	6,363,504

(Loss) income from operations

\$ (1,341,078) \$ 114,919

Quest University Canada
Statement of Changes in Net Assets

For the nine month period ended May 31, 2010

(with comparatives for the twelve month period ended August 31, 2009)

	Unrestricted	Invested in property & equipment	Invested in library collection	Externally restricted for certification	Total
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 property & equipment	(2,818,129)	2,800,107	18,022	-	-
Interfund transfers	(14,506)	-	-	141,506	-
Net Assets, August 31, 2009	\$ (164,592)	\$ 13,904,605	\$ 37,795	\$ 351,506	\$ 14,129,314
Income (loss) from operations	637,976	(1,947,024)	(32,030)	-	(1,341,078)
Investment in property & equipment	(261,447)	231,673	29,774	-	-
Net Assets, May 31, 2010	\$ 211,937	\$ 12,189,254	\$ 35,539	\$ 351,506	\$ 12,788,236

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 nine month period ended May 31

2010

2009

(with comparatives for the twelve month period ended August 31, 2009)

Cash provided by (used in):

Operating activities

(Loss) income from operations	\$ (1,341,078)	\$ 114,919
Items not involving cash:		
Amortization of deferred library contributions	(35,744)	(29,680)
Amortization of equipment	1,979,054	2,678,786
Donation of equipment	(33,698)	-
Loss on disposal of equipment	3,778	-
Donation of marketable securities	-	(13,236)
Donation of loan payable	-	(2,400,000)
	<u>572,312</u>	<u>350,789</u>
Changes in non-cash working capital:		
Accounts receivable	(104,624)	(20,400)
Prepaid expenses & other current assets	(374,781)	(30,768)
Accounts payable & accrued liabilities	(15,243)	(263,632)
Deferred tuition revenues	(1,147,441)	408,623
Deferred contributions	(51,080)	203,986
Advances receivable	-	524,906
	<u>(1,120,857)</u>	<u>1,173,504</u>

Investing activities

Proceeds from sale of term deposits	1,600,000	99,000
Purchases of term deposits	(999,063)	(701,078)
Purchase of equipment	(122,311)	(304,022)
Increase in construction in progress	-	(2,147,036)
	<u>478,626</u>	<u>(3,053,136)</u>

Financing activities

Demand loan	-	2,147,036
Library contributions received	50,000	70,000
Capital lease payments	(123,472)	(154,426)
	<u>(73,472)</u>	<u>2,062,610</u>

(Decrease) increase in cash during the period

(715,703) 182,978

Cash, beginning of period

1,364,309 1,181,331

Cash, end of period

\$ 648,606 \$ 1,364,309

Supplemental cash flow information

Cash comprised of:

Cash	\$ 297,100	\$ 1,012,803
Restricted cash (Note 3)	351,506	351,506
	<u>\$ 648,606</u>	<u>\$ 1,364,309</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

May 31, 2010

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 annual interest rate ranging from 0.0010% - 0.60%.

(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

May 31, 2010

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 or other financial liabilities are measured at amortized cost using the effective interest rate method.

U.S. currency denominated items as at May 31, 2010 include cash \$146,003, (\$152,354 Canadian) and accounts payable & accrued liabilities \$7,689, (\$8,424 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:

	Carrying Value	Fair Value
Held for trading	\$ 819,967	\$ 819,967
Loans and receivables	212,962	212,962
Other financial liabilities	75,648,605	75,648,605

Quest University Canada
Notes to Financial Statements

May 31, 2010

2. Significant Accounting Policies (continued)

(g) Property & equipment

Property & equipment 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.

(h) Foreign currency transactions

Transactions denominated in a currency other than Canadian dollars are translated into Canadian dollars by applying exchange rates in effect at the transaction date. At period-end, monetary assets and liabilities denominated in a foreign currency are translated using the exchange rate at that date. Any resulting foreign currency translation gains and losses are included in income in the current period.

3. Restricted Cash

Restricted cash is a guaranteed investment certificate held in trust [REDACTED] for \$351,506 (2009 - \$351,506). 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.

Quest University Canada
Notes to Financial Statements

May 31, 2010

4. Property & equipment

	Cost	Accumulated amortization	Net 2010
Buildings	\$ 91,721,453	\$ 6,148,978	\$ 85,572,475
Computer equipment	830,730	552,489	278,241
Equipment under capital lease	447,234	168,241	278,993
Furniture and equipment	666,304	219,427	446,877
Land	650,000	-	650,000
Leasehold improvements	58,803	53,903	4,900
Library collection	324,190	120,675	203,515
Vehicles	98,133	36,127	62,006
Website	70,594	57,235	13,359
	\$ 94,867,441	\$ 7,357,075	\$ 87,510,366

	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

Quest University Canada
Notes to Financial Statements

May 31, 2010

5. 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.

	2010	2009
Balance, beginning of year	\$ 75,023,352	\$ 75,276,316
Construction costs	-	2,147,036
Donation of loan payable	-	(2,400,000)
	\$ 75,023,352	\$ 75,023,352

6. Capital Lease Obligations

	2010	2009
Capital lease repayable at \$6,735 per month interest free, due February 2011. Secured by specific equipment.	\$ 66,448	\$ 127,114
Capital lease repayable at \$4,401 per month including interest at 3.17% per annum, due September 2010. Secured by specific equipment.	17,236	66,734
Capital lease repayable at \$1,523 per month including interest at 2.95% per annum, due November 2010. Secured by specific equipment.	10,561	23,869
	94,245	217,717
Less: current portion	(94,245)	(162,318)
	\$ -	\$ 55,399

Estimated principal payments due in the next year are \$94,245.

Quest University Canada
Notes to Financial Statements

May 31, 2010

7. 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.

	2010	2009
Balance, beginning of year	\$ 153,720	\$ 113,400
Contributions received during the year	50,000	70,000
Amortization	(35,744)	(29,680)
	\$ 167,976	\$ 153,720

8. Net Assets Invested in Property & Equipment

Net assets invested in property & equipment is calculated as follows:

	2010	2009
Property & equipment	\$ 87,510,366	\$ 89,337,189
Less: Library collection	(203,515)	(191,515)
Due to Sea to Sky Foundation	(75,023,352)	(75,023,352)
Capital lease obligations	(94,245)	(217,717)
	\$ 12,189,254	\$ 13,904,605

9. Commitments

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

2011	\$ 1,161,078
2012	1,161,078
2013	1,059,800
	\$ 3,381,956

10. 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 \$Nil (2009 - \$121,800) to the University.

Quest University Canada Notes to Financial Statements

May 31, 2010

11. Major Contributors

The University is supported by tuition, room and boarding, school operations and donation revenues. During fiscal 2010, three major contributors provided 96% of donation revenue (2009 - two major contributors provided 95%).

12. 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.

13. 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 Accounting Standards Board and the Public Sector Accountability Board have issued individual exposure drafts proposing changes to accounting standards for not-for-profit organizations. As a not-for-profit organization, the University will evaluate the implications of various options as information becomes available.

14. Comparative Figures

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