

Financial Statements of

**QUEST UNIVERSITY
CANADA**

Year ended May 31, 2014

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INDEPENDENT AUDITORS' REPORT

To the Members of Quest University Canada

We have audited the accompanying financial statements of Quest University Canada (the "University") which comprise the statement of financial position as at May 31, 2014, the statements of operations and changes in net assets and cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of 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 financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the University's preparation and fair presentation of the 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 University'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 financial statements.

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

Basis for Qualified Opinion

In 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 donation revenue and deficiency of revenues over expenses reported in the statement of operations and assets and net assets reported in the statement of financial position.

Qualified Opinion

In our opinion, except for the possible effects on the financial statements of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the University as at May 31, 2014, the results of its operations, and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Chartered Accountants

Abbotsford, British Columbia

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QUEST UNIVERSITY CANADA

Statement of Financial Position

May 31, 2014, with comparative information for 2013

	2014	2013
		(Restated - note 1)
Assets		
Current assets:		
Cash	\$ 1,141,819	\$ 1,758,321
Investments	121,000	147,793
Accounts receivable (note 3)	317,447	242,130
Inventories	120,771	117,033
Prepaid expenses	294,281	1,595,187
	<u>1,995,318</u>	<u>3,860,464</u>
Restricted Cash (note 4)	1,498,144	1,799,438
Investment in partnership (note 14)	250,001	1
Capital assets (note 5)	87,369,839	80,555,103
	<u>\$ 91,113,302</u>	<u>\$ 86,215,006</u>



Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities	1,211,904	1,220,109
Refundable deposits and unearned revenue	458,446	339,441
Deferred contributions (note 6)	-	546,846
Demand loans (note 9)	-	66,176,000
Current portion of capital lease obligation (note 10)	253,657	52,968
	<u>1,924,007</u>	<u>68,335,364</u>
Accrued interest payable	309,534	-
Long-term debt (note 8)	13,450,000	9,375,000
Capital lease obligation (note 10)	8,750,575	210,418
Deferred capital contributions (note 7)	71,783,861	8,986,546
Net assets:		
Invested in capital assets (note 11(a))	6,502,893	6,242,360
Restricted for certification (note 4)	1,498,144	1,799,438
Invested in library capital assets (note 11(a))	78,853	62,811
Unrestricted	(13,184,565)	(8,796,931)
	<u>(5,104,675)</u>	<u>(692,322)</u>

Commitments (note 13)

	\$ 91,113,302	\$ 86,215,006
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On behalf of the Board

 Governor
  Governor

See accompanying notes the financial statements

QUEST UNIVERSITY CANADA

Statement of Operations

Year ended May 31, 2014, with comparative information for 2013

	2014	2013 (Restated - note 1)
Revenues:		
Student revenue:		
Course fees	\$ 15,401,428	\$ 11,620,397
Room and board	2,615,363	2,021,755
	<u>18,016,791</u>	<u>13,642,152</u>
Constituency support:		
Donations	884,125	924,257
	<u>884,125</u>	<u>924,257</u>
Other income:		
Loss on sale of capital assets	-	(25,882)
Lease, investment and miscellaneous income	491,422	318,265
Ancillary rentals	631,328	576,432
	<u>1,122,750</u>	<u>868,815</u>
	<u>20,023,666</u>	<u>15,435,224</u>
Expenses:		
Administration	432,398	505,516
Advertising	201,617	223,484
Ancillary services	165,156	223,238
Campus accommodations	2,969,027	2,809,159
Campus operations	986,645	968,578
Consulting fees	170,465	14,421
Insurance	156,145	131,944
Interest	1,321,875	589,281
Professional fees	150,310	66,367
Programs	1,041,757	909,388
Salaries and benefits	7,590,514	6,154,679
Scholarships and bursaries	8,567,088	6,819,666
	<u>23,752,997</u>	<u>19,415,721</u>
Deficiency of revenues over expenses before the undernoted	(3,729,331)	(3,980,497)
Amortization of deferred capital contributions (note 7)	2,202,685	298,720
Amortization of capital assets	(2,885,707)	(2,598,010)
Deficiency of revenues over expenses	<u>\$(4,412,353)</u>	<u>\$ (6,279,787)</u>

See accompanying notes the financial statements

QUEST UNIVERSITY CANADA

Statement of Changes in Net Assets

Year ended May 31, 2014, with comparative information for 2013

	Invested in capital assets (note 11)	Invested in library capital assets (note 11)	Restricted for certification (note 4)	Unrestricted	2014 Total	2013 Total (Restated - note 1)
Balance, beginning of year	\$ 6,242,360	\$ 62,811	\$ 1,799,438	\$ (8,796,931)	\$ (692,322)	\$ 5,587,465
Deficiency of revenues over expenses	(667,281)	(15,741)	-	(3,729,331)	(4,412,353)	(6,279,787)
Net change in invested in capital assets	927,814	31,783	-	(959,597)	-	-
Transfers	-	-	(301,294)	301,294	-	-
Net assets (deficit), end of year	\$ 6,502,893	\$ 78,853	\$ 1,498,144	\$ (13,184,565)	\$ (5,104,675)	\$ (692,322)

See accompanying notes the financial statements

QUEST UNIVERSITY CANADA

Statement of Cash Flows

Year ended May 31, 2014, with comparative information for 2013

	2014	2013
		(Restated - note 1)
Cash provided by (used in):		
Operations:		
Deficiency of revenues over expenses	\$ (4,412,353)	\$ (6,279,787)
Items not involving cash:		
Amortization of deferred capital contributions	(2,202,685)	(298,720)
Amortization of capital assets	2,885,707	2,598,010
Loss on sale of capital asset	-	25,882
Revenue recognized on interest contribution (note 6)	(546,846)	(311,708)
Changes in non-cash operating working capital:		
Investments and marketable securities	26,793	24,211
Accounts receivable	(75,317)	50,365
Inventories	(3,738)	(3,703)
Prepaid expenses (note 8)	503,004	(492,632)
Accounts payable and accrued liabilities (note 8)	423,231	339,178
	(3,402,204)	(4,348,904)
Financing:		
Net receipts of refundable deposits and unearned revenues	119,005	13,510
Proceeds from long-term debt (note 8)	3,575,000	4,500,000
Repayment of long-term debt	-	(274,925)
Net receipts of deferred contributions	-	450,000
Repayment of obligations under capital lease	(209,154)	(35,014)
	3,484,851	4,653,571
Investing:		
Net change in restricted cash	301,294	73,436
Purchase of capital assets	(750,443)	(288,990)
Proceeds on disposal of capital assets	-	5,600
Investment in partnership	(250,000)	-
	(699,149)	(209,954)
Increase (decrease) in cash	(616,502)	94,713
Cash, beginning of year	1,758,321	1,663,608
Cash, end of year	\$ 1,141,819	\$ 1,758,321

See notes 8, 9 and 11(b) for supplementary cash flow and non-cash transaction information.

QUEST UNIVERSITY CANADA

Notes to Financial Statements

Year ended May 31, 2014

Nature of operations:

Quest University Canada (the "University") is incorporated as a corporation without share capital under the Sea to Sky University Act (British Columbia). The University provides post-secondary education and grants the degree of Bachelor of Arts & Sciences to students drawn from Canada and other parts of the world.

The University is a registered charity under the Income Tax Act and accordingly exempt from income taxes under Paragraph 149(1)(l) of the Income Tax Act.

1. Restatement of May 31, 2013 financial statements:

The prior period balances have been restated for changes in the classification of how previously forgiven loans were reported. Previously forgiven loans were charged as a direct increase to net assets. The University has determined that allocating a portion of previously forgiven loans as deferred capital contributions provides a better reflection of the nature of the forgiveness and purpose of the initial loans, which was to fund the construction of the University's facilities. The following table summarizes the impact of the restatement:

	As Previously Reported	Adjustment	As Restated
Net assets - opening	\$ 14,677,743	\$ (9,090,278)	\$ 5,587,465
Deficiency of revenues over expenses	\$ (6,539,509)	\$ 259,722	\$ (6,279,787)
Net assets - ending	\$ 8,138,234	\$ (8,830,556)	\$ (692,322)
Deferred capital contributions	\$ 155,990	\$ 8,830,556	\$ 8,986,546

2. Significant accounting policies:

(a) Basis of presentation:

These financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations.

These financial statements have been prepared on a going concern basis. The going concern basis of presentation assumes the University will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. The University has experienced significant operating losses and negative cash flows from operations in each of fiscal 2013 and 2014. The operating losses and negative cash flows from operations experienced by the University have been funded by contributions received under a third party funding agreement (notes 8 and 9) in the form of long-term debt financing and not donations.

QUEST UNIVERSITY CANADA

Notes to Financial Statements (continued)

Year ended May 31, 2014

2. Significant accounting policies (continued):

(a) Basis of presentation (continued):

With the assistance of funds received under the third party funding agreement noted above, management forecasts the University will have sufficient cash flows to fund operations through fiscal 2015. However, with the third party funding agreement expiring in fiscal 2015, the ability of the University to continue in the long-term as a going concern is dependent on the long-term debt being forgiven by the respective third parties or repaid from other major donations and the University securing alternative funding sources to provide adequate cash flows to fund operations for fiscal 2016.

The University does not consolidate the financial statements of Quest University Canada Foundation (the "Foundation") (note 12), an entity which the University controls.

(b) Revenue recognition:

The University follows the deferral method of accounting for contributions which includes donations and government grants. Externally restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Contributions restricted for the purchase of capital assets are deferred and amortized into revenue at a rate corresponding with the amortization rate for the related capital assets. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Restricted investment income is recognized as revenue in the year in which the related expenses are recognized. Unrestricted investment income is recognized as revenue when earned.

Operating subsidies are recorded when received, in accordance with the accounting for contributions.

Course fees and ancillary revenues are recorded as earned.

(c) Inventories:

Inventory consists of bookstore inventory, office and general supplies. Bookstore inventory is recorded at the lower of cost (which is the original purchase price of the product) and net realizable value. Office and general supplies are recorded at the lower of cost and replacement cost.

QUEST UNIVERSITY CANADA

Notes to Financial Statements (continued)

Year ended May 31, 2014

2. Significant accounting policies (continued):

(d) Investment in partnership:

Investment in partnership is comprised of limited partnership units of a for-profit limited liability partnership. The University has significant influence over the partnership, as a result, the investment is recorded using the equity method.

(e) Capital assets:

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution. Betterments which extend the estimated life of an asset are capitalized. When a capital asset no longer contributes to the University's ability to provide services, its carrying amount is written down to its residual value, if any.

Capital assets are amortized using the following methods and rates:

Asset	Method / rate
Buildings	40 years straight line
Furniture and equipment	20% declining balance
Computer equipment	30% declining balance
Leasehold improvements	straight line over life of the lease term
Library	20% declining balance
Vehicles	20% declining balance
Website	30% declining balance

(f) Use of estimates:

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Significant items subject to such estimates and assumptions include the valuation of accounts receivable, the carrying amount of capital assets, and accrued liabilities. Actual results could differ from those estimates.

QUEST UNIVERSITY CANADA

Notes to Financial Statements (continued)

Year ended May 31, 2014

2. Significant accounting policies (continued):

(g) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. The University has elected to carry its investments, excluding the investment in partnership, at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

Financial assets carried at cost or amortized cost are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the University determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the University expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future year, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

3. Accounts receivable:

	2014	2013
Accounts receivable	\$ 332,770	\$ 324,531
Less allowance for doubtful accounts	15,323	82,401
	<u>\$ 317,447</u>	<u>\$ 242,130</u>

QUEST UNIVERSITY CANADA

Notes to Financial Statements (continued)

Year ended May 31, 2014

4. Restricted cash:

Restricted cash consists of two guaranteed investments certificates held in trust [REDACTED] in accordance with irrevocable letters of credit to the Ministry of Advanced Education and the [REDACTED]

	2014	2013
Represented by:		
Ministry of Advanced Education, accrues interest at 1.45% per annum, bears a term of 6 months ending August 5, 2014	\$ 1,288,144	\$ 959,438
[REDACTED] accrues interest at 1.39% per annum, bears a term of 6 months ending October 21, 2014	210,000	840,000
	\$ 1,498,144	\$ 1,799,438

5. Capital assets:

			2014	2013
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 650,000	\$ -	\$ 650,000	\$ 650,000
Buildings	100,928,122	15,551,972	85,376,150	78,719,941
Computer equipment	1,336,221	1,017,400	318,821	427,275
Furniture and equipment	1,412,252	661,613	750,639	461,775
Leasehold improvements	138,036	77,870	60,166	63,717
Library	517,607	313,959	203,648	218,804
Vehicles	16,133	8,926	7,207	9,009
Website	70,594	67,386	3,208	4,582
	\$105,068,965	\$ 17,699,126	\$ 87,369,839	\$ 80,555,103

Assets held under capital lease with historical cost of \$298,400 with accumulated amortization in the amount of \$120,852 are included in computer equipment.

Assets held under capital lease with historical cost of \$8,950,000 with accumulated amortization in the amount of \$223,750 are included in buildings.

QUEST UNIVERSITY CANADA

Notes to Financial Statements (continued)

Year ended May 31, 2014

6. Deferred contributions:

Deferred contributions represent unspent externally restricted donations designated by the donor for the purpose of paying the interest related to long-term debt of the University.

	2014	2013
Balance, beginning of year	\$ 546,846	\$ 408,554
Add amounts received:		
Donations	-	450,000
	546,846	858,554
Less amounts recognized as revenue in the year, used for:		
Interest on long-term debt	(546,846)	(311,708)
	\$ -	\$ 546,846

7. Deferred capital contributions:

Deferred capital contributions represent the unamortized amount of donations received for the purchase of capital assets. The amortization of capital contributions is recorded as revenue in the statement of operations.

	2014	2013
		(Restated - note 1)
Balance, beginning of year	\$ 8,986,546	\$ 9,285,266
Contributions received in the year - forgiveness of loan (note 8)	65,000,000	-
	73,986,546	9,285,266
Less:		
Amounts amortized to revenue	(2,202,685)	(298,720)
	\$ 71,783,861	\$ 8,986,546

Included in the balance of deferred capital contributions is \$74.35 million of forgiven demand loans of which \$9.35 million was forgiven in 2012 and \$65 million was forgiven in 2014. As the intended purpose of the demand loans was to fund the construction of the University, the loans have been treated as a deferred capital contribution, related to the buildings asset class, in the year the loan was forgiven and will be recognized into income in a manner consistent with that of significant accounting policies note 2(b).

QUEST UNIVERSITY CANADA

Notes to Financial Statements (continued)

Year ended May 31, 2014

8. Long-term debt:

	2014	2013
Loan payable including interest at 7% per annum, due October 2016; secured by property	\$ 13,450,000	\$ -
Loan payable including interest at 8% per annum, due August 2015; secured by a general security agreement	-	2,125,000
Loan payable including interest at 9% per annum, due August 2015; secured by a general security agreement	-	2,750,000
Loan payable including interest at 8% per annum, due October 2015	-	2,000,000
Loan payable including interest at 8% per annum, due October 2015	-	2,500,000
	<u>\$ 13,450,000</u>	<u>\$ 9,375,000</u>

Effective February 1, 2014, the University consolidated its long-term debt and demand loan. As part of the consolidation, total debt was reduced by prepaid interest of \$797,902 and increased by accrued interest of \$121,902. In addition, the University received \$3,575,000 in additional funding resulting in a net increase of \$2,899,000 during the year.

Future principal payment required on all long-term debt are as follows:

2017	\$ 13,450,000
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QUEST UNIVERSITY CANADA

Notes to Financial Statements (continued)

Year ended May 31, 2014

9. Demand loans:

	2014	2013
Demand loan payable without interest, secured by property	\$ -	\$ 65,000,000
Demand loan payable including interest at 5% per annum	-	1,176,000
	\$ -	\$ 66,176,000

During the year, the demand loan payable without interest of \$65,000,000 was forgiven. This loan was subsequently classified as a deferred capital contribution as its intended purpose was to fund the construction of the University and, therefore, will be recognized into income at the same rate as the corresponding capital asset.

During the year, the demand loan payable with interest of \$1,176,000 was consolidated with long-term debt as part of a new loan agreement (note 8).

10. Capital lease obligation:

The Company has financed certain buildings and equipment by entering into capital lease agreements. Capital lease repayments are due as follows:

2015	\$ 708,120
2016	708,120
2017	708,120
2018	660,040
2019	636,000
Thereafter	12,190,000
Total minimum lease payments	15,610,400
Less amount representing interest	6,606,168
Present value of net minimum capital lease payments	9,004,232
Current portion of capital lease obligation	253,657
	\$ 8,750,575

Interest of \$396,642 (2013 - \$13,070) relating to capital lease obligations is included in interest.

QUEST UNIVERSITY CANADA

Notes to Financial Statements (continued)

Year ended May 31, 2014

11. Invested in capital assets and invested in library capital assets:

(a) Invested in capital assets and invested in library capital assets are calculated as follows:

	2014	2013 (Restated - note 1)
Capital assets - net book value	\$ 87,369,839	\$ 80,555,103
Capital lease obligation	(9,004,232)	(263,386)
Amounts financed by:		
Deferred capital contributions	(71,783,861)	(8,986,546)
Demand loan secured by property	-	(65,000,000)
	<u>\$ 6,581,746</u>	<u>\$ 6,305,171</u>
Total allocated as follows:		
Invested in capital assets	\$ 6,502,893	\$ 6,242,360
Invested in library capital assets	78,853	62,811
	<u>\$ 6,581,746</u>	<u>\$ 6,305,171</u>

(b) Change in invested in capital assets and invested in library capital assets are calculated as follows:

	2014	2013 (Restated - note 1)
Deficiency of revenue over expenses:		
Amortization of deferred capital contributions	\$ 2,202,685	\$ 298,720
Amortization of capital assets	(2,885,707)	(2,598,010)
Loss on sale of capital assets	-	(25,882)
	<u>\$ (683,022)</u>	<u>\$ (2,325,172)</u>
Total allocated as follows:		
Invested in capital assets	\$ (667,281)	\$ (2,314,502)
Invested in library capital assets	(15,741)	(10,670)
	<u>\$ (683,022)</u>	<u>\$ (2,325,172)</u>

QUEST UNIVERSITY CANADA

Notes to Financial Statements (continued)

Year ended May 31, 2014

11. Invested in capital assets and invested in library capital assets (continued):

(b) Change in invested in capital assets and invested in library capital assets are calculated as follows (continued):

	2014	2013
Net change in invested in capital assets and invested in library capital assets:		
Purchase of capital assets	\$ 750,443	\$ 288,990
Capital lease assets acquired	8,950,000	298,400
Proceeds from capital lease obligation	(8,950,000)	(298,400)
Amounts funded by deferred contributions (note 9)	(65,000,000)	-
Forgiveness of loan (note 9)	65,000,000	-
Proceeds from disposal of capital assets	-	(5,600)
Repayment of capital lease obligation	209,154	35,014
	<u>\$ 959,597</u>	<u>\$ 318,404</u>
Total allocated as follows:		
Invested in capital assets	\$ 927,814	\$ 278,138
Invested in library capital assets	31,783	40,266
	<u>\$ 959,597</u>	<u>\$ 318,404</u>

QUEST UNIVERSITY CANADA

Notes to Financial Statements (continued)

Year ended May 31, 2014

12. Quest University Canada Foundation (the "Foundation"):

The Foundation's purpose is to undertake fundraising in which the proceeds received will be used to help fund the University.

The University has control over the Foundation by virtue of the Foundation's Board of Directors being comprised of employees of the University and, as a result, the University can directly affect the operations of the Foundation. The Foundation is incorporated under the Society Act (British Columbia) and is a registered charity under the Income Tax Act.

A summary of the Foundation's financial position, operations and cash flows for the year ended August 31, 2013 are as follows:

	2013	2012
Assets	\$ 34,610	\$ 33,475
Liabilities	-	-
Net assets	\$ 34,610	\$ 33,475

	2013	2012
Revenue	\$ 111,261	\$ 344,470
Expenses	110,126	360,204
Excess (deficiency) of revenue over expenses	\$ 1,135	\$ (15,734)

Cash flows provided by (used in):		
Operating activities	\$ 1,135	\$ (16,098)

During the year ended May 31, 2014, the Foundation provided donations to the University of \$225,000 (2013 - \$110,000).

Transactions occur 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 entities.

QUEST UNIVERSITY CANADA

Notes to Financial Statements (continued)

Year ended May 31, 2014

13. Commitments:

The University is committed to minimum annual lease payments under various equipment and student residences operating leases as follows:

2015	\$ 2,567,460
2016	2,567,460
2017	1,408,548
2018	1,178,918
2019	1,165,019
	<hr/>
	\$ 8,887,405

14. Investment in partnership:

In the previous year, the University entered into a limited liability partnership (LLP) agreement with a unrelated party with the purpose of constructing new student residences. As part of the agreement, the University leased land to the LLP for 99 years at a nominal amount in exchange for 100 limited partner units. The investment in the LLP was recorded at the nominal value of \$1. In the current year, the University contributed \$250,000 into the partnership. The University is the sole limited partner in the LLP, has significant influence over the LLP, and uses the equity method to account for this investment.

As part of the LLP, the University entered into an Escrow agreement by which the outstanding Class A Preferred and Common Shares of the entity that holds the General Partnership units in the LLP will annually be transferred to the University over the course of 13 years starting August 31, 2026. As a result of the transfer, the University will control the LLP on September 1, 2032, and will become the sole shareholder of the entity on September 1, 2038. Effectively, the University will hold all partnership units in the LLP on September 1, 2038.

The University paid \$530,000 to the LLP, as part of a 25 year lease agreement for student residences. This lease is considered capital in nature, the corresponding capital assets and lease obligation have been recognized as part of these financial statements (note 5, note 10 and note 11).

15. Subsequent events:

Subsequent to the year end, the University entered into an agreement to purchase from the LLP, a student residence building (the "Residence") for \$8,950,000 by way of assumption debt, promissory note and cash considerations. The LLP then purchased from the University the Residence for \$9,097,675 by way of assumption of debt, promissory notes and contribution to the University capital account in the LLP. The University subsequently entered into a 25 year agreement to lease the Residence from the LLP.

QUEST UNIVERSITY CANADA

Notes to Financial Statements (continued)

Year ended May 31, 2014

16. Financial risks and concentration of risk:

(a) Liquidity risk:

Liquidity risk is the risk that the University will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The University manages its liquidity risk by monitoring its operating requirements. The University prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations. There has been no change to the risk exposures from 2013.

(b) Credit risk:

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss. The University is exposed to credit risk with respect to the accounts receivable. The University assesses, on a continuous basis, accounts receivable and provides for any amounts that are not collectible in the allowance for doubtful accounts.

17. Comparative figures:

Certain of the prior years figures have been reclassified to conform with the financial statement presentation adopted in the current year.