

Quest University Canada

Interest Rates on Demand Loans

From 5% to 12%

**Relevant Pages of
Financial Statements**

Quest University Canada Notes to Financial Statements

May 31, 2011

9. Commitments

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

2012	\$ 2,544,778
2013	2,542,482
2014	429,395
2015	<u>3,051</u>
	<u>\$ 5,519,706</u>

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 \$275,000 (2010 - \$Nil) to the University.

11. Subsequent Events

The following events occurred subsequent to the fiscal year-end:

- (a) In June 2011, the University entered into an agreement to borrow \$1,500,000 from Global Charity Fund. The loan is non-interest bearing until January 31, 2013. Effective February 1, 2013, interest will accrue at 5% per annum and will be due on demand.

The loan was used to finance a letter of credit as required by the [REDACTED] in order to secure student financial aid for [REDACTED] students attending the University.

- (b) In June 2011, the University entered into an agreement to borrow \$1,500,000 at 7% interest per annum from the Almoner Foundation, due on demand. At the time of the issuance of these financial statements, the University was in the process of negotiating the terms of this agreement.
-

12. Room and Boarding

During fiscal 2011, the University's contract with a cafeteria operator ceased, and the University assumed the cafeteria operations for a two-month period. The following are revenues and expenses related to the cafeteria operations, which have been recorded in room and boarding:

Cafeteria revenue	\$ 205,272
Related expenses	<u>196,833</u>
	<u>\$ 8,439</u>

Quest University Canada
Notes to Financial Statements

May 31, 2012

5. Demand Loan

	2012	2011
Demand loan payable to ██████████ non-interest bearing. Secured by University's property up to \$65,000,000. ██████████ has agreed not to demand full repayment until December 1, 2012 or such later date as may be agreed upon.	\$ 65,000,000	\$ -
Demand loan payable to Sea to Sky Foundation, non-interest bearing, payable at the earlier of written demand or August 15, 2017. Secured by University's property up to \$75,000,000.	-	75,023,352
	\$ 65,000,000	\$ 75,023,352

During the year, \$10,023,352 of the demand loan payable to Sea to Sky Foundation was forgiven and recorded as a direct increase in net assets invested in property & equipment. The remaining \$65,000,000 was discharged, and Sea to Sky Foundation released all security over the University's property. In exchange, the University assumed Sea to Sky Foundation's demand loan payable to ██████████ in the amount of \$65,000,000.

6. Long-Term Debt

	2012	2011
Loan payable due on January 31, 2013, non-interest bearing, with a par value of \$1,500,000, amortized at an effective interest rate of 5%. After January 31, 2013, due on demand, including interest at 5% per annum.	\$ 1,450,925	\$ -
Loan payable due on October 31, 2014, including interest at 7% per annum. Secured by a general security agreement.	2,125,000	-
Loan payable due on October 31, 2014, including interest at 8% per annum. Secured by a general security agreement.	2,750,000	-
	6,325,925	-
Less: current portion	(1,450,925)	-
	\$ 4,875,000	\$ -

QUEST UNIVERSITY CANADA

Notes to Financial Statements (continued)

Years ended May 31, 2013 and May 31, 2012

8. Long-term debt:

	May 31, 2013	May 31, 2012	June 1, 2011
Loan payable due January 2013, non-interest bearing, with a par value of \$1,500,000, amortized at an effective interest rate of 5%	\$ -	\$ 1,450,925	\$ -
Loan payable including interest at 8% per annum, due August 2015; secured by a general security agreement	2,125,000	2,125,000	-
Loan payable including interest at 9% per annum, due August 2015; secured by a general security agreement	2,750,000	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	-	-
	9,375,000	6,325,925	-
Current portion of long-term debt	-	1,450,925	-
	\$ 9,375,000	\$ 4,875,000	\$ -

Future principal payment required on on all long-term debt for the next three fiscal years are as follows:

2014	\$ -
2015	\$ -
2016	\$ 9,375,000

QUEST UNIVERSITY CANADA

Notes to Financial Statements (continued)

Years ended May 31, 2013 and May 31, 2012

9. Demand loans:

	May 31, 2013	May 31, 2012	June 1, 2011
Demand loan payable without interest, secured by property	\$ 65,000,000	\$ 65,000,000	\$ 75,023,352
Demand loan payable including interest at 5% per annum	1,176,000	-	-
	<u>\$ 66,176,000</u>	<u>\$ 65,000,000</u>	<u>\$ 75,023,352</u>

10. Capital lease obligation:

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

	May 31, 2013	May 31, 2012	June 1, 2011
Year ending May 31:			
2014	\$ 72,120	\$ -	\$ -
2015	72,120	-	-
2016	72,120	-	-
2017	72,120	-	-
2018	24,040	-	-
Total minimum lease payments	312,520	-	-
Less amount representing interest at 8%	49,134	-	-
Present value of net minimum capital lease payments	263,386	-	-
Current portion of capital lease obligation	52,968	-	-
	<u>\$ 210,418</u>	<u>\$ -</u>	<u>\$ -</u>

Interest of \$13,070 relating to capital lease obligations is included in interest expense.

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
------	---------------

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, 2015

5. Deferred capital contributions:

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

	2015	2014
Balance, beginning of year	\$ 71,783,861	\$ 8,986,546
Contributions received in the year	9,850	65,000,000
	71,793,711	73,986,546
Less:		
Amounts amortized to revenue	(2,196,445)	(2,202,685)
	\$ 69,597,266	\$ 71,783,861

Included in deferred capital contributions at May 31, 2015 is \$9,850 (2014 - \$nil) of unspent capital contributions.

6. Long-term debt:

	2015	2014
Loan payable including interest at 7% per annum, due October 2016; secured by property	\$ 17,027,917	\$ 13,450,000

Total debt was increased by accrued interest of \$1,077,917; in addition, the University received \$2,500,000 in additional funding resulting in a net increase of \$3,577,917 (2014 - \$2,899,000) during the year.

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

2017	\$ 17,027,917
------	---------------

QUEST UNIVERSITY CANADA

Notes to Financial Statements (continued)

Year ended May 31, 2016

6. Capital assets:

			2016	2015
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 650,000	\$ -	\$ 650,000	\$ 650,000
Buildings	110,040,889	21,054,016	88,986,873	91,737,895
Furniture and equipment	1,691,596	1,009,159	682,437	847,421
Computer equipment	1,421,388	1,214,491	206,897	295,567
Library	550,621	396,516	154,105	192,631
Vehicles	42,872	18,412	24,460	30,575
Leasehold improvements	152,159	147,451	4,708	23,569
Website	70,594	69,022	1,572	2,246
	\$114,620,119	\$ 23,909,067	\$ 90,711,052	\$ 93,779,904

Assets held under capital lease with historical cost of \$298,400 (2015 - \$298,400) and accumulated amortization in the amount of \$211,401 (2015 - \$174,116) are included in computer equipment.

Assets held under capital lease with historical cost of \$17,900,000 (2015 - \$17,900,000) and accumulated amortization in the amount of \$1,118,750 (2015 - \$671,250) are included in buildings.

7. Demand loan:

	2016	2015
Loan payable bearing interest at 10.5% per annum, due October 2016. Secured by a general security agreement.	\$ 2,000,000	\$ -
	\$ 2,000,000	\$ -

QUEST UNIVERSITY CANADA

Notes to Financial Statements (continued)

Year ended May 31, 2017

8. Capital lease obligation:

The University has financed certain buildings and equipment by entering into capital lease agreements, see note 6 for additional details. Capital lease payments are due as follows:

	2017	2016
2017	\$ -	\$ 1,344,125
2018	1,296,042	1,296,042
2019	1,272,000	1,272,000
2020	1,272,000	1,272,000
2021	1,272,000	1,272,000
2022	1,272,000	-
Thereafter	20,710,740	21,982,726
Total minimum lease payments	27,094,782	28,438,893
Less: interest (rates ranging from 5.17% to 8.00%)	10,506,075	11,359,364
Present value of capital lease payments	16,588,707	17,079,529
Less: Current portion	469,099	490,837
	\$ 16,119,608	\$ 16,588,692

Interest of \$853,288 (2016 - \$879,266) relating to capital lease obligations was recorded as interest expense in the statement of operations.

9. Long-term debt:

	2017	2016
Loan payable bearing interest at 7% per annum, due November 2019; secured by property	\$ 19,066,968	\$ -
Loan payable bearing interest at 7% per annum, due October 2018; secured by property	-	17,027,917

Interest of \$775,216 (2016 - \$1,200,745) relating to long-term debt was recorded as interest expense in the statement of operations.

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

2019	\$ 19,066,968
------	---------------

QUEST UNIVERSITY CANADA

Notes to Financial Statements

Year ended May 31, 2019

8. Line of credit:

At May 31, 2019, the University owed \$250,000 to [REDACTED] as it had withdrawn from the credit line offered by [REDACTED]. In February 2019, the credit line was cancelled by the lender. The interest is charged at 10.5% per annum and is paid [REDACTED] on a monthly basis. A total of \$2,229 of accrued interest is included in accounts payable and accrued liabilities.

9. Government remittance:

Included in accounts payable and accrued liabilities are government remittances payable for payroll related taxes of \$40,354 (2018 - nil).

10. Demand loans:

	2019	2018
Loan payable including interest at 12.0% per annum, due on demand. Secured by a general security agreement.	\$ 1,500,000	\$ 1,500,000
Loan payable including interest at 12.0% per annum, due on demand. Secured by a general security agreement.	1,000,000	1,000,000
Loan payable including interest at 4% per annum, due on demand. Secured by a general security agreement	2,100,000	-
	\$ 4,600,000	\$ 2,500,000

Total accrued interest of \$10,192 and \$14,038 is included in accounts payable and accrued liabilities and debt and accrued interest payable, respectively, relating to the demand loans.

QUEST UNIVERSITY CANADA

Notes to Financial Statements

Year ended May 31, 2019

12. Debt and accrued interest payable:

	2019	2018
Loan payable bearing interest at 7% per annum, due November 2019; secured by property	\$ 19,066,968	\$ 19,066,968
Accrued interest	3,664,387	2,181,839
	<u>\$ 22,731,355</u>	<u>\$ 21,248,807</u>

13. Deferred capital contributions:

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

	2019	2018
Balance, beginning of year	\$ 63,024,236	\$ 65,208,502
Add: Contributions received during the year	593,378	-
Less: Amounts amortized to revenue	(2,272,654)	(2,184,266)
Balance, end of year	<u>\$ 61,344,960</u>	<u>\$ 63,024,236</u>

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).