Court File No.S-170738

IN THE SUPREME COURT OF BRITISH COLUMBIA
IN BANKRUPTCY AND INSOLVENCY

BETWEEN:

CIBT Finance (2017) Corp.

Applicant

and

KGIC Inc. and

674143 B.C. Ltd., Cornerstone Academic College of ESL, Teacher Training and Testing Preparation Inc., Cornerstone Language School Ltd., KGIC Business College (2010) Corp., KGIC Business College (BC) Corp., KGIC Language College (2010) Corp., KGIC Language College (BC) Corp., MTI Community College Ltd., Pan Pacific Career College Inc., Pan Pacific College (Toronto) Ltd., Pan Pacific College Inc., PGIC Career College Inc., PGIC Toronto Inc., PGIC Vancouver Studies Inc., PGIC Victoria Studies Inc., Study English in Canada Inc., Study English in Canada (Vancouver) Inc., Upper Career College of Business & Technology (Vancouver) Inc., Upper Career College of Business & Technology Inc., Urban International School Inc., Victoria International Academy of Teacher Training Ltd., Western Town Business College Ltd. and Western Town College Toronto Inc.

Respondents

APPLICATION UNDER SECTION 243(1) OF THE *BANKRUPTCY AND INSOLVENCY ACT*, R.S.C. 1985, C. B-3, AS AMENDED, SECTIONS 56(2) (A), 63 AND 64(1) OF THE *PERSONAL PROPERTY AND SECURITY ACT*, R.S.B.C.C.359, AND SECTION 39 OF THE *LAW AND EQUITY ACT*, R.S.B.C. 1996 C.253, AS AMENDED.

SECOND REPORT OF BDO CANADA LIMITED, IN ITS CAPACITY AS COURT APPOINTED RECEIVER

7 MARCH 2017

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BACKGROUND

1. On 25 January 2017, by order of this Honourable Court (the "Interim Receivership Order"), BDO Canada Limited ("BDO" or the "Interim Receiver") was appointed Interim Receiver of KGIC Inc. and its subsidiaries (collectively the "KGIC Group").

2. On 15 February, by order of this Honourable Court, the Interim Receivership Order was amended to permit the Interim Receiver to terminate employees and leases (the "Amended Interim Receivership Order"). The Interim Receiver had determined that the KGIC Group was experiencing a significant negative cash outflow and, in order to stabilize operations, cost savings had to be found.

3. On 22 February 2017, by order of this Honourable Court (the "Order"), BDO (the "Receiver") was appointed Receiver of KGIC Inc. and certain of its subsidiaries (collectively the "Revised KGIC Group").

4. On 3 March 2017, the Receiver issued its First Report (the "First Report"), in support of, among other matters, an application for an Approval and Vesting order for a sale of substantially all of the assets of the Further Revised KGIC Group, as defined below.

5. This Second Report provides additional material in support of this application.

6. KGIC Inc. through its operating subsidiaries, operated a number of private career and language colleges through several brands in British Columbia and Ontario. The principal brands are "King George International College" which provides language training in Victoria, Vancouver, Surrey and Toronto and "MTI Community College" which provides career training in Vancouver, Surrey, Burnaby and Chilliwack. At the time of the Interim Receivership Order, the KGIC Group had some 1,600 students and 342 employees in 18 campuses.

7. On 25 January 2017, CIBT Finance (2017) Corp. ("CF2017") took an assignment of the Bank of Montreal's ("BMO") debt of approximately $13 million and issued *Bankruptcy and Insolvency Act* ("BIA") S.244 Notices to enforce its security. For reasons, outlined in the motion material for the Interim Receivership Order, CF2017 applied to the

Honourable Court for an order appointing an Interim Receiver in order to protect and preserve the assets.

8. On 25 January 2017, the Interim Receiver entered into an Interim Management agreement with Sprott-Shaw Degree College Corp. ("Sprott-Shaw") to provide day-to-day management of the KGIC Group. On 22 February 2017, BDO, in its new role as Receiver, renewed this agreement.

PURPOSE OF THIS REPORT

9. The purpose of this Second Report of the Receiver is

   a. to report on

      i. further information in support of the Receiver's recommendation in the First Report that an Approval and Vesting Order be granted;

APPROVAL AND VESTING ORDER

10. The Receiver has received an offer from CF2017, or a designated affiliate, to acquire substantially all of the assets of the Revised KGIC Group, excluding the assets of Cornerstone Academic College of ESL, Teacher Training and Test Preparation Inc., (the "Further Revised KGIC Group").

11. When the Receiver issued its First Report, because the principal of the purchaser was in Asia on business, a signed copy was not available. The Agreement of Purchase and Sale has been signed and a copy of the signature page has been attached as **Exhibit "A"**.

THIRD PARTY REVIEW

12. In the absence of an appraisal, opinion of value or a liquidation proposal, the Receiver engaged The Fuller Landau Group Inc. ("Fuller Landau") to review the results of certain restructuring efforts made by KGIC during 2016, and whether KGIC's current situation justifies the Receiver accepting an offer, which has been made to the Receiver, to acquire the assets of the Further Revised KGIC Group.

13. Fuller Landau's report, which is attached as **Exhibit "B"**, concludes that the Purchasers' offer, by way of a credit bid is a satisfactory option given the lack of alternatives. In

particular, the report concludes, "Assuming such a transaction will be approved by the Court and can be completed quickly, this represents the only practical option available for KGIC's stakeholders."

SCHEDULE OF ESTIMATED NET REALIZATIONS

14. In the Fall of 2016, BDO prepared a Schedule of Estimated Net Realizations ("SENR") for the KGIC Group based on the 31 August 2016 financial statements, attached as **Exhibit "C"**.

15. The SENR concluded that in a liquidation, the first secured creditor, then the Bank of Montreal ("BMO"), would suffer a shortfall of between $12.3 and 12.9 million. In fact, BMO was projected to suffer a loss in excess of its entire loan balance, which was then $12.1 million.

16. Note: When the SENR was prepared, it was based on a review of PPSA registrations in Ontario. Some of the KGIC Group companies are based in British Columbia and PPSR registrations for them were only made in British Columbia. Therefore, these security registrations were not picked up by the preparers. As a result, the SENR shows certain assets might be available for the benefit of the unsecured creditors. Based on the Security Opinion referenced in the Receiver's First Report, the Receiver believes that BMO had taken security over all of the assets of the KGIC Group.

17. No appraisals or offers were obtained in the preparation of the SENR, which was prepared based on BDO's experience.

18. Given that the book value of the assets was less than $10 million, even if the assets could have been realized for their book value, BMO would have suffered a sizeable shortfall.

19. BDO has not updated the analysis in the SENR. No information has come to its attention that would lead it to expect a different conclusion. In fact, given that the KGIC Group continued to experience losses and further cash shortfalls and suffered from declining enrollment, it can be expected that the situation is currently worse than when the SENR was prepared.

20. As noted in the Receiver's First Report, only through a going-concern transaction to a purchaser would there be any value in excess of liquidation value. Further, "It is also the Receiver's opinion that no other purchaser could close a satisfactory transaction within a time period that would be acceptable to the Regulators or would offset the additional funds that the Receiver would need to borrow to fund the ongoing cash shortfall."

21. To reiterate, the Receiver is of the opinion that:

    a. the market for potential purchasers has been sufficiently canvased and the assets of the KGIC Group have been adequately marketed in the Sales Process;

    b. only one offer was received in cash for the entire operation;

    c. the situation of the KGIC Group has worsened since then, such that the universe of potential purchasers is even smaller; and

    d. the distress of the KGIC Group is well known. Interested parties have had the opportunity to come forward. While the Receiver has spoken with a few parties, none expressed interest at a level sufficient to match or exceed the offer from CF2017.

22. Therefore, the Receiver recommends that an Approval and Vesting Order be granted so that a transaction with the Purchasers can be completed.

This Report is respectfully submitted to this Honourable Court as of this 7th day of March, 2017.

BDO CANADA LIMITED,

In Its capacity as the Court-Appointed Receiver of
KGIC Inc., and not in its personal or corporate capacity
Per:

Jervis Rodrigues, CPA, CA, CIRP, CFE, LIT
Senior Vice-President

EXHIBIT

"A"

IN WITNESS WHEREOF the parties have duly executed this Agreement this 3rd day of March, 2017.

BDO CANADA LIMITED, SOLELY IN ITS CAPACITY AS THE COURT APPOINTED RECEIVER OF THE DEBTORS (AS DEFINED HEREIN), WITH NO PERSONAL OR CORPORATE LIABILITY

Per: C. J. Porter c/s
Name: Christopher Porter
Title: VICE - PRESIDENT

I have the authority to bind the Receiver.

CIBT FINANCE (2017) CORP.

Per: ____________ c/s
Name: Toby Chu
Title: President

I have the authority to bind the Corporation.

EXHIBIT

"B"

REPORT TO BDO CANADA LIMITED IN ITS CAPACITY AS RECEIVER OF KGIC INC.

MARCH 6, 2017

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EXECUTIVE SUMMARY

1. KGIC has incurred negative cumulative EBITDA of approximately $(20.77MM) since January 1, 2015. The loss in working capital since January 1, 2015 is approximately $(5.9MM).

2. In its Second Report to the Court dated February 16, 2017, the Interim Receiver reports that it has borrowed at total of $750,000 by February 13, 2017 from CIBT via Receiver's Certificates in order to fund critical ongoing expenses of KGIC, including payroll and rent. The Interim Receiver's cash flow forecast to the end of April 2017 projects a continuing cash burn of approximately $25,000 per diem.

3. The Interim Receiver reported that the education regulators in both British Columbia and Ontario are very concerned with programs being cancelled, which would result in "students being thrown on the street". The Interim Receiver reported that the regulators have the statutory power to shut down the KGIC schools and have advised the Interim Receiver that a resolution to the situation needs to be completed urgently.

4. We believe that the SISP carried out by KGIC was a reasonable process, however it did not result in an offer that was considered capable of completion. In addition, KGIC's plan to restructure their debt (the Debt Settlement Plan) was rejected.

5. KGIC is out of time and cash. A further going concern sale process will take several weeks and likely longer to complete a transaction, and will require that KGIC's operations continue to be funded. It is highly uncertain whether a capable buyer will be found or that the required additional funding will be provided.

6. It is apparent that without an immediate solution, the operations of KGIC will be shutdown and there will be a significant shortfall to CIBT, and no recovery for other creditors.

7. We understand that CIBT intends to make an offer to purchase all or substantially all of the assets of KGIC, as a credit bid of some or all of the secured debt owing to CIBT. Continuation of KGIC's operations will provide future opportunities to many of KGIC's students, employees, landlords and suppliers.

8. Assuming such a transaction will be approved by the Court and can be completed quickly, this represents the only practical option available for KGIC's stakeholders.

INTRODUCTION

9. I am a partner of Fuller Landau LLP, a senior vice president of The Fuller Landau Group Inc., and I have been practicing for more than 25 years as a Chartered Professional Accountant (CPA), Chartered Accountant (CA), Chartered Insolvency and Restructuring Professional (CIRP), and Licensed Insolvency Trustee (LIT). My practice is focused on providing advice to owners, shareholders, directors, management, senior lenders, trade creditors, regulators and other key stakeholders regarding financially challenged businesses, and in developing and supervising informal and formal turnaround and restructuring strategies to deal with financial difficulties and underperforming loans. A copy of my resume is attached as Appendix "**A**" to this report.

10. BDO Canada Limited ("**BDO**" or "**Interim Receiver**") was appointed as interim receiver of KGIC Inc. ("**KGIC**") by an order of the Supreme Court of British Columbia Court (the "**Court**") dated January 25, 2017 (the "**Interim Receivership Order**"), pursuant to an application made by CIBT Finance (2017) Corp. ("**CIBT**"), who had taken an assignment of the indebtedness owing by KGIC to the Bank of Montreal ("**BMO**"). BDO as interim receiver was subsequently appointed as receiver and manager of KGIC (the "**Receiver**") by a further order of the Court dated February 22, 2017 (the "**Receivership Order**").

11. The Fuller Landau Group Inc. was retained as a consultant (the "**Consultant**") by the Interim Receiver pursuant to the terms of a letter of engagement dated February 21, 2017 to review and assess:

    (a) the financial difficulties of KGIC, which led to the appointment of the Interim Receiver,

    (b) the restructuring efforts undertaken by KGIC; and

    (c) whether it is reasonable at this time for the Receiver to accept an offer from CIBT to purchase all or substantially all of the assets of KGIC via a credit bid.

12. This report is prepared solely for the use of the Receiver for the purpose of assisting the Court in making a determination whether to approve a proposed transaction, and other relief being sought. It is based on the Consultant's analysis of publicly available information as well as information provided to the Consultant, which includes certain unaudited financial statements and internal financial reporting included in the records of KGIC (the "**Information**"). The

Consultant's review and analysis did not constitute an audit of the Information. The Consultant has relied upon the Information in reaching the conclusions set out in this report.

BACKGROUND

13. KGIC, formerly known as Loyalist Group Limited ("**Loyalist**"), was incorporated pursuant to the *Business Corporations Act* (Alberta) on September 20, 1996. Loyalist completed an initial public offering by way of prospectus in April 1997 and commenced trading on the TSX Venture Exchange in June 1997. On September 30, 2015, Loyalist filed an amendment under the *Canada Business Corporations Act* to change its name to KGIC Inc. (known as King George International College). KGIC Inc. trades on the TSX Venture Exchange under the ticker symbol "LRN"

14. KGIC provides English language and career training educational courses at its private English as a Second Language (ESL) Schools, Career Colleges and Community Colleges in Toronto, Vancouver and Victoria. As reported in KGIC's Management Discussion and Analysis for the three and nine months ended September 30, 2016, KGIC owned and operated 22 campuses in British Columbia and Ontario and enrolled approximately 20,000 students yearly. As reported by BDO in its preliminary report to the Court in its proposed capacity as interim receiver of KGIC dated January 24, 2017, the number of campuses operated by KGIC and the number of students currently enrolled were 18 and approximately 1,700 respectively.

15. We reviewed information in press releases issued by KGIC since October 2015 relating to KGIC's financial difficulties and restructuring efforts, as well as the events leading up to the appointment of the Interim Receiver which are summarized as follows:

- November 19, 2015 – released consolidated financial results for the three and nine months ended September 30, 2015, with highlights reported as follows:
  - revenues from school operations have shown a positive trend;
  - earnings before interest, taxes, depreciation and amortization ("**EBITDA**") were \$(2.7MM) and \$(12.3MM) respectively; and
  - cash flows used in operations were \$(4.6MM) and \$(10.9MM) respectively.
- December 14, 2015 – lower than anticipated cash collections, which were reported in press releases dated August 31, 2015 and November 19, 2015 as the primary drivers of negative variances to cash flow agreements in the Forbearance Agreement entered into with BMO have continued, and as of mid-December 2015, KGIC's cash position has been depleted to a

level which will likely not allow the Company to operate beyond December 31, 2015 without additional financing; KGIC planned to engage a financial advisor to seek additional capital through debt or equity while also considering other strategic alternatives.

- December 21, 2015 – changes made to the board of directors and management including the appointment of Dr. Alex MacGregor as its President and Chief Executive Officer.
- December 22, 2015 - an agreement in principle reached with BMO to convert KGIC's revolving debt facilities with BMO into a term loan to be repaid over 3 years, as well as a proposed non-brokered preferred share offering to raise up to $3 million to be completed in multiple stages.
- February 17, 2016 – KGIC entered into an amended and restated forbearance agreement with BMO (the "**Revised Forbearance Agreement**"), which includes BMO agreeing to provide a discretionary, non-revolving demand credit facility of up to $3MM until April 22, 2016, and in connection therewith KGIC's board of directors initiated a review of strategic alternatives to determine the best course of strategic alternatives to enhance KGIC's value and retained G.S. MacLeod & Associates Inc. to act as exclusive financial advisor; KGIC elected not to proceed with the previously announced preferred share offering and will instead explore the possibility of a debt offering as part of the strategic review process.
- April 1, 2016 – proposed offering of a non-brokered private placement financing of convertible subordinated debentures for aggregate gross proceeds of up to $5MM (the "**Convertible Debenture Offering**").
- April 21, 2016 – the proposed offering announced on April 1, 2016 will be increased from $5MM to $6.5MM.
- May 2, 2016 - consolidated financial results for the year ended December 31, 2015 were released. Highlights of the results for fiscal 2015 compared to the results for fiscal 2014 were reported as follows:
    - revenues from school operations decreased by approximately $21MM or by 33%;
    - gross profit decreased by $12MM or by 75%;
    - loss from operations was approximately $35MM, a decrease of approximately $18MM or 99%;
    - adjusted EBITDA was approximately $(14.2MM), a decrease of approximately $11.8MM or 487%;

- KGIC entered into a Memorandum of Understanding with BMO dated April 7, 2016 with terms summarized as follows:
  - the Revised Forbearance Agreement in place with BMO will terminate upon raising of a minimum of $1.825MM from the Convertible Debenture Offering;
  - the interim $3MM credit facility will be retired and the remaining credit facility of $8.9MM is to be converted to a term loan for a period of 4 years with payments of interest only until December 31, 2016; and
  - KGIC had received $1.15MM from investors to date and had non-binding signed term sheets for an additional $5.275MM, as well as $425,000 from a member of senior management in the form of a promissory note.

- August 16, 2016 – consolidated financial results for the 3 months ended June 30, 2016 were released. Highlights of the results compared to the same period in 2015 were as follows:
  - revenue from operations decreased by $2.4MM or by 29% and attributed to a reduction from 28 to 22 campus locations as well as loss of students from discontinued South Korean recruitment agencies during the Q3 of 2015; and
  - general and administrative expenses ("**G&A**") decreased by $2.9MM or by 46% resulting in an adjusted EBITDA of $(2.4MM) or an improvement of approximately $3.0MM or 55%.
- September 1, 2016 - Geoffrey Smith resigned as chairman of the board and was to continue in a consulting role.
- September 26, 2016 - plans to execute a capital restructuring and debt settlement plan (the "**Debt Settlement Plan**") in order to facilitate required financing, which was expected to include:
  - debt reduction of approximately $20.2MM by offering equity conversion to existing holders of unsecured convertible debentures, subordinated loans and preferred shares (the "**Unsecured Debt Securities**");
  - a debt settlement with BMO, which will include:
    - reduction of debt of $5.4MM and the balance to be repaid in cash subject to successful restructuring of the Unsecured Debt Securities and obtaining required financing; and
    - the Debt Settlement Plan is expected to be completed by October 31, 2016.

- October 17, 2016 - a firm commitment was received from a third party lender for a proposed secured loan of $9.725MM, conditional on completion of the Debt Settlement Plan, as well as confirmation that holders of approximately $19.4MM or 70% of the existing outstanding debt, including BMO, would be agreeable to converting their debt in accordance with the Debt Settlement Plan.
- October 31, 2016 – receipt of an independent fairness opinion from BDO Canada LLP regarding the proposed capital restructuring and the Debt Settlement Plan made to the holders of Unsecured Debt Securities (the "**Fairness Opinion**"). The press release announced that "the Fairness Opinion confirmed and concluded that the proposed Debt Settlement Plan is fair, from a financial point of view, to each of the holders of the Unsecured Debt Securities" and that KGIC had requested the Fairness Opinion "to ensure a thorough process in its evaluation of financing options and to provide a balanced view to such holders of Unsecured Debt Securities, some of whom have yet to agree to the Proposed Restructuring".
- December 2, 2016 - released consolidated financial results for the three months ended September 30, 2016. Highlights of the results compared to the results for the same period in 2015 are as follows:
  - revenues had declined by $4MM or 38%;
  - gross profit decreased by $1MM or by 45%;
  - G&A decreased by $1.8MM or by 38%;
  - EBITDA increased by 0.8MM or by 38%;
  - the decline in revenues was attributed to a decrease in the number of campuses from 28 as of June 30, 2015, to 22 as of June 30, 2016, and loss of students from less lucrative markets;
  - despite the Companies improved EBITDA in the last 3 quarters, KGIC continues to experience challenging funding constraints due to its overleveraged capital structure; and
  - the Debt Settlement Plan was rejected by a significant block of unsecured convertible debenture holders and a group of preferred shareholders, which "cast significant doubt on the Company's ability to operate as a going concern".

- January 26, 2017 - CIBT made demand upon KGIC as debtor, and 23 of KGIC's subsidiaries as guarantors for payment in full of KGIC's outstanding indebtedness in the aggregate amount of $12,301,231 by February 7, 2017, and:
  - pursuant to an order of the Supreme Court of British Columbia dated January 25, 2017, BDO was appointed as interim receiver and manager of all of the assets, undertakings and properties of the Company. The Interim Receiver was appointed pursuant to an application brought by CIBT: and
  - three of KGIC's four directors have resigned and the sole remaining director has indicated his intention to resign.

KGIC SALE AND INVESTOR SOLICITATION PROCESS

16. We contacted Greg MacLeod of G.S. MacLeod & Associates Inc. (retained by a special committee of the board of directors (the "**Special Committee**") as their advisor (the "**Advisor**") and discussed the efforts and results of KGIC's process to solicit interest in a sale and/or capital investment, which was commenced in early February 2016 and was completed by mid-March 2016 (the "**SISP**"). A summary of our discussion is as follows:

- KGIC agreed to undertake the SISP to maximize liquidity for KGIC and BMO as part of the Revised Forbearance Agreement during early February 2016;
- BMO's financial advisor provided a list of approximately 20 prospective strategic parties, many of whom were in the same business as KGIC, as well as some financial investors;
- Approximately 75% of these parties were based in Canada and the US, and the remaining 25% were based internationally, including parties based in the European Union, China and Australia;
- Approximately 25 parties were contacted (the "**Targets**"), including parties identified by KGIC;
- a written investment opportunity solicitation was provided to the Targets;
- all parties who expressed an interest, were qualified (the "**Qualified Parties**") via interviews with the CEO, the chairman of the board, and the Advisor;
- Qualified Parties were asked to sign a non-disclosure agreement, and upon receipt were provided with access to an electronic data room, and made aware of a deadline of March 7, 2016 to submit a letter of intent ("**LOI**");
- four parties submitted LOIs by the deadline;

- the Advisor kept BMO and the Special Committee updated regularly on the process and provided them with copies of the LOIs;
- by mid-March, the advance of $3 million from BMO was nearly fully drawn and it was critical to complete a transaction as soon as possible, which could be approved by BMO;
- two of the LOIs were considered superior to the others and these parties were contacted about the details in their LOI, and asked to complete their due diligence; and
- one of the parties did not pursue their interest, and it was agreed that the terms of the offer from the other party would not be acceptable.

17. Mr. MacLeod advised that there were a limited number of parties with the financial resources and technical expertise in this industry who would be capable of successfully closing the transaction, and that he believed that the Targets made up a good representation of such parties.

CASH RESOURCES AND ESTIMATED RECOVERIES TO CREDITORS

18. KGIC has incurred negative cumulative EBITDA of approximately $(20.77MM) since January 1, 2015. The loss in working capital since January 1, 2015 is approximately $(5.9MM) shown as follows:

KGIC Inc.
Change in Working Capital
December 31, 2015 to September 30, 2016

	September 30 2016	**December 31 2015**
Current Assets		
Cash and cash equivalents	189,666	469,711
Trade and other receivables	3,619,329	3,573,533
Inventory	218,391	267,725
Prepaid expenses	1,755,002	2,386,597
	5,782,388	6,697,566
Current Liabilities		
Bank ovedraft and bank debt	12,957,759	8,879,961
Trade and other payables	7,581,645	4,846,470
Optimization Plan	-	593,287
Current taxes payable	6,076	6,076
Loan Payable	711,256	711,256
Deferred revenue	6,715,966	7,952,996
Current portion of lease inducement	58,254	59,902
	28,030,956	23,049,948
Net Working Capital	**(22,248,568)**	**(16,352,382)**
Change in Working Capital		**(5,896,186)**
	(22,248,568)	(22,248,568)

19. As reported by KGIC, at September 30, 2016, the net book values of KGIC's non-current assets were as follows:

	September 30 2016
Capital Assets	2,092,738
Goodwill	670,236
Intangible Assets	7,428,063
Rent Deposits	716,871
	10,907,908

20. Intangible assets represent the most significant assets of KGIC. However, without a going concern sale, it would be very difficult to obtain value from these assets (which consist mostly of trade names and the capitalized costs for development of courses and textbooks).

21. We reviewed a schedule of estimated net realization of KGIC prepared by BDO (the "**Schedule of Estimated Net Realization**"), which was based on a liquidation of KGIC's assets as recorded in the financial records of KGIC as at August 31, 2016. We also reviewed the supporting assumptions to the Schedule of Estimated Net Realization. We believe that the assumptions used by BDO were reasonable in the circumstances and based on those assumptions, we believe that the estimated net realization was correctly calculated.

22. Assuming that the senior secured creditor has a valid and effective priority charge on the assets of KGIC, the Schedule of Estimated Net Realization showed that there would be a significant shortfall to the senior secured creditor and therefore no funds would be available for other secured or unsecured creditors of KGIC.

23. We reviewed the non-consolidated financial information of KGIC as at January 25, 2017. The net book values of KGIC's assets have decreased since August 31, 2016. Therefore, based on the assumptions used in the Schedule of Estimated Realization, we believe that a liquidation of KGIC's assets would still result in a significant shortfall to the senior secured creditor and no funds would be available for other secured creditors or unsecured creditors of KGIC.

24. The Interim Receiver, in its reports to the Court, reported that there were significant arrears for critical operating costs including rent and payroll. The Interim Receiver also reported that payments to off-shore recruiting agents have not been made resulting in significantly reduced enrollment projections to the end of April 2017.

25. The Interim Receiver reported that current KGIC cash receipts cover less than 65% of operating costs. The Interim Receiver has taken steps to minimize operating expenses, however the

Interim Receiver's cash flow forecast to the end of April 2017 projects a continuing cash burn of approximately $25,000 per diem.

26. Notwithstanding that the Interim Receivership Order and the Receivership Order stays payments of pre-receivership debts, from January 25 to February 13, 2017, a period of less than thirty days, the Interim Receiver has had to borrow $750,000 from CIBT via Receiver's Certificates in order to fund critical ongoing expenses of KGIC, including payroll and rent.

SUMMARY AND CONCLUSIONS

27. KGIC has incurred negative cumulative EBITDA of approximately $(20.77MM) since January 1, 2015. The loss in working capital since January 1, 2015 is approximately $(5.9MM).

28. In the second report of the Interim Receiver to the Court, dated February 16, 2017, the Interim Receiver concluded that KGIC "was not viable in its current state, and would have collapsed in early February when it was unable to meet payroll for all employees and to pay rent for its premises for the second consecutive month".

29. The Interim Receiver has had to borrow $750,000 from CIBT via Receiver's Certificates in order to fund critical ongoing expenses of KGIC, including payroll and rent. The Interim Receiver's cash flow forecast to the end of April 2017 projects a continuing cash burn of approximately $25,000 per diem.

30. The Interim Receiver reported that the education regulators in both British Columbia and Ontario are very concerned with programs being cancelled, which would result in "students being thrown on the street". The Interim Receiver reported that the regulators have the statutory power to shut down the KGIC schools and have advised the Interim Receiver that a resolution to the situation needs to be completed urgently.

31. We believe that the SISP carried out by KGIC was a reasonable process, however it did not result in an offer that was considered capable of completion. The Debt Settlement Plan was rejected.

32. KGIC is out of time and cash. A further going concern sale process will take several weeks and likely longer to complete a transaction, and will require that KGIC's operations continue to be funded. It is highly uncertain whether a capable buyer will be found or that the required additional funding will be provided.

33. The Interim Receiver requested and received a legal opinion that concluded that the security held by BMO and assigned to CIBT was valid and enforceable and in priority except for certain liens on specific assets.

34. It is apparent that without an immediate solution, the operations of KGIC will be shutdown and there will be a significant shortfall to CIBT, and no recovery for other creditors.

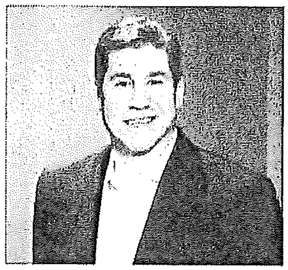
35. We understand that CIBT intends to make an offer to purchase all or substantially all of the assets of KGIC, as a credit bid of some or all of the secured debt owing to CIBT. Continuation of KGIC's operations will provide future opportunities to many of KGIC's students, employees, landlords and suppliers.

36. Assuming such a transaction will be approved by the Court and can be completed quickly, this represents the only practical option available for KGIC's stakeholders.

THE FULLER LANDAU GROUP INC.

Per: K Pearl

Ken Pearl, MBA, CPA, CA, CIRP, LIT
Senior Vice President



Ken Pearl, MBA, CPA, CA, CIRP, LIT
Partner

Email: kpearl@fullerllp.com

Direct Line: (416) 645-6519

Connect:

Profile

Ken is a partner in Fuller Landau's Restructuring & Insolvency team. Ken has over 26 years of practice as an accountant and restructuring professional, with over 17 years of experience at both big four and big eight public accounting firms. Prior to that, Ken spent several years as Vice-President of a family-owned, residential home building operation and has also served as a controller of a fast food restaurant organization.

Ken focuses on providing advice to business owners, shareholders, management, creditors, lenders, and other key stakeholders regarding financially-challenged businesses. He has extensive experience in developing informal turnaround and restructuring strategies, in addition to implementing and managing formal insolvency proceedings on behalf of consumer and corporate debtors and their creditors, as well as proposals, bankruptcies, court and private receiverships, and interim receiverships on both sides of the border.

Ken possesses deep technical skills, a focus on quality and risk management and a proven track record in leading complex engagements. In addition, he provides responsive and effective financial advisory services to his clients that include special loan groups at chartered banks, asset-based lenders in Canada and the U.S., and secondary and distressed lenders.

Practice Areas

- Restructuring and Insolvency
- M&A/Transaction Support
- Cross-Border

Industries

- Food & Beverage
- Manufacturing & Distribution
- Real Estate & Construction
- Oil & Gas
- Mining & Natural Resources

Academic Achievements, Memberships and Professional Designations

- Masters of Business Administration, Schulich School of Business
- Chartered Insolvency and Restructuring Professional
- Licensed Insolvency Trustee
- Member, Institute of Chartered Professional Accountants of Ontario
- Member, Canadian Association of Insolvency and Restructuring Professionals (CAIRP)
- Member, Commercial Program Committee, Commercial Insolvency and Restructuring Program for CAIRP
- Member, Exam Board of National Insolvency Qualification Program
- Member, Campaign Cabinet for the Juvenile Diabetes Research Foundation (JDRF) Ride for Research
- Former board member of the Ontario Association of Insolvency and Restructuring Professionals (OAIRP)

EXHIBIT

"C"

Exhibit "C"

KGIC INC.
SCHEDULE OF ESTIMATED NET REALIZATION
AS AT AUGUST 31, 2016
(CDN $)

				BMO - Estimated Net Realization Value	
		Net Book Value - Total	Net Book Value - Secured by BMO	High Recovery	Low Recovery
Assets					
Cash & cash equivalents	Note 1	$ (203,125)	$ (199,075)	$ 255,000	$ 155,000
Inventory	Note 2	228,300	226,547	93,000	38,000
Accounts receivable	Note 3	3,422,750	3,303,060	418,000	130,000
Prepaid and other	Note 4	1,938,681	1,852,537	-	-
Capital assets	Note 5	2,142,747	1,950,918	84,000	19,000
Rent deposit	Note 6	597,379	547,685	-	-
Intangible assets	Note 7	1,651,516	1,510,786	-	-
Total Assets		9,778,248	9,192,460	850,000	342,000
Less: Potential priority claims					
Unpaid wages and vacation	Note 8			(441,000)	(322,000)
Goods & Services Tax payable/(refund)	Note 9			-	-
Unremitted source deductions	Note 10			-	-
Union remittances	Note 11			(3,000)	(3,000)
Total Potential Priority Payables				(444,000)	(325,000)
Net available before occupancy costs and professional fees				406,000	17,000
Less: Occupancy Costs	Note 12			(113,000)	(113,000)
Less: Professional Fees	Note 13			(500,000)	(700,000)
Lender Indebtedness (secured) - BMO	Note 14			(12,115,929)	(12,115,929)
Estimated Secured Creditor - BMO - Surplus / (Shortfall)				$ (12,322,929)	$ (12,911,929)

		Unsecured Creditors - Estimated Net Realization Value	
	Net Book Value - Unsecured	High Recovery	Low Recovery
Assets			
Cash & cash equivalents	$ (4,050)	$ -	$ -
Inventory	1,753	1,000	-
Accounts receivable	119,689	17,000	6,000
Prepaid and other	86,143	-	-
Capital assets	191,829	5,000	2,000
Rent deposit	49,694	-	-
Intangible assets	140,730	-	-
Total Assets	585,789	23,000	8,000
Less: Potential priority claims			
Unpaid wages and vacation		(17,000)	(6,000)
Goods & Services Tax payable/(refund)		-	-
Unremitted source deductions		-	-
Union remittances		-	-
Total Potential Priority Payables		(17,000)	(6,000)
Net available before occupancy costs and professional fees		6,000	2,000
Less: Occupancy Costs		(8,000)	(8,000)
Less: Professional Fees		(20,000)	(25,000)
Estimated Proceeds Available for Unsecured Creditors		$ (22,000)	$ (31,000)

General Assumptions:
This schedule of estimated net realization is based on a forced liquidation scenario under the assumption that BMO enforces their security concurrently with a bankruptcy.
This schedule of estimated net realization is based on information available to BDO Canada Limited and discussions with Management.
Recoveries contemplated herein have been determined based on BDO's insolvency and restructuring experience.
Assumptions could vary affecting recoveries and the variances may be material.

KGIC INC.
NOTES & ASSUMPTIONS TO SCHEDULE OF ESTIMATED NET REALIZATION
AS AT AUGUST 31, 2016

Notes and Assumptions:

1. Cash

	Net Book Value - Total	Net Book Value - Secured by	Net Book Value - Unsecured	BMO - Estimated Net Realization Value High Recovery	BMO - Estimated Net Realization Value Low Recovery	Unsecured - Estimated Net Realization Value High Recovery	Unsecured - Estimated Net Realization Value Low Recovery
BMO - Overdraft	$ (493,468)	$ (489,179)	$ (4,288)	$ -	$ -	$ -	$ -
BMO - Cash	60,442	60,442	-	60,442	60,442	-	-
Cash at Other Banks	94,327	94,090	238	94,090	94,090	238	238
Amounts in Trust	35,473	35,473	-	-	-	-	-
Letter of Credit	100,100	100,100	-	100,100	-	-	-
Total Cash & Cash Equivalents	$ (203,125)	$ (199,075)	$ (4,050)	$ 254,632	$ 154,532	$ 238	$ 238
Rounded				$ 255,000	$ 155,000	$ -	$ -

As at August 31, 2016 the Company reports cash of negative $203,000. The cash value consists of cash deposits and overdraft balances at BMO, cash deposits at other banks, deposits held in Trust and Letters of Credit. The "High Recovery" scenario assumes that BMO applies all cash deposits against the BMO indebtedness, cash balances at all other banking institutions are recovered, and that the Letters of Credit with the Ministries of Education are refunded. The "Low Recovery" scenario assumes that BMO applies all cash deposits against the BMO indebtedness and that cash balances at all other banking institutions are recovered.

2. Inventory

	Net Book Value - Total	Net Book Value - Secured by	Net Book Value - Unsecured	BMO - Estimated Net Realization Value High Recovery	BMO - Estimated Net Realization Value Low Recovery	Unsecured - Estimated Net Realization Value High Recovery	Unsecured - Estimated Net Realization Value Low Recovery
Textbook Inventory	$ 228,300	$ 226,547	$ 1,753	$ 113,274	$ 56,637	$ 877	$ 438
Less: Auctioneer commission @ 10% + HST				(12,800)	(6,400)	(99)	(50)
Less: Auctioneer marketing and other costs (inclusive of HST)				(7,442)	(12,404)	(58)	(96)
Total inventory recovery				$ 93,031	$ 37,833	$ 720	$ 293
Rounded				$ 93,000	$ 38,000	$ 1,000	$ -

As at August 31, 2016 the Company reports an inventory net book value of $228,000 which consists of textbooks. The "High Recovery" scenario assumes a gross recovery at auction of 50%, an auctioneer's commission of 10%, and auctioneer's costs of $7,500 resulting in a net recovery at auction of $93,000 for BMO. The "Low Recovery" scenario assumes a gross recovery at auction of 25%, auctioneer's commissions of 10%, and auctioneer's costs of $12,500 resulting in a net recovery of $38,000 for BMO. Management advises that there are no 30 day good claims as inventory is fully for paid before receipt of shipments. We note that BDO has not inspected, counted, or tested the costing of the inventory. An appraisal of the inventory has not been conducted.

3. Accounts Receivable

	Net Book Value - Total	Net Book Value - Secured by	Net Book Value - Unsecured	BMO - Estimated Net Realization Value High Recovery	BMO - Estimated Net Realization Value Low Recovery	Unsecured - Estimated Net Realization Value High Recovery	Unsecured - Estimated Net Realization Value Low Recovery
Regular accounts receivable	$ 3,077,950	$ 2,958,261	$ 119,689	$ 235,590	$ 73,658	$ 17,186	$ 5,784
Rebates receivable	224,427	224,427	-	112,214	56,107	-	-
GST/HST receivable	70,373	70,373	-	70,373	-	-	-
Due from related party	50,000	50,000	-	-	-	-	-
Total Accounts Receivable	$ 3,422,750	$ 3,303,060	$ 119,689	$ 418,176	$ 129,765	$ 17,186	$ 5,784
Rounded				$ 418,000	$ 130,000	$ 17,000	$ 6,000

Regular accounts receivable:

Course Progress	Net Book Value - Total	Net Book Value - Secured by	Net Book Value - Unsecured	BMO - Estimated Net Realization Value High Recovery	BMO - Estimated Net Realization Value Low Recovery	Unsecured - Estimated Net Realization Value High Recovery	Unsecured - Estimated Net Realization Value Low Recovery
Completed before August 2016	$ 674,110	$ 637,215	$ 36,896	63,721	-	3,690	-
Completed in August 2016	264,807	245,526	19,281	171,868	73,658	13,496	5,784
In-progress as of August 31, 2016	2,164,684	2,101,171	63,513	-	-	-	-
Misc. Adjustments	(25,651)	(25,651)	-	-	-	-	-
	$ 3,077,950	$ 2,958,261	$ 119,689	$ 235,590	$ 73,658	$ 17,186	$ 5,784

As at August 31, 2016 the Company reports accounts receivable, net of allowance for doubtful accounts, of $3,423,000. Accounts receivable consist of student tuition receivables, rebate receivables, GST/HST refunds, amounts due from related parties, and miscellaneous adjustments. In a shut down scenario, it is not expected that students who have yet to finish their studies will pay their tuitions owing. Furthermore, Management advises that the Company may be able to withhold the issuance of certificates/diplomas to students who have completed their studies until such time that students make full payment for any tuition balances outstanding. Notwithstanding the Company's ability to withhold the issuance of certificates/diplomas until tuitions are fully paid, the recovery of student tuition receivables is expected to be minimal. The "High Recovery" scenario assumes a recovery of 10% of student tuition receivables for programs that were completed before August 2016, 70% for student tuitions that were completed in August 2016, 50% of rebate receivables, and 100% of GST/HST refund receivables for a total recovery of $418,000 for BMO. The "Low Recovery" scenario assumes a recovery of 30% for student tuitions that were completed in August 2016 and 25% from rebate receivables for a total recovery of $130,000 for BMO.

4. Prepaid and Other Assets

	Net Book Value - Total	Net Book Value - Secured by	Net Book Value - Unsecured	BMO - Estimated Net Realization Value: High Recovery	BMO - Estimated Net Realization Value: Low Recovery	Unsecured - Estimated Net Realization Value: High Recovery	Unsecured - Estimated Net Realization Value: Low Recovery
Prepaid - Regular	$ 169,234	$ 167,137	$ 2,097	$ -	$ -	$ -	$ -
Prepaid - Commission	1,212,101	1,151,623	60,479	-	-	-	-
Prepaid - Advertising & Promotion	547,567	524,056	23,511	-	-	-	-
Cash Advance	9,779	9,722	57	-	-	-	-
Total Prepaid and Other	$ 1,938,681	$ 1,852,537	$ 86,143	$ -	$ -	$ -	$ -
Rounded				$ -	$ -	$ -	$ -

As at August 31, 2016 the Company reports prepaid and other assets of $1,939,000. We understand that prepaid and other assets consists of regular prepaids, commission prepaids (to agents), advertising and promotion prepaids (to agents), and cash advances. Management advises that there are no contracts or arrangements in place whereby the Company can recover prepaid commissions or prepaid advertising/promotion expenses under any circumstances. The likelihood of recovering regular prepaid expenses or cash advances is also very low. Therefore both the "High Recovery" and "Low Recovery" scenarios assume that the recovery of prepaid and other assets is $nil for BMO

5. Capital Assets

	Net Book Value - Total	Net Book Value - Secured by	Net Book Value - Unsecured	BMO - Estimated Net Realization Value: High Recovery	BMO - Estimated Net Realization Value: Low Recovery	Unsecured - Estimated Net Realization Value: High Recovery	Unsecured - Estimated Net Realization Value: Low Recovery
Office equipment	$ 170,319	$ 143,098	$ 27,221	21,465	7,155	2,722	1,361
Computer equipment	279,868	267,556	12,313	40,133	13,378	1,231	616
Leasehold improvement	1,213,659	1,087,387	126,272	-	-	-	-
Textbooks	6,255	6,255	-	3,128	626	-	-
Furniture and Fixtures	282,444	256,421	26,023	38,463	12,821	2,602	1,301
Capital leases	190,201	190,201	-	-	-	-	-
	$ 2,142,747	$ 1,950,918	$ 191,829	$ 103,189	$ 33,979	$ 6,556	$ 3,278
Less: Auctioneer commission @ 10% + HST				(11,660)	(3,840)	(741)	(370)
Less: Auctioneer marketing and other costs (inclusive of HST)				(7,052)	(11,400)	(448)	(1,100)
Total capital asset recovery				$ 84,477	$ 18,739	$ 5,367	$ 1,808
Rounded				$ 84,000	$ 19,000	$ 5,000	$ 2,000

As at August 31, 2016 the Company reports capital assets at a net book value of $2,143,000. The majority of the capital assets were acquired prior to January 1, 2014. The "High Recovery" scenario assumes a gross recovery rate of 15% for the office equipment, computer equipment, and furniture and fixtures, a 50% recovery rate for textbooks, a nil recovery rate for the leasehold improvements and that all capital leases are subject to the third party security interest (ie. Purchase Money Security Interest). The "High Recovery" scenario also assumes an auctioneer's commission of 10% and auctioneer's costs of $7,500 resulting in a net recovery of $84,000 for BMO. The "Low Recovery" scenario assumes a gross recovery rate of 5% for the office equipment, computer equipment, and furniture and fixtures, a 10% recovery rate for textbooks, a nil recovery rate for the leasehold improvements and that all capital leases are subject to the third party security interest. The "Low Recovery" scenario also assumes an auctioneer's commission of 10% and auctioneer's costs of $12,500 resulting in a net recovery of $19,000 for BMO. We note that BDO has not inspected the capital assets. An appraisal of the capital assets has not been conducted. The estimates are based on BDO's prior experience

6. Rent Deposit

	Net Book Value - Total	Net Book Value - Secured by	Net Book Value - Unsecured	BMO - Estimated Net Realization Value: High Recovery	BMO - Estimated Net Realization Value: Low Recovery	Unsecured - Estimated Net Realization Value: High Recovery	Unsecured - Estimated Net Realization Value: Low Recovery
Rent Deposit	$ 597,379	$ 547,685	$ 49,694	$ -	$ -	$ -	$ -
Rounded				$ -	$ -	$ -	$ -

As at August 31, 2016 the Company reports rent deposits of $597,000. We understand that the rent deposits are generally for the last month of rent for the majority of the school campuses. We further understand that the rent deposit for KGIC consists of the last two months of rent for six school campuses. Management advises that each school has a ten year premises lease. In a bankruptcy scenario, a Trustee in Bankruptcy may disclaim the property leases and may be able to apply rent deposits against occupation rent obligations. Although the recovery of rent deposits in both the "High Recovery" and "Low Recovery" scenarios is $nil, there is value in the rent deposits if they can be applied against the occupation rent obligation.

7. Intangible Assets

	Net Book Value - Total	Net Book Value - Secured by	Net Book Value - Unsecured	BMO Estimated Net Realization Value		Unsecured - Estimated Net Realization Value	
				High Recovery	Low Recovery	High Recovery	Low Recovery
ERP Project	$ 1,190,289	$ 1,130,373	$ 59,916	$ -	$ -	$ -	$ -
Textbook Project	461,226	380,412	80,814	-	-	-	-
	$ 1,651,516	$ 1,510,786	$ 140,730	$ -	$ -	$ -	$ -
Rounded				$ -	$ -	$ -	$ -

As at August 31, 2016 the Company reported intangible assets of $1,652,000. The intangible assets pertain to the capitalized costs (primarily labour) with constructing the Company's ERP system and e-Books (Textbook). Both the "High Recovery" and "Low Recovery" scenarios assume a $nil recovery from intangible assets.

8. Unpaid Wages and Vacation Pay

	BMO Estimated Net Realization Value		Unsecured - Estimated Net Realization Value	
	High Recovery	Low Recovery	High Recovery	Low Recovery
Wage and Vacation Arrears (WEPPA/BIA)	$ (440,965)	$ (322,129)	$ (17,186)	$ (5,784)
Rounded	$ (441,000)	$ (322,000)	$ (17,000)	$ (6,000)

Under the WEPPA/BIA employees are afforded a priority secured claim limited to $2,000 per employee for unpaid wages, including vacation pay earned, in the 6 months next preceding a bankruptcy or receivership. Management advises that the Company employs between 400-450 employees depending on the number of course offerings at any given time. Pursuant to the WEPPA/BIA, the priority secured claim payable for wages and vacation is limited to $2,000 per employee plus $1,000 per salesperson for outstanding travelling expenses and is calculated to be $900,000 (450 employees @ $2,000). Management advises there are no travelling sales persons employed by the Company. As the priority secured claim payable for wages and vacation is limited to the lower of i) $2,000 per employee or ii) the actual accrued wages and vacation, the priority secured claim for accrued wages and vacation in this situation would be the actual accruals. As the Company was not able to provide details with regards to the accrued vacation owing to salaried employees (approx. 100 employees), we have assumed that the secured priority claim for wages and vacation is equal to one pay periods payroll instead of the pro-rated wage accrual owing to employees. Furthermore, in both the "High Recovery" and "Low Recovery" scenarios, the priority secured claim payable for wages and vacation is limited to the recovery from current assets

9. Goods and Services Taxes (GST/HST)

	BMO Estimated Net Realization Value		Unsecured - Estimated Net Realization Value	
	High Recovery	Low Recovery	High Recovery	Low Recovery
Outstanding GST/HST	$ -	$ -	$ -	$ -
Rounded	$ -	$ -	$ -	$ -

The deemed trust claim for outstanding GST/HST arrears pursuant to the Exercise Tax Act can be reversed with a bankruptcy filing. As both the "High Recovery" and "Low Recovery" scenarios contemplate a bankruptcy filing, the GST/HST deemed trust claim amounts to $nil. We note that notwithstanding the foregoing, the Company reports GST/HST to be in a refund position as at August 31, 2016.

10. Unremitted source deductions

	BMO Estimated Net Realization Value		Unsecured - Estimated Net Realization Value	
	High Recovery	Low Recovery	High Recovery	Low Recovery
Outstanding Payroll Deductions	$ -	$ -	$ -	$ -
Rounded	$ -	$ -	$ -	$ -

The Company utilizes the services of a payroll service provider, ADP. ADP requires that payroll source deductions be remitted with each and every payroll processed. Accordingly, there are $nil payroll source deductions outstanding as at August 31, 2016.

11. Employee Union

	BMO Estimated Net Realization Value		Unsecured - Estimated Net Realization Value	
	High Recovery	Low Recovery	High Recovery	Low Recovery
August union remittance	$ (2,517)	$ (2,517)	$ -	$ -
Rounded	$ (3,000)	$ (3,000)	$ -	$ -

Management advises that only certain of the schools have unionized employees. Management also advises that union dues are made directly by the Company to the respective unions approximately one week after wages are paid to the unionized employees. Both the "High Recovery" and "Low Recovery" scenarios assume that the union dues pertaining to the final pay period in August 2016 remain outstanding as at August 31, 2016.

12. Occupancy Costs

	BMO Estimated Net Realization Value		Unsecured - Estimated Net Realization Value	
	High Recovery	Low Recovery	High Recovery	Low Recovery
Rent	$ -	$ -	$ -	$ -
Utilities	75,000	75,000	5,000	5,000
Insurance	22,500	22,500	1,500	1,500
Maintenance	15,000	15,000	1,000	1,000
Total Occupancy Costs	$ 112,500	$ 112,500	$ 7,500	$ 7,500
Rounded	$ 113,000	$ 113,000	$ 8,000	$ 8,000

Occupancy costs are assumed to includes rent, utilities, insurance, and maintenance. Management has provided details with respect to the monthly rent payable for each of the schools. Although the monthly rent for the premises secured by BMO amounts to $403,350 and the rent for premises for which there are no secured creditors amounts to $29,880, it is assumes that the leases will be immediately disclaimed, the Trustee will only require access to the premises for one month, and that the Trustee will apply the last months rent deposit currently held by the respective lessors against the occupation rent obligation. Both the "High Recovery" and "Low Recovery" scenarios assume that occupancy costs will total $113,000 for the first and only month of occupancy for BMO.

13. Professional fees

The professional fees associated with the enforcement of BMO's security in an insolvency scenario are estimated to be $500,000 and $700,000 in the "High Recovery" and Low Recovery" scenarios, respectively. The professional fees associated with the recovery of assets for unsecured creditors in an insolvency scenario are estimated to be $20,000 in the "High Recovery" scenario and $25,000 in the "Low Recovery" scenario.

14. Bank Indebtedness (Secured) - BMO

	Net Book Value
Bank indebtedness	$ 2,742,500
Long term debt	8,879,961
Overdraft	493,468
	$ 12,115,929

The figures are based on the amounts reported in the Company's trial balances as at August 31, 2016. It is assumed that BMO is the Company's first ranking secured creditor and that BMO's security is valid and enforeceable as against the Company.

15. Debenture holders

The Company's debenture holders are all in "Loyalist" and not in any of the other subsidiaries. As this schedule of estimated net realization estimates that BMO, the first ranking secured creditor, would likely suffer a shortfall, it is also expected that the debenture holders will suffer a shortfall for the entirety of their claim against the Company.