WCI WESTERVELT COLLEGE INC.

REPORT OF RICHTER ADVISORY GROUP INC., IN ITS CAPACITY AS PROPOSED RECEIVER OF WCI WESTERVELT COLLEGE INC.

AUGUST 1, 2017

Court File No. ____________

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

BETWEEN:

ECC EDUCATION CONSOLIDATION CORPORATION

Applicant

- and -

WCI WESTERVELT COLLEGE INC.

Respondent

REPORT OF RICHTER ADVISORY GROUP INC.
IN ITS CAPACITY AS PROPOSED RECEIVER OF
WCI WESTERVELT COLLEGE INC.

AUGUST 1, 2017

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I. INTRODUCTION

1. This report (the **"Report"**) is filed by Richter Advisory Group Inc. ("**Richter**") as the proposed receiver (the **"Proposed Receiver"**), of all the assets, properties and undertakings of WCI Westervelt College Inc. (**"WCI"** or the **"Company"**), pursuant to section 101 of the *Courts of Justice Act* R.S.O. 1990 c. C.43, as amended (the "**CJA**").

2. This Report is filed in connection with an application (the **"Receivership Application"**) made to the Ontario Superior Court of Justice (Commercial List) (the "**Court**") by ECC Education Consolidation Corporation (**"ECC"**), seeking an order (the **"Receivership Order"**) pursuant to section 101 of the CJA, appointing the Proposed Receiver as receiver (the **"Receiver"**), of all of the assets, properties and undertakings of WCI, substantially in the form included in ECC's motion record.

3. In addition, if the Receivership Order is granted, this Report is filed in connection with a motion by ECC for an order:

   (i) approving the Asset Purchase Agreement dated July 26, 2017 (the **"APA"**) for the sale of substantially all of the Company's business and assets, subject to certain exclusions (the **"Transaction"**), to EFC Trade Inc. (the **"Purchaser"**) and authorizing the Receiver to enter into and take the steps necessary to complete the Transaction (the **"Approval Order"**); and

   (ii) vesting, upon the closing of the Transaction, all right, title and interest of WCI in and to the WCI assets subject to the APA in the Purchaser free and clear of all liens, charges, security, interests and other encumbrances other than Permitted Encumbrances as defined in the APA (the **"Approval and Vesting Order"**).

II. TERMS OF REFERENCE

4. Unless otherwise noted, all monetary amounts contained in this Report are expressed in Canadian dollars.

5. Capitalized terms not otherwise defined herein are as defined in the ECC application materials, including the affidavit of John Koehn sworn July 31, 2017 (the **"Koehn Affidavit"**) filed in support of the Receivership Application. This report should be read in conjunction with the Koehn Affidavit, as certain information contained in the Koehn Affidavit has not been included herein in order to avoid unnecessary duplication.

6. In preparing this Report, Richter has relied upon unaudited financial information, the Company's books and records, financial information prepared by the Company and discussions with management, and ECC's legal counsel, Aird & Berlis LLP (collectively, the **"Information"**). Except as otherwise described in the Report, Richter has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Generally Accepted Auditing Standards (**"GAAS"**) pursuant to the Chartered

Professional Accountant of Canada Handbook and, as such, Richter expresses no opinion or other form of assurance contemplated under GAAS in respect of the Information.

III. BACKGROUND

7. WCI is an Ontario corporation formed on July 1, 2012 through the amalgamation of Westervelt College Inc. and 2307311 Ontario Inc. (the ECC subsidiary that acquired the shares of Westervelt College Inc.). A copy of the corporation profile report obtained from the Ontario Ministry of Government Services is attached as Exhibit "A" to the Koehn Affidavit.

8. ECC is the 100% owner (and a creditor) of WCI.

9. WCI operates Westervelt College (the **"College"**), a private co-educational college located in London, Ontario that offers diploma programs in business, healthcare, law, service and information technology. A full list of the programs offered by WCI is attached as Exhibit "B" to the Koehn Affidavit.

10. WCI's campus and head office are located in leased premises located at 1060 Wellington Road, London, Ontario (the **"WCI Campus"**).

11. The College is registered with the Ontario Ministry of Advanced Education and Skills Development (the **"MAESD"**), which is responsible for administration of laws related to postsecondary education and skills training. Together with the Superintendent of Private Career Colleges ("**Superintendent**"), the MAESD provides regulatory oversight for Ontario colleges pursuant to the *Private Career Colleges Act*, 2005, S.O. 2005, c. 28.

12. The Proposed Receiver understands that WCI has approximately 180 full-time students enrolled in active programs.

13. As at the date of this Report, WCI has 69 employees. None of the employees are subject to a collective agreement and WCI does not maintain any pension plans.

IV. FINANCIAL POSITION

14. As noted in the Koehn Affidavit, since its acquisition by ECC in 2012, WCI's financial results have suffered as a result of a number of factors.

15. Challenges experienced by the Ontario private career college industry include a reduction to the "Second Career" program to provide funding for laid-off workers seeking retraining, as discussed in the Koehn Affidavit.

16. Challenges specific to WCI include: (i) increased competition in the London market, (ii) the inability to reduce overhead costs associated with the WCI Campus (the lease has in excess of nine (9) years remaining), and (iii) the departure of certain staff.

17. Set out below is a summary of WCI's financial results for the fiscal periods ending June 30, 2015, 2016 and 2017 (copies of WCI's audited financial statements for the years ended June 30, 2015 and 2016 as well as WCI's internal financial statements for the year ended June 30, 2017 are attached hereto as **Appendices "A", "B" and "C"**, respectively):

WCI Westervelt College Inc.
Summarized Income Statement
(C$000s)

	(unaudited) Year ended June 30, 2017		(audited) Year ended June 30, 2016		(audited) Year ended June 30, 2015	
Sales	$	3,165	$	3,643	$	4,007
Cost of goods sold	$	1,781	$	1,718	$	1,854
Gross profit	**$**	**1,384**	**$**	**1,925**	**$**	**2,153**
Operating Expenses	$	2,509	$	2,654	$	2,688
EBITDA	$	(1,125)	$	(729)	$	(535)
Net loss	$	(1,819)	$	(3,362)	$	(2,860)

Source: Management prepared information & Audited Financial Statements

18. As noted in the above table:

(i) WCI's revenue has reduced from approximately $4.0 million in fiscal 2015 to approximately $3.2 million for the year ended June 30, 2017, representing a decrease of approximately 21% over that period;

(ii) WCI's operating expenses have remained relatively fixed; and

(iii) WCI has experienced a net loss in each of the past 3 fiscal years, contributing approximately $8.0 million to the Company's cumulative deficit.

19. WCI's losses have been funded by ECC. Since acquiring WCI in 2012, ECC has advanced in excess of $11 million to fund WCI's business operations. In December 2015, ECC subscribed for new preferred shares of WCI, the proceeds of which were used to repay $8.5 million in debt due to ECC.

V. CREDITORS

20. As at June 30, 2017, WCI owed ECC approximately $2.8 million on an unsecured basis.

21. As well, ECC, on behalf of WCI, has posted a $554,000 letter of credit as security with MAESD's Training Completion Assurance Fund (the **"TCAF Security"**) and a $33,250 letter of credit for security with the Ontario Student Assistance Program (the **"OSAP Security"**). In the event that funds are drawn on either of the above letters of credit, ECC would be liable to the issuing banks for the amounts drawn.

22. The Proposed Receiver understands that, in addition to the amounts owing to ECC, WCI has unsecured obligations totaling approximately $135,000, including approximately $100,000 owing to the landlord of the WCI Campus. The remaining obligations are owed to various trade creditors. Due to concerns that the landlord of the WCI Campus may attempt to exercise its remedies, the Proposed Receiver understands that the landlord has not been provided with notice of the Receivership Application.

23. In addition to the above obligations, the Proposed Receiver understands that WCI has guaranteed certain ECC credit facilities with each of Royal Bank of Canada (the **"RBC Guarantee"**) and FWCU Capital Corp. (the **"FWCU Guarantee"**). The obligations covered by the RBC Guarantee and FWCU Guarantee total approximately $4 million and $1.2 million, respectively.

24. A copy of the search results of the Personal Property Security Registration System (Ontario) in respect of WCI, with a currency date of July 5, 2017, is attached as Exhibit "C" to the Koehn Affidavit.

VI. SALE PROCESS

25. As noted above, since its acquisition by ECC in 2012, WCI's financial results have suffered. As a result of these continuing losses, the Proposed Receiver has been advised that, in late 2015, ECC asked one of its shareholders, Maxim Partners LLC (**"Maxim"**), an Illinois-based private equity fund, to assess the market for a potential sale of WCI.

26. In November 2015, Maxim retained Capstone Partners LLC (**"Capstone"**), an investment banking and mergers and acquisitions advisory firm with significant experience in the education and training industry to prepare a list of potential interested parties. Capstone also prepared a one-page teaser summarizing WCI's business and outlining the opportunity, a copy of which is attached as Exhibit "E" to the Koehn Affidavit.

27. Capstone contacted two (2) strategic parties (i.e. private career colleges) with the opportunity, both of which signed non-disclosure agreements in order to receiver further information on the opportunity. One party declined to further pursue the opportunity after reviewing summary information, while the second party (**"Interested Party #1"**) considered the opportunity from December 2015 through February 2016 but, ultimately, declined to further pursue the opportunity due to its unwillingness to assume the lease for the WCI Campus.

28. The Proposed Receiver understands that in late 2015, Don Thibert (**"Thibert"**), a former Vice-President of ECC, presented the opportunity to acquire WCI's business to a European-based education company (**"Interested Party #2"**). Although Interested Party #2 submitted a letter of intent (**"LOI"**) in December 2015, it withdrew the LOI later that same month citing a backlog of other, higher-priority acquisitions as the reason.

29. Efforts to identify a buyer for WCI's business stalled in early 2016, but continued during the latter half of 2016, as a former WCI board member expressed interest in pursuing the opportunity. The Proposed Receiver understands that discussions ended when the interested party was unable to demonstrate an ability to finance the transaction.

30. The Proposed Receiver has been advised by WCI's management that, as a result of ECC's unwillingness to continue funding WCI's operating losses, in late 2016, ECC charged Maxim and WCI's management with selling the business or, in the event a buyer could not be located, shutting it down. In November 2016, Maxim followed up with Interested Party #1, which led to the submission of a LOI in February 2017. Interested Party #1's LOI contemplated an insolvency/restructuring process to complete the proposed transaction. In March 2017, Interested Party #1 negotiated a downward purchase price adjustment, which resulted in the signing of a revised LOI and the drafting of a sale agreement. Unfortunately, in May 2017, Interested Party #1 declined to further pursue the proposed transaction. The Proposed Receiver has been provided with and reviewed the revised LOI entered into with Interested Party #1 as well as the draft sale agreement in connection with same.

31. In early 2017, Thibert expressed interest in acquiring WCI's business in conjunction with his planned acquisition of three (3) campuses of a competitor, Medix College of Healthcare (**"Medix"**). In May 2017, Thibert identified its partner in the Medix acquisition and a LOI was signed among WCI and both Thibert and his partner. The Proposed Receiver understands that Thibert's employment with ECC ended in 2013 and that the Transaction was subject to arm's length negotiations.

VII. THE TRANSACTION

32. The Purchaser is a strategic purchaser seeking to supplement its program offerings and increase its student-base after completing its acquisition of three (3) Medix campuses.

33. Subject to the precise terms of the APA, certain key elements of the Transaction are as follows (a copy of the APA is attached as Exhibit "G" to the Koehn Affidavit):

    (i) the Purchaser is acquiring, as a going concern, on an "as is, where is" basis, substantially all of WCI business and assets related to or used in connection with the College, subject to certain specific exclusions, including the TCAF Security;

(ii) the consideration for the Transaction will flow both ways:

(a) the Purchaser will make a cash payment of $1 to WCI and will assume certain liabilities of WCI, including the obligation to complete the training of all active students of the College (the "**Teach-out Obligation**") and the maintenance of the College's student records, each in accordance with and subject to the terms of the APA; and

(b) WCI will make a cash payment (funded by ECC) to the Purchaser in the amount of $75,000 and ECC will also fund the rent and other occupancy costs associated with the WCI Campus for the period following the Closing Date (as hereinafter defined) through to September 30, 2017 or such earlier date the Purchaser chooses to vacate the WCI Campus (the **"Occupancy Period"**);

(iii) upon execution of the APA, the Purchaser paid a deposit in the amount of $50,000 (the **"Deposit"**) to the Proposed Receiver to be held, in trust, until the closing of the Transaction. On closing, the Deposit will be returned to the Purchaser;

(iv) WCI will grant the Purchaser a license to access the WCI Campus during the Occupancy Period. The Proposed Receiver understands that it is the Purchaser's intention to transition the active students at the College from the WCI Campus to the London Medix campus, which is a short distance away;

(v) in accordance with the APA and paragraph 39 below, the Transaction is scheduled to close on August 15, 2017 (the **"Closing Date"**);

(vi) the Proposed Receiver understands that the Purchaser may offer go forward employment to certain of WCI's current employees (the **"Employees"**) to assist the Purchaser in satisfying the Teach-out Obligation. At least five (5) business days prior to the Closing Date, the Purchaser will provide WCI with a list of those Employees the Purchaser intends to offer employment, which list will be updated on the Closing Date for those Employees who have accepted employment with the Purchaser;

(vii) on or prior to the Closing Date, the Purchaser will inform WCI of those contracts/agreements to which WCI is a party that the Purchaser wishes to assume. The APA contemplates that WCI and the Purchaser will use commercially reasonable efforts to obtain any required consents, approvals and waivers from counterparties to the contracts/agreements to be assigned to the Purchaser;

(viii) the Transaction is conditional on a number of factors, including:

(a) the Court granting the Receivership Order and the Approval and Vesting Order;

(b) the assignment of certain contracts;

(c) active students of the College, who agree to continue training following the Closing Date, shall have entered into transfer agreements with the Purchaser;

(d) the Superintendent approving the Purchaser's application to operate the College subsequent to the Closing Date. The Proposed Receiver understands that the Superintendent's approval has now been received; and

(e) the approval of four program accreditation organizations – the Canadian Council for Accreditation of Pharmacy Programs, the Canadian Health Information Management Association, the Canadian Society of Orthopaedic Technologists and the Law Society of Upper Canada – for the Purchaser to relocate active WCI students scheduled to graduate after September 30, 2017 from programs regulated by the above organizations to the London Medix campus. The Proposed Receiver understands that the necessary approvals have been received from each of the above organizations in respect of the change of ownership and that the Purchaser is awaiting additional approval in respect of relocation.

34. As contemplated by the APA, WCI (or ECC) will maintain (i) the TCAF Security until September 30, 2017 to allow the Purchaser time to post replacement security satisfactory to the MAESD, and (ii) the OSAP Security until such security is no longer required by OSAP.

35. Upon closing of the Transaction, the Receiver shall deliver to the Purchaser and file with the Court a certificate attesting that the Transaction has been completed to the satisfaction of the Receiver and confirming the closing of the Transaction.

VIII. URGENCY TO COMPLETE THE TRANSACTION

36. WCI's management has advised the Proposed Receiver that WCI's lack of liquidity has adversely impacted WCI's business.

37. Further, WCI's continuing losses have eliminated its cash balances leaving it without funds to operate other than the funding provided by ECC. Without continued advances from ECC, WCI does not have the liquidity to fund the operation of the College or maintain its business and assets.

38. ECC has informed the Proposed Receiver that, other than the funding necessary to complete the Transaction, ECC is not prepared to provide further funding to WCI.

39. Furthermore, the outside date under the APA is August 15, 2017. Additional delays may put the Transaction and WCI's continued operations at risk.

IX. ALTERNATIVES TO THE TRANSACTION

40. Given WCI's liquidity constraints, the lack of interest in WCI's business or assets (other than from the Purchaser) and WCI's dependence on ECC to finance the College's continued operations, it appears that the only alternative to the Transaction is the bankruptcy of WCI.

41. In a bankruptcy scenario, the College would cease operations and the Superintendent and the MAESD would assume responsibility for assisting eligible WCI students arrange for the completion of their training at another institution or for full or partial refunds, as set out in the Training Completion Assurance Fund's regulations. Such a scenario would, undoubtedly, cause significant disruption to the students and significant losses for Employees and other stakeholders.

X. CONCLUSIONS AND RECOMMENDATION

42. As a result of all of the foregoing, the Proposed Receiver is of the view that the Transaction represents the best opportunity for the continuation of WCI's business and the College. In particular, the Proposed Receiver is of the view that:

(i) taking into consideration the previous attempts to sell WCI's business over the past several years, the process leading to the Transaction was reasonable in the circumstances;

(ii) although the Transaction's effectively negative purchase price may appear unusual, it is in line with what was contemplated in Interested Party #1's LOI and what the Proposed Receiver understands was discussed in negotiations with the former WCI board member in the summer of 2016;

(iii) the likely alternative to the Transaction is WCI's bankruptcy, which would result in the cessation of the College's activities, significant disruption to the College's students and damages for Employees and other stakeholders;

(iv) the College's students are being given an opportunity to complete their training with the Purchaser;

(v) there is a limited and known market for WCI's business and assets. The market has been canvassed and all likely potential interested parties have already been provided with an opportunity to acquire WCI's business and assets;

(vi) MAESD and the Superintendent were consulted in connection with the Transaction and MAESD has approved the Purchaser to operate the College following the Closing Date;

(vii) WCI's secured creditors, RBC and FWCU, were consulted in connection with the Transaction and have consented to the Transaction; and

(viii) there is no funding to further market the WCI business and assets. Even if there was, as noted above, the market has been canvassed and all likely interested parties presented with the opportunity to acquire WCI's business and assets. In the Proposed Receiver's view, any further marketing of the WCI business and assets will put the Transaction at risk.

43. As a result of all of the foregoing, it is the Proposed Receiver's view that the Transaction is preferable to the likely alternative and, as such, respectfully recommends that this Court issue both the Approval Order and the Approval and Vesting Order.

All of which is respectfully submitted on this 1st day of August, 2017.

Richter Advisory Group Inc.
in its capacity as Proposed Receiver of
WCI Westervelt College Inc.

Adam Sherman, MBA, CIRP, LIT

Adam Zeldin, CPA, CA

APPENDIX “A”

Grant Thornton

Financial statements

WCI Westervelt College Inc.

June 30, 2015

Contents

Independent auditor's report

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To the Shareholder of **WCI Westervelt College Inc.** &
To the Superintendent of Private Career Colleges.

We have audited the accompanying financial statements of WCI Westervelt College Inc., which comprise the balance sheet as at June 30, 2015, the statements of loss and deficit and cash flows for the year then ended and 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 private enterprises, 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.

Auditor's 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 the 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 the auditor's 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, the auditor considers internal control relevant to the company'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 company'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 audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of WCI Westervelt College Inc. as at June 30, 2015 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

Grant Thornton LLP

Mississauga, Ontario
September 23, 2015

Chartered Professional Accountants
Licensed Public Accountants

WCI Westervelt College Inc.
Statements of loss and deficit

Year ended June 30	**2015**	2014
Revenue		
Tuition	**$ 3,941,314**	$ 4,868,174
Other	**65,295**	63,037
	4,006,609	4,931,211
Cost of goods sold	**1,831,855**	1,859,999
Gross profit	**2,174,754**	3,071,212
Operating expenses		
Marketing and admissions	**729,872**	753,178
General and administrative expenses (Schedule 1)	**3,324,833**	3,167,204
	4,054,705	3,920,382
Loss before other items	**(1,879,951)**	(849,170)
Change in fair value of contingent consideration (Note 10)	**69,000**	49,000
Restructuring costs	**(45,995)**	(156,731)
Goodwill impairment (Note 6)	**(1,571,605)**	-
Debt forgiveness	**-**	340,135
Loss before income taxes	**(3,428,551)**	(616,766)
Current income taxes	**(372)**	-
Future income tax recovery	**(568,500)**	(160,500)
	(568,872)	(160,500)
Net loss	**$ (2,859,679)**	$ (456,266)
Deficit, beginning of year	**$ (1,080,064)**	$ (623,798)
Net loss	**(2,859,679)**	(456,266)
Deficit, end of year	**$ (3,939,743)**	$ (1,080,064)

See accompanying notes to financial statements

WCI Westervelt College Inc.
Balance sheet

June 30		2015		2014
Assets				
Current				
Cash and cash equivalents	**$**	**-**	$	5,175
Accounts receivable (net of allowance of $86,000; 2014 - $50,000)		**888,216**		883,793
Income taxes receivable		**-**		32,238
Prepaid expenses		**53,378**		42,142
Inventory (Note 3)		**166,687**		183,432
		1,108,281		1,146,780
Property and equipment (Note 4)		**230,965**		104,689
Goodwill (Note 6)		**2,037,685**		3,609,290
Intangibles (Note 5)		**1,176,544**		1,206,298
Future income taxes		**719,200**		150,700
	$	**5,272,675**	$	6,217,757
Liabilities				
Current				
Bank overdraft	**$**	**33,529**	$	-
Payables and accruals (Note 7)		**416,091**		303,077
Deferred revenue		**1,152,514**		1,315,528
		1,602,134		1,618,605
Advances from parent company (Note 8)		**7,526,758**		5,554,116
Other liabilities (Note 9)		**83,426**		125,000
		9,212,318		7,297,721
Shareholder's deficiency				
Share capital (Note 10)		**100**		100
Deficit		**(3,939,743)**		(1,080,064)
		(3,939,643)		(1,079,964)
	$	**5,272,675**	$	6,217,757

Commitments and contingency (Notes 11 and 12)

On behalf of the Board

_______________________________Director _______________________________ Director

See accompanying notes to financial statements

WCI Westervelt College Inc.
Statement of cash flows

Year ended June 30	**2015**	2014
Cash provided by (used by) the following activities		
Operating		
Net loss	**$ (2,859,679)**	$ (456,266)
Change in fair value of contingent contribution	**(69,000)**	(49,000)
Goodwill impairment	**1,571,605**	-
Amortization of property and equipment	**37,750**	56,694
Amortization of financing fees	**-**	189,624
Amortization of program development costs	**196,530**	182,622
Debt forgiveness	**-**	(340,135)
Future income taxes	**(568,500)**	(160,500)
	(1,691,294)	(576,961)
Changes in working capital accounts		
Accounts receivable	**(4,423)**	(19,472)
Inventory	**16,745**	(131)
Prepaid expenses	**(11,236)**	30,190
Payables and accruals	**140,440**	166,196
Income taxes receivable	**32,238**	4,038
Deferred revenue	**(163,014)**	(194,751)
	(1,680,544)	(590,891)
Investing		
Purchase of property and equipment	**(164,026)**	(23,926)
Program development costs	**(166,775)**	(127,549)
	(330,801)	(151,475)
Financing		
Proceeds from bank overdraft	**33,529**	-
Advances from parent company	**1,972,641**	3,924,046
Repayment of long-term debt	**-**	(3,188,039)
	2,006,170	736,007
Decrease in cash and cash equivalents	**(5,175)**	(6,359)
Cash and cash equivalents, beginning of year	**5,175**	11,534
Cash and cash equivalents, end of year	**$ -**	$ 5,175

See accompanying notes to financial statements

1. Nature of Operations

Located in London, Ontario, WCI Westervelt College Inc. (the “Company”) was founded in 1885 and is a leader in southern Ontario career education. The Company’s programs are designed to help students start a new career in the areas of business, healthcare, law, IT or the service industry.

2. Significant accounting policies

The Company’s financial statements are prepared in accordance with Canadian accounting standards for private enterprises (ASPE).

Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances with banks and short-term deposits with original maturities of three months or less. Bank borrowings are considered to be financing activities.

Inventory

Inventory is valued at the lower of cost and net realizable value. The cost of inventory comprises all costs of purchase. Inventory consists of laptops and other course supplies (see Note 3), and is charged to cost of sales over 9 to 12 months, depending on the item and the course length.

Property and equipment

Property and equipment are recorded at cost. Amortization is provided using methods and rates intended to amortize the cost of assets over their estimated useful lives.

	Method	Term
Furniture and equipment	straight-line	5 years
Computer equipment	straight-line	5 years
Computer software	straight-line	1 - 5 years
Leasehold improvements	straight-line	Remaining term of the lease

Other assets

Other assets include goodwill and other intangibles. Intangible assets were identified and recorded at estimated values as determined by management based on valuations of certain assets relating to the acquisition of Westervelt College Inc. Intangible assets include a trade name which is not amortized, until their lives are considered to be no longer indefinite, and are tested for impairment whenever events or changes in circumstances indicate that their carrying amount may exceed their fair value.

2. Significant accounting policies (continued)

Program development costs consist of expenditures directly related to the development of new courses. Program development costs are recorded at cost and amortized based upon management's best estimate of the useful life of the programs, which is estimated to range between 3 to 5 years.

Goodwill has been accounted for using the acquisition method, whereby the purchase consideration was allocated to the estimated fair values of the assets acquired at the acquisition date of the purchase. Goodwill is not amortized. Goodwill is tested for impairment whenever events or changes in circumstances indicate that the carrying amount of the reporting unit to which the goodwill is assigned may exceed the reporting unit's fair value.

Long-lived assets

Long-lived assets consist of property and equipment and other assets including goodwill and other intangibles. Long-lived assets held for use are measured and amortized as described in the applicable accounting policies.

The Company performs impairment testing on long-lived assets held for use whenever events or changes in circumstance indicate that the carrying value of an asset, or group of assets, may not be recoverable. Impairment losses are recognized when undiscounted future cash flows from its use and disposal are less than the asset's carrying amount. Impairment is measured as the amount by which the asset's carrying value exceeds its fair value. Any impairment is included as a loss for the year. Discounted cash flows are used to measure fair value of long-lived assets.

Revenue recognition

Tuition revenue is recognized ratably over the delivery of the courses, when all significant contractual obligations have been satisfied and collectability is reasonably assured. Revenue is recognized according to the end date of a class.

Income taxes

The Company follows the future income taxes method of accounting for income taxes. Under this method, future income tax assets and liabilities are recorded based on temporary differences between the carrying amount of balance sheet items and their corresponding tax bases. In addition, the future benefits of income tax assets, including unused tax losses, are recognized, subject to a valuation allowance, to the extent that it is more likely than not that such future benefits will ultimately be realized. Future income tax assets and liabilities are measured using enacted tax rates and laws expected to apply when the tax liabilities or assets are to be either settled or realized.

2. Significant accounting policies (continued)

Estimation uncertainty

In preparation of the Company's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the period. Actual results could differ from these estimates. Examples of significant estimates include:

- allowance for doubtful accounts;
- estimated useful lives of assets;
- recoverability of tangible assets; and
- fair value of goodwill and the measurement of any impairment loss.

Financial instruments

The Company considers any contract creating a financial asset, liability or equity instrument as a financial instrument, except in certain limited circumstances. The Company accounts for the following as financial instruments:

- cash and cash equivalents
- accounts receivable
- payables and accruals
- long-term debt
- other liabilities

A financial asset or liability is recognized when the Company becomes party to contractual provisions of the instrument.

Measurement
Financial assets or liabilities obtained in arm's length transactions are initially measured at their fair value. In the case of a financial asset or liability not being subsequently measured at fair value, the initial fair value will be adjusted for financing fees that are directly attributable to its origination, acquisition, issuance or assumption.

The Company subsequently measures all of its financial assets and financial liabilities at amortized cost.

The Company removes financial liabilities, or a portion of, when the obligation is discharged, cancelled or expires.

Financial assets measured at amortized cost are tested for impairment when there are indicators of impairment. Previously recognized impairment losses are reversed to the extent of the improvement provided the asset is not carried at an amount, at the date of the reversal, greater than the amount that would have been the carrying amount had no impairment loss been recognized previously. The amounts of any write-downs or reversals are recognized in net earnings.

3. Inventory

	2015	2014
Textbooks and other course supplies	**$ 166,687**	$ 183,432

4. Property and equipment

	Cost	Accumulated Amortization	2015 Net Book Value	2014 Net Book Value
Furniture and equipment	$ 108,955	$ (63,245)	**$ 45,710**	$ 27,096
Computer equipment	130,671	(80,847)	**49,824**	55,181
Computer software	21,428	(16,050)	**5,378**	-
Leasehold Improvements	139,551	(9,498)	**130,053**	22,412
	$ 400,605	$ (169,640)	**$ 230,965**	$ 104,689

5. Intangibles

	Cost	Accumulated Amortization	2015 Net Book Value	2014 Net Book Value
Amortized intangibles				
Program development costs	$ 1,275,505	$ (620,961)	**$ 654,544**	$ 684,298
Unamortized intangibles				
Trade name	522,000	-	**522,000**	522,000
	$ 1,797,505	$ (620,961)	**$ 1,176,544**	$ 1,206,298

6. Goodwill

	2015	2014
Balance, beginning of year	**$ 3,609,290**	$ 3,609,290
Impairment loss	**(1,571,605)**	-
Balance, end of year	**$ 2,037,685**	$ 3,609,290

The poor economic condition in Southwestern Ontario has resulted in lower than expected financial performance for the company. As a result, the Company has determined that there were indicators of an impairment loss related to the goodwill. Accordingly, the Company undertook a goodwill impairment test, which was based on a discounted cash flow analysis.

Based on the results of the goodwill impairment test, the Company determined that the estimated fair value of this reporting unit was less than its carrying amount by $1,571,605. A goodwill impairment loss in this amount has been recorded in the year ended June 30, 2015.

7. Payables and accruals

		2015		2014
Accounts payable	$	**164,248**	$	68,756
Accrued liabilities and other payables		**250,896**		232,397
Government remittances payable		**947**		1,924
	$	**416,091**	$	303,077

8. Advances from parent company

Advances from parent company are unsecured, bear interest at 1.5% charged monthly with no specified repayment terms. Since the parent company has provided an undertaking not to demand repayment within the next twelve months, the loan is excluded from current liabilities.

9. Other liabilities

		2015		2014
Other liability	$	**56,000**	$	125,000
Payment terms on leasehold improvements		**27,426**		-
	$	**83,426**	$	125,000

As part of the purchase agreement, the Company agreed to pay the former owners a percentage of revenues in excess of specified amounts for the years ended June 30, 2012 to June 30, 2015 to a maximum of $500,000. Management calculates that $56,000 is payable based on actual revenues for the years ending June 30, 2012 to June 30, 2015. The reduction in this liability of $69,000 (2014 - $49,000) has been included in income in the statement of loss.

10. Share capital

		2015		2014
Issued				
100 Common shares	$	**100**	$	100

11. Commitments

The Company has provided a letter of credit in favour of the Province of Ontario in the amount of $554,000. The letter of credit is required by the Province in order to operate as an educational institution in the Province of Ontario.

The Company has entered into various lease agreements with respect to rental of a premises and a photocopier. Estimated minimum payments in aggregate and for each of the next five years are due as follows:

2016	$ 566,000
2017	617,000
2018	649,000
2019	660,000
2020	670,000
Thereafter	4,359,000
	$ 7,521,000

12. Contingency

The Company has provided guarantees for up to $9,000,000 for a line of credit and a term loan, both held by its parent company, ECC Education Consolidation Corporation (“ECC”). As security, the company has provided a general security agreement. As at June 30, 2015, the line of credit outstanding is $2,608,012 (2014 - $1,317,578) and the term loan outstanding is $4,088,784 (2014 - $5,134,753).

As a condition of its banking agreement the Company’s parent company and consolidated group is required to meet certain financial convenants with respect to its Funded Debt to EBITDA and Debt Service Coverage Ratio. As at June 30, 2015, the parent company was not in compliance with either convenant; however the bank has provided a waiver as of June 30, 2015.

13. Related party transactions

The Company had the following transactions with related parties during the year:

(a) Interest on long-term debt includes an amount of $1,151,859 (2014 - $680,593) charged by ECC, the parent company, on the loan outstanding.
(b) Management fees of $ Nil (2014 - $4,693) were charged by ECC.
(c) Marketing expenses of $27,590 (2014 – $64,309) were charged by RCI Robertson College Inc. (RCI), a Company related by common ownership.
(d) General and administrative salaries of $96,143 (2014 - $168,837) were charged by RCI.

These transactions were measured at the exchange amount, which is the amount agreed to by the related companies.

14. Financial instruments

Credit risk

Credit risk arises from the possibility that students and entities that owe funds to the Company may experience financial difficulty and not be able to fulfill their commitment. The maximum exposure to credit risk is equal to the carrying value of the receivables. However, this risk is minimized as many students are funded through the Province.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. The risk exposure is minimal for the Company as its advances from its parent company are payable at fixed interest rates.

Liquidity risk

The Company's objective is to have sufficient liquidity to meet its liabilities when due. The Company monitors its cash balances and cash flows generated from operations to meet its requirements. As at June 30, 2015, the most significant financial liabilities are payables and accruals, and advances from parent company.

15. Comparative figures

Certain of the comparative figures have been restated to conform with the financial statement presentation adopted in the current year.

Westervelt College Inc.
Schedule of general and administrative expenses – Schedule 1

Year ended June 30	**2015**	2014
Accounting and legal fees	**$ 48,249**	$ 46,379
Amortization	**234,280**	428,939
Bad debt expense	**99,104**	76,807
Bank charges	**23,364**	21,316
Business taxes	**140,469**	178,399
Consultants	**1,130**	788
ECC management fees (Note 13)	**-**	4,693
Insurance	**40,438**	39,558
Interest on long-term debt (Note 13)	**1,156,086**	767,890
Licenses and permits	**36,419**	31,404
Office supplies	**37,697**	40,220
Other miscellaneous	**8,875**	6,963
Photocopier	**28,598**	33,756
Postage and delivery	**11,481**	11,553
Rent and utilities	**693,863**	656,589
Repairs and maintenance	**79,003**	72,217
Salaries and benefits	**628,950**	691,505
Staff and student functions	**23,388**	23,271
Telephone and internet expenses	**25,439**	29,768
Travel and meals	**8,000**	5,189
	$ 3,324,833	$ 3,167,204

WCI Westervelt College Inc.
Schedule of normalized earnings before interest, taxes, depreciation and amortization - Schedule 2
June 30, 2015

Supplemental non-ASPE measures

The information contained in this note does not have a standardized meaning under ASPE and therefore may not be comparable to similarly titled measures presented by other companies. The Company includes this measure because it believes certain users use this measure as a means of measuring financial performance.

Normalized earnings before interest, taxes, depreciation and amortization ("Normalized EBITDA")

	2015 (unaudited)	2014 (unaudited)
Net loss as per statement of loss	**$ (2,859,679)**	$ (456,266)
Add:		
Current income tax expense	**(372)**	-
Future income tax recovery	**(568,500)**	(160,500)
Interest	**1,156,086**	767,890
Amortization	**234,280**	428,939
Restructuring costs	**45,995**	156,731
Goodwill impairment	**1,571,605**	-
Change in fair value of contingent consideration	**(69,000)**	(49,000)
Debt forgiveness	**-**	(340,135)
Normalized EBITDA after bonus	**(489,585)**	347,659
Bonus	**(3,882)**	30,875
Normalized EBITDA before bonus	**$ (493,467)**	$ 316,784

APPENDIX “B”

Grant Thornton

Financial statements

WCI Westervelt College Inc.

June 30, 2016

Contents

Independent auditor's report

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To the Shareholder of **WCI Westervelt College Inc.** and
To the Superintendent of Private Career Colleges.

We have audited the accompanying financial statements of WCI Westervelt College Inc., which comprise the balance sheet as at June 30, 2016, the statements of loss and deficit and cash flows for the year then ended and 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 private enterprises, 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.

Auditor's 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 the 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 the auditor's 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, the auditor considers internal control relevant to the company'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 company'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 audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of WCI Westervelt College Inc. as at June 30, 2016 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

Other Matter

Our audit was conducted for the purposes of forming an opinion on the financial statements taken as a whole. The Schedule of normalized earnings before interest, taxes, depreciation and amortization – Schedule 2 on page 14 is presented for purposes of additional information and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on it.

Grant Thornton LLP

Mississauga, Ontario
October 26, 2016

Chartered Professional Accountants
Licensed Public Accountants

WCI Westervelt College Inc.
Statements of loss and deficit

Year ended June 30	**2016**	2015 (Note 14)
Revenue		
Tuition	**$ 3,576,344**	$ 3,941,314
Other	**67,106**	65,295
	3,643,450	4,006,609
Cost of goods sold	**1,718,415**	1,853,986
Gross profit	**1,925,035**	2,152,623
Operating expenses		
Marketing and admissions (Note 12)	**601,095**	729,872
General and administrative expenses (Schedule 1)	**3,108,997**	3,348,697
	3,710,092	4,078,569
Loss before other items	**(1,785,057)**	(1,925,946)
Change in fair value of contingent consideration (Note 8)	**1,110**	69,000
Goodwill impairment (Note 5)	**(2,037,685)**	(1,571,605)
Loss before income taxes	**(3,821,632)**	(3,428,551)
Current income taxes	**-**	(372)
Future income tax recovery	**(459,300)**	(568,500)
	(459,300)	(568,872)
Net loss	**$ (3,362,332)**	$ (2,859,679)
Deficit, beginning of year	**$ (3,939,743)**	$ (1,080,064)
Net loss	**(3,362,332)**	(2,859,679)
Deficit, end of year	**$ (7,302,075)**	$ (3,939,743)

See accompanying notes to financial statements

WCI Westervelt College Inc.
Balance sheet

June 30	2016	2015 (Note 14)
Assets		
Current		
Accounts receivable (net of allowance of $70,000; 2015 - $86,000)	**$ 1,108,581**	$ 888,216
Prepaid expenses	**64,929**	53,378
Inventory	**224,467**	166,687
	1,397,977	1,108,281
Property and equipment (Note 3)	**300,299**	230,965
Intangibles (Note 4)	**1,011,611**	1,176,544
Goodwill (Note 5)	**-**	2,037,685
Future income taxes	**1,178,500**	719,200
	$ 3,888,387	$ 5,272,675
Liabilities		
Current		
Bank overdraft	**$ 80,905**	$ 33,529
Payables and accruals (Note 6)	**248,713**	392,091
Deferred revenue	**1,284,032**	1,152,514
	1,613,650	1,578,134
Advances from parent company (Note 7)	**969,739**	7,526,758
Other liabilities (Note 8)	**106,973**	107,426
	2,690,362	9,212,318
Shareholder's deficiency		
Share capital (Note 9)	**8,500,100**	100
Deficit	**(7,302,075)**	(3,939,743)
	1,198,025	(3,939,643)
	$ 3,888,387	$ 5,272,675

Commitments and contingency (Notes 10 and 11)

On behalf of the Board

_______________ Director _______________ Director

See accompanying notes to financial statements

WCI Westervelt College Inc.
Statement of cash flows

Year ended June 30	2016	2015
Cash provided by (used by) the following activities		
Operating		
Net loss	$ (3,362,332)	$ (2,859,679)
Change in fair value of contingent contribution	(1,110)	(69,000)
Goodwill impairment	2,037,685	1,571,605
Amortization of property and equipment	56,501	37,750
Amortization of program development costs	250,586	196,530
Future income taxes	(459,300)	(568,500)
	(1,477,970)	(1,691,294)
Changes in working capital accounts		
Accounts receivable	(220,365)	(4,423)
Inventory	(57,780)	16,745
Prepaid expenses	(11,551)	(11,236)
Payables and accruals	(112,532)	140,440
Income taxes receivable	-	32,238
Deferred revenue	131,518	(163,014)
	(1,748,680)	(1,680,544)
Investing		
Purchase of property and equipment	(125,834)	(164,026)
Program development costs	(85,654)	(166,775)
	(211,488)	(330,801)
Financing		
Proceeds from bank overdraft	47,376	33,529
Advances from parent company	(6,557,019)	1,972,641
Repayment of note payable	(30,189)	-
Issuance of preferred shares	8,500,000	-
	1,960,168	2,006,170
Decrease in cash and cash equivalents	-	(5,175)
Cash and cash equivalents, beginning of year	-	5,175
Cash and cash equivalents, end of year	$ -	$ -

See accompanying notes to financial statements

1. Nature of Operations

Located in London, Ontario, WCI Westervelt College Inc. (the "Company") was founded in 1885 and is a leader in southern Ontario career education. The Company's programs are designed to help students start a new career in the areas of business, healthcare, law, IT or the service industry.

2. Significant accounting policies

The Company's financial statements are prepared in accordance with Canadian accounting standards for private enterprises (ASPE).

Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances with banks and short-term deposits with original maturities of three months or less. Bank borrowings are considered to be financing activities.

Inventory

Inventory is valued at the lower of cost and net realizable value. The cost of inventory comprises all costs of purchase. Inventory consists of textbooks and other course supplies, and is charged to cost of sales over 9 to 12 months, depending on the item and the course length.

Property and equipment

Property and equipment are recorded at cost. Amortization is provided using methods and rates intended to amortize the cost of assets over their estimated useful lives.

	Method	Term
Furniture and equipment	straight-line	5 years
Computer equipment	straight-line	5 years
Computer software	straight-line	1 – 5 years
Leasehold improvements	straight-line	Remaining term of the lease

Other assets

Other assets include goodwill and other intangibles. Intangible assets were identified and recorded at estimated values as determined by management based on valuations of certain assets relating to the acquisition of Westervelt College Inc. Intangible assets include a trade name which is not amortized, until its life is considered to be no longer indefinite, and is tested for impairment whenever events or changes in circumstances indicate that its carrying amount may exceed its fair value.

2. Significant accounting policies (continued)

Program development costs consist of expenditures directly related to the development of new courses. Program development costs are recorded at cost and amortized based upon management's best estimate of the useful life of the programs, which is estimated to range between 3 to 5 years.

Goodwill has been accounted for using the acquisition method, whereby the purchase consideration was allocated to the estimated fair values of the assets acquired at the acquisition date of the purchase. Goodwill is not amortized. Goodwill is tested for impairment whenever events or changes in circumstances indicate that the carrying amount of the reporting unit to which the goodwill is assigned may exceed the reporting unit’s fair value.

Long-lived assets

Long-lived assets consist of property and equipment and other assets including goodwill and other intangibles. Long-lived assets held for use are measured and amortized as described in the applicable accounting policies.

The Company performs impairment testing on long-lived assets held for use whenever events or changes in circumstance indicate that the carrying value of an asset, or group of assets, may not be recoverable. Impairment losses are recognized when undiscounted future cash flows from its use and disposal are less than the asset's carrying amount. Impairment is measured as the amount by which the asset's carrying value exceeds its fair value. Any impairment is included as a loss for the year. Discounted cash flows are used to measure fair value of long-lived assets.

Revenue recognition

Tuition revenue is recognized ratably over the delivery of the courses, when all significant contractual obligations have been satisfied and collectability is reasonably assured. Revenue is recognized according to the end date of a class.

Income taxes

The Company follows the future income taxes method of accounting for income taxes. Under this method, future income tax assets and liabilities are recorded based on temporary differences between the carrying amount of balance sheet items and their corresponding tax bases. In addition, the future benefits of income tax assets, including unused tax losses, are recognized, subject to a valuation allowance, to the extent that it is more likely than not that such future benefits will ultimately be realized. Future income tax assets and liabilities are measured using enacted tax rates and laws expected to apply when the tax liabilities or assets are to be either settled or realized.

2. Significant accounting policies (continued)

Estimation uncertainty

In preparation of the Company's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the period. Actual results could differ from these estimates. Examples of significant estimates include:

- allowance for doubtful accounts;
- estimated useful lives of assets;
- recoverability of assets; and
- fair value of goodwill and other intangibles, and the measurement of any impairment loss.

Financial instruments

The Company considers any contract creating a financial asset, liability or equity instrument as a financial instrument, except in certain limited circumstances. The Company accounts for the following as financial instruments:

- cash and cash equivalents
- accounts receivable
- payables and accruals
- advances from parent company
- other liabilities

A financial asset or liability is recognized when the Company becomes party to contractual provisions of the instrument.

Measurement
Financial assets or liabilities obtained in arm's length transactions are initially measured at their fair value. In the case of a financial asset or liability not being subsequently measured at fair value, the initial fair value will be adjusted for financing fees that are directly attributable to its origination, acquisition, issuance or assumption.

The Company subsequently measures all of its financial assets and financial liabilities at amortized cost.

The Company removes financial liabilities, or a portion of, when the obligation is discharged, cancelled or expires.

Financial assets measured at amortized cost are tested for impairment when there are indicators of impairment. Previously recognized impairment losses are reversed to the extent of the improvement provided the asset is not carried at an amount, at the date of the reversal, greater than the amount that would have been the carrying amount had no impairment loss been recognized previously. The amounts of any write-downs or reversals are recognized in net earnings.

3. Property and equipment

	Cost	Accumulated Amortization	2016 Net Book Value	2015 Net Book Value
Furniture and equipment	$ 132,755	$ (78,831)	**$ 53,924**	$ 45,710
Computer equipment	173,792	(102,260)	**71,532**	49,824
Computer software	36,786	(22,177)	**14,609**	5,378
Leasehold Improvements	183,106	(22,872)	**160,234**	130,053
	$ 526,439	$ (226,140)	**$ 300,299**	$ 230,965

4. Intangibles

	Cost	Accumulated Amortization	2016 Net Book Value	2015 Net Book Value
Amortized intangibles				
Program development costs	$ 1,361,158	$ (871,547)	**$ 489,611**	$ 654,544
Unamortized intangibles				
Trade name	522,000	-	**522,000**	522,000
	$ 1,883,158	$ (871,547)	**$ 1,011,611**	$ 1,176,544

5. Goodwill

	2016	2015
Balance, beginning of year	**$ 2,037,685**	$ 3,609,290
Impairment loss	**(2,037,685)**	(1,571,605)
Balance, end of year	**$ -**	$ 2,037,685

The poor economic condition in Southwestern Ontario has resulted in lower than expected financial performance for the Company. As a result, the Company has determined that there were indicators of an impairment loss related to the goodwill. Accordingly, the Company undertook a goodwill impairment test, which was based on a discounted cash flow analysis.

Based on the results of the goodwill impairment test, the Company determined that the estimated fair value of this reporting unit was less than its carrying amount. A goodwill impairment loss in the amount of $2,037,685 (2015 - $1,571,605) has been recorded in the year ended June 30, 2016.

6. Payables and accruals

		2016		2015 (Note 14)
Accounts payable	$	**124,893**	$	164,248
Accrued liabilities and other payables		**122,691**		226,896
Government remittances payable		**1,129**		947
	$	**248,713**	$	392,091

7. Advances from parent company

Advances from parent company are unsecured, bear interest at 1.5% charged monthly with no specified repayment terms. Since the parent company has provided an undertaking not to demand repayment within the next twelve months, the loan is excluded from current liabilities.

8. Other liabilities

		2016		2015 (Note 14)
Note payable	$	**24,701**	$	56,000
Scholarship donation payable		**23,000**		24,000
Payment terms on leasehold improvements		**59,272**		27,426
	$	**106,973**	$	107,426

As part of the purchase agreement, the Company agreed to pay the former owners a percentage of revenues in excess of specified amounts for the years ended June 30, 2012 to June 30, 2015 to a maximum of $500,000. A reduction of this liability in the amount of $1,110 (2015 - $69,000) was included in the statement of loss. A note payable was issued in November 2015 in the amount of $54,890, of which $24,701 remains outstanding at June 30, 2016. The note payable bears interest of 8% annually and the remaining balance is due July 1, 2017.

9. Share capital

		2016		2015
Issued				
100 common shares	$	**100**	$	100
850,000 (2015 – nil) preference shares, non-voting, retractable and redeemable at $10 per share		**8,500,000**		-
	$	**8,500,100**	$	100

During the year, the Company issued 850,000 preference shares for cash, which was used to repay advances from the parent company.

10. Commitments

The Company has provided a letter of credit in favour of the Province of Ontario in the amount of $554,000. The letter of credit is required by the Province in order to operate as an educational institution in the Province of Ontario.

The Company has entered into various lease agreements with respect to rental of a premises and a photocopier. Estimated minimum payments in aggregate and for each of the next five years are due as follows:

2017	$ 617,000
2018	649,000
2019	660,000
2020	670,000
2021	676,000
Thereafter	3,683,000
	$ 6,955,000

11. Contingency

The Company has provided guarantees for up to $9,000,000 for a line of credit and a term loan, both held by its parent company, ECC Education Consolidation Corporation (“ECC”). As security, the Company has provided a general security agreement. As at June 30, 2016, the line of credit outstanding is $668,012 (2015 - $2,608,012) and the term loan outstanding is $3,353,476 (2015 - $4,088,784).

The Company has also provided guarantees for a $1,500,000 term loan held by ECC. As security, the Company has provided a general security agreement. As at June 30, 2016 the term loan outstanding is $1,500,000 (2015 - nil).

As a condition of its banking agreements the Company’s parent company and consolidated group is required to meet certain financial convenants with respect to its Funded Debt to EBITDA and Debt Service Coverage Ratio. As at June 30, 2016, the parent company was in compliance with all covenants.

12. Related party transactions

The Company had the following transactions with related parties during the year:

(a) Interest on long-term debt includes an amount of $737,127 (2015 - $1,151,859) charged by ECC, the parent company, on the loan outstanding.
(b) Marketing and admissions expenses of $30,902 (2015 – $27,590) were charged by RCI Robertson College Inc. (RCI), a company related by common ownership.
(c) General and administrative salaries of $175,492 (2015 - $96,143) were charged by RCI.
(d) Preference shares of $8,500,000 were issued to ECC for cash which was used to repay amounts owing to the parent company.

These transactions were measured at the exchange amount, which is the amount agreed to by the related companies.

13. Financial instruments

Credit risk

Credit risk arises from the possibility that students and entities that owe funds to the Company may experience financial difficulty and not be able to fulfill their commitment. The maximum exposure to credit risk is equal to the carrying value of the receivables. However, this risk is minimized as many students are funded through the Province.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. The risk exposure is minimal for the Company as its advances from its parent company and note payable are payable at fixed interest rates.

Liquidity risk

The Company's objective is to have sufficient liquidity to meet its liabilities when due. The Company monitors its cash balances and cash flows generated from operations to meet its requirements. As at June 30, 2016, the most significant financial liabilities are payables and accruals, and advances from parent company.

14. Comparative figures

Certain of the comparative figures have been restated to conform with the financial statement presentation adopted in the current year.

Westervelt College Inc.
Schedule of general and administrative expenses – Schedule 1

Year ended June 30		**2016**		2015 (Note 14)
Accounting and legal fees	**$**	**63,724**	$	52,363
Amortization		**307,087**		234,280
Bad debt expense		**130,346**		99,104
Bank charges		**24,069**		23,364
Business taxes		**155,592**		140,469
Consultants		**-**		1,130
Insurance		**40,724**		40,438
Interest on long-term debt (Note 12)		**748,650**		1,156,086
Licenses and permits		**31,671**		36,419
Office supplies		**35,032**		37,697
Other miscellaneous		**15,950**		8,875
Photocopier		**11,421**		28,598
Postage and delivery		**11,521**		11,481
Rent and utilities		**741,248**		693,863
Repairs and maintenance		**83,766**		79,003
Salaries and benefits (Note 12)		**652,928**		648,700
Staff and student functions		**23,631**		23,388
Telephone and internet expenses		**25,994**		25,439
Travel and meals		**5,643**		8,000
	$	**3,108,997**	$	3,348,697

WCI Westervelt College Inc.
Schedule of normalized earnings before interest, taxes, depreciation and amortization – Schedule 2

Year ended June 30, 2016
(Unaudited)

Supplemental non-ASPE measures

The information contained in this note does not have a standardized meaning under ASPE and therefore may not be comparable to similarly titled measures presented by other companies. The Company includes this measure because it believes certain users use this measure as a means of measuring financial performance.

Normalized earnings before interest, taxes, depreciation and amortization ("Normalized EBITDA")

	2016	2015
Net loss as per statement of loss	**$ (3,362,332)**	$ (2,859,679)
Add:		
Current income tax recovery	**-**	(372)
Future income tax recovery	**(459,300)**	(568,500)
Interest	**748,650**	1,156,086
Amortization	**307,087**	234,280
Other non – operating expenses	**62,596**	45,995
Goodwill impairment	**2,037,685**	1,571,605
Change in fair value of contingent consideration	**(1,110)**	(69,000)
Normalized EBITDA after bonus	**(666,724)**	(489,585)
Bonus	**9,000**	(3,882)
Normalized EBITDA before bonus	**$ (657,724)**	$ (493,467)

APPENDIX “C”

WCI Westervelt College Inc.
Balance Sheet
As at June 30, 2017
(C$; unaudited)

ASSETS	
Current Assets	
Cash	(37,995)
Accounts Receivable	1,217,175
Less: AFDA	(77,411)
Other Receivables	1,814
Prepaid Expenses	53,332
Inventory	142,825
Total Current Assets	1,299,741
Fixed Assets	
Computer Equipment	51,275
Furniture & Equipment	49,617
Leasehold Improvements	149,976
Computer Software	7,385
Total Fixed Assets	258,253
Other Long Term Assets	
Program Development Costs	361,755
Goodwill	-
Trade Names	522,000
Future Income Tax Asset	1,178,500
Total Other Assets	2,062,255
TOTAL ASSETS	**3,620,249**
LIABILITIES	
Current Liabilities	
Accounts Payable	50,556
Accrued Liabilities	118,919
Interest Payable	494
Bonus Payable	-
Payroll Liabilities	63,960
Income Tax Payable	-
Deferred Revenue	1,183,841
Total Current Liabilities	1,417,770
Long Term Liabilities	
Interco Payables	2,798,596
WCI Earn Out Payable	24,701
Future Taxes Payable	-
Total Long Term Liabilities	2,823,296
Total Liabilities	**4,241,066**
OWNER'S EQUITY	
Common Shares	8,500,100
Opening Retained Earnings	(7,302,075)
YTD Net Income	(1,818,842)
Total Equity	**(620,817)**
Total Liabilities & Owner's Equity	**3,620,249**

WCI Westervelt College Inc.
Income Statement
For the Year Ended June 30, 2017
(C$; unaudited)

REVENUE	
Total Diploma Revenue	3,171,692
Total Other Revenue	(6,655)
TOTAL REVENUE	3,165,037
OPERATING EXPENSES	
Cost of Goods Sold	513,103
Delivery & Training	1,267,919
Marketing & Admissions	611,124
General & Administrative	1,897,833
TOTAL OPERATING EXPENSES	4,289,979
EBITDA	(1,124,941)
Interest Expense	354,751
Depreciation & Amortization	281,733
Other Expenses	57,416
NET INCOME	(1,818,842)

ECC EDUCATION CONSOLIDATION CORPORATION and **WCI WESTERVELT COLLEGE INC.**
APPLICANT RESPONDENT

Court File No: CV-17-579922-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

Proceeding commenced at Toronto

REPORT OF RICHTER ADVISORY GROUP INC.
IN ITS CAPACITY AS PROPOSED RECEIVER OF
WCI WESTERVELT COLLEGE INC.

(Returnable August 2, 2017)

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