



Notice of Extraordinary General Meeting and Explanatory Memorandum

Extraordinary General Meeting of
Kip McGrath Education Centres Limited ACN 003 415 889
will be held at Kip McGrath Education Centres Head Office
Level 3, 6 Newcomen Street, Newcastle NSW 2300
on 9 March 2012 at 10.00 am AEDT

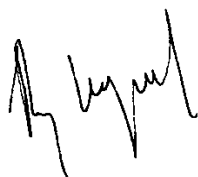
Dear Shareholder

I am pleased to invite you to an Extraordinary General Meeting (**EGM**) of Kip McGrath Education Centres Limited to be held at its head office at Level 3, 6 Newcomen Street, Newcastle NSW 2300 on 9 March 2012 at 10.00 am AEDT.

The purpose of the meeting is to consider, and if thought fit, to pass the following resolutions:

- (1) approval of the conversion of an existing unsecured loan from Editure of \$200,000.00 to a convertible note and receive further payment under the note of up to \$200,000.00, to make a total amount payable by Editure under the note of up to \$400,000.00
- (2) that approval be given to the Kip McGrath Employee Share Option Plan as set out in the plan rules summarised in the Explanatory Memorandum accompanying the Notice of Meeting; and
- (3) that approval be given to grant the Chief Executive Officer, Storm McGrath, 500,000 share options under the Kip McGrath Employee Share Option Plan in accordance with the plan rules.

I encourage you to read the Explanatory Memorandum and look forward to seeing you at the EGM.



Kip McGrath
Chairman
31 January 2012

Kip McGrath Education Centres Limited (“Company”)

IMPORTANT

- 1 To be valid, the proxy form enclosed for use at the Meeting must be completed and returned no later than 10.00 am AEDT on 7 March 2012.
- 2 This document is important and requires your immediate attention. It should be read in its entirety. If you are in doubt as to any matter in this document, you should consult your legal, financial or other professional advisor immediately.

An Extraordinary General Meeting of the Company will be held at Kip McGrath Education Centres Limited Head Office, Level 3, 6 Newcomen Street, Newcastle, NSW 2300 on 9 March 2012 at 10.00 am AEDT.

Resolutions

- 1 **Resolution 1 – Approval of conversion of unsecured loan from Editure Capital Pty Limited to a convertible note and the issue of the convertible note at an issue price of \$400,000.**

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

“That, for the purposes of Listing Rule 7.1 and exception 7 of Section 611 of the *Corporations Act 2001* and for all other purposes, Shareholders approve the conversion of the existing unsecured loan from Editure of \$200,000.00 to a convertible note and receive further payment from Editure under the note of up to \$200,000.00, to make a total amount payable under the note of up to \$400,000.00, and the issue of new fully paid ordinary shares on conversion of all or any part of the convertible note, on the terms and conditions described in the Explanatory Memorandum accompanying this Notice”.

- 2 **Resolution 2 – Approval of the Kip McGrath Employee Share Option Plan**

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

“That, for the purposes of Listing Rule 7.1 and exception 9 of Listing Rule 7.2 and for all other purposes, Shareholders approve the Kip McGrath Employee Share Option Plan as set out in the share option plan rules, the terms of which are summarised in the Explanatory Memorandum accompanying this Notice.”

3 Resolution 3 – Approval to issue 500,000 share options under the Kip McGrath Employee Share Option Plan to the Chief Executive Officer

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

“That, for the purposes of Listing Rule 10.14 and for all other purposes, Shareholders approve the issue of 500,000 share options to Storm McGrath, in accordance with the Kip McGrath Employee Share Option Plan on the terms and conditions described in the Explanatory Memorandum accompanying this Notice”.

Voting Exclusion Statement

As required by the Listing Rules, the Company will disregard any votes cast on:

- **Resolution 1** (Issue of Convertible Note) by:
 - Editure Capital Pty Limited and its associates; and
 - any person who might obtain a benefit if Resolution 1 is passed, except a benefit solely in the capacity as a holder of ordinary securities, and any associate of such person.
- **Resolution 2** (Approval of the Kip McGrath Employee Share Option Plan) by:
 - any Director (except one who is ineligible to participate in any of the Kip McGrath Employee Share Option Plan) and any associate of such Director.
- **Resolution 3** (Issue of Options to Storm McGrath) by:
 - any Director (except one who is ineligible to participate in any of the Kip McGrath Employee Share Option Plan) and any associate of such Director; and
 - Storm McGrath and any associate of Storm McGrath.

However, the Company need not disregard votes of the above party if:

- (a) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or
- (b) it is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form to vote as the proxy decides.

4 Explanatory Memorandum

The accompanying Explanatory Memorandum forms part of this Notice and should be read in conjunction with it. Terms used in this Notice and Explanatory Memorandum are defined in the Explanatory Memorandum.

By Order of the Board

A handwritten signature in blue ink, appearing to read 'Brett Edwards', is positioned below the text 'By Order of the Board'.

Brett Edwards
Company Secretary

Date: 31 January 2012

Explanatory Memorandum

This Explanatory Memorandum forms part of the Notice of Extraordinary General Meeting (**EGM**) and is provided to Shareholders to explain the Resolutions to be put to Shareholders at the EGM and to assist Shareholders to decide how they wish to vote on the Resolutions.

Background

Summary of recent investments in the Company

On 1 August 2011, the Company announced:

- it had entered into a subscription agreement with Editure Capital Pty Limited (**Editure**) for the issue of 3,495,222 Shares at 6 cents per Share (**Subscription Shares**), being a total subscription amount of \$209,713.32; and
- it had entered into an unsecured loan agreement (Loan Agreement for \$290,286.68 (**First Loan**) with Editure.

Editure paid the subscription amount and the First Loan amount to the Company, and the Company issued the Subscription Shares to Editure, on 3 August 2011.

On 11 October 2011 the Company held an annual general meeting (**2011 AGM**) and obtained Shareholder approval to (among other things):

- convert the First Loan into a convertible note and issue the note for a total face value of \$540,286.68 (which included a further amount payable by Editure of up to \$250,000), giving Editure the right to convert \$40,286.68 paid under the note into Shares at 6 cents per Share and the balance of \$500,000 at 9 cents per Share (**First Convertible Note**);
- convert an existing unsecured loan of \$500,000 provided by Kip McGrath and Dagnija McGrath (**McGraths**) into a convertible note with the right to convert the amount of \$500,000 into Shares at 9 cents per Share (**McGrath Note**),

(together, the **2011 Resolutions**).

On 4 November 2011 the Company converted the First Loan of \$290,286.68 into the First Convertible Note.

On 8 November 2011 the Company converted the unsecured loan of \$500,000.00 provided by the McGraths into the McGrath Note.

On 16 December 2011, the Company announced:

- it had entered into a further unsecured loan agreement with Editure under which Editure would immediately loan \$200,000 to the Company (**Current Loan**) and, subject to Shareholder approval, convert the Current Loan into a convertible note and issue the note for a total face value of \$400,000 (which includes a further amount payable by Editure of up to \$200,000) (**Second Convertible Note**). These funds will allow the Company to continue its strategies as previously disclosed to Shareholders; and
- it intended to hold an extraordinary general meeting in the coming 12 weeks to seek Shareholder approval to issue the Second Convertible Note, giving Editure the right to convert all amounts drawn down under the Second Convertible Note into ordinary shares at 9 cents per Share.

Application of relevant Listing Rules and provisions of Corporations Act

Resolution 1 (Issue of Convertible Note)

Listing Rule 7.1. This prevents a listed company from issuing or agreeing to issue new equity securities in any 12 month rolling period if, in doing so, it would have issued more than 15% of the total of the number of securities on issue at the date 12 months prior to the date of issue (**15% Cap**), unless the issue falls within one of the exceptions set out in Listing Rule 7.2, which includes approval by Shareholders.

The Second Convertible Note is an “equity security” for the purpose of Listing Rule 7.1 and the conversion price for the Second Convertible Note may result in an issue of ordinary shares under the Second Convertible Note which exceeds the 15% Cap. Shareholder approval for the issue of the Second Convertible Note is sought by the Company for Resolution 1, provided the Second Convertible Note is issued and any subsequent draw downs are made within 3 months of the date of the EGM (as required by Listing Rule 7.3).

Listing Rule 7.2, Exception 4. Under this rule the 15% Cap does not apply to an issue of securities on conversion of a convertible security issued in accordance with the Listing Rules. As a result, Shares issued to Editure on conversion of any amounts drawn down under the Second Convertible Note within 3 months of the date of the EGM, will not count towards the Company’s 15% Cap (and further Shareholder approval will not be required for the issue of Shares to Editure on conversion).

Section 606 Corporations Act. This prevents any person from acquiring a “relevant interest” in voting shares in a listed company if it results in

someone's voting power increasing from 20% or below to more than 20% or from a starting point that is above 20% and below 90% (**20% Rule**), unless the issue falls within an exception set out in the Corporations Act. Item 7 of Section 611 of the Corporations Act exempts an issue from the 20% Rule if it is approved by an ordinary resolution of shareholders of the company making the issue and provided:

- (a) no votes are cast in favour of the resolution by the person acquiring the shares; and
- (b) shareholders are given all information known to the person proposing to acquire the shares or their associates, or known to the company issuing shares, that is material on the decision on how to vote on the resolution.

The conversion of the Second Convertible Note may result in the issue of ordinary shares to Editure in excess of the 20% Rule referred to above. Accordingly, Shareholder approval under Item 7 of Section 611 of the Corporations Act is required for Resolution 1.

Relevantly, Exception 16 of Listing Rule 7.1 states that an issue of securities approved for the purposes of Item 7 of Section 611 of the Corporations Act is excepted from Listing Rule 7.1.

Resolution 2 (Approval of Plan)

The Company proposes to introduce the Kip McGrath Employee Share Option Plan (**Plan**). The issue of Shares under the Plan may result in an issue of ordinary securities which exceeds the 15% Cap under Listing Rule 7.1.

Listing Rule 7.2, Exception 9. Under this rule the 15% Cap does not apply to an issue of securities if shareholders have approved the issue under an employee incentive scheme within 3 years before the date of issue. Shareholder approval for the issue of Shares under the Plan is sought under Resolution 2. If approved, Shares issued to employees under the Plan within the 3 year period from the date of the EGM will not count towards the Company's 15% Cap.

Resolution 3 (Issue of Options to Storm McGrath)

Listing Rule 10.14. Under this rule, shareholder approval is required for the issue of securities under an employee incentive scheme to:

- a director;
- an associate of a director; or
- a person whose relationship with the entity or a person referred to above is, in ASX's opinion, such that approval should be obtained.

The Directors have confirmed Storm McGrath is a person whose relationship with the Company and Directors of the Company is, in the ASX's opinion,

such that approval should be obtained. Therefore Shareholder approval under listing rule 10.14 is sought for Resolution 3.

Relevantly, Exception 4 of Listing Rule 10.12 states that an issue of securities approved for the purposes of Listing Rule 10.14 is excepted from Listing Rule 10.11 which would otherwise require shareholder approval for an issue of securities to a related party of the Company.

Resolution 1 – Approval of conversion of unsecured loan from Editure Capital Pty Limited to a convertible note and the issue of the convertible note at an issue price of \$400,000.00

Under Resolution 1, Shareholders are asked to approve the conversion of the Current Loan from Editure Capital Pty Limited to a convertible note and the issue of the Second Convertible Note at an issue price of \$400,000.00.

If Resolution 1 is not approved, the Current Loan (being \$200,000.00) is repayable within 5 business days of the date of the EGM.

The issue of Shares on conversion under the Second Convertible Note may result in the Company exceeding the 15% Cap (referred to above). Accordingly Shareholder approval for the conversion of the Current Loan to the Second Convertible Note and further payment by Editure under the note of up to \$200,000.00 (to make a total amount payable under the note of up to \$400,000.00) and the issue of Shares on conversion of all or any part of the Second Convertible Note is sought by the Company.

As referred to above, under Listing Rule 7.1, Exception 4, an issue of shares on conversion of a convertible security such as the Second Convertible Note does not count towards the 15% Cap if the entity complied with the Listing Rules when it issued the convertible security. Accordingly, if Resolution 1 is approved by Shareholders, the Company will not require further Shareholder approval under Listing Rule 7.1 if it issues Shares to Editure on conversion of any amounts drawn down under the note within the 3 month period from the date of the EGM (or such longer period as approved by ASX by way of ASX granting a waiver from the Listing Rules).

Listing Rule 7.3 requires the following information to be provided to Shareholders:

- 1 One convertible note will be issued to Editure, being the Second Convertible Note. The maximum number of Shares into which the Second Convertible Note can be converted is 4,444,444 at 9 cents per Share (**Conversion Price**).
- 2 The Second Convertible Note will be issued following approval by Shareholders of Resolution 1 and no later than 3 months from the date

of the EGM, or such later date as approved by ASX by way of ASX granting a waiver from the Listing Rules.

- 3 The Second Convertible Note has a total issue price of \$400,000.00 repayable on or before 1 August 2013 (**Repayment Date**). The issue price of Shares on conversion of drawn down amounts under the Second Convertible Note will be the Conversion Price referred to above.
- 4 The Second Convertible Note will be issued to Editure and any Shares issued on conversion will be issued to Editure.
- 5 Additional key terms of the Second Convertible Note are as follows:
 - (a) the note is unsecured and subordinated to the Company's facility with, and security granted to, National Australia Bank;
 - (b) interest at 10% per annum is payable on all amounts outstanding under the note. The interest will accrue and is not payable in cash;
 - (c) an amount of \$200,000.00 will be drawn down immediately (as conversion of the Current Loan is deemed to be a draw down of this amount);
 - (d) the balance of \$200,000 can be drawn down in monthly tranches of \$50,000 commencing on 15 March 2012 and monthly thereafter provided draw downs are made within the 3 months of the date of the EGM (as required by Listing Rule 7.3). Any draw downs after the expiry of this 3 month period may require further Shareholder approval;
 - (e) any drawn down amounts can be converted to Shares at any time prior to the Repayment Date, at the election of Editure;
 - (f) the Conversion Price provides for conversion at 9 cents per Share;
 - (g) if at any time prior to the Repayment Date, the Company issues Shares at a price less than the Conversion Price, the Conversion Price will be adjusted to that lesser price;
 - (h) if there is a reorganisation of the capital of the Company, an adjustment will be made to the number of Shares Editure is entitled to upon conversion to preserve its ownership and economic interest in the Company;
 - (i) there is a voluntary escrow period agreed to by Editure preventing it transferring any Shares issued to it on conversion for 6 months from the date of issue, unless certain events occur earlier, failure to obtain Shareholder approval for the conversion of the note to Shares or the Repayment Date is reached;
 - (j) if the Company is in breach of the terms of the note or becomes insolvent, all outstanding amounts payable to Editure under the note become immediately repayable.

- 6 The use of the funds raised is for:
- (a) working capital;
 - (b) completion of the software for delivery of online content for use in existing and new centres; and
 - (c) completion of the online tutoring capability for the business;

- 7 A voting exclusion statement is included in the Notice.

Under Item 7 of Section 611 of the Corporations Act, Shareholders are required to be given all information known to either Editure or the Company that is material to the decision on how to vote on Resolution 1.

The additional information set out in paragraphs 8 to 15 below, together with the information set out in paragraphs 1 to 7 above, is provided in accordance with Item 7 of Section 611 of the Corporations Act and ASIC Regulatory Guide 74.

- 8 Editure currently holds 3,495,222 Shares in the Company having a voting power of 13.04%. If Editure were to convert the full face value of the First Convertible Note of \$540,286.68 (plus the maximum amount of interest that can be accrued, being \$113,460.21), plus convert the full face value of the Second Convertible Note of \$400,000 (plus the maximum amount of interest that can be accrued, being \$55,601.02) based on the Conversion Price, Editure's voting power would be 40.78%. If all or part of the McGrath Convertible Note is subsequently converted to Shares, this percentage will decrease.
- 9 Editure is an investment vehicle controlled by an investor group consisting of Joseph Ewart, Richard Ryan, Michael Flynn, John Gamble and Frazer Henry (**Investor Group**). All members of the Investor Group are major shareholders of Editure Limited. Richard Ryan is the Chairman of the board of directors of Editure Limited and Joseph Ewart is Chief Executive Officer of Editure Limited.
- 10 Editure Limited is a leading Australian education and training company providing services and products aimed at improving school performance through teacher professional development and educational technology. Editure Limited provides services and products to approximately 12,500 schools, universities and corporations around the world. Editure Limited has customers in the United States, Australia, the United Kingdom, New Zealand and South Africa. The footprint of Editure Limited is global with a major proportion of revenue coming from the United States. Further information about Editure Limited can be read on their website www.editure.com.
- 11 The Company does not expect any new Directors to be appointed as a result of the issue of the Second Convertible Note or the issue of shares on conversion of the Second Convertible Note.

- 12 The Company understands Editure:
- (a) has no intention of making any changes to the business of the Company;
 - (b) does not propose to inject further capital into the Company;
 - (c) intends to retain the present employees of the Company;
 - (d) does not propose that any property be transferred between the Company and Editure, or any person associated with Editure; and
 - (e) has no intention to otherwise redeploy the fixed assets of the Company.
- 13 The Directors, with the exception Joe Ewart and Richard Ryan who (as referred to above) were appointed by Editure to the Board, are considered independent for the purposes of Resolution 1.
- 14 All Directors being Kip McGrath, Dagnija McGrath and Ian Campbell (with Joe Ewart and Richard Ryan abstaining) voted to approve the proposal to put Resolution 1 to Shareholders. All Directors being Kip McGrath, Dagnija McGrath and Ian Campbell (with Joe Ewart and Richard Ryan abstaining) recommend Shareholders vote in favour of Resolution 1. Editure has no intention to change significantly the financial or dividend policies of the Company.
- 15 To comply with ASIC Regulatory Guide 74, the Directors have appointed Crowe Horwath to prepare the independent experts report which is the Annexure to this Notice (**Independent Experts Report**). The objective of commissioning the Independent Experts Report is to provide an opinion for the benefit of Shareholders considering Resolution 1 as to whether or not the proposed transactions contemplated in Resolution 1 is fair and reasonable to Shareholders who are not associated with Editure. The conclusion is that the proposed transaction is not fair but is reasonable to the non-associated Shareholders.

The Chairman intends to vote undirected proxies in favour of Resolution 1 referred to above.

Resolution 2 – Approval of the Kip McGrath Employee Share Option Plan

Background

The Plan is being introduced to assist in the recruitment, reward, retention and motivation of key employees and Directors, by facilitating the offering of options over Shares subject to performance and loyalty hurdles. The Board approved the Plan on 25 November 2011.

Under rule 1.4 of the Plan rules (**Plan Rules**), Shareholder approval is required to commence the Plan. Additionally, as stated above, Shareholder approval is sought under Exception 9 of Listing Rule 7.2. If approved, Shares issued under the Plan within 3 years from the date of the EGM will be exempt from being counted towards the 15% Cap under Listing Rule 7.1.

If the Plan is *not* approved:

- the Plan may not commence; and
- Shareholder approval may be required if, during the 3-year period, a proposed issue of securities under a scheme (for example a capital raising) would have the effect of pushing total issues during a 12-month period in excess of the 15% Cap.

Therefore, to allow the recruitment, reward, retention and motivation of key employees and Directors and to maximize the Company's flexibility to issue securities in the future for capital-raising purposes, Shareholder approval for the Plan is sought under Resolution 2.

Plan Summary

Listing Rule 7.2 requires a summary of the Plan Rules to be provided to Shareholders. A copy of the full Plan Rules can be obtained by contacting the Company Secretary by calling 02 4929 6711 or by emailing the request to brett.edwards@kipmcgrath.com.

Aims

The Plan exists to provide selected Company employees and Directors with the means of receiving options to subscribe for Shares. The purpose is to give selected employees and Directors the opportunity to share in the future growth and profitability of the Company by better aligning their interests with those of Shareholders, as well as providing greater incentive for them to work towards achieving the longer term goals of the Company.

However, participants will only benefit under the Plan if Shareholders have derived corresponding benefits – ie performance and loyalty conditions must be met, and options will only have realisable value if the Company's share price increases beyond the price prevailing when options were granted.

Offers of Options

Under the Plan, the Board has discretion to decide:

- which full or part-time employees or Directors of the Company or related body corporate will be invited to acquire options,

- the number of options to be offered,
- any vesting conditions such as performance targets or minimum vesting periods,
- the applicable exercise price, which must be at least equal to the market value of Shares at the time of the offer, and
- any other terms of issue.

The Board may devolve other responsibilities for administering the Plan to a Plan administrator. Any offer to a Director must comply with the Listing Rules.

Share Limit

To protect Shareholders from dilution (taking account of this and any other employee incentive scheme the Company may have in the future), there is a share limit that in broad terms prevents an issue of options under the Plan where, at the time of the offer, the total of offered and outstanding Plan options (and any shares and options held under any other employee incentive scheme of the Company) would be greater than 10% of the total number of outstanding options and issued shares in the Company.

Features of Options

Options issued under the Plan have the following features:

- options are granted free of charge, and with an exercise price equal to or greater than the market value of a Share at the time of the offer (**Plan Exercise Price**);
- options are not transferable except in special or approved circumstances, and will not be listed on the ASX;
- shares issued on the exercise of options will rank equally with other ordinary shares, will be transferable and will be the subject of an application for quotation on the ASX (unless the terms of issue include a sale restriction or the employee is required to enter into an escrow arrangement at the time of a capital-raising);
- options can be exercised before the end of the specified maximum option period (or before the end of 10 years if no maximum option period is specified in the invitation) provided the options are exercised either:
 - after all specified vesting conditions have been met; or
 - before all specified vesting conditions have been met but upon special circumstances approved by the Board (such as a takeover involving a more than 50% change in control);

- options vest if all of the loyalty, performance and price targets are met; vested options cannot be forfeited and can be exercised at any time;
- options lapse immediately if employees/directors cease employment with the Company before the end of the applicable vesting period, or if it is determined after the end of that period that the performance target has not been met, or if the price target has not been met by the expiry date which is 10 years after the date of grant;
- on cessation of employment, an employee/director has 60 business days to exercise any vested options, or 6 months if employment ceases due to death, disablement or retirement (unless these periods are extended by the Board); and
- on exercise, each option converts to one Share (or in an entity resulting from a restructure of the Company), except that in certain circumstances such as a rights issue, a pro rata bonus issue, a sub-division or consolidation of capital, a return or cancellation of capital or some other reorganisation of capital by the Company, the number of shares over which options are exercisable, or the Exercise Price of the options, may be adjusted in accordance with the Listing Rules.

Amendment of Plan

Subject to applicable ASX rules, the Plan may be amended, suspended or terminated from time to time by the Board.

Other Listing Rule Requirements

The Company has not yet issued any securities under the Plan.

A voting exclusion statement is included in the Notice.

The Board is of the opinion that it is in the best interest of the Company for the Plan to be approved and as such will be voting in favour of Resolution 2.

The Chairman intends to vote undirected proxies in favour of Resolution 2 referred to above.

Resolution 3 – Approval to issue 500,000 share options under the Kip McGrath Employee Share Option Plan to Storm McGrath

Background

The remuneration committee is responsible for approving the remuneration terms of Storm McGrath, the Chief Executive Officer. Subject to Shareholder approval, the remuneration committee has recommended Storm McGrath be issued with 500,000 Share options under the Plan in relation to the 2012 financial year (**Proposed Options**). Vesting of the Proposed Options will be subject to:

- meeting a net profit before tax hurdle level;
- meeting annual performance indicators set by the Board that are targeted to drive performance around centre number growth, student number growth and on-line business growth; and
- a loyalty vesting condition of remaining in employment until 30 June 2014.

All vesting conditions must be satisfied before any options can vest. The Proposed Options have an exercise price of 7.5 cents and will have a 4 year term. The Board has approved this recommendation. It is expected that any share option recommendations in relation to future years would be considered annually.

	Current Holding	After Issue of Proposed Options
Storm McGrath	833,959 Shares Nil Options Total diluted holding 3.11%	833,959 Shares 500,000 Proposed Options Total diluted holding 4.89%

Application of the ASX Listing Rules

Listing Rule 10.14

Under listing rule 10.14, Shareholder approval is required for the issue of "securities" (which include an option over unissued securities) under an employee incentive scheme to:

- a director
- an associate of a director; or
- a person whose relationship with the entity or a person referred to above is, in the ASX's opinion, such that approval should be obtained,

(together, **Restricted Persons**).

Storm McGrath is no longer a Director. However, as he is a former Director and his parents are Directors, the Board have confirmed the ASX is of the opinion that Storm McGrath is a person whose relationship with the Company and the Directors is such that Shareholder approval should be obtained.

Listing Rule 10.11

Under listing rule 10.11 Shareholder approval is required for the issue of equity securities (which include options) to a “related party” of the Company.

Storm McGrath’s parents are Directors, and therefore Storm McGrath is a related party of the Company under Listing Rule 10.11.

Relevantly, Exception 4 of Listing Rule 10.12 states that an issue of securities approved for the purposes of Listing Rule 10.14 is excepted from Listing Rule 10.11.

Listing Rule 10.15A

Under Listing Rule 10.15A, the following information is required to be provided to Shareholders:

- The person to whom the Proposed Options are proposed to be issued is Storm McGrath, the Chief Executive Officer of the Company.
- Storm McGrath is a former Director and his parents are Directors and therefore the Board have confirmed the ASX is of the opinion that Storm McGrath is a person whose relationship with the Company and the Directors is such that Shareholder approval should be obtained.
- The maximum number of securities that may be acquired by Storm McGrath is 500,000 Share options which on exercise, converts to 500,000 Shares.
- The Proposed Options will be granted for no cash consideration as they are to be granted as part of the remuneration of Storm McGrath as Chief Executive Officer of the Company.
- The Company has not yet issued any securities under the Plan.
- No other Restricted Persons are entitled to participate in the Plan. The Directors, being Kip McGrath, Dagnija McGrath, Ian Campbell, Joe Ewart and Richard Ryan may be entitled to participate in the Plan subject to Board and Shareholder approval. If after the EGM the Board approves the issue of options to a Director under the Plan, further Shareholder approval will be sought.
- A voting exclusion statement is included in the Notice.
- No loan will be provided by the Company in relation to the grant of the Proposed Options to, or exercise of the Proposed Options by Storm McGrath.
- Details of any options issued under the Plan in accordance with Listing Rule 10.14 will be published in each annual report of the Company relating to a period in which the options have been issued, and include a statement that approval for the issue of the securities was obtained under Listing Rule 10.14.
- Any Restricted Persons who subsequently become entitled to participate in the Plan (including the Directors) after this Resolution 3 is

approved, will not participate until further approval is obtained under Listing Rule 10.14.

- If Resolution 3 is approved, the Company proposes to issue the Proposed Options by 6 April 2012 and in any event, not later than 3 years from the date of the EGM.

Application of the Corporations Act

Section 208

Section 208 of the Corporations Act prohibits the provision of financial benefits, other than in certain defined circumstances, to a related party without prior shareholder approval. As stated above, Storm McGrath is a related party of the Company.

However, under section 211 of the Corporations Act, Shareholder approval is not required if the financial benefit is remuneration as an officer or employee of the company and the remuneration is reasonable given:

- the circumstances of the company; and
- the related party's circumstances (including responsibilities involved in the office or employment).

The Board consider the issue of the Proposed Options is reasonable remuneration for Storm McGrath given his responsibilities as Chief Executive Officer of the Company.

The Board is of the opinion that it is in the best interest of the Company for the Proposed Options to be issued to Storm McGrath under the Plan and as such will be voting in favour of Resolution 3.

The Chairman intends to vote undirected proxies in favour of Resolution 3 referred to above.

Definitions

In addition to words and phrases defined in the body of the Notice and Explanatory Memorandum, in this Notice and Explanatory Memorandum:

\$ means Australian dollars (AUD)

c or **cents** means Australian cents.

ASX means ASX Limited ACN 008 624 691.

Board means the board of directors of the Company.

Constitution means the constitution of the Company.

Corporations Act means the *Corporations Act 2001* (Cth).

Directors means the directors of the Company.

Editure means Editure Capital Pty Limited ACN 152 360 168.

Explanatory Memorandum means the Explanatory Memorandum which is incorporated as part of the Notice of Extraordinary General Meeting.

Extraordinary General Meeting, EGM and Meeting means the extraordinary general meeting of the Company to be held at 10.00 a.m. AEST on 9 March 2012

Listing Rules means the listing rules of the ASX.

Notice means the attached notice of the EGM.

Plan means the Kip McGrath Employee Share Option Plan as set out in the plan rules summarised in the Explanatory Memorandum.

Plan Rules means the rules of the Plan as summarised in the Explanatory Memorandum.

Resolutions means the resolutions to be put to Shareholders at the Meeting as set out in the Notice of the Extraordinary General Meeting.

Second Convertible Note means the convertible notes described in the Explanatory Memorandum relating to the Resolutions.

Share means fully paid ordinary share in the capital of the Company.

Shareholder means a shareholder of the Company.

Proxies

A. Appointing a proxy

Any member who is entitled to attend and vote can appoint a proxy to attend and vote at the Meeting on their behalf. Any member who has two or more votes is entitled to appoint no more than two proxies to vote in his or her stead. If more than one proxy is appointed, each proxy must be appointed to represent a specific portion of the member's voting rights. A failure to specify the number or proportion of votes each proxy is to receive does not invalidate a proxy as it is deemed that each proxy has been appointed to exercise an equal number of votes with fractions disregarded (s249X of the *Corporations Act 2001* (Cth)).

The person or persons so appointed need not necessarily be members of the Company.

If proxy holders vote on a poll, they must cast all directed proxies as directed. Any directed proxies (ie you have directed your proxy to vote in a particular way by ticking a box on your proxy form in relation to the Resolution) which are not voted on a poll will automatically default to the Chairman of the Meeting, who must vote the proxies as directed.

A proxy form accompanies this Notice. Instructions for completion of that form are included.

B. Return of Proxy

To be effective, the proxy appointment form (and, if the appointment is signed by an attorney, the authority under which it was signed or a certified copy of the authority) must be received by the Company's Registrar, Computershare Investor Services Pty Limited or at the Company's registered office not less than **48 hours before** the time for holding the meeting, that is prior to 10.00 am on 7 March 2012 (AEDT).

You can lodge your completed proxy form by:

- mailing it to Computershare using the reply paid envelope;
- posting it to GPO Box 242, Melbourne VIC 3001 Australia;
- lodging it online at Computershare's website <https://www.investorvote.com.au/> and logging in using the control number found on the front of your accompanying proxy form;
(note: you will be taken to have signed your proxy form if you lodge it in accordance with the instructions on the website)
- faxing it to 1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia)

- Intermediary Online subscribers (Institutions / Custodians) may lodge their proxy instruction online by visiting www.intermediaryonline.com.

C. Corporate Registration

Corporate members wishing to appoint a representative to attend the Meeting on their behalf must provide that person with a properly executed letter on the member's letterhead confirming that they are authorised to act as the Company's representative at the Meeting.

D. Entitlement to Vote

The Board has determined, for the purposes of voting at the Meeting being convened by this Notice, the Company's shares will be taken to be held by the persons who are registered holders at 7.00 pm on 7 March (AEDT). Accordingly, share transfers registered after that time will be disregarded in determining entitlements to attend and vote at the meeting.

E. Attendance

Appointing a proxy does not mean that you are unable to attend the Meeting, however, your attendance at the Meeting will suspend the proxy's rights to speak and vote. Accordingly, you will be asked to revoke your proxy when registering at the Meeting.

Annexure

Independents Experts Report



**KIP MCGRATH EDUCATION
CENTRES LIMITED
ABN 73 003 415 889**

INDEPENDENT EXPERT'S REPORT

5 January 2012

5 January 2012

The Board of Directors
Kip McGrath Education Centres Limited
PO Box 480
NEWCASTLE NSW 2300

The Directors,

RE: INDEPENDENT EXPERT'S REPORT (THE "REPORT")

1 Introduction

1.1 Purpose of the Report

On 16 December 2011, Kip McGrath Education Services Limited ("**Kip McGrath**" or "**the Company**") announced that it had entered into a further unsecured loan agreement with Editure Capital Pty Limited ("**Editure**") for \$200,000 ("**Editure Loan**").

Kip McGrath will seek shareholder approval at an Extraordinary General Meeting ("**EGM**") to be held on 14 March 2012 to approve the conversion of the Editure Loan of \$200,000 to a convertible note, and receive further payments (draw downs) under the convertible note of up to \$200,000 ("**Editure Convertible Note**"), to make the total face value of the convertible note \$400,000 ("**the Proposed Transaction**").

Under all convertible notes already issued and proposed to be issued by Kip McGrath, interest is not payable in cash by Kip McGrath, but is capitalised to the face value of the convertible notes and can be converted by the holder at the same conversion price as drawn down amounts under the respective convertible notes.

Assuming that all existing Kip McGrath convertible notes were fully drawn and interest during the full term of each convertible note was fully capitalised (on a "**fully diluted basis**"), Editure would hold a relevant interest of 28% in Kip McGrath. If Editure then fully converted the Kip McGrath convertible note issued to it under the Proposed Transaction, including all capitalised interest during the full term of the convertible note, Editure would hold a relevant interest in Kip McGrath of 36.9%.

The Directors of Kip McGrath have requested Crowe Horwath Corporate Finance Limited ("**Crowe Horwath**") to prepare an Independent Expert's Report ("**Report**"), expressing an opinion as to whether the Proposed Transactions is fair and reasonable to the non-associated shareholders of Kip McGrath.

As required by the Corporations Act 2001 ("**the Act**") and the Australian Securities Exchange ("**ASX**") Listing Rules (the "**Listing Rules**"), Kip McGrath will disregard any votes cast on the Proposed Transaction by Editure and its associates.

This Report will form part of the Notice of Meeting to be sent to shareholders.

1.2 Approach to Our Assessment

In evaluating whether the Proposed Transaction is fair for the non-associated shareholders of Kip McGrath, we have compared the value of Kip McGrath prior to the Proposed Transaction with the value of the consideration per share that Editure would pay if they converted their convertible notes into Kip McGrath shares, being the conversion price under the convertible note.

In assessing if the Proposed Transaction is reasonable, we first considered whether the Proposed Transaction is fair. Additionally, we have compared the potential advantages and disadvantages of the Proposed Transaction to the non-associated shareholders of Kip McGrath, and we have assessed whether the advantages outweigh the disadvantages.

Under Regulatory Guide 111 'Content of Expert Reports' ("**Regulatory Guide 111**") an offer is deemed to be "reasonable" if it is fair, however, an offer might also be reasonable if, despite being "not fair", the expert believes that there are sufficient reasons for non-associated shareholders to accept the offer in the absence of a superior alternative.

1.3 The Proposed Transaction is Not Fair but is Reasonable

In our opinion, the Proposed Transaction is not fair, but is reasonable for the non-associated shareholders of Kip McGrath.

In our opinion, there are significant advantages to the Proposed Transaction which outweigh the disadvantages of the Proposed Transaction, notwithstanding the Proposed Transaction being not fair.

In our Independent Expert's Report dated 29 August 2011, we also found the Editure Transaction and the McGrath Transaction (as defined in that report), which were on similar terms, to be not fair but reasonable.

Our fairness and reasonableness assessment for the Proposed Transaction is set out below.

1.3.1 The Proposed Transaction is Not Fair for the non-associated shareholders

On the basis that the conversion price of 9 cents under the Editure Convertible Note is less than our assessed value range for Kip McGrath shares of between 9.44 cents per share and 11.89 cents per share on a fully diluted basis, there would be a dilution in value to the non-associated shareholders from the conversion of part or all of drawn down amounts under the Editure Convertible Note into Kip McGrath shares. Accordingly, in our opinion, the Proposed Transaction is not fair for the non-associated shareholders of Kip McGrath.

The face value of the Editure Convertible Note is being paid to Kip McGrath in cash instalments (draw downs) under the Proposed Transaction. Based on our analysis, including share price and volatility sensitivities, the face value of the Editure Convertible Note being received by Kip McGrath under the Proposed Transaction is greater than the fundamental or intrinsic value of the convertible note. This represents a significant benefit to the non-associated shareholders of Kip McGrath which we have addressed as an advantage to the Proposed Transaction.

1.3.2 The Proposed Transaction is Reasonable for the non-associated shareholders

In our opinion, notwithstanding the Proposed Transaction being not fair, the advantages substantially outweigh the disadvantages of the Proposed Transaction, and accordingly, the Proposed Transaction is reasonable for the non-associated shareholders.

In particular, we note that if the Proposed Transaction is not approved, the Editure Loan of \$200,000 will be payable by Kip McGrath within 5 business days from the date of the shareholder meeting held to seek shareholder approval of the Proposed Transaction and Kip McGrath would not receive the additional \$200,000 under the Editure Convertible Note. Since the Management and Directors of Kip McGrath advise there are no known viable present or future alternative sources of funding, in our opinion, this would significantly impact Kip McGrath's ability to continue trading as a going concern, including the ability to execute on the further development of the Intuition, Insight and online software platforms that form the basis of the transformation of the Kip McGrath business.

1.3.3 Advantages and Disadvantages of the Proposed Transaction

Summarised below are the advantages and disadvantages we identified with respect to the Proposed Transaction:

Kip McGrath Summary of Advantages and Disadvantages	
Advantages	
a)	If the Proposed Transaction is not approved, the Editure Loan of \$200,000 will become due and payable within five business days of the EGM and Kip McGrath would not receive the additional \$200,000 under the Editure Convertible Note
b)	Reduced access to future funding if the Proposed Transaction is not approved
c)	Uncertainty around Kip McGrath's ability to continue trading as a going concern if the Proposed Transaction is not approved
d)	No viable present alternatives to the Proposed Transaction
e)	Potential inability to raise additional funding should the Proposed Transaction not proceed
f)	The face value of the Editure Convertible Note being received by Kip McGrath under the Proposed Transaction is greater than the fundamental or intrinsic value of the convertible note
g)	Editure and the McGraths may choose not to convert their respective convertible notes into Kip McGrath shares
h)	The conversion price under the Proposed Transaction represent a significant premium to Kip McGrath's current share price
i)	More favourable pricing and less dilutive than the previous funding arrangement with La Jolla
j)	Continued participation of a strategic investor
k)	Freeing up Management and the Directors to focus on the business
l)	Participation in future potential upside and growth associated with Kip McGrath
m)	The non-associated Directors of Kip McGrath intend to vote in favour of the Proposed Transaction
Disadvantages	
a)	The Editure and the McGrath transactions are not fair
b)	Expectation that superior alternatives will emerge
c)	Dilution of existing owners if Editure elect to convert into Kip McGrath shares
d)	Potential requirement for additional future capital

1.4 Other

This letter is a summary of Crowe Horwath's opinion on the Proposed Transaction. This letter should be read in conjunction with the detailed report and appendices as attached. Unless the context requires otherwise, references to "we", "our" and similar terms refer to Crowe Horwath.

For the avoidance of doubt the terms "FY" and "fiscal" are used interchangeably as references to the year ended 30 June.

Yours faithfully

CROWE HORWATH CORPORATE FINANCE LTD

Crowe Horwath .

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2 The Proposed Transaction

2.1 Overview

2.1.1 Announcement

On 16 December 2011, Kip McGrath announced:

- it had entered into a further unsecured loan agreement ("**Loan Agreement**") with Editure, under which Editure would immediately lend \$200,000 to Kip McGrath ("**Editure Loan**");
- subject to shareholder approval, Kip McGrath would seek to convert the Loan into a convertible note and issue the note for a total face value of \$400,000 (which includes the ability for Kip McGrath to draw down a further \$200,000), giving Editure the right to convert \$400,000 into ordinary shares at 9 cents per share (Editure Convertible Note as defined above); and
- it intended to hold an Extraordinary General Meeting ("**EGM**") to seek shareholder approval to issue the convertible note.

The EGM will be held on 14 March 2012.

2.1.2 Requirement of Additional Funding

From discussions with Management and our review of short term cash flow forecasts prepared by Management, we understand the requirement for additional capital in excess of the first round of funding from Editure is primarily due to:

- a decision to maintain Kip McGrath's existing banking arrangement with National Australia Bank ("**NAB**") whereby Kip McGrath is required to repay larger than previously forecast quarterly principal repayments on outstanding borrowings;
- greater than expected development costs with respect to continuing to move forward with development of the various technology and online platforms in order to avoid costly stalling in these projects through the loss of the core development teams; and
- a larger than expected net cash outflow from operations during the period 1 July 2011 to 30 November 2011.

2.1.3 Use of Funds

The Explanatory Memorandum which accompanied the Notice of Meeting states that the funds raised will be used for:

- working capital;
- completion of the software for delivery of online content for use in existing and new centres; and
- completion of the online tutoring capability for the business.

2.1.4 Editure's Intentions

The Explanatory Memorandum also states that Kip McGrath understands that Editure:

- has no intention of making any changes to the business of Kip McGrath;
- does not propose to inject further capital into the Company;
- intends to retain the present employees of Kip McGrath;

- does not propose that any property be transferred between the Company and Editure, or any person associated with Editure; and
- has no intention to otherwise redeploy the fixed assets of the Company.

2.1.5 Deed of Undertaking

All McGrath family shareholders and their related entities have entered into a Deed of Undertaking in which they agreed to vote in favour of the Proposed Transaction.

2.2 Key Terms & Conditions

Key terms of the Editure Convertible Note are summarised below:

- a) the note is unsecured and subordinated to the Company's facility with, and security granted to, National Australia Bank;
- b) interest at 10% per annum is payable on all amounts outstanding under the note. The interest will capitalise and is not payable in cash;
- c) an amount of \$200,000 will be drawn down immediately (i.e. conversion of the unsecured loan into the convertible note is deemed to be a drawdown of \$200,000);
- d) the balance of \$200,000 can be drawn down in monthly tranches of \$50,000 commencing on 15 March 2012 and monthly thereafter provided draw downs are made within the three months of the date of the EGM (as required by ASX Listing Rule 7.3). Any draw downs after the expiry of this three month period may require further shareholder approval;
- e) any drawn down amounts (including capitalised interest) can be converted to shares at any time prior to the repayment date, at the election by Editure;
- f) the conversion price is 9 cents per share;
- g) if at any time prior to the repayment date, Kip McGrath issues shares at a price less than the conversion price, the conversion price will be adjusted to that lesser amount;
- h) if there is a reorganisation of the capital of the Company, an adjustment will be made to the number of shares Editure is entitled to upon conversion to preserve its ownership and economic interest in the Company;
- i) there is a voluntary escrow period agreed to by Editure preventing it transferring any shares issued to it on conversion for six months from the date of issue, unless certain events occur earlier, including the insolvency of the Company, failure to obtain shareholder approval for the conversion of the note to shares or the repayment date is reached;
- j) if the Company is in breach of the terms of the note or becomes insolvent, all outstanding amounts payable to Editure under the note become immediately repayable, subject to the preference of NAB who hold first security over the assets of Kip McGrath; and
- k) the repayment date of the Editure Convertible Note is 1 August 2013; and
- l) if shareholder approval is not obtained, the Editure Loan as well as all accrued interest on the loan becomes due and payable by Kip McGrath within 5 days business days of the date of the shareholder meeting held to approve the Proposed Transaction.

3 Scope of Report

3.1 Purpose of the Report

On a fully diluted basis, Editure would move from holding a relevant interest in Kip McGrath of greater than 20% prior to the Proposed Transaction, to a relevant interest of less than 90% if the Proposed Transaction proceeds (refer Section 1.1).

There is no requirement under the Act or the Listing Rules for Kip McGrath to prepare an Independent Expert's Report in regards to the Proposed Transactions, however, the Proposed Transaction requires shareholder approval. The Directors of Kip McGrath have appointed Crowe Horwath to prepare an Independent Expert's Report to assist the non-associated shareholders of the Company to form a view as to whether to approve the Proposed Transaction.

3.2 Corporations Act 2001

Subject to certain exceptions, Section 606(1) of the Act ("**Section 606**") does not allow a person to acquire voting shares in a public company if that person's or someone else's voting power in the company increases, either from 20 percent or below to more than 20 percent, or any increase from a starting point that is above 20 percent and below 90 percent.

Section 611 of the Act ("**Section 611**") requires that, in the absence of an offer in which all shareholders can participate, any allotment of shares resulting in a person holding in excess of 20 percent of the issued share capital of the company must be approved by the shareholders who are not participating in the proposed allotment.

Section 611 provides an exemption to Section 606 if the transaction is approved by a resolution at a General Meeting of the Company's shareholders.

Kip McGrath is seeking exemption under Section 611 by approval by the non-associated shareholders.

3.3 Basis of Evaluation

In evaluating the fairness and reasonableness of the Proposed Transaction, we have considered the requirements of the Act and relevant Regulatory Guides issued by ASIC, which provides guidance on interpretation.

This Report takes into account the provisions of Regulatory Guide 111 issued by ASIC which states that if a company issues securities and, as a consequence, the allottee acquires over 20 percent of the company, the transaction should be analysed as if it were a takeover bid.

Regulatory Guide 111 distinguishes "fair" from "reasonable" and considers:

- a. A proposal to be "fair" if the value of the offer is equal to or greater than the value of the securities subject to the offer. This comparison should be made assuming 100% ownership of the "target" and irrespective of whether the consideration is scrip or cash. The expert should not consider the percentage held by the "bidder" or its associates in the target when making this comparison.
- b. An offer to be "reasonable" if it is fair. It might also be reasonable if, despite being "not fair", the expert believes that there are sufficient reasons for non-associated shareholders to accept the offer in the absence of a superior alternative.

For the purposes of this Report, Crowe Horwath has treated "fair" and "reasonable" as separate concepts.

Should the value of the consideration per share being paid by Editure, being the conversion price under the convertible note, be at a premium to the value of Kip McGrath shares then there will be a benefit to the non-associated shareholders of Kip McGrath if the notes were converted into shares. If this were to be the case, **the Proposed Transaction would be fair.**

Conversely, if the value of the consideration per share being paid by Editure was at a discount to the value of Kip McGrath shares, then there would be a dilution in value if the notes were converted into shares. If this were to be the case, **the Proposed Transaction would not be fair.**

In forming our opinion as to whether the terms of the Proposed Transaction are fair and reasonable for non-associated shareholders of Kip McGrath, we compared:

- our assessment of the value of Kip McGrath shares;
- our assessment of the value of the consideration per share being paid by Editure on conversions into Kip McGrath shares under the Editure Convertible Note; and
- the likely advantages and disadvantages of the Proposed Transaction for Kip McGrath and its non-associated shareholders.

The advantages and disadvantages in relation to the Proposed Transaction are discussed in detail in Section 9.1 and are summarised in Section 1.6.

Additionally, we have given due consideration to relevant matters in other guidelines, including Regulatory Guide 112 'Independence of Experts' ("**Regulatory Guide 112**") issued by ASIC.

3.4 ASX Listing Rules

Prima facie, shareholder approval is required for the Proposed Transaction under Chapter 7 of the Listing Rules, however, since Kip McGrath is seeking shareholder approval under Section 611 of the Corporations Act, approval under Chapter 7 is not required by virtue of Exception 16 to Listing Rule 7.1.

3.5 Disclosure of Information

In preparing this Report, Kip McGrath has requested Crowe Horwath to limit the disclosure of some information relating to the operations and financial performance of Kip McGrath due to the commercially sensitive nature of the financial and operational information which Crowe Horwath has had access to in the course of this assignment. The disclosure in this Report has been limited to information that is publicly available and information that Management are satisfied is not commercially sensitive.

3.6 Limitations and Reliance on Information

Crowe Horwath's opinion is based on economic, share market, business and trading conditions prevailing at the date of this Report. These conditions can change significantly over relatively short periods. If they did change materially, the valuation and our opinion could vary significantly. Should we become aware of any factors that alter our assumptions as given, we reserve the right to alter our Report.

This Report is based upon financial and non-financial information provided by Kip McGrath and their advisers. Crowe Horwath has used and relied on this information for the purposes of its analysis.

Crowe Horwath has considered and relied upon this information and has no reason to believe that any material facts have been withheld. The information provided to Crowe Horwath has been evaluated through analysis, inquiry and review for the purposes of forming an opinion as to whether the Proposed Transaction is fair and reasonable to the non-associated shareholders of Kip McGrath. However, Crowe Horwath does not warrant that its inquiries have identified or verified all of the matters that an audit, extensive examination or due diligence investigation might disclose.

To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, continuous disclosure rules, regulations, and policies, Crowe Horwath:

- assumes no responsibility and offers no legal opinion or interpretation on any issue; and
- has generally assumed that matters such as title, compliance with laws and regulations and contracts in place are in good standing and will remain so and that there are no legal proceedings, other than as publicly disclosed.

4 Industry Overview

References to IBISWorld in this section are references to IBISWorld's industry report on the Language and Other Education industry in Australia dated August 2011. Our previous Independent Expert's Report, dated 29 August 2011, referred to IBISWorld's April 2011 edition of the same report ("**April 2011 Report**"). We make special note of any changes in IBISWorld's estimates and industry forecasts.

4.1 Profile

As a provider of tuition services, Kip McGrath operates in the Language and Other Education industry in Australia and globally. IBISWorld¹ classifies the industry as highly fragmented, including institutions that offer a diverse range of education and training services.

Private tutoring is defined as fee-based tutoring that provides supplementary instruction to children in academic subjects that study in the mainstream education system². Global Industry Analysts³ identified the Asia-Pacific region, Europe and the United States as accounting for the largest revenue share in the global private tutoring market. Global Industry Analysts indicate that the private tutoring industry is thriving in the Asia-Pacific region, particularly Hong Kong, Japan, Singapore, South Korea, India, and China.

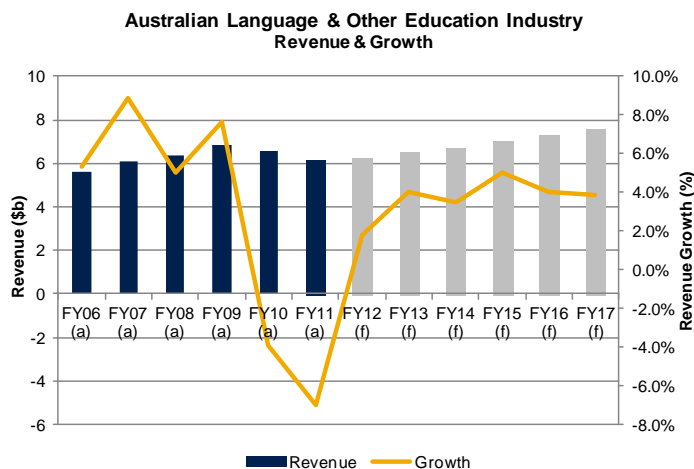
4.2 Growth

4.2.1 Historic Growth

The Australian industry has averaged annual growth in revenue of 0.5% per annum over the last five years (2% in April 2011 Report) and IBISWorld expects industry revenue to total \$6.2 billion in FY12 (\$5.9 billion for FY11 in April 2011 Report). According to IBISWorld, the tutoring segment grew during the five years to FY11 and now represents 19.3% of industry revenues (19% in April 2011 Report). Notwithstanding this, growth for tutoring companies has slowed, particularly since 2009, as the international student market weakened.

According to IBISWorld, profits increased over the same period, primarily the result of consolidation within the fragmented industry, however, profits fell in FY11 as export revenue declined on conversion into Australian dollars due the recent strong performance of the Australian dollar whilst costs remained largely fixed.

Summarised below is historic and forecast industry revenue, including growth, for the period FY06 to FY17.



¹ IBISWorld Industry Report N8440 – Language and Other Education in Australia, April 2011.

² The World Bank Research Observer – The Growing Phenomenon of Private Tutoring: Does it Deepen Human Capital, Widen Inequalities, or Waste Resources, vol. 23, no. 2, (Fall 2008).

³ Global Industry Analysts - Private Tutoring: A Global Strategic Business Report, 1 April 2011.

4.2.2 Outlook

IBISWorld forecasts overall revenue for the Australian industry to increase by 4.1% per annum for the five years to FY17 (4.4% to FY16 in April 2011 Report), reaching a total revenue of \$7.62 billion in FY17. The tutoring segment is a key driver of this increase in revenues as it shifts to providing online tutorial services.

Growth in school-aged tuition is expected for the five years to FY16 due to concerns over the level of individual attention children receive from teachers and the quality of public education compared to private education.

According to IBISWorld, there is good potential for growth in pre-school tuition as the segment expands as well as tertiary tuition as an increasing proportion of mature age students require additional tutoring to readjust to study.

Global Industry Analysts project the global private tutoring market will surpass \$100 billion by the year 2017, likely to be as a result of the following factors:

- parents concerns of the inadequacies of formal education systems;
- competitive entrance examinations becoming more critical for gaining admission into leading universities and colleges;
- the lack of adequate funding for public schools and education systems in developing countries; and
- an increase in school tests and scholarship exams.

4.3 Online Tutoring

Online tutoring is an emerging form of private tuition in the global market as a result of the convenience and multi-utility features of the medium. The primary advantage of “e-tutoring” is mobility as it allows students to access course materials via an external login to a tutoring system.

Growth in Australian online tuition is expected going forward as the format provides a convenient option for families and students who require access outside standard tuition hours. IBISWorld anticipates operators within the Australian industry will continue to develop internet related technology to market courses, recruit students and deliver education, lowering costs to the consumer via a reduction in wage costs.

According to Ambient Insight⁴, the global market for e-tutoring reached USD 32.1 billion in 2010 and project that demand is growing by a five-year compound annual growth rate (“CAGR”) of 9.2% resulting in revenues reaching USD 49.9 billion by 2015.

Ambient Insight expects that growth in e-tutoring for the 2010 to 2015 forecast period will be the highest in Asia. North America and Western Europe are two of the most mature markets in the world and are expected to achieve low rates of growth during the same period.

⁴ Ambient Insight – The Worldwide Market for Self-paced eLearning Products and Services: 2010-2015 Forecast and Analysis, Sam S Adkins, July 2011.

4.4 Competition

Increasing levels of competition between tuition firms is expected to encourage demand and growth for professional education courses offered by the industry. Australian firms are competing on the basis of:

- **Reputation:** IBISWorld identifies accreditation of courses as the primary competitive factor within the Australian industry as companies compete on course content, design and delivery. Links to universities and advertising can also enhance reputation;
- **Market share:** the Australian industry has experienced recent consolidation over the past five years with companies expanding operations and dominance within the industry via acquisition. Examples include Navitas and Kaplan. We have provided a schedule of comparable Australian and international transactions at Appendix 2; and
- **Price & choice:** the ability to deliver courses in various formats including offering different delivery methods (online) can provide competitive advantages, boost demand and reduce costs for industry participants.

On a global level, Ambient Insight have reported new suppliers are entering the global market at a steady rate in every region, including more mature regions such as North America and Western Europe. A trend has emerged for 'trans-regional' suppliers that service the needs of buyers across several countries in a region using language as the common vehicle.

Resistance to new market entrants has forced local suppliers to develop country-specific content that the large international suppliers often cannot afford to "scale down" to this degree of specificity. This has created revenue opportunities for domestic suppliers that develop their own content or partner with the major international suppliers to fully localise content.

4.5 Legislative Factors

There is currently no system of accountability or registration for tutors, and therefore, demand for service is based on skill, rapport and results.

The Federal Government released the program 'An even start' in 2008, operated by the Department of Education, Employment and Workplace Relations, whereby it gave \$700 of tuition credit to students in years three, five and seven who did not meet the 2007 national benchmarks in reading, writing and numeracy.

Ambient Insight consider a country's educational policy as the primary factor driving, or blocking, the adoption of 'self-paced' e-tutoring. They list several countries with educational policies that inhibit the growth of e-tutoring, including Brazil, Indonesia, China and Ethiopia. Inhibiting factors quoted include strict Government guidelines around distance learning and centralised approvals required for online programs. Alternatively, a country's educational policy can also create positive market conditions that accelerate the adoption of e-tutoring including federal funding for programs, installation of online platforms within schools and the inclusion of online tutoring in the academic curriculum.

4.6 Conclusion

Kip McGrath has developed and adopted strategies over the past three years to position itself to take advantage of industry changes including the emerging trend of online private tuition and growth opportunities summarised above. The Company has restructured its core operations by venturing into centralised and online automation, and online content and delivery methods of the already developed localised content.

Prior to these initiatives, the positioning of the business was becoming dated and Kip McGrath's historical profits largely comprised one-off revenues from the establishment of new franchises rather than the performance of the underlying core business.

5 Profile of Kip McGrath

5.1 Background

5.1.1 Overview

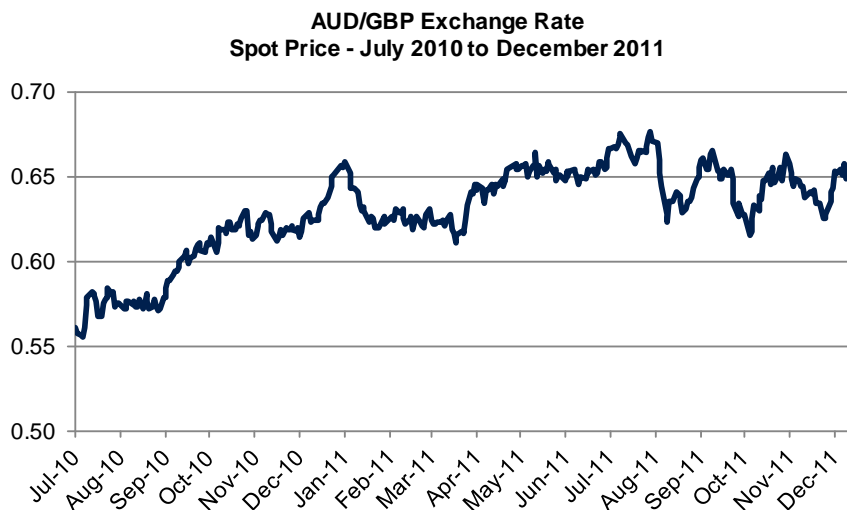
Established in 1974 and headquartered in Newcastle, NSW, Kip McGrath is a global educational franchise business specialising in after school tuition. Kip McGrath is a franchisor which provides tutoring services to children aged pre-school to 18 years of age in reading, spelling, English and mathematics, across its franchisee network in Australia, the United Kingdom, New Zealand, Singapore and South Africa.

Summarised below is Kip McGrath's geographical footprint as at 30 June 2011.

Kip McGrath Geographical Footprint (\$000s) as at 30 June 2011				
	Centres		Revenues	
	Number	%	\$A	%
Australasia	282	49.0%	2,444	38.1%
United Kingdom & Europe	217	37.7%	2,746	42.9%
Other	77	13.4%	1,217	19.0%
Total	576	100.0%	6,407	100.0%

Source: FY11 Annual Report & Management

Due to the large component of income generated offshore, Kip McGrath is exposed to foreign exchange rate fluctuations. The graph below outlines the appreciation in the Australian dollar against the Great British Pound ("GBP") over the last 18 months. The recent appreciation in the Australian dollar against most currencies has adversely impacted the conversion of foreign income into Australian dollars. Based on the average exchange rate for the last 18 months compared to the rate at 1 July 2010, there was a 12.3% appreciation of the Australian dollar against the GBP.



Source: RBA daily exchange rates 2010 to current.

5.1.2 Discontinuing Operations

During the period April 2007 to April 2009, Kip McGrath acquired Institute of Technology Australia Pty Limited, which was renamed Kip McGrath Institute of Business Australia Pty Limited ("**MIBA**"). MIBA was a college education business offering certificates, diplomas, degree and masters qualifications. Kip McGrath acquired MIBA to complement its after school tuition business and expand its client demographic.

Despite investment in MIBA by Kip McGrath, the business generated losses since the first stake was acquired, and on 23 December 2010, the Queensland Office of Higher Education advised Kip McGrath that they would not be recommending MIBA for re-registration and re-accreditation. As a result, MIBA was placed into voluntary liquidation on 23 December 2010, resulting in an impairment charge of approximately \$2.5 million. MIBA is reported as discontinuing operations in the FY11 Annual Report.

5.1.3 Continuing Operations

Background

During 2009, Management and the Board of Directors identified its reliance on one-off fees associated with the establishment of new franchises, limited technology and administrative support to franchises and insufficient revenues under the fixed fee revenue structure. Kip McGrath have since implemented structural changes to improve the performance of the tuition business and better serve the franchisees as well as the students.

Kip McGrath have focussed on the development of support platforms to streamline 'back-room' administration by upgrading infrastructure and technology. It is anticipated that this will remove the administrative burden on franchisees and teachers and enable them to concentrate on tutoring higher numbers of students.

Management and the Board of Directors' aim was to reduce overheads for franchisees, improve efficiencies and increase margins for both the franchisees and the Company. As part of the changes, two new franchise agreements were developed:

- **Partner model:** offers a percentage of revenue fee structure and access to the centre and student management system developed by Kip McGrath (discussed below). Fees start at 10% of revenues and decline as student numbers increase; and
- **Gold Partner model:** offers a higher percentage of revenue fee structure with additional back office support, including collection of debtors, management of marketing campaigns and other management services. Fees start at 20% of revenues and decline as student numbers increase.

Conversions to date

Management advised conversions to the new franchise structure commenced approximately 22 months ago, with 44 franchisees currently using the Partner model and 24 franchisees having converted to the Gold Partner model.

Management provided examples of the specific financial and economic benefits to franchisees that have converted to the new models which we analysed and confirmed.

As at 30 June 2011 and the date of this Report, the speed of the development of the online capability had been impeded by Kip McGrath's restricted access to capital, some of which was expected to be provided by La Jolla Cove Investors Inc. ("**La Jolla**").

5.2 La Jolla Funding

On 1 February 2011, Kip McGrath announced it had entered into a funding agreement with La Jolla under which Kip McGrath would issue a series of up to three convertible notes to La Jolla with a total issue price of USD 9 million. Subject to ASX Listing Rules, La Jolla could convert some or all of each of the convertible notes to ordinary shares in Kip McGrath at any time.

The purpose of the funds raising was to enable the Company to:

- offer franchisees of the existing business model of face to face tutoring, additional products, programs and services in return for the conversion from the current fee payable by franchisees to Kip McGrath from a fixed basis to a percentage of revenue basis;
- complete the development and offer, to both existing franchisees and to prospective new franchisees, an online tutoring capability; and
- co-invest with franchisees.

Following the announcement on 1 February 2011, one convertible note has been issued to La Jolla.

At the date of this Report, Kip McGrath had drawn down and La Jolla had made payments under the first convertible note totalling USD 300,000 and La Jolla had made several conversions into Kip McGrath ordinary shares. The conversions made by La Jolla were at progressively lower share prices which diluted other existing shareholders. The La Jolla conversions are outlined in Section 5.10.2.

At an EGM on 18 July 2011, Kip McGrath sought shareholder approval to make further draw downs of up to USD 900,000 under the La Jolla funding arrangement. Shareholders voted against the resolution, which resulted in the Directors seeking alternative sources of funding and identifying Editure who participated in the transactions set out in Section 5.4.

As at the date of this Report, the balance of the convertible note drawn down which had not yet been repaid or converted into ordinary shares was \$19,000. Management and the Directors advise that should they receive a conversion notice from La Jolla and the conversion price is lower than the conversion price under the Editure and McGrath convertible notes, they intend to repay La Jolla as opposed to enabling La Jolla to convert into Kip McGrath shares at a share price which is more dilutionary to shareholders than the conversion price of the Editure and McGrath convertible notes.

5.3 McGrath Funding

On 21 December 2010, Kip McGrath announced that:

- only \$132,000 had been raised from the December 2010 rights issue which had aimed to raise \$3 million;
- shareholder approval would be sought at the end of February 2011 to raise up to USD 9 million from La Jolla; and
- as an interim funding measure, Mr Kip and Mrs Dagnija McGrath had agreed to provide up to \$500,000, repayable by the end of February 2011.

Whilst it was originally intended that the \$500,000 provided by Mr Kip and Mrs Dagnija McGrath would be repaid from funds raised from La Jolla, the arrangement with La Jolla did not proceed as originally intended and Mr Kip and Mrs Dagnija McGrath subsequently extended the repayment date to 30 September 2012.

Under the Annual General Meeting ("AGM") held on 11 October 2011, Mr Kip and Mrs Dagnija McGrath sought shareholder approval to convert the \$500,000 loan into a convertible note ("**McGrath Convertible Note**"), with a conversion price of 9 cent per share (the "**McGrath Transaction**"). The McGrath Transaction was approved by shareholders and the McGrath Convertible Note was issued on 8 November 2011.

5.4 Editure Funding

5.4.1 Prior Investments

On 1 August 2011, Kip McGrath announced:

- it had entered into a subscription agreement with Editure for the issue of 3,495,222 shares Kip McGrath shares at 6 cents per share ("**Subscription Shares**") and received \$209,713 ("**Subscription Amount**");
- it had entered into an unsecured loan agreement ("**First Loan Agreement**") and received a further \$290,286.68 from Editure ("**First Loan**"); and
- it intended to hold an EGM to seek shareholder approval to convert the First Loan into a convertible note. The convertible note would include the ability for Kip McGrath to draw down a further \$250,000, bringing the total face value of the convertible note to \$540,287 ("**First Editure Convertible Note**"). The conversion price under the First Editure Convertible Note would comprise right to convert \$40,287 into Kip McGrath shares at 6 cents per share and the balance of \$500,000 at 9 cents per share⁵.

Editure paid the Subscription Amount and the First Loan Amount to the Company, and the Company issued the Subscription shares to Editure on 3 August 2011. It was decided by Kip McGrath that shareholder approval would be sought at Kip McGrath's AGM on 11 October 2011.

On 11 October 2011, Kip McGrath shareholders approved the issue of the First Editure Convertible Note. The First Editure Convertible Note was issued on 4 November 2011.

5.4.2 Proposed Transaction

As set out in Sections 1 and 2, Editure has provided a further unsecured loan of \$200,000 to Kip McGrath (Editure Loan). Kip McGrath is seeking shareholder approval at an EGM to be held on 14 March 2011 to approve the conversion of the Editure Loan of \$200,000 to a convertible note, and receive further payments (draw downs) under the convertible note of up to \$200,000, to make the total face value of the convertible note \$400,000. The conversion price under the Editure Convertible Note will be 9 cents per share.

5.4.3 Requirement of Additional Funding

From discussions with Management and our review of short term cash flow forecasts prepared by Management, we understand the requirement for additional capital in excess of the first round of funding from Editure is primarily due to:

- a change in Kip McGrath's banking arrangement with NAB whereby Kip McGrath is required to repay larger than expected quarterly principal repayments on outstanding borrowings;
- greater than expected development costs with respect to continuing to move forward with development of the various technology and online platforms in order to avoid costly stalling in these projects; and
- a larger than expected net cash outflow from operations during the period 1 July 2011 to 30 November 2011.

⁵ Total funding from Editure from prior investments, once fully drawn down, would equal up to \$750,000, being \$209,713 in equity and \$540,287 under the First Convertible Note.

5.5 Future Ability to Continue Trading as a Going Concern

In accordance with Note 1 of the notes to the financial statements contained in Kip McGrath's Annual Report:

- Kip McGrath recorded a post-tax loss of \$3.457 million during FY11 and has a net deficiency of current liabilities over current assets of \$3.719 million;
- on 17 June 2011, the Directors of Kip McGrath advised NAB that Kip McGrath would be in breach of its interest covenant as at 30 June 2011 in respect of the loan from NAB of approximately \$3 million;
- following discussion with the Directors, NAB advised on 28 July 2011, that whilst it had not waived its right to take action at a later date in respect of the breach, it would not be taking action at that time;
- whilst \$3,093,000 in bank loans included in current liabilities as at 30 June 2011 are technically repayable on demand, the loan is being serviced by quarterly repayments of \$85,000;
- \$500,000 was raised from Editure on 3 August 2011, with a potential further \$250,000 should the that transaction be approved by shareholders;
- Kip McGrath prepared short term cash flow forecasts for the year ending 30 June 2012 under which the Directors consider the Company will be able to meet its debts as and when they fall due and payable subject to any action by NAB to call upon its loan, however, should the NAB call upon its loan, alternative funding would need to be sourced; and
- on the basis that NAB has not taken any action to call the monies owed to it and due to the \$500,000 in subordinated debt and equity capital raised from Editure on 3 August 2011 in combination with short term cash flow forecasts, the financial statements as at 30 June 2011 were prepared on a going concern basis.

Whilst the accounts are prepared on a going concern basis, there is a level of uncertainty surrounding the future ability of Kip McGrath to continue trading as a going concern.

As set out above, total funding available from Editure under prior investments is \$750,000, plus a potential further \$400,000 under the Proposed Transaction.

5.6 Overview of Technology

5.6.1 Intuition & Insight Platforms

The future success of Kip McGrath is based around two key software platforms:

- **Intuition:** a centre and student management system which provides tools to franchisees to assist them in better managing their business; and
- **Insight:** a web-based and centrally maintained platform which provides interactive online delivery of Kip McGrath's existing materials.

Intuition is currently live in 130 franchises and Insight is currently being piloted in 15 franchises.

5.6.2 Online Tutoring

In addition to the above platforms, Kip McGrath are developing an online tutoring application to deliver the Insight platform directly to students and parents over the internet. The development includes an interactive whiteboard and an integrated Voice over Internet Protocol ("VoIP") platform.

5.7 Key Events

Key events since inception, including a series of restructuring transactions, are summarised below.

Kip McGrath History of Key Events since Inception	
Date	Milestone
1977	<ul style="list-style-type: none"> ▪ The first centre opens in Maitland, NSW Australia.
1985	<ul style="list-style-type: none"> ▪ The first Kip McGrath advertisement successful and four more centres opened accommodating over 365 students per week.
1987	<ul style="list-style-type: none"> ▪ The first three centres were sold in Australia.
1991	<ul style="list-style-type: none"> ▪ The first overseas centre was opened in New Zealand.
1993	<ul style="list-style-type: none"> ▪ The first centre was sold in the UK.
1995	<ul style="list-style-type: none"> ▪ Kip McGrath reaches 100 centres open internationally.
2000	<ul style="list-style-type: none"> ▪ Kip McGrath reaches 300 centres open internationally.
2003	<ul style="list-style-type: none"> ▪ First centre in China opens.
2004	<ul style="list-style-type: none"> ▪ Kip McGrath lists on the Australian Stock Exchange.
2007	<ul style="list-style-type: none"> ▪ Mr Kip McGrath retires from a Managing Director position.
2008	<ul style="list-style-type: none"> ▪ MIBA acquisition takes place. ▪ QAX acquisition takes place.
2009	<ul style="list-style-type: none"> ▪ The new franchise structure conversion process commenced.
2010	<ul style="list-style-type: none"> ▪ MIBA is placed into voluntary liquidation. ▪ \$132,000 in new equity was raised from a rights issue during November 2010, priced at 20 cents per share. ▪ Banking covenants with NAB were breached during December. ▪ \$500,000 in interim funding was obtained from Mr Kip and Mrs Dagnija McGrath during the period late December 2010 to February 2011, provided in the form of a loan at an interest rate of 10% per annum.
2011	<ul style="list-style-type: none"> ▪ New franchise model is now the only model sold in Australia. ▪ A convertible note facility was entered into with La Jolla, initially for \$3 million drawn down at the rate of \$100,000 per month (and up to \$300,000 per month at the discretion of La Jolla). ▪ The share price fell to 2 cents per share as at 30 June 2011. ▪ Up to \$750,000 was obtained from Editure from a series of transactions during the period August to November 2011, including shareholder approval and the issue of a convertible note of up to \$540,287 to Editure. ▪ Shareholders approved the conversion of an unsecured loan of \$500,000 from the McGraths into a convertible note. ▪ Appointment of Mr Richard Ryan and Mr Joe Ewart as Directors representing Editure ▪ Appointment of Mr Kip McGrath as Chairman of the Board of Directors, replaced Ms Lindy Hyam ▪ Appointment of Mr Brett Edwards as Chief Financial Officer and Company Secretary on 20 October 2011, replacing Ms Darlene Perks. ▪ Resignation of Ms Lindy Hyam as a Director on 1 December 2011.

Source: Management & ASX Announcements

5.8 Financial Performance

5.8.1 Historical Financial Performance

Summarised below is the historical financial performance of Kip McGrath for FY09, FY10 and FY11.

Kip McGrath Financial Performance (\$'000s)			
	FY09	FY10	FY11
Continuing operations			
Revenue	6,378	8,087	6,435
Reported EBITDA	1,793	1,356	(48)
Depreciation & Amortisation	(183)	(240)	(256)
Reported EBIT	1,610	1,116	(304)
Net interest	(303)	(266)	(292)
Net profit/(loss) before tax	1,307	850	(596)
Income Tax Benefit/(Expense)	1,985	(258)	(256)
Net profit/(loss) after tax - continuing operations	3,292	592	(852)
Discontinuing & consolidated operations			
Net profit/(loss) after tax - discontinued operations	-	(230)	(2,605)
Net profit/(loss) after tax attributable to owners	3,292	362	(3,457)

Source: Kip McGrath Annual Reports

5.8.2 Impact of Sales of New Franchises on Revenues & EBITDA

Sales of new franchises and territories contributed \$1.072 million in revenues in FY09, \$1.932 million in revenues in FY10, and have since dropped significantly to \$0.455 million in FY11. Excluding these amounts, FY09 EBITDA was \$721,000 and there were EBITDA losses in FY10 and FY11 of \$576,000 and \$503,000 respectively.

FY09 revenues are not comparable to other periods on a like-for-like basis since franchise revenues for FY09 were reported on a net of master franchisee fee basis.

5.8.3 Income Tax

The income tax benefit for FY09 includes the one-off entry of members to the tax consolidated group as well as carried forward tax losses not previously recognised.

5.8.4 Outlook

The Chief Executive Officer's message in the 2011 Annual Report states that "The company is budgeting a return to profit in FY12 with increased revenue from major initiatives, including delivering new online resource platforms to the existing franchisees and students, whilst maintaining tighter control over expenditure and relying on a more stable exchange rate between Australia and other countries, where in excess of 60% of Kip McGrath revenue is derived".

5.8.5 YTD Financial Performance

We have been provided and analysed the management accounts of Kip McGrath for the period 1 July 2011 to 30 November 2011 and have utilised this information in our valuation of Kip McGrath in Section 8.

The information has not been audited or reviewed under accounting standards and is not in a format able to be disclosed.

5.9 Financial Position

Summarised below is the historical financial position of Kip McGrath as at 30 June 2009, 30 June 2010 and 30 June 2011.

Kip McGrath			
Financial Position (\$000s)			
	30/06/09	30/06/10	30/06/11
Trade & other receivables	595	523	455
Inventories	280	171	96
Trade & other payables	(539)	(738)	(1,320)
Net Working Capital	336	(44)	(769)
Property plant & equipment	480	398	156
Intangible assets	9,772	10,551	8,343
Deferred tax assets	1,771	1,839	1,815
Deferred tax liabilities	(749)	(989)	(1,081)
Other assets/liabilities	42	(57)	(98)
Capital Employed	11,652	11,698	8,366
Cash	823	731	512
Borrowings	(3,980)	(4,056)	(3,888)
Net Cash	(3,157)	(3,325)	(3,376)
Shareholders' Funds	8,495	8,373	4,990

Source: Kip McGrath Annual Reports

5.9.1 Intangible Assets

The reduction in intangible assets since FY10 includes the \$2.5 million impairment associated with the discontinuing MIBA operations.

As at 30 June 2011, the reported value of intangible assets included:

- \$4.025 million of intellectual property;
- \$3.496 million net product and overseas development costs;
- \$0.733 million of franchise territories;
- \$0.089 million of other intangible assets; and
- Fully amortised education licence.

Due to the material nature of the reported value of intangible assets (\$8.343 million of a net asset value of \$4.990 million), we analysed the impairment testing working papers prepared by Kip McGrath for financial reporting purposes and performed various sensitivities. We note that none of the sensitivities performed indicate a material difference to the reported value of the intangible assets from an impairment testing perspective.

5.9.2 Borrowings

Borrowings as at 30 June 2011 comprise the following items:

- \$3.093 million bank debt with NAB;
- \$500,000 loan from Mr Kip and Mrs Dagnija McGrath;
- \$149,000 in convertible notes issued to La Jolla⁶; and
- \$146,000 in lease and other interest bearing liabilities.

Management have advised there has been no material change in total borrowings as at the date of this Report.

5.9.3 Deferred Tax Assets

Deferred tax assets represent the future benefit associated with carried forward tax losses. Management have advised that they have received tax advice regarding the carried forward tax losses recognised as deferred tax assets and that all tax losses relating to the discontinued operations of MIBA have been written-off.

5.9.4 Contingent Liabilities

In accordance with its Annual Report for FY11, Kip McGrath has two contingent liabilities, relating to:

- **The liquidation of the MIBA business:** the liquidator has advised there will be no distribution to creditors, including the holders of \$475,000 in convertible notes. In respect of the liquidation, Management believe there is no basis for any claim against the consolidated entity and parent entity and accordingly no provisions were made in the Balance Sheet related to this item.
- **A dispute with a US broker:** in relation to commissions payable in respect of fund raising activities: Kip McGrath has provided for \$18,000 relating to monies raised, which Management and their legal advisers believe is the amount due and payable. The total claim from the broker amounts to \$540,000.

In relation to the liquidation of MIBA, Management advised that as of 15 December 2011 the liquidators resigned and the company was in the process of being deregistered.

⁶ Management have advised that since 30 June 2011, Kip McGrath has repaid \$130,000 of convertible notes on receipt of conversion notes from La Jolla, leaving an outstanding balance as at the date of this Report of approximately \$19,000.

5.9.5 YTD Financial Position

We have been provided and analysed the management accounts of Kip McGrath for the period 1 July 2011 to 30 November 2011 and have utilised this information in our valuation of Kip McGrath in Section 8.

The information has not been audited or reviewed under accounting standards and is not in a format able to be disclosed.

5.10 Cash Flow Statement

Summarised below are the historical cash flows of Kip McGrath for the periods FY09, FY10 and FY11.

Kip McGrath Cash Flow (\$000s)			
Item	FY09	FY10	FY11
Net receipts from operations	1,684	1,599	506
Net interest, other costs and income tax paid	(190)	(246)	(377)
Cash Flow from Operations	1,494	1,353	129
Payment for investments in controlled entities	(433)	-	-
Net payments for Property, Plant & Equipment	(46)	(149)	36
Net proceeds from franchise territories	38	-	-
Payments for intangibles	(299)	(877)	(807)
Proceeds from release of security deposits	-	-	1
Cash Flow from Investing	(740)	(1,026)	(770)
Net proceeds from issue of shares and notes	-	-	309
Proceeds from related party borrowings	-	100	500
Dividends paid	-	(396)	-
Repayment of borrowings	(651)	(103)	(376)
Cash Flow from Financing	(651)	(399)	433
Net increase/(decrease) in cash	103	(72)	(208)

Source: Kip McGrath Annual Reports

FY11 cash flows were characterised by:

- a reduction in operating inflows as a result of reduced one-off fees associated with the establishment of new franchises;
- continued investment in the development of the new technology relating to the Intuition, Insight and online platforms; and
- inflows associated with the issuance of debt and equity capital as well as outflows associated with interest paid on borrowings.

5.10.1 YTD Cash Flows

We have been provided and analysed the management accounts of Kip McGrath for the period 1 July 2011 to 30 November 2011 and have utilised this information in our valuation of Kip McGrath in Section 8.

The information has not been audited or reviewed under accounting standards and is not in a format able to be disclosed.

5.11 Shares Outstanding

5.11.1 Top 10 Largest Shareholders

Under all convertible notes already issued and proposed to be issued by Kip McGrath, interest is not payable in cash by Kip McGrath, but is capitalised to the face value of the convertible note and can be converted by the holder at the same conversion price as drawn down amounts under the respective convertible notes.

Summarised below are the top 10 largest shareholders of Kip McGrath as at 30 November 2011 and their respective holdings on a fully diluted basis (assuming that all convertible notes are converted into Kip McGrath shares, including the conversion of capitalised interest under the convertible notes)⁷.

Kip McGrath									
Top 10 Largest Shareholders (including capitalisation of interest)									
Rank	Shareholder	Un-Diluted		Round 1 Convertible Notes	Fully Diluted (pre Proposed Transaction)		Round 2 Convertible Notes	Fully Diluted (post Proposed Transaction)	
		Shares Outstanding	%Total		Total Shares	%Total		Total Shares	%Total
1	McGrath family	10,466,152	39.1%	6,599,306	17,065,458	44.2%	-	17,065,458	39.7%
2	Editure Capital Pty Limited	3,495,222	13.0%	7,322,143	10,817,365	28.0%	5,062,233	15,879,598	36.9%
3	Mr Chi Tung Duong	703,593	2.6%	-	703,593	1.8%	-	703,593	1.6%
4	Mr Brian Stephen Sleigh	625,000	2.3%	-	625,000	1.6%	-	625,000	1.5%
5	Dr Michelle Mulligan	573,418	2.1%	-	573,418	1.5%	-	573,418	1.3%
6	Shift 6 Pty Ltd	535,933	2.0%	-	535,933	1.4%	-	535,933	1.2%
7	Giverny Computer Software	401,582	1.5%	-	401,582	1.0%	-	401,582	0.9%
8	Hetale Pty Limited	400,000	1.5%	-	400,000	1.0%	-	400,000	0.9%
9	Belsov Pty Ltd	387,500	1.4%	-	387,500	1.0%	-	387,500	0.9%
10	Tonesco Pty Ltd	319,874	1.2%	-	319,874	0.8%	-	319,874	0.7%
Top 10 largest shareholders		17,908,274	66.8%	13,921,449	31,829,723	82.5%	5,062,233	36,891,956	85.7%
Shares held by other parties		8,888,432	33.2%	-	8,888,432	21.8%	-	8,888,432	19.4%
Total shares outstanding		26,796,706	100.0%	-	40,718,155	104.3%	-	45,780,388	105.2%

Source: Management

Round 1 – prior transactions detailed in our IER dated 29 August 2011; Round 2 – the Proposed Transaction

Management advised that La Jolla sold all shares it held in Kip McGrath during the period March to July 2011, including all shares it acquired by converting drawn down amounts under the La Jolla Convertible Note into Kip McGrath shares.

⁷ Example: Conversion at the \$400,000 face value of the Editure Convertible Note into Kip McGrath shares at 9 cents per share would equate to 4,444,444 shares. This does not take into account any capitalised interest.

5.11.2 Shares Issued since 1 July 2010

Summarised below are new issues of Kip McGrath shares since 1 July 2010.

Kip McGrath				
Shares Issued since 1 July 2010				
Date	Shareholder	Consideration (\$000s)	Share price (cps)	Shares
1-Jul-11	Opening shares outstanding			19,780,000
1-Dec-10	Non renounceable rights issue	132	20.00	661,506
10-Feb-11	La Jolla Cove Investors	25	10.31	242,483
25-Feb-11	La Jolla Cove Investors	40	9.28	431,034
2-May-11	La Jolla Cove Investors	25	4.64	538,793
25-May-11	La Jolla Cove Investors	25	3.86	647,668
15-Jun-11	La Jolla Cove Investors	20	2.00	1,000,000
	Total shares issued			3,521,484
30-Jun-11	Closing shares outstanding			23,301,484
3-Aug-11	Editure Capital Pty Ltd	210	6.00	3,495,222
24-Aug-11	Closing shares outstanding			26,796,706

Source: Management

The issue price of Kip McGrath shares reduced significantly from 20 cents per share in December 2010 to 2 cents per share in June 2011.

We note:

- all issues of shares to La Jolla were due to conversions of convertible notes and subject to a 20% discount to the recent share price at the time of the conversion⁸;
- La Jolla converted a total of \$135,000 in drawn down funding provided to Kip McGrath into 2,859,978 Kip McGrath shares, at an average conversion price of approximately 4.72 cents per share; and
- Management have advised that La Jolla had sold all Kip McGrath shares it acquired and held no shares in Kip McGrath just prior to the date of this Report.

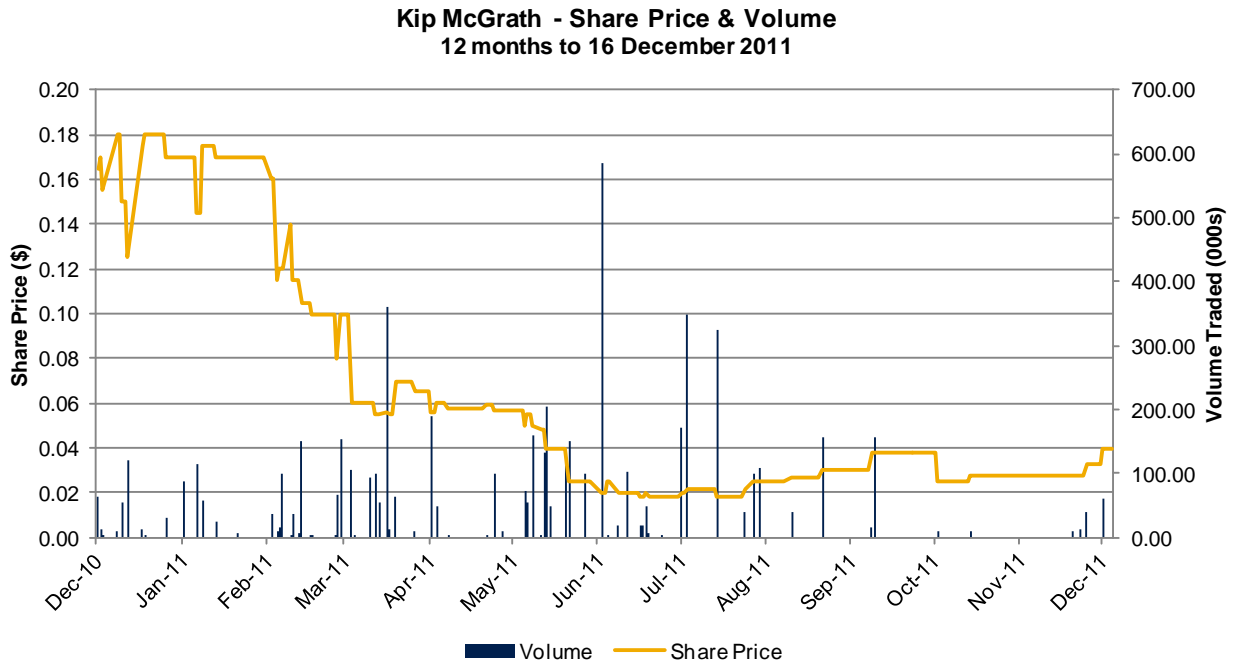
The Chairman's Report in the FY11 Annual Report states that "La Jolla's early conversion to shares and their subsequent sale of significant numbers had a negative impact on the company's share price."

⁸ Under the La Jolla arrangement, La Jolla could convert the drawn down amounts at a conversion price equal to the average of the 3 lowest volume weighted average prices during the 21 trading days prior to the election to convert, less a 20% discount.

5.12 Share Price Analysis

5.12.1 Recent Share Trading History

As seen in the graph below, Kip McGrath's share price fell from 31 cents per share in August 2010 to 4.0 cents per share as at 16 December 2011.



Source: Capital IQ

Kip McGrath's Weighted Average Price ("VWAP") during December 2011 equates to a market capitalisation (or equity value) of approximately \$950,000. During December 2010, when Kip McGrath's VWAP was approximately 16 cents per share, Kip McGrath's market capitalisation was approximately \$3.0 million.

Summarised below is additional information with respect to trading in Kip McGrath shares on a monthly basis during the past 12 months, including the volume of shares traded and low, high and VWAP share prices. We note that the percentage of shares traded data is on a free float basis⁹.

Kip McGrath Recent Share Trading Activity					
Period	Share Price (cents)			Volume Traded	
	Low	High	VWAP	Total	% free float
1 to 15 Dec 11	2.800	4.000	3.546	125,500	0.978%
Nov-11	n/t	n/t	n/t	n/t	n/t
Oct-11	2.500	2.800	2.650	20,000	0.156%
Sep-11	3.000	3.800	3.415	328,000	2.555%
Aug-11	2.200	2.700	2.486	290,000	2.220%
Jul-11	1.800	2.200	2.002	856,280	5.243%
Jun-11	1.600	4.000	2.323	1,179,080	7.220%
May-11	4.000	5.900	4.777	786,890	5.092%
Apr-11	5.600	6.500	5.718	255,000	2.341%
Mar-11	5.500	11.000	6.594	1,017,550	9.343%
Feb-11	10.500	17.000	11.769	372,830	3.711%
Jan-11	12.000	17.500	16.191	319,370	3.429%
Dec-10	12.500	19.000	15.634	458,420	4.922%

Source: Capital IQ; n/t – not traded

During the above period:

- Kip McGrath shares traded on only four days during the period 1 November 2011 to 16 December 2011;
- La Jolla was issued five tranches of Kip McGrath shares at a discount to the quoted share price during the period February to June 2011 (on conversion under the La Jolla Convertible Note);
- subsequent to being issued Kip McGrath shares, La Jolla sold parcels of those shares on market;
- the Chairman's Report in the FY11 Annual Report states that "La Jolla's early conversion to shares and their subsequent sale of significant numbers had a negative impact on the company's share price.";
- Kip McGrath shares only traded on approximately 29% of the available trading days, including shares disposed by La Jolla;
- the traded value of Kip McGrath shares was approximately \$311,000, including shares disposed by La Jolla; and

⁹ Reflects the percentage of free float shares traded. Free float shares are taken to exclude the 39.1% shareholding held by the McGrath family and the 13.0% shareholding block held by Editure, which does not regularly trade.

- the average volume of shares traded on a monthly basis was approximately:
 - 381,000 or 3.1% of the free float issued share capital of Kip McGrath, excluding the period March to July 2011 in which La Jolla disposed of the majority of the shares it acquired on conversions under the La Jolla Convertible Note; and
 - 810,000 or 6.0% of the free float issued share capital of Kip McGrath during the period March to July 2011.

5.12.2 Conclusion on Share Price

On the basis that Kip McGrath shares traded on only four days during the period 1 November 2011 to 16 December 2011, the quoted share price may not reflect the underlying value of Kip McGrath shares.

Additionally, we note the impact of La Jolla having disposed of all 2,859,978 Kip McGrath shares it acquired on conversion under the La Jolla Convertible Note during the period February to June 2011.

6 Profile of Editure Limited

6.1 Background & Overview

6.1.1 Editure Limited

Editure Limited is an education and training company that provides teaching and learning solutions aimed at improving school performance through professional development programs for teachers, proprietary software and IT services.

Established in 1984, the company was formerly known as CSM Group Limited, changing its name to Editure Limited in May 2006. Editure Limited's Australian headquarters are based in Melbourne, Victoria. The Company also have offices in Australia, the United States, New Zealand and the United Kingdom.

Editure Limited currently services approximately over 10,000 schools, universities and corporations globally, with its main markets being Australia, the United States, the United Kingdom and New Zealand.

6.1.2 Editure Capital Pty Limited

Editure Capital Pty Limited is an investment vehicle controlled by a group of the major shareholders of Editure Limited. Editure Limited is also an investor and shareholder in Editure Capital Pty Limited.

6.2 Key Events of Editure Limited

Key events since inception are summarised below.

Editure Limited History of Key Events since Inception	
Date	Milestone
1999	▪ Successfully tendered and won two multi-million dollar IT contracts in Australia and Asia.
2000	▪ Acquired corporate training business based in Australia.
2001	▪ Won contract with Northern Territory Education Department to provide IT systems to schools and the Victorian State Government to provide software applications.
2003	▪ Acquired corporate training business (CSM Knowledge).
2004	▪ Acquired ADC, an ICT services and security business.
2005	▪ Acquired myinternet, the leading provider of learning management system software to schools in Australia and New Zealand.
2007	▪ Acquired AUSSIE PD a leading United States based teacher professional development provider.
2008	▪ Won numerous new contracts in the United States for professional development and in the United Kingdom for learning management system software.
2009	▪ Acquired TeachFirst, a Seattle based provider of professional development and digital content.
2010	▪ Won contract to complete school review of Victorian Government schools. ▪ Acquired strategic stakes in DB Education and Avatar Academic.
2011	▪ Acquisition of IT Intellect a Melbourne-based provider of IT services to schools and corporations. ▪ Acquisition of New Era IT the leading provider of IT services to schools in New Zealand. ▪ Buy-out of 100% of Avatar Academic, a US-based provider to learning management system software. ▪ Actual and future investment of up to \$750,000 in Kip McGrath in a series of transactions during the period August to November 2011. ▪ Actual and future investment of up to \$400,000 in Kip McGrath under the Proposed Transaction.

Source: ASX announcements & www.editure.com.au

7 Valuation Methodology

7.1 Overview

The best determinant of value is the price at which the business or a comparable business or an equity interest in that business has been bought or sold in an arm's length transaction. In its absence, estimates of value are made using methodologies that infer value from other available evidence.

In order to calculate the fair market value of Kip McGrath shares, we have considered the following generally accepted valuation methodologies.

7.2 Asset Based Methods

Asset based methods estimate the market value of a company's shares based on the realisable value of its identifiable net assets. Asset based methods include:

- net tangible assets;
- orderly realisation of assets; and
- liquidation of assets.

The **net assets method** is based on the value of the assets of the business less certain liabilities, at book values, adjusted to market value.

The **orderly realisation of assets method** estimates fair market value by determining the amount that would be distributed to shareholders assuming the Company is wound up in an orderly manner realising a reasonable market value for assets.

The **liquidation method** is similar to the orderly realisation of assets method except for the fact that the liquidation method assumes the assets are sold in a shorter period, under a "distressed seller" scenario.

These approaches ignore the possibility that a company's value could exceed the realisable value of its assets. Asset based methods are appropriate when companies are not profitable, not actively trading or a significant proportion of a company's assets are liquid.

7.3 Market Based Methods

Market based methods estimate a company's fair market value by considering the market price of transactions in its shares or the market value and valuation metrics of comparable companies. Market based methods include:

- capitalisation of maintainable earnings;
- analysis of a company's recent share trading history; and
- industry specific methods.

The **capitalisation of maintainable earnings method** estimates fair market value by multiplying the Company's future maintainable earnings by an appropriate capitalisation multiple. An appropriate earnings multiple is derived from price earnings multiples and market transactions involving comparable companies. The capitalisation of maintainable earnings method is appropriate where the Company's earnings are relatively stable and comparable companies have similar cost structures and growth profiles.

The **most recent share trading history** provides strong evidence of the fair market value of the shares in a company where they are publicly traded in an informed and liquid market.

Industry specific methods estimate market value using industry benchmarks. These methods generally provide less persuasive evidence on market value of a company, as they may not account for company specific factors. Industry specific methods are only used as a cross check to the primary valuation methodology.

7.4 Discounted Cash Flow Method

The discounted cash flow method estimates market value by discounting a company's future cash flows to their present value. This method is appropriate where a projection of future cash flows can be made with a reasonable degree of confidence for a period of at least 5 years. The discounted cash flow method is commonly used to value early stage companies or projects with a finite life.

7.5 Selection of Methodologies

In selecting our valuation methodology, we considered:

- the historical, loss making financial performance of the continuing core business;
- the developmental stage of the new online business;
- the absence of sufficient forecast information;
- that the financial statements are prepared on a going concern basis;
- the reported balance sheet of Kip McGrath as at 30 June 2011 as provided in the FY11 Annual Report;
- the unaudited management accounts including the financial performance, cash flows and position of Kip McGrath during the period 1 July 2011 to 30 November 2011;
- the status of and impact of funding arrangements with La Jolla and Editure; and
- access to publicly available valuation benchmarks, comparable company information and comparable company transactions in Australia, the United Kingdom, New Zealand, Singapore and South Africa.

On the basis that Kip McGrath is able to continue trading as a going concern, we adopted a net asset methodology as our primary valuation methodology. We adopted a net asset methodology due to the loss making financial performance of the core business recently and that Kip McGrath is forecasting to return to profits for FY12. Additionally, we analysed the price of new Kip McGrath shares issued since 1 July 2010 as well as Kip McGrath's recent share trading history.

As a cross check, we calculated the implied forecast FY12 and FY13 EBITDA multiples implied by our primary valuation, utilising Kip McGrath's internal cash flow models.

As a result of the absence of sufficient forecast information and the recent losses incurred by the Company, we were unable to perform a capitalisation of future maintainable earnings valuation or a discounted cash flow valuation as our primary valuation methodology.

Additionally, we assessed the fundamental or intrinsic value of the Editure Convertible Note as compared to the face value of the convertible note and determined whether there is a resultant benefit or cost to Kip McGrath.

8 Valuation of Kip McGrath

8.1 Valuation Summary

We assessed the value of Kip McGrath shares pre-implementation of the Proposed Transaction and on a controlling basis to be between 9.44 cents per share and 11.89 cents per share on a fully diluted basis.

In our Independent Expert's Report dated 29 August 2011, we valued Kip McGrath shares to be between 11.90 cents per share and 15.99 cents per share.

The reduction in value from our first to second valuation of the shares in Kip McGrath is due to:

- the movement in Kip McGrath's pro-forma net asset position and;
- dilution of the share price assuming that convertible notes issued to Editure and the McGraths during November 2011 are converted into Kip McGrath shares.

8.2 Net Assets

8.2.1 Reported Value of Net Assets

On a going concern basis, the net assets of Kip McGrath as at 30 June 2011, per the FY11 Annual Report, are summarised below.

Kip McGrath	
Reported Net Assets as at 30 June 2011 (\$000s)	
Reported net tangible assets	(3,353)
Reported intangible assets	8,343
Reported net assets	4,990

Source: FY11 Annual Report

Analysis of Intangible Assets

As detailed in Section 5.8.1, the reported value of intangible assets at 30 June 2011, included:

- \$4.025 million of intellectual property;
- \$3.496 million net product and overseas development costs;
- \$0.733 million of franchise territories; and
- \$0.089 million of other intangible assets.

Due to the material nature of the reported value of intangible assets (\$8.343 million of a net asset value of \$4.990 million), we analysed the impairment testing working papers prepared by Kip McGrath for financial reporting purposes and performed various sensitivities. We note that none of the sensitivities performed indicated a material difference to the reported value of the intangible assets.

8.2.2 Other Factors Considered

In addition to the reported value of the net assets at 30 June 2011, we considered:

- the unaudited movement in Kip McGrath's net assets during the period 1 July 2011 to 30 November 2011;
- our assessment of the total working capital deficiency of Kip McGrath;
- subsequent funds raised from Editure since 30 November 2011 (as announced to the market on 16 November 2011), net of the liability to repay the debt component on those funds raised;
- contingent liabilities as disclosed in the FY11 Preliminary Final Report; and
- transaction costs associated with the Proposed Transaction, including financial and legal advisory costs, and printing costs;

in order to estimate the net assets of Kip McGrath as at the date of this Report.

8.2.3 Net Assets per Share

Summarised below are the net assets of Kip McGrath per share on an undiluted and a fully diluted basis as at the date of this Report.

Kip McGrath				
Net Assets per Share				
	Notes		Low	High
Net Asset Value				
Net assets as at 30 June 2011	1	(\$000)	4,990	4,990
Working capital deficiency	2	(\$000)	(109)	(109)
Editure funds received on 16 December 2011	3	(\$000)	200	200
Liability to Editure under the Editure Loan	4	(\$000)	(200)	(200)
Contingent liabilities disclosed in Preliminary Final Report	5	(\$000)	(997)	-
Transaction costs (Financial & Legal Advisors, Printing)	6	(\$000)	(40)	(40)
Pro-forma net asset value		(\$000)	3,844	4,841
Shares Outstanding				
Undiluted basis	7		26,796,706	26,796,706
Fully diluted basis	7		40,718,155	40,718,155
Value per Share				
Value per share - undiluted basis		cents	14.35	18.07
Value per share - fully diluted basis		cents	9.44	11.89

Source: FY11 Annual Report and Management

We have not considered the impact of conversion of the remaining La Jolla convertible notes into Kip McGrath shares on the basis that Management intend to repay La Jolla on receipt of any further conversion notices, where the conversion price is lower than the conversion price under the Editure convertible notes.

Notes:

1. **Net assets as at 30 June 2011:** as disclosed in Kip McGrath's Preliminary Final Report and detailed in Section 5.8;
2. **Working capital deficiency:** Our assessment of Kip McGrath's working capital deficiency includes our assessment of the pro-forma movement in Kip McGrath's net assets during the period 1 July 2011 to the date of this Report, based on our review of Kip McGrath's unaudited management accounts for the period. Additionally, we analysed Management's 12 month cash flow forecast in order to assess the working capital deficiency of Kip McGrath, which includes an additional cash buffer to account for the seasonality in cash flows of the business due to the timing of school terms in the different geographies in which Kip McGrath operates. The total intended funding from Editure approximately covers Management's forecasted cash shortage;
3. **Editure funds received on 16 December 2011 and recognition of liability to Editure under the \$200,000 unsecured loan:** in accordance with the ASX announcement on 16 December 2011;
4. **Contingent liabilities:** as disclosed in Kip McGrath's FY11 Annual Report and detailed in Section 5.8. Management confirmed that as at the date of our Report, there had been no material change in the contingent liabilities disclosed as at 30 June 2011;
5. **Transaction costs:** represent the financial and legal advisory costs, and relevant sundry costs (e.g. printing) as a result of the Proposed Transaction; and
6. **Shares outstanding on an un-diluted and fully diluted basis:** refer Section 5.10.1.

8.3 Recent Share Issues

8.3.1 Overview

As detailed in Section 5.11.2, recent share issues reduced significantly from 20 cents per share in December 2010 to 2 cents per share in June 2011 and appear to have been impacted by:

- La Jolla conversions which were at a 20% discount to the recent share price at the time of each conversion, and were in the range of 2 cents per share to 10.31 cent per share; and
- subsequent selling of those shares by La Jolla on the market.

The most recent issue of shares was to Editure on 3 August 2011 at 6 cents per share.

8.3.2 Conclusion on Price of Recent Share Issues

In our opinion, it is not appropriate to adopt the price of any shares issued since 1 July 2010 as a valuation base since:

- the issue of shares under the rights issue in December 2010 was 12 months ago and the share price of Kip McGrath has since dropped significantly;
- the issues of shares to La Jolla were at a discount to the quoted price on the ASX, and Kip McGrath's share price appears to have been impacted by La Jolla having sold relatively large volumes of shares, in a relatively illiquid stock, during the period in which it was converting drawn down amounts into Kip McGrath shares; and
- the most recent issue of new shares was to Editure and is intrinsically linked to the Proposed Transaction.

8.4 Recent Share Trading History

8.4.1 Methodology

This methodology relies on the market price of a company's shares reflecting all available information to willing but not anxious buyers and sellers acting at arm's length. The market value of listed shares on the ASX is influenced by many factors, including but not limited to:

- the value of the underlying assets of the company, including intangibles;
- the industry in which the company operates;
- managerial skills within the company;
- liquidity of the particular stock, as indicated by share trading volumes;
- future expectations for the company;
- the prevailing market and economic conditions; and
- supply and demand for the shares.

A change in these perceptions can significantly affect share value over a relatively short period.

8.4.2 Review of Kip McGrath's Recent Share Trading History

As detailed in Section 5.11, Kip McGrath's shares:

- traded on only four days during the period 1 November 2011 to 16 December 2011;
- price fell from 19 cents per share in December 2010 to 4.0 cents per share as at 16 December 2011; and
- traded at a low of 1.6 cents during this period.

8.4.3 Conclusion on Price of Recent Share Trades

On the basis that Kip McGrath shares traded on only four days during the period 1 November 2011 to 16 December 2011, the quoted share price may not reflect the underlying value of Kip McGrath shares.

8.5 Conclusion on Value

Based on Kip McGrath's net assets on a going concern basis, we assessed the value of Kip McGrath shares pre-implementation of the Proposed Transaction and on a controlling basis to be between 9.44 cents per share and 11.89 cents per share on a fully diluted basis.

In our opinion, on the basis that Kip McGrath shares traded on only four days during the period 1 November 2011 to 16 December 2011, it was not appropriate to rely on Kip McGrath's share trading history in our assessment of the value of Kip McGrath's shares.

8.6 Cross Check

Whilst we were not able to rely on forecasts for the purpose of our primary valuation, we reviewed the FY12 and FY13 enterprise value to EBITDA multiples implied by our primary valuation and Kip McGrath's internal cash flow models with reference to comparable company trading multiples and multiples paid to acquire comparable businesses. Whilst we have not disclosed the specifics of these calculations as the information is commercially sensitive, in our opinion, the implied multiples support our primary valuation conclusions.

9 Valuation of Convertible Note

9.1 Valuation Summary

We calculated the fundamental or intrinsic value of the convertible note to be lower than the face value of the convertible note being paid to Kip McGrath under the Proposed Transaction. This represents a benefit to the non-associated shareholders of Kip McGrath as the cash received by Kip McGrath is in excess of the fundamental or intrinsic value of the convertible note.

9.2 Approach

The Editure Convertible Note possesses characteristics of debt and equity. In valuing a convertible note on this basis, it is important to assess the value of the debt instrument, based on the financial strength of the company issuing the debt instrument, and add the value of the option to convert into shares.

If the Proposed Transaction is approved by Kip McGrath's non-associated shareholders, Kip McGrath would issue one convertible note to Editure comprising a face value of \$400,000 and a conversion price of 9 cents per share.

The face value of the convertible note is being paid to Kip McGrath in cash instalments (draw downs) under the Proposed Transaction.

We calculated the fundamental or intrinsic value of the Editure Convertible Note as being the sum of:

- the present value of future benefits to Editure under the convertible note, being either cash received on repayment of the convertible or Kip McGrath shares received on conversion; and
- the present value of Editure's option to convert into Kip McGrath shares.

In determining the present value of the benefits to Editure under the convertible note, we assumed that:

- all interest is capitalised, in accordance with the terms of the Editure Convertible Note; and
- the full face value and all capitalised interest is repaid/converted on the repayment date. In our opinion, there is no reasonable basis to assume that Editure would convert the convertible note into shares prior to the repayment date and it is unlikely that Kip McGrath would repay the convertible notes prior to the repayment date based on its financial position.

9.3 Variables Adopted

9.3.1 Debt Component (Cash Flows under the Convertible Note)

We performed a discounted cash flow calculation with respect to the benefits to Editure associated with the debt component of the Editure Convertible Note. We adopted the following variables:

- draw downs of \$250,000 on 15 March 2012, \$50,000 on 15 April 2012, \$50,000 on 15 May 2012 and \$50,000 on 15 June 2012, as defined in the Editure Loan Agreement;
- interest capitalised at 10% per annum and paid monthly in arrears on the first day of each month, as defined in the Editure Loan Agreement;
- a repayment date under the convertible note being 1 August 2013;
- benefits to Editure under the convertible note being repayment/conversion of the face value and accumulated interest on 1 August 2013;

- income tax payable quarterly on accrued interest income by Editure at the Australian corporate tax rate of 30%;
- a cost of equity discount rate we assessed for Kip McGrath of 22.7%, based on:
 - the average risk free rate for the 2011 calendar year, being the average daily 10 year Australian Government Bond Rate during the period 1 January 2011 to 16 December 2011 of 4.91%;
 - a beta of 1.63 times, being the 5 year beta for Kip McGrath as at 30 June 2011, obtained from CapitalIQ;
 - a market risk premium of 6%, being the widely accepted market risk premium for Australia¹⁰; and
 - a small stock premium for Kip McGrath of 4%¹¹; and
 - a specific risk premium of 4% to account for uncertainty around the ability of Kip McGrath to continue trading as a going concern.

We adopted our assessed cost of equity for Kip McGrath as the relevant discount rate as the convertible note is convertible into Kip McGrath ordinary shares.

9.3.2 Option Component

We applied a binomial American call option valuation model to value the option that Editure has to convert the convertible note into Kip McGrath shares, adopting the following variables:

- a range of underlying share prices, being:
 - **2.8 cents per share:** the lowest price at which Kip McGrath shares traded during December 2011;
 - **4.0 cents per share:** the highest price at which Kip McGrath shares traded during December 2011;
 - **7.9 cents per share:** our assessed low end value of Kip McGrath shares (refer Section 8) less a 20% minority discount¹² to reflect the fact that Editure would hold a minority shareholding in Kip McGrath post conversion; and
 - **9.9 cents per share:** our assessed high end value of Kip McGrath shares (refer Section 8) less a 20% minority discount to reflect the fact that Editure would hold a minority shareholding in Kip McGrath post conversion;
- exercise price being the conversion price under the convertible note of 9 cents per share;
- expected life of the option to convert being from 15 March 2012 to 1 August 2013;
- a range of expected volatilities based on our review of Kip McGrath's historical share price volatility and the four year historical volatility of the ASX Small Ordinaries Index. The historical volatility of Kip McGrath's share price was not meaningful due to the illiquid nature of trading in Kip McGrath shares. The four year historical volatility of the ASX Small Ordinaries Index was 25.7%, which we adopted as a base. We also performed sensitivities at expected volatilities of 30%, 40%, 50% and 60%;

¹⁰ Kaplan Education / FINSIA, 'Advanced Valuation', Masters of Applied Finance

¹¹ "Discounts & Premiums", ICAA National Business Valuations Conference, March 2008

¹² *ibid*

- risk free rate of 4.91% as set out above; and
- a dividend yield in the range of 0% to 10%.

9.4 Valuation of the Editure Convertible Note

9.4.1 Valuation Summary

Based on the assumptions above, we calculated the fundamental or intrinsic value of the Editure Convertible Note, as well as the implied benefit to Kip McGrath, as detailed below.

Kip McGrath				
Intrinsic Value of Editure Convertible Notes & Benefit to Kip McGrath (\$) - 25.7% Volatility				
Underlying share price	2.8 cents	4.0 cents	7.6 cents	9.5 cents
No dividend yield				
Net present value of convertible note cash flows	315,043	315,043	315,043	315,043
Value of option to convert	2	142	22,213	64,775
Fundamental or intrinsic value of convertible note	315,045	315,186	337,256	379,818
Face value of convertible note	400,000	400,000	400,000	400,000
Implied benefit to Kip McGrath	84,955	84,814	62,744	20,182
10% dividend yield				
Net present value of convertible note cash flows	315,043	315,043	315,043	315,043
Value of option to convert	-	31	10,750	40,522
Fundamental or intrinsic value of convertible note	315,043	315,074	325,794	355,565
Face value of convertible note	400,000	400,000	400,000	400,000
Implied benefit to Kip McGrath	84,957	84,926	74,206	44,435

The value of the option component is limited since the call options were significantly “out of the money” as at the date of this Report.¹³

The traded share price during December 2011 was 56% to 69% below the conversion price under the Editure Convertible Note, being the exercise price under the option to convert.

¹³ Out of the money – for a call option is when the exercise price of an option is greater than the current trading value of the underlying asset, hence the option is not generally exercised.

9.4.2 Sensitivity Analysis

We performed a range of sensitivity calculations using the above methodology and adopting various underlying share prices and expected volatilities.

The results of our sensitivity analysis did not alter our conclusions as set out below, or our opinion with respect to the Proposed Transaction as set out in Section 10.

9.5 Conclusion

We calculated the fundamental or intrinsic value of the convertible note to be lower than the face value of the convertible note being paid to Kip McGrath under the Proposed Transaction. This represents a benefit to the non-associated shareholders of Kip McGrath as the cash received by Kip McGrath is in excess of the fundamental or intrinsic value of the convertible note.

10 Evaluation of the Proposed Transaction

10.1 Approach

In evaluating whether the Proposed Transaction is fair for the non-associated shareholders of Kip McGrath, we have compared the value of Kip McGrath shares with the value of the consideration per share being paid by Editure if they were to convert their convertible note into shares, being the conversion price under the convertible note.

In assessing if the Proposed Transaction is reasonable we have compared the potential advantages and disadvantages of the Proposed Transaction to the non-associated shareholders of Kip McGrath, and we have assessed whether the advantages outweigh the disadvantages.

Under Regulatory Guide 111 an offer is deemed to be "reasonable" if it is fair, however, an offer might also be reasonable if, despite being "not fair", the expert believes that there are sufficient reasons for non-associated shareholders to accept the offer in the absence of a superior alternative.

10.2 The Proposed Transaction is Not Fair but is Reasonable

In our opinion, the Proposed Transaction is not fair, but is reasonable for the non-associated shareholders of Kip McGrath.

In our opinion, there are significant advantages to the Proposed Transaction which outweigh the disadvantages of the Proposed Transaction, notwithstanding the Proposed Transaction is not fair.

In our Independent Expert's Report dated 29 August 2011, we also found the Editure Transaction and the McGrath Transaction (as defined in that report), which were on similar terms, to be not fair but reasonable.

Our fairness and reasonableness assessment for the Proposed Transaction is set out below.

10.3 The Proposed Transaction is Not Fair for the non-associated shareholders

On the basis that the conversion price of 9 cents under the Editure Convertible Note is less than our assessed value range for Kip McGrath shares of between 9.44 cents per share and 11.89 cents per share on a fully diluted basis, there would be a dilution in value to the non-associated shareholders from the conversion of part or all of drawn down amounts under the Editure Convertible Note into Kip McGrath shares. Accordingly, in our opinion, the Proposed Transaction is not fair for the non-associated shareholders of Kip McGrath.

The face value of the Editure Convertible Note is being paid to Kip McGrath in cash instalments (draw downs) under the Proposed Transaction. Based on our analysis (utilising the low and high values at which Kip McGrath shares traded during December 2011), the face value of the Editure Convertible Note being received by Kip McGrath under the Proposed Transaction is substantially greater than the fundamental or intrinsic value of the convertible note as set out in Section 9. This represents a significant benefit to the non-associated shareholders of Kip McGrath which we have addressed as an advantage to the Proposed Transaction.

10.4 The Proposed Transaction is Reasonable for the non-associated shareholders

In our opinion, notwithstanding that the Proposed Transaction is not fair, the advantages materially outweigh the disadvantages of the Proposed Transaction and accordingly, the Proposed Transaction is reasonable for the non-associated shareholders. In particular, we draw reference to advantages (a) through (e) of the Proposed Transaction below.

10.4.1 Advantages to Kip McGrath Non-associated Shareholders from the Proposed Transaction

The primary advantages to the shareholders of Kip McGrath in proceeding with the Proposed Transaction is as follows.

a) *If the Proposed Transaction is not approved, the Editure Loan of \$200,000 will become due and payable within 5 business days of the EGM and Kip McGrath would not receive the additional \$200,000 under the Editure Convertible Note*

Should the non-associated shareholders vote against the resolution to convert the Editure Loan to a convertible note under the Proposed Transaction, the Editure Loan will become due and payable within 5 days business days of the date of the EGM and Kip McGrath would not receive the additional \$200,000 under the Editure Convertible Note.

Due to the cash requirements of the business and since the Management and Directors of Kip McGrath advise that there are no known viable present or future alternative sources of funding, in our opinion, it is unlikely that Kip McGrath would be able to raise sufficient funds to repay this loan, and this would put significant financial pressure on the Company.

b) *Reduced access to future funding if the Proposed Transaction is not approved*

Since the Proposed Transaction includes the ability for Kip McGrath to draw down a further \$200,000 at the rate of \$50,000 per month, if the Proposed Transaction is not approved, Kip McGrath's future access to immediate working capital funding will be restricted from this source and as per Item (a) above, there are no known present or future viable alternatives.

From our review of Management's short term cash flow forecast, we understand a restriction of capital will impact Kip McGrath's targeted timing to complete development and release its online suite of products in 2012.

c) *Uncertainty around Kip McGrath's ability to continue trading as a going concern if the Proposed Transaction is not approved*

As noted in Section 5.4, Kip McGrath's financial statements, and our valuation, is based on Kip McGrath being able to continue trading as a going concern.

The basis of this assessment for accounting purposes was that NAB had not taken any action to call the outstanding loan funds following Kip McGrath's breach of its interest covenant and due to additional debt and equity capital raised from Editure on 3 August 2011. Kip McGrath has since sought further funding through the Editure Loan and Editure Convertible Note under the Proposed Transaction.

If the Proposed Transaction is not approved, the Editure Loan of \$200,000 becomes due and repayable within 5 business days of the EGM. Accordingly, there will be significant uncertainty as to the ability of Kip McGrath to continue trading as a going concern.

Additionally, if the Proposed Transaction is not approved, Kip McGrath will not be able to access an additional \$200,000 in funding under the Editure Convertible Note. As detailed above, this will impact Kip McGrath's timing around development and launch of its online initiatives and may further impact its ability to continue trading as a going concern.

d) *No viable present alternatives to the Proposed Transaction*

The Directors of Kip McGrath have advised that there are no known viable present or future alternatives to the Proposed Transaction at the time of our Report.

As at the date of this Report, we are not aware of any alternative committed sources of funding available to Kip McGrath.

e) *Potential inability to raise additional funding should the Proposed Transaction not proceed*

Due to the current state of capital markets, Kip McGrath's poor historical financial performance and that the Directors are not aware of any alternative present financing arrangements, Kip McGrath may find it difficult to raise additional alternative funding in the required timeframe in order to continue trading as a going concern.

f) *The face value of the Editure Convertible Note being received by Kip McGrath under the Proposed Transaction is greater than the fundamental or intrinsic value of the convertible note*

As detailed in Section 8.7, the face value of the Editure Convertible Note being received by Kip McGrath under the Proposed Transaction is greater than the fundamental or intrinsic value of the convertible note. This represents a benefit to the non-associated shareholders of Kip McGrath.

g) *Editure may choose not to convert the Editure Convertible Note into Kip McGrath shares*

Due to the relatively illiquid level of recent trading and low share price of Kip McGrath shares, Editure may choose not to exercise their right to convert into Kip McGrath shares. If this were to happen, Editure would not dilute the shareholdings of the non-associated shareholders.

h) *The conversion price under the Proposed Transaction represents a significant premium to Kip McGrath's current share price*

The 9 cent per share conversion price under the Proposed Transaction represents a significant premium of 125% respectively over the current share price of 4 cents per shares and is also at a significant premium to the 2.00, 3.86 and 4.64 cent per share conversions made by La Jolla during May and June 2011.

i) *More favourable pricing and less dilutive than the previous funding arrangement with La Jolla*

As detailed in Section 5.11.2, in May and June 2011, La Jolla converted components of its convertible note into Kip McGrath shares at 2.00, 3.86 and 4.64 cent per share. The 9 cent per share conversion price under the Editure Transaction is at a significant premium to recent La Jolla conversions and would be significantly less dilutive to the non-associated shareholders if Editure exercised its right to convert.

j) *Continued participation of a strategic investor*

As set out in Section 6, Editure's parent company, Editure Limited, is an education and training company whose operations include the design of technology frameworks and software. Accordingly, approval of the Proposed Transaction maintains the participation of a strategic shareholder to Kip McGrath with a complementary skill set.

k) *Freeing up Management & the Directors to focus on the business*

As the additional funding from the Proposed Transaction would appear to satisfy Kip McGrath's short term cash requirements, approval of the Proposed Transaction would free up Management to focus on initiatives in place to improve the performance of the business.

l) Participation in future potential upside and growth associated with Kip McGrath

Approving the Proposed Transaction provides greater certainty for shareholders. Over the past two years, Kip McGrath has been positioning itself to improve its business model and adapt to current industry conditions and trends. The Board of Directors expect Kip McGrath will return to profit during FY12 and expect improved financial performance and growth in margins from the restructure of the existing core franchise business as well as the venture into online.

m) The non-associated Directors of Kip McGrath intend to vote in favour of the Proposed Transaction

The non-associated Directors of Kip McGrath have advised that they consider the Proposed Transaction is in the best interest of Kip McGrath shareholders and will be voting in favour of the Proposed Transaction.

10.4.2 Disadvantages to Kip McGrath non-associated shareholders from the Proposed Transaction

The primary disadvantages to the non-associated shareholders of Kip McGrath in proceeding with the Proposed Transaction is as follows.

a) The offer is not fair

As set out above, in our opinion, the Proposed Transaction is not fair.

b) Expectation that a superior funding opportunity will emerge

The non-associated shareholders of Kip McGrath may consider that a superior alternative opportunity to the Proposed Transaction will emerge. The Directors of Kip McGrath believe it is highly unlikely this will occur, and have advised that to-date, no such opportunity or offer has been presented to the Board.

c) Dilution of existing owners if Editure elect to convert into Kip McGrath shares

The percentage interest of existing Kip McGrath shareholders will be diluted from the conversion of the convertible notes into Kip McGrath shares under the Proposed Transaction, if Editure elect to convert into Kip McGrath shares. On a fully diluted basis, Editure would increase its shareholding by 8.9%.

d) Potential requirement for additional future capital

Whilst the Proposed Transaction appears to satisfy Kip McGrath's short term cash requirements, additional future capital may be required.

Some shareholders may perceive this as a high risk given that Kip McGrath is raising further capital from Editure when prior funding was recently obtained from Editure during the period August to November 2011. Reasons as to the requirement for additional capital are set out in the Report. We note the Directors believe the Proposed Transaction will satisfy Kip McGrath's short term cash shortage.

We note that any additional future capital raised may be dilutionary to existing shareholders at that time.

11 Qualifications, Declarations and Consents

11.1 Qualifications

Crowe Horwath provides corporate finance services in relation to mergers and acquisitions, capital raisings, corporate restructuring and financial matters generally. One of its activities is the preparation of company and business valuations and the provision of independent advice and expert reports concerning mergers and acquisitions, takeovers and capital reconstructions.

The executives responsible for preparing this Report on behalf of Crowe Horwath are Mr Andrew Fressl, B.Com, CA, F.Fin and Mr Brad Higgs B.Bus, CA, F.Fin. Both Andrew and Brad have significant experience in relevant corporate advisory matters. Both are Representatives in accordance with the Australian Financial Services Licence No. 239170 held by Crowe Horwath under the Corporations Act 2001 (Cth).

11.2 Disclaimers

It is not intended that this report be used or relied upon for any purpose other than as an expression of Crowe Horwath's opinion as to whether the Proposed Transaction is fair and reasonable to the non-associated shareholders of Kip McGrath. Crowe Horwath expressly disclaims any liability to any person who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose.

This report has been prepared by Crowe Horwath with care and diligence and statements and opinions given by Crowe Horwath in this report are given in good faith and in the belief on reasonable grounds that such statements and opinions are correct and not misleading. However, no responsibility is accepted by Crowe Horwath or any of its officers or employees for errors or omissions however arising in the preparation of this report, provided that this shall not absolve Crowe Horwath from liability arising from an opinion expressed recklessly or in bad faith.

11.3 Declarations

In preparing this Report, Kip McGrath has requested Crowe Horwath to limit the disclosure of some information relating to the operations and financial performance of Kip McGrath due to the commercially sensitive nature of the financial and operational information which Crowe Horwath has had access to in the course of this assignment. The disclosure in this Report has been limited to information that is publicly available and information that Management are satisfied is not commercially sensitive.

Crowe Horwath does not have at the date of this Report nor has had any shareholding in or other relationship with Kip McGrath or Editure that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Proposed Transaction. Crowe Horwath prepared an Independent Expert's Report dated 29 August 2011 with respect to prior funding provided by Editure. Crowe Horwath had no part in the formulation of the Proposed Transaction. Its only role has been the preparation of this Report. Crowe Horwath considers itself independent in terms of Regulatory Guide 112 issued by ASIC on 30 October 2007.

Crowe Horwath will receive a fee of \$20,000 (plus GST) based on time costs for the preparation of this Report. This fee is not contingent on the outcome of the Proposed Transaction. Crowe Horwath will receive no other benefit for the preparation of this Report. We received a prior fee of \$25,000 (plus GST) for the preparation of our Independent Expert's Report dated 29 August 2011.

Kip McGrath has agreed that to the extent permitted by law that it will indemnify Crowe Horwath employees and officers in respect of any liability suffered or incurred as a result of or arising out of the preparation of this report. This indemnity will not apply in respect of any conduct involving negligence or wilful misconduct. Kip McGrath has also agreed to indemnify Crowe Horwath and its employees and officers for time spent and reasonable legal costs and expenses incurred in relation to any inquiry or proceeding initiated by any person except where Crowe Horwath or its employees and officers are found liable for or guilty of conduct involving negligence or wilful misconduct in which case Crowe Horwath shall bear such costs.

Advance drafts of this report (and parts of it) were provided to Kip McGrath and its advisers. Certain changes were made to this report as a result of the circulation of the draft report. There was no alteration to the methodology, valuation of the business operations of Kip McGrath, conclusions or recommendations made to Kip McGrath shareholders as a result of issuing the drafts.

11.4 Consents

Crowe Horwath consents to the issuing of this report in the form and context in which it is to be included in the Proposed Transaction documentation to be sent to Kip McGrath shareholders. Neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of Crowe Horwath as to the form and context in which it appears.

Appendix 1 – Financial Services Guide

Date of Issue: 1 July 2011

The Corporations Act 2001 requires Crowe Horwath to provide this Financial Services Guide (“**FSG**”) in connection with its preparation and provision of an Independent Expert’s Report which is included in the documentation provided to members by the company or other entities (“**Entity**”).

The matters covered by the FSG include:

- who we are and how we can be contacted;
- what services and types of products we are authorised to provide to you;
- how we are remunerated;
- independence; and
- complaints handling.

Crowe Horwath & Contacts

Crowe Horwath carries on business at Level 15, 309 Kent Street, Sydney NSW 2000. Crowe Horwath holds an Australian Financial Services Licence (No. 239170). Crowe Horwath is a public company and is a wholly owned subsidiary of WHK Group Limited. WHK Group Limited is a listed Australian company (ASX code WHG) and provides services primarily in accounting, tax, audit, business and corporate advisory and wealth management.

Services

We are authorised to:

- provide financial product advice for securities and derivatives; and
- deal in a financial product by applying for, acquiring, varying or disposing of a financial product on behalf of another person in respect of securities and derivatives to wholesale and retail clients.

Crowe Horwath does not provide any personal retail financial product advice to retail investors nor does it provide market-related advice to retail investors.

For the specific purposes of preparing and providing the Independent Expert’s Report Crowe Horwath has not and does not accept instructions from retail clients, and has not and will not receive any remuneration from retail clients.

The preparation and provision of this Independent Expert’s Reports is known as “general” advice because it does not take into account your personal objectives, financial situation or needs. You should consider whether the general advice contained in our Report is appropriate for you, having regard to your own personal objectives, financial situation or needs.

Remuneration

When providing Reports, Crowe Horwath’s client is the Entity to which it provides the report. Crowe Horwath receives its remuneration from the Entity. In respect of the report for Kip McGrath, Crowe Horwath will receive a fixed fee plus reimbursement of out-of-pocket expenses for the preparation of the report.

No related body corporate of Crowe Horwath, or any of the officers or employees of Crowe Horwath or of any of those related bodies or any associate receives any remuneration or other benefit attributable to the preparation and provision of the report.

Independence

Crowe Horwath is required to be independent of the Entity in order to provide a report. The guidelines for independence in the preparation of reports are set out in Regulatory Guide 112 issued by the Australian Securities and Investments Commission on 30 October 2007.

The following information in relation to the independence of Crowe Horwath is stated in Appendix 1 of the report:

“Crowe Horwath does not have at the date of this report nor has had any shareholding in or other relationship with Kip McGrath or Editure that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Proposed Transaction. Crowe Horwath had no part in the formulation of the Proposed Transaction. Its only role has been the preparation of this report. Crowe Horwath considers itself independent in terms of Regulatory Guide 112 issued by ASIC on 30 October 2007.

Crowe Horwath will receive a fee of \$20,000 (plus GST) based on time costs for the preparation of this Report. This fee is not contingent on the outcome of the Proposed Transaction. Crowe Horwath will receive no other benefit for the preparation of this report. We received a prior fee of \$25,000 (plus GST) for the preparation of our Independent Expert's Report dated 29 August 2011.

Complaints Handling

Crowe Horwath has internal complaints-handling mechanisms which are designed to facilitate responses to your complaints fairly and quickly. Please address your complaint in writing to:

Head of Compliance
Crowe Horwath Corporate Finance Limited
Level 15, 309 Kent Street
SYDNEY NSW 2000

Crowe Horwath is only responsible for the report and this FSG. Complaints or questions about the Notice to Shareholders should not be directed to Crowe Horwath which is not responsible for that document. Crowe Horwath will not respond in any way that might involve any provision of financial product advice to any retail investor.

Crowe Horwath is a member of the Financial Ombudsman Service (member number 11689) which provides free advice and assistance to consumers to help them resolve complaints relating to members of the financial services industry. Complaints may be submitted by phone on 1300 780 808 or in writing to:

Financial Ombudsman Service
GPO Box 3
MELBOURNE VIC 3001

We confirm that in compliance with Section 912B of the Corporations Act 2001(Cth) and ASIC RG 126, we maintain professional indemnity insurance to cover the financial products and services we provide, including any claims in relation to the conduct of our former representatives / employees.

Appendix 2 – Sources of Information

Sources of information utilised and relied upon in the preparation of this report include:

- Annual Report for Kip McGrath for FY10 & FY11;
- Audited Financial Statements for MIBA for FY10;
- Historical Management Accounts for Kip McGrath and MIBA for FY09, FY10, FY11 and the five months to 30 November 2011;
- Management Cash Flow models;
- Board Reports for Kip McGrath;
- Sample Franchise Agreements;
- Notice of Extraordinary General Meeting and Explanatory Memorandum for the shareholder meeting on 14 March 2012;
- Loan Agreement and Deed of Undertaking related to the Proposed Transaction, dated 16 December 2011;
- ASX announcements;
- IBISWorld industry research;
- Ambient Insight industry research;
- Global Industry Analysts industry research;
- Capital IQ financial research;
- Kip McGrath's website, www.kipmcgrath.com.au;
- Editure's website, www.editure.com.au; and
- Discussions with Management of Kip McGrath.

Appendix 3 – Comparable Company Trading Multiples

Summarised below are the EBITDA and EBIT multiples of companies that provide education services as at 16 December 2011.

Comparable Company Trading Multiples Education Services										
Company Name	Mkt Cap (\$A m)	EV (\$A m)	EBITDA Multiple (times)				EBIT Multiple (times)			
			FY10	FY11	FY12	FY13	FY10	FY11	FY12	FY13
Australia										
Navitas Limited	1,339.9	1,441.2	12.0x	10.2x	8.9x	7.6x	13.2x	11.3x	9.8x	8.3x
G8 Education Limited	105.7	120.3	13.1x	5.4x	4.4x	3.9x	14.7x	5.9x	4.9x	4.6x
Academies Australasia Group Limited	28.3	28.5	7.3x	n/m	n/m	n/m	8.3x	n/m	n/m	n/m
Kip McGrath Education Centres Ltd.	1.1	4.4	n/m	n/m	n/m	n/m	n/m	n/m	n/m	n/m
United Kingdom										
Promethean World Plc	185.5	169.5	3.7x	4.4x	4.0x	3.6x	4.1x	6.3x	5.8x	5.3x
Education Development International plc	168.9	155.2	9.4x	9.6x	9.1x	n/m	10.3x	n/m	n/m	n/m
Stagecoach Theatre Arts plc	6.6	4.6	4.5x	n/m	n/m	n/m	4.7x	n/m	n/m	n/m
Singapore										
Raffles Education Corp.	272.6	412.6	20.9x	9.6x	10.0x	10.1x	47.4x	13.8x	14.9x	14.9x
South Africa										
ADvTECH Ltd.	317.6	295.9	7.4x	7.8x	6.8x	5.9x	9.8x	10.2x	8.6x	7.3x
United States										
The Washington Post Company	2,733.9	2,572.9	3.1x	4.6x	5.2x	6.1x	4.6x	8.4x	8.7x	n/m
Average			9.0x	7.4x	6.9x	6.2x	13.0x	9.3x	8.8x	8.1x
Average (excl. high and low)			8.2x	7.4x	6.9x	5.9x	9.4x	9.1x	8.3x	7.0x
Median			7.4x	7.8x	6.8x	6.0x	9.8x	9.3x	8.7x	7.3x
Most Relevant										
G8 Education Limited	105.7	120.3	n/m	5.4x	4.4x	3.9x	n/m	5.9x	4.9x	4.6x
Education Development International plc	168.9	155.2	9.4x	9.6x	9.1x	n/m	10.3x	n/m	n/m	n/m
ADvTECH Ltd.	317.6	295.9	7.4x	7.8x	6.8x	5.9x	9.8x	10.2x	8.6x	7.3x
Average			8.4x	7.6x	6.8x	4.9x	10.1x	8.1x	6.8x	6.0x

Source: Capital IQ

In addition to the companies detailed above, we identified other providers of education services for which no earnings or multiple information was available.

Appendix 4 – Comparable Transaction Multiples

Summarised below are transactions we identified involving the acquisition of businesses that provide education services in Australia, including multiples paid.

Education Services											
Comparable Transaction Multiples (AUDm)											
Completion		Acquirer	% Sought	Implied EV (\$A m)	EBIT Multiple		EBITDA Multiple		Revenue Multiple		
Date	Target				Hist.	Fcst.	Hist.	Fcst.	Hist.	Fcst.	
Australian Transactions											
16-Jun-11 ¹	Navitas Limited, SAE Dubai Business	twofour54 FZ	100%	6.6	n/d	n/d	n/d	n/d	n/d	n/d	n/d
10-Jun-11	Benchmark Resources	Academies Australasia Group (ASX:AKG)	51%	8.5	n/d	n/d	n/d	2.0x	n/d	n/d	n/d
31-Jan-11	Headstart (8 Childcare Centres in NSW)	G8 Education (GEM)	100%	12.8	n/d	4.0x	n/d	n/d	n/d	n/d	n/d
28-Oct-10	Cherie Hearts Group International	G8 Education (GEM)	100%	19.2	4.5x	n/d	n/d	n/d	n/d	n/d	n/d
01-Dec-10	30 Childcare Centres in NSW & QLD	G8 Education (GEM)	100%	23.0	n/d	5.1x	n/d	n/d	n/d	n/d	n/d
14-Dec-10	SAE Institute	Navitas (NVT)	100%	289.0	10.3x	n/d	n/d	n/d	n/d	2.9x	n/d
01-Jul-10	Study Group	Providence Equity Partners	100%	660.0	n/d	n/d	n/d	n/d	n/d	n/d	n/d
23-Apr-09	Think: Education Group	SEEK Limited (SEK)	50%	99.5	n/d	n/d	n/d	8.5x	n/d	n/d	n/d
23-May-06	Tribeca Learning	Kaplan Australia	100%	62.6	15.3x	n/d	10.4x	n/d	n/d	2.1x	n/d
22-Aug-06	Australian College of Applied Psychology	Navitas (NVT)	100%	13.1	n/d	n/d	n/d	6.5x	n/d	1.6x	n/d
21-Oct-05	ACL	Navitas (NVT)	100%	55.7	n/d	n/d	8.7x	n/d	n/d	n/d	n/d
04-Jul-05	Navitas Workforce Solutions	Navitas (NVT)	100%	2.6	n/d	n/d	5.0x	n/d	n/d	n/d	n/d
31-Mar-03	Kaplan Financial	Kaplan	100%	55.4	8.4x	n/d	n/d	n/d	n/d	1.6x	n/d
Average						9.6x	4.6x	8.0x	5.7x	2.1x	n/m
International Transactions											
07-Mar-11	Education Development International ²	Pearson (LSE:PSON)	100%	166.0	10.7x	10.1x	10.0x	8.8x	3.4x	3.2x	
18-Nov-10	Sector Training	Education Development International	100%	1.5	n/d	n/d	n/d	n/d	1.3x	n/d	
26-Jul-10	SynapticMash	Promethean World	100%	14.8	n/m	n/d	n/m	n/d	n/m	n/d	
01-Jul-09	Malvern House Group	Aec Education	100%	10.0	7.6x	n/d	n/d	n/d	0.8x	n/d	
22-May-08	China Education	Raffles Education Corp.	36%	97.4	23.0x	n/d	17.8x	n/d	7.4x	n/d	
03-Jun-08	Hartford Education Corporation	Raffles Education Corp.	49%	77.6	n/m	n/d	n/m	n/d	8.7x	n/d	
23-May-06	Tribeca Learning Limited	Kaplan Australia	100%	62.6	15.3x	14.8x	10.4x	11.8x	2.1x	2.0x	
Average						14.2x	12.5x	12.7x	10.3x	3.9x	2.6x

Source: Capital IQ, 1. Announcement Date (pending), 2. Announcement Date (pending)

Appendix 5 – Comparable Company Descriptions

Australia

Navitas Limited

Navitas Limited provides educational services for students and professionals in Australia, the United Kingdom, Canada, Asia, and Africa. The company was formerly known as IBT Education Limited and changed its name to Navitas Limited in November 2007. Navitas Limited was founded in 1994 and is headquartered in Mount Pleasant, Australia.

G8 Education Limited

G8 Education Limited engages in the management of childcare centres in Australia providing education and care to children aged 6 weeks to 12 years. It owns and manages 120 centres and is based in Bundall, Australia.

Academies Australasia Group Limited

Academies Australasia Group Limited provides training and education services under the Academies Australasia brand name in Australia and Singapore. It operates seven colleges offering a range of courses at various levels, including certificates, diplomas, and advanced diplomas. Academies Australasia Group Limited is based in Sydney, Australia.

Xiaoxiao Education Limited

Xiaoxiao Education Limited operates as a preschool education institution in China. The company operates nine kindergartens and the Hangzhou Binjiang art training school. Its pre-schools focus on the development of children between 3 to 6 years of age. The company was incorporated in 1996 and is based in Zhejiang, China.

RedHill Education Limited

RedHill Education Limited owns and operates colleges and education agencies in Australia and internationally. The company is based in Sydney, Australia.

Success Resources Global Limited

Success Resources Global Limited engages in the operation of event management business in Australia and New Zealand. It engages in the provision of personal development seminars, as well as related products and services covering individual personal, financial, career, health, and relationship goals. Success Resources Global Limited is based in North Perth, Australia.

United Kingdom

Promethean World Plc

Promethean World Plc engages in creating, developing, supplying and supporting interactive learning technologies. It serves approximately 12 million individuals in 500,000 classrooms in 100 countries. The company was founded in 1996 and is based in Blackburn, United Kingdom.

Education Development International Plc

Education Development International Plc provides educational qualifications and assessment services in the United Kingdom and internationally. The company is headquartered in Coventry, United Kingdom.

Aec Education Plc

AEC Education Plc engages in the provision of educational consultancy services in Asia, Europe, and South America. It offers a range of educational courses and training programs as tutored courses and by way of distance learning under various arrangements with universities. The company was incorporated in 2004 and is headquartered in Singapore.

Stagecoach Theatre Arts Plc

Stagecoach Theatre Arts Plc engages in the operation of a franchise network of part-time performing arts and sports schools for young people aged between 4 and 19 in the United Kingdom and internationally. Stagecoach Theatre Arts plc was founded in 1988 and is headquartered in Walton-on-Thames, United Kingdom.

Singapore

Raffles Education Corp.

Raffles Education Corporation Limited, an investment holding company, operates as an education group in the Asia Pacific region. It operates 38 colleges in 35 cities across 14 countries. The company was founded in 1990 and is based in Singapore.

Informatics Education Limited

Informatics Education Ltd, an investment holding company, operates as a franchisor and licensor for computer and commercial training centres, and examination facilitators in Singapore. It operates a network of 335 education and training institutes comprising 68 franchised and 267 licensed centres in Asia, the Middle East, Africa, and Europe. The company was founded in 1983 and is based in Singapore.

South Africa

ADvTECH Limited

ADvTECH Limited provides education, training, and staff placement services in South Africa. It operates in two divisions, Education and Resourcing. The company is based in Sandton, South Africa.

Curro Holdings Limited

Curro Holdings develops and operates private schools in South Africa. It offers Afrikaans and English mediums. The company was founded in 1998 and is based in Durbanville, South Africa.

United States

The Washington Post Company

The Washington Post Company operates as a diversified education and media company in the United States and internationally. The Washington Post Company was founded in 1877 and is based in Washington, the District of Columbia.



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Cast your proxy vote



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SRN/HIN: 1999999999



PLEASE NOTE: For security reasons it is important that you keep your SRN/HIN confidential.

For your vote to be effective it must be received by 10.00 am AEDT Wednesday 7 March 2012

How to Vote on Items of Business

All your securities will be voted in accordance with your directions.

Appointment of Proxy

Voting 100% of your holding: Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote as they choose. If you mark more than one box on an item your vote will be invalid on that item.

Voting a portion of your holding: Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

Appointing a second proxy: You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.

A proxy need not be a securityholder of the Company.

Signing Instructions for Postal Forms

Individual: Where the holding is in one name, the securityholder must sign.

Joint Holding: Where the holding is in more than one name, all of the securityholders should sign.

Power of Attorney: If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held. Delete titles as applicable.

Attending the Meeting

Bring this form to assist registration. If a representative of a corporate securityholder or proxy is to attend the meeting you will need to provide the appropriate "Certificate of Appointment of Corporate Representative" prior to admission. A form of the certificate may be obtained from Computershare or online at www.investorcentre.com under the information tab, "Downloadable Forms".

Comments & Questions: If you have any comments or questions for the company, please write them on a separate sheet of paper and return with this form.

**GO ONLINE TO VOTE,
or turn over to complete the form** →

MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

Change of address. If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with 'X') should advise your broker of any changes.



I 9999999999

I ND

Proxy Form

Please mark to indicate your directions

STEP 1 Appoint a Proxy to Vote on Your Behalf

XX

I/We being a member/s of Kip McGrath Education Centres Limited hereby appoint

the Chairman of the meeting OR

PLEASE NOTE: Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, as the proxy sees fit) at the Extraordinary General Meeting of Kip McGrath Education Centres Limited to be held at Kip McGrath Education Centres Head Office, Level 3, 6 Newcomen Street, Newcastle NSW 2300 on Friday, 9 March 2012 at 10.00 am AEDT and at any adjournment of that meeting.

STEP 2 Items of Business

PLEASE NOTE: If you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

	For	Against	Abstain
1 Approval of conversion of unsecured loan from Editure Capital Pty Limited to a convertible note and the issue of the convertible note at an issue price of \$400,000	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2 Approval of the Kip McGrath Employee Share Option Plan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3 Approval to issue 500,000 share options under the Kip McGrath Employee Share Option Plan to the Chief Executive Officer	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business.

SIGN Signature of Securityholder(s) *This section must be completed.*

Individual or Securityholder 1

Sole Director and Sole Company Secretary

Securityholder 2

Director

Securityholder 3

Director/Company Secretary

Contact Name _____

Contact Daytime Telephone _____

Date / /

KME

1 4 2 3 2 4 A

Computershare +