



Court File No. S-170738

IN THE SUPREME COURT OF BRITISH COLUMBIA
IN BANKRUPTCY AND INSOLVENCY

BETWEEN:

CIBT Finance (2017) Corp.

Applicant

and

KGIC Inc. and

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

Respondents

APPLICATION UNDER SECTION 47(1) OF THE *BANKRUPTCY AND INSOLVENCY ACT*, R.S.C. 1985, C. B-3, AS AMENDED AND SECTION 39 OF THE *LAW AND EQUITY ACT*, R.S.B.C. 1996 C.253, AS AMENDED.

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

16 February 2017

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BACKGROUND

1. On 25 January 2017, by order of this Honourable Court (the “Initial Order”), BDO Canada Limited (“BDO” or the “Receiver”) was appointed Interim Receiver of KGIC Inc. and its subsidiaries (collectively the “KGIC Group”).
2. On 3 February 2017 the Receiver submitted a report on, among other matters, its conduct from 25 January to 1 February (the “First Report”).
3. On 14 February 2017, by order of this Honourable Court (the “Supplementary Order”), in order to reduce the significant negative cash outflow, the Initial Order was amended to expand the powers of the Receiver to terminate employees and premises leases.
4. KGIC Inc. through its subsidiaries, operates a number of private career and language colleges through several brands in British Columbia and Ontario. The principal brands are “King George International College” which provides language training in Victoria, Vancouver, Surrey and Toronto and “MTI Community College” which provides career training in Vancouver, Surrey, Burnaby and Chilliwack. The Receiver has determined that the KGIC Group currently has some 1,600 students and 342 employees in 18 campuses.
5. On 25 January 2017, CIBT Finance (2017) Corp. (“CF2017”) took an assignment of the Bank of Montreal’s (“BMO”) debt of approximately \$13 million and issued notices to enforce its security under section 244 of the *Bankruptcy and Insolvency Act*. For reasons outlined in the motion material for the Initial Order, CF2017 applied to the Honourable Court for an order appointing an Interim Receiver in order to protect and preserve the assets.
6. On 25 January 2017, the Receiver entered into an Interim Management agreement with Sprott-Shaw Degree College Corp. (“Sprott-Shaw” or the “Interim Manager”) to provide day-to-day management of the KGIC Group. Sprott-Shaw has expertise in operating private career and language colleges, and is an affiliate of CF2017.

PURPOSE OF THIS REPORT

7. The purpose of this Second Report of the Receiver (the “**Second Report**”) is
 - a. to report on
 - i. The application to appoint BDO Canada Limited as Receiver and Manager, pursuant to section 243 of the *Bankruptcy and Insolvency Act* (“**BIA**”);
 - ii. the activities of the Receiver over the period of 2 February 2017 to 14 February 2017, as described in this Second Report; and
 - iii. the Receiver’s go-forward plan of action.
 - b. to seek an order appointing BDO Canada Limited as Receiver and Manager of those member of the KGIC Group set out in EXHIBIT “A” (the “**Revised KGIC Group**”).

APPOINTMENT OF RECEIVER

8. The Receiver is advised that, on 25 January 2017, CF2017 issued notices to enforce its security under section 244 of the *BIA*. KGIC Inc. has not, to the Receiver’s knowledge, responded to these notices.
9. Pursuant to section 47 of the *BIA*, the appointment of an Interim Receiver is continued until “the earliest of: (a) the taking of possession by a receiver, within the meaning of subsection 243(2), of the debtor’s property over which an interim receiver was appointed (b) the taking of possession by a trustee of the debtor’s property over which an interim receiver was appointed and (c) the expiry of thirty days after the day on which the interim receiver was appointed or of any period specified by the court.”
10. Given that the Interim Receivership order was granted on 25 January 2017, the thirty day period expires on 24 February 2017. However, if the Order is granted as sought by CF2017 to have BDO Canada Limited appointed under s. 243(2) of the *BIA* over the Revised KGIC Group, that will have the effect of terminating the interim appointment, in accordance with s. 47(1)(a) of the *BIA* in respect of those particular companies.

11. As reported in the First Report, the Receiver is of the opinion that the KGIC Group is not viable, in its current state, and that it probably would have collapsed in early February when it was unable to meet payroll for all employees and to pay rent for its premises for the second consecutive month. The operations of the KGIC Group continue only because of ongoing borrowing by the Receiver under the Initial Order, as described below.
12. The Receiver anticipates requiring the powers of a Receiver in order to further manage costs, to execute the transactions proposed below and to deal with any remaining matters following the transactions.
13. The Receiver believes that the appointment of a Receiver over the Revised KGIC Group pursuant to S. 243 the *BIA* is appropriate given that the:
 - a. Nature of the property requires a Receiver for the preservation of the assets. In the absence of a Receiver the assets of the KGIC Group would be subject to claims by various creditors and distraint by landlords;
 - b. Balance of convenience favours the appointment of a Receiver. The debtor has suffered considerable losses over an extended period of time. As a result, the shareholders of KGIC Inc. no longer have any equity in the company. In fact, there is a substantial shareholder deficit. Any recovery is not expected to fully repay the secured indebtedness owing to CF2017, let alone enough to return any funds to the shareholders;
 - c. Necessity to carry out duties more efficiently. A Receiver will have the power to make decisions to reduce costs and streamline operations and, with the approval of this Honourable Court, determine and implement an long-term solution;
 - d. Likelihood of maximizing value. Any form of going-concern solution that is likely to maximize the return to the creditors, can be expected to require a transaction by a Receiver; and
 - e. Facilitation of the duties of the Receiver due to a court appointment. Due to the complexity of the operations of the KGIC Group, including 18 campuses in

two provinces, a court appointment as Receiver will facilitate the performance of these duties.

14. With respect to the members of the KGIC Group that are not part of the Revised KGIC Group, after the expiry of the Initial Order, it is expected that CF2017 will make a decision as to whether or not those companies should be petitioned into bankruptcy.
15. The Receiver, once appointed under section 243 of the BIA, plans to continue the operations of the Revised KGIC Group (subject to it continuing to streamline operations as discussed below) and to continue the engagement of the Interim Manager.

CONDUCT OF THE RECEIVER

16. The Receiver and the Interim Manager have continued to stabilize the operations of the KGIC Group. The Interim Manager advises the Receiver that all programmes continue to be provided at all of the KGIC Group campuses.
17. Significant time has been spent dealing with enquiries from creditors, landlords and former employees. There appear to be a number of former employees who were not paid termination and severance by the KGIC Group. As well, there are former HomeStay providers who were not paid for services provided in 2016. Some of these former HomeStay providers, who are owed for past services, have disrupted operations at certain campuses and at the KGIC Group head office.
18. The Receiver has established trust accounts. These bank accounts are used to receive payments from students and make certain payments including payroll, rent and post-appointment supplier payments.
19. At the time of writing, in order to meet ongoing obligations of the KGIC Group, the Receiver has issued three Receiver's Certificates for a total of \$750,000, **Exhibit "B"**.
20. As of 13 February 2017, the Receiver has received \$1,342,000, of which \$750,000 is borrowings by the Receiver and the balance is tuition and other revenue. To date, the Receiver has paid \$420,000 representing the payroll due on 10 February for the period from the date of appointment. A further \$550,000 has been advanced to the Interim Manager in trust for BDO Canada Limited to fund disbursements including premises rents

for the period from appointment to the middle of February. A Statement of Receipts and Disbursements is attached as Exhibit "C".

21. The Receiver and the Interim Manager have implemented procedures to approve and make payments to suppliers for post-appointment amounts. Given the circumstances and their history of dealing with the KGIC Group, many suppliers are demanding prompt payment or even pre-payment. Because there are 18 campuses, each submitting items for payment, it has taken longer than anticipated to get all of the campus directors to follow the new procedures, in part due to the urgent payment demands being made on them.
22. The move of the head office staff and systems to a new location has been completed. The Receiver has also taken possession of some 200 boxes of records at the former head office location.
23. The payroll to all employees due on 10 February has been calculated, funded and paid. The next payroll will be due on 24 February.
24. Landlords have been paid for the occupancy period in January and for the first half of February. Due to limited cash flow, the Receiver was unable to pay the entire February rent at once. Rents for the second half of February are anticipated to be paid by Friday 17 February.
25. The Receiver and the Interim Receiver have also dealt with a number of employee matters. Given the previous circumstances of the KGIC Group and the uncertainty created by the Receivership, employees have had many questions and several of the employees have resigned.
26. The Receiver and the Interim Manager have remained in regular communication with the Regulators.
27. The Ontario Ministry of Advanced Education and Social Development, a regulator, requires a bond of \$147,000 on deposit at all times in respect of KGICBC. Discussions with this regulator indicates that KGIC Group had a shortfall in the required cash collateral which if not paid could result in de-registration. The Receiver has rectified the deficiency by advancing \$31,000 to ensure that the bond conditions are maintained.

28. The Receiver has obtained a legal opinion as to the validity of CF2017's security from Alexander Holburn Beaudin + Lang LLP, attached as **EXHIBIT "D"**. Their opinion is that the security granted by KGIC Inc. and its subsidiary companies is good and valid and that, subject to various items having priority, it ranks ahead of other secured and unsecured creditors.
29. Immediately following the granting of the Supplementary Order, the Interim Manager and the Receiver started refining a proposed restructuring plan. The Receiver also commenced cost savings measures by terminating certain senior management.
30. The Receiver has been in discussion with CF2017, as discussed below, to understand the terms of a proposed credit bid transaction for the Revised KGIC Group which, the Receiver is advised, CF2017 is expected to bring forward to the Receiver.

RECEIVER'S GO FORWARD PLAN

31. The Receiver continues to believe that the value of the KGIC Group is best preserved by continuing operations; in particular, by continuing the education of students in the programmes for which they have enrolled, until a transaction can be completed. However, the Receiver notes that the Interim Manager's cash flow projection forecasts a negative cash outflow from operations of approximately \$40,000/day. Even after fully implementing the cost savings envisioned in the proposed restructuring plan, the negative cash outflow is still projected to be \$25,000/day.
32. The Receiver believes that a sale to a qualified purchaser, which can stabilize and invest in the operations of the KGIC Group, is in the best interests of the students and the other stakeholders of the KGIC Group.
33. The Receiver has reviewed the financial and regulatory state of the KGIC Group, the results of KGIC's own sales effort conducted in 2016 and the likely list of target purchasers. Further particulars of this sales effort will be reported upon by the Receiver in conjunction with any application dealing with the sale or disposition of the assets. Given the dire financial state of the KGIC Group and the limited time that CF2017 may be willing to advance funds to the Receiver to allow for the funding of the Receivership and the businesses' cash shortfall, the Receiver is of the view a prompt sale is essential.

34. The usual fate of private schools in financial distress is collapse resulting in programmes being suddenly terminated and students “thrown on the street” with resultant negative headlines. The Regulators have advised the Receiver they are very concerned about the situation. All of them have signaled to the Receiver that while they welcome a going-concern solution for the KGIC Group, they expect a final resolution of this matter in days, not weeks or months.
35. The Regulators have powers under their various regulatory regimes that would enable them to shut down all of the KGIC Group schools and give the students the opportunity to complete their studies at other schools. Were this to happen, the Receiver is of the view that those campuses of the KGIC Group that were shut down would have little or no going-concern value.
36. In February 2016, acting for a committee of the Board of KGIC Inc., G.S. MacLeod and Associates Inc. (“MacLeod”) was engaged to run a sales process. The Receiver has spoken with MacLeod and has reviewed his reports to KGIC Inc. on progress and results. The Receiver notes that this process did not result in a transaction nor did KGIC Inc.’s subsequent efforts to refinance the business.
37. The Receiver is advised that CF2017 or one of its affiliates is preparing to submit an offer for all or substantially all of the assets of the Revised KGIC Group as a credit bid of all or some of the \$13 million of secured debt held by CF2017. Should this offer be forthcoming, the Receiver will analyze it and make its recommendations to this Honourable Court.
38. The Receiver anticipates reporting to this Honourable Court as soon as practical after the granting of the Receivership Order.

RECOMMENDATIONS

- 1) The Receiver recommends that this Honourable Court, grant:
 - i) an order appointing BDO Canada Limited as Receiver and Manager of the Revised KGIC Group.

This Report is respectfully submitted to this Honourable Court as of this 15^h day of February, 2017.

BDO CANADA LIMITED,

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

Per:

A handwritten signature in black ink, appearing to read 'Jervis Rodrigues', is written over a horizontal line.

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

EXHIBIT "A"

SCHEDULE "A"

REVISED KGIC GROUP

1. KGIC Inc.
2. 674143 B.C. Ltd.
3. Cornerstone Academic College of ESL
4. Teacher Training and Test Preparation Inc.
5. KGIC Business College (2010) Corp.
6. KGIC Language College (2010) Corp.
7. MTI Community College Ltd.
8. PGIC Career College Inc.
9. PGIC Toronto Inc.
10. PGIC Vancouver Studies Inc.
11. Study English in Canada Inc.
12. Study English in Canada (Vancouver) Inc.
13. Upper Career College of Business & Technology (Vancouver) Inc.
14. Upper Career College of Business & Technology Inc.
15. Urban International School Inc.
16. Victoria International Academy of Teacher Training Ltd.

EXHIBIT "B"

RECEIVER CERTIFICATE

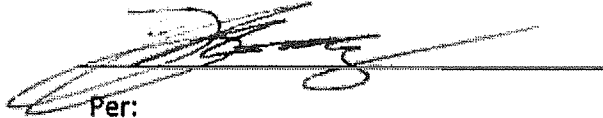
CERTIFICATE NO.	<u>1</u>
AMOUNT	<u>\$250,000.00</u>

1. THIS IS TO CERTIFY that BDO Canada Limited, the Interim Receiver (the "Receiver") of all of the assets, undertakings and properties of KGIC Inc. acquired for, or used in relation to a business carried on by the Debtor, including all proceeds thereof (collectively, the "Property") appointed by Order of the Supreme Court of British Columbia (In Bankruptcy and Insolvency) (the "Court") dated the 25th day of January, 2017 (the "Order") made in SCBC Action S-170738 has received as such Receiver from the holder of this certificate (the "Lender") the principal sum of \$250,000, being part of the total principal sum of \$3,000,000 which the Receiver is authorized to borrow under and pursuant to the Order.
2. The principal sum evidenced by this certificate is payable on demand by the Lender with interest thereon calculated and compounded monthly not in advance at a notional rate per annum equal to the rate of 8.00 per cent.
3. Such principal sum with interest thereon is, by the terms of the Order, together with the principal sums and interest thereon of all other certificates issued by the Receiver pursuant to the Order or to any further order of the Court, a charge upon the whole of the Property, in priority to the security interests of any other person, but subject to the priority of the charges set out in the Order and in the *Bankruptcy and Insolvency Act*, and the right of the Receiver to indemnify itself out of the Property in respect of its remuneration and expenses.
4. All sums payable in respect of principal and interest under this certificate are payable at the main office of the Lender at CIBT Education Group Inc., 12F, 777 West Broadway, Vancouver, BC, V5Z-4J7, Canada
5. Until all liability in respect of this certificate has been terminated, no certificates creating charges ranking or purporting to rank in priority to this certificate shall be issued by the Receiver to any person other than the holder of this certificate without the prior written consent of the holder of this certificate.
6. The charge securing this certificate shall operate to permit the Receiver to deal with the Property as authorized by the Order and as authorized by any further or other order of the Court.

7. The Receiver does not undertake, and it is not under any personal liability, to pay any sum under this Certificate in respect of which it may issue certificates under the terms of the Order.

DATED the 26th day of January, 2017

BDO Canada Limited, solely in its capacity as
Receiver of the Property, and not in its
personal capacity

A handwritten signature in black ink, appearing to read 'J. Rodrigues', is written over a horizontal line.

Per:

Name: Jervis Rodrigues

Title: Senior Vice-President

RECEIVER CERTIFICATE

CERTIFICATE NO.	2
AMOUNT	<u>\$250,000.00</u>

1. THIS IS TO CERTIFY that BDO Canada Limited, the Interim Receiver (the "Receiver") of all of the assets, undertakings and properties of KGIC Inc. acquired for, or used in relation to a business carried on by the Debtor, including all proceeds thereof (collectively, the "Property") appointed by Order of the Supreme Court of British Columbia (In Bankruptcy and Insolvency) (the "Court") dated the 25th day of January, 2017 (the "Order") made in SCBC Action S-170738 has received as such Receiver from the holder of this certificate (the "Lender") the principal sum of \$250,000, being part of the total principal sum of \$3,000,000 which the Receiver is authorized to borrow under and pursuant to the Order.
2. The principal sum evidenced by this certificate is payable on demand by the Lender with interest thereon calculated and compounded monthly not in advance at a notional rate per annum equal to the rate of 8.00 per cent.
3. Such principal sum with interest thereon is, by the terms of the Order, together with the principal sums and interest thereon of all other certificates issued by the Receiver pursuant to the Order or to any further order of the Court, a charge upon the whole of the Property, in priority to the security interests of any other person, but subject to the priority of the charges set out in the Order and in the *Bankruptcy and Insolvency Act*, and the right of the Receiver to indemnify itself out of the Property in respect of its remuneration and expenses.
4. All sums payable in respect of principal and interest under this certificate are payable at the main office of the Lender at CIBT Education Group Inc., 12F, 777 West Broadway, Vancouver, BC, V5Z-4J7, Canada
5. Until all liability in respect of this certificate has been terminated, no certificates creating charges ranking or purporting to rank in priority to this certificate shall be issued by the Receiver to any person other than the holder of this certificate without the prior written consent of the holder of this certificate.
6. The charge securing this certificate shall operate to permit the Receiver to deal with the Property as authorized by the Order and as authorized by any further or other order of the Court.

7. The Receiver does not undertake, and it is not under any personal liability, to pay any sum under this Certificate in respect of which it may issue certificates under the terms of the Order.

DATED the 2nd day of February, 2017

BDO Canada Limited, solely in its capacity as
Receiver of the Property, and not in its
personal capacity

A handwritten signature in black ink, appearing to read "J. Rodrigues", is written over a solid horizontal line.

Per:

Name: Jervis Rodrigues

Title: Senior Vice-President

RECEIVER CERTIFICATE

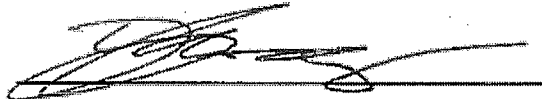
CERTIFICATE NO.	3
AMOUNT	<u>\$250,000.00</u>

1. THIS IS TO CERTIFY that BDO Canada Limited, the Interim Receiver (the "Receiver") of all of the assets, undertakings and properties of KGIC Inc. acquired for, or used in relation to a business carried on by the Debtor, including all proceeds thereof (collectively, the "Property") appointed by Order of the Supreme Court of British Columbia (In Bankruptcy and Insolvency) (the "Court") dated the 25th day of January, 2017 (the "Order") made in SCBC Action S-170738 has received as such Receiver from the holder of this certificate (the "Lender") the principal sum of \$250,000, being part of the total principal sum of \$3,000,000 which the Receiver is authorized to borrow under and pursuant to the Order.
2. The principal sum evidenced by this certificate is payable on demand by the Lender with interest thereon calculated and compounded monthly not in advance at a notional rate per annum equal to the rate of 8.00 per cent.
3. Such principal sum with interest thereon is, by the terms of the Order, together with the principal sums and interest thereon of all other certificates issued by the Receiver pursuant to the Order or to any further order of the Court, a charge upon the whole of the Property, in priority to the security interests of any other person, but subject to the priority of the charges set out in the Order and in the *Bankruptcy and Insolvency Act*, and the right of the Receiver to indemnify itself out of the Property in respect of its remuneration and expenses.
4. All sums payable in respect of principal and interest under this certificate are payable at the main office of the Lender at CIBT Education Group Inc., 12F, 777 West Broadway, Vancouver, BC, V5Z-4J7, Canada
5. Until all liability in respect of this certificate has been terminated, no certificates creating charges ranking or purporting to rank in priority to this certificate shall be issued by the Receiver to any person other than the holder of this certificate without the prior written consent of the holder of this certificate.
6. The charge securing this certificate shall operate to permit the Receiver to deal with the Property as authorized by the Order and as authorized by any further or other order of the Court.

7. The Receiver does not undertake, and it is not under any personal liability, to pay any sum under this Certificate in respect of which it may issue certificates under the terms of the Order.

DATED the 2nd day of February, 2017

BDO Canada Limited, solely in its capacity as
Receiver of the Property, and not in its
personal capacity

A handwritten signature in black ink, appearing to read 'J. Rodrigues', is written over a horizontal line.

Per:

Name: Jervis Rodrigues

Title: Senior Vice-President

EXHIBIT "C"

IN THE MATTER OF THE INTERIM RECEIVERSHIP OF
KGIC INC. AND ITS SUBSIDIARIES

RECEIVER'S STATEMENT OF RECEIPTS AND DISBURSEMENTS
for the period January 25, 2017 to February 13, 2017

RECEIPTS:

Advance from Secured Lender	\$	750,000.00
Collections (Accounts Receivable and Sales)		539,158.15
Retainer Held in Trust		50,000.00
Cash in Bank		1,198.80
Advance for Petty Cash		1,000.00
Rental Income		840.00
Interest		1.66
Total Receipts	\$	<u>1,342,198.61</u>

DISBURSEMENTS:

Transfer to Interim Manager Trust Account	\$	550,000.00	[1]
Payroll		420,150.15	
Top-up of CIBC Letter of Credit		31,000.00	
Bank Charges		109.51	
Total Disbursements	\$	<u>1,001,259.66</u>	

RECEIPTS OVER DISBURSEMENTS

	\$	<u>340,938.95</u>
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Notes:

- 1 On 25 January 2017, by order of the Supreme Court of British Columbia in Bankruptcy and Insolvency, BDO Canada Limited was appointed Interim Receiver of KGIC Inc. and its subsidiaries.
- 2 The Interim Receiver contracted Sprott-Shaw Degree College Corp. as Interim Manager to provide day-to-day management of the KGIC Group.
- 3 Cash Available in Interim manager Trust Account as of February 13, 2017:

Transfer to Other Trust Account	\$	550,000.00
Expenses:		
Rent		(338,355.22)
Operating Expenses		(32,584.71)
Cash Available	\$	<u>179,060.07</u>

EXHIBIT "D"

BARRISTERS + SOLICITORS

February 10, 2017

VIA E-MAIL

Reply to: R. Hoops Harrison*
Direct Line: 604.484.1783
Direct Fax: 604.484.9783
E-mail: hharrison@ahbl.ca
Matter No.: 1133078

BDO Canada Ltd.
600 Cathedral Place
925 West Georgia Street
Vancouver, BC V6C 3L2

Attention: Christopher Porter

Dear Sirs/Mesdames:

Re: CIBT Finance (2017) Corp. and KGIC Inc. et al, BCSC, Vancouver Registry, No. S-170738 (the "Proceedings")

BDO Canada Ltd. ("BDO" or "You") was appointed interim receiver in the Proceedings, pursuant to the Interim Order of the Honourable Justice Adair, pronounced on January 25, 2017 (the "Receivership Order").

You have requested our opinion concerning the validity and enforceability of certain security granted by the "Debtor" (as defined in the Receivership Order), in favour of the Petitioner, CIBT Finance (2017) Corp. (the "Lender"), including as assignee of security pursuant to the Assignment Agreement dated January 25, 2017 (the "Assignment Agreement") between Bank of Montreal (the "Bank") and the Lender. The security considered includes:

- (a) Credit Agreement dated November 18, 2014;
- (b) Guarantee Agreement dated November 18, 2014;
- (c) General Security Agreement dated November 18, 2014;
- (d) Forbearance Agreement dated June 26, 2015;
- (e) First Amendment Agreement to Forbearance Agreement dated August 11, 2015;
- (f) Demand Promissory Note dated January 28, 2016;
- (g) Demand Promissory Note dated February 2, 2016;
- (h) Amended and Restated Credit Agreement dated February 4, 2016;
- (i) Amended and Restated Forbearance Agreement dated February 4, 2016;

- (j) Assignment of Insurance dated November 18, 2014; and
- (k) Letter amending the Amended Forbearance Agreement by Assignor to Borrower dated September 23, 2015

(collectively, the "Security Documents").

I. SCOPE OF REVIEW

These are British Columbia Proceedings with the majority of the Debtor entities having their chief place of business in the Province of British Columbia and the remaining in the Province of Ontario. Conflict of laws situations are, in part, settled by sections 5 through 8 of the *Personal Property Security Act*, R.S.B.C. 1996, c. 359 ("PPSA"). That being said, the common law may also apply in some situations including such considerations as the proper law of contract and *lex situs vs. fori*.

For present purposes, our opinion is provided assuming the Security Documents are governed by the laws of the Province of British Columbia, and the laws of Canada applicable therein and no opinions are expressed with respect to the laws of any other jurisdiction. We would recommend you seek local counsel in other jurisdictions, such as Ontario, as needed.

II. DOCUMENTATION AND SEARCHES

We have reviewed the Security Documents;

We have reviewed the following documents provided by you:

- (a) KGIC Inc. Management Discussion & Analysis For the Three and Nine Months Ended September 30, 2016;
- (b) KGIC Inc. Announces Third Quarter 2016 Financial Results;
- (c) KGIC Inc. Condensed Consolidated Interim Financial Statements for the Nine Months Ended September 30, 2016 and 2016 (Unaudited);
- (d) Petition to the Court No. S-170738 (Vancouver Registry) filed January 25, 2017 and the supporting materials for the same, specifically;
 - i. Affidavit #1 of Toby Chu, sworn January 25, 2017;
 - ii. Affidavit #2 of Toby Chu, sworn January 25, 2017;
 - iii. Affidavit #1 of Katharina R. Spatzl, sworn January 23, 2017;
 - iv. Affidavit #1 of Patrick Dang, sworn January 22, 2017;
 - v. Affidavit #1 of Clayton Greenwood, sworn January 24, 2017; and
 - vi. Affidavit #1 of Melissa Macdonald, sworn January 23, 2017;
- (e) Preliminary Report of BDO Canada Limited in its Proposed Capacity as Court Appointed Interim Receiver, dated January 24, 2017; and

- (f) Interim Order of the Honourable Justice Adair, pronounced January 25, 2017.

We have also reviewed the following personal property registrations in favour of the Bank in the British Columbia and Ontario registries, searches of which were conducted on February 1, 2017:

- (a) KGIC Inc.
- BC: N/A
 - ON: 20141022 1649 1590 2346 - Registered: October 22, 2014
20150914 1410 1532 0342 - Registered: September 14, 2015
- (b) 674143 B.C. Ltd.
- BC: 247356I - Registered: October 22, 2014
 - ON: N/A
- (c) Cornerstone Language School Ltd.
- BC: 247344I - Registered: October 22, 2014
 - ON: N/A
- (d) Cornerstone Academic College of ESL, Teacher Training and the Test Preparation Inc.
- BC: N/A
 - ON: 20141022 1650 1590 2348 - Registered: October 2, 2014
- (e) KGIC Business College (2010) Corp.¹
- BC: 247366I - Registered: October 22, 2014
 - ON: 20141022 1651 1590 2351- Registered: October 22, 2014²
- (f) KGIC Business College (BC) Corp.
- BC: 256257I - Registered: October 28, 2014
 - ON: N/A
- (g) KGIC Language College (2010) Corp.³

¹ We note that CIBT Education Group Inc. and CIBT School of Business & Technology have security registered on January 9, 2015 under 382478I in British Columbia; and CIBT Education Group Inc. has security registered on January 13, 2015 under 20150113 1552 1793 171 in Ontario, but these securities are beyond the scope of this opinion.

² This Ontario registration was not particularized in the Petition materials we were provided.

- BC: 247363I - Registered: October 22, 2014
 - ON: 20141022 1651 1590 2350 - Registered: October 22, 2014
- (h) KGIC Language College (BC) Corp.
- BC: 256256I - Registered: October 28, 2014
 - ON: N/A
- (i) MTI Community College Ltd.
- BC: 247360I - Registered: October 28, 2014
 - ON: 20150313 1323 1862 3410 - Registered: March 13, 2015⁴
- (j) Pan Pacific Career College Inc.
- BC: 247328I - Registered: October 28, 2014
 - ON: N/A
- (k) Pan Pacific College Inc.
- BC: 247355I - Registered: October 28, 2014
 - ON: N/A
- (l) Pan Pacific College (Toronto) Ltd.
- BC: N/A
 - ON: 20141022 1653 1590 2355 - Registered: October 22, 2014
- (m) PGIC Career College Inc.
- BC: 247341I - Registered: October 28, 2014
 - ON: N/A
- (n) PGIC Toronto Inc.
- BC: 20141022 1650 1590 2347 - Registered: October 22, 2014
 - ON: N/A
- (o) PGIC Vancouver Studies Inc.
- BC: 247332I - Registered: October 22, 2014

³ We note that CIBT Education Group Inc. has security registered on January 13, 2015 under 20150113 1551 1793 1710 in Ontario, but this security is beyond the scope of this opinion.

⁴ This Ontario registration was not particularized in the Petition materials we were provided.

- ON: 20150313 1323 1862 3408 - March 13, 2015⁵
- (p) PGIC Victoria Studies Inc.
 - BC: 247349I - Registered: October 22, 2014
 - ON: N/A
- (q) Study English in Canada Inc.
 - BC: N/A
 - ON: 20141022 1652 1590 2352 - Registered: October 22, 2014
- (r) Study English in Canada (Vancouver) Inc.
 - BC: 247370I - Registered: October 22, 2014
 - ON: N/A
- (s) Victoria International Academy of Teacher Training Ltd.
 - BC: 247352I - Registered: October 22, 2014
 - ON: N/A
- (t) Upper Career College of Business & Technology Inc.
 - BC: N/A
 - ON: 20141022 1652 1590 2353 - Registered: October 22, 2014
- (u) Upper Career College of Business & Technology (Vancouver) Inc.
 - BC: 247372I - Registered: October 22, 2014
 - ON: N/A
- (v) Urban International School Inc.
 - BC: N/A
 - ON: 20141022 1650 1590 2349 - Registered: October 22, 2014
- (w) Western Town Business College Ltd.
 - BC: N/A
 - ON: 20141022 1653 1590 2356 - Registered: October 22, 2014
- (x) Western Town College Toronto Ltd.

⁵ This Ontario registration was not particularized in the Petition materials we were provided.

- BC: N/A
- ON: 20141022 1652 1590 2354 - Registered: October 22, 2014

In preparing this opinion, we have not reviewed any documents apart from the foregoing.

We have relied upon Schedule 4.01(j) of the November 18, 2014 Credit Agreement which states that there is no owned real property.

III. ASSUMPTIONS AND RELIANCES

For the purposes of the opinions expressed in this letter, we have assumed the identity and legal capacity of all individuals acting or purporting to act as corporate or public officials, the absence of any duress, the genuineness of all signatures, the conformity to authentic original documents of all certified, conformed, photostatic, imaged, electronic or facsimile documents.

We have relied on the accuracy, currency and completeness of the indices and filing systems maintained at the public offices where we have searched.

We have assumed the accuracy and sufficiency of the description of the collateral as specified in the Assignment Agreement.

We have assumed that the Assignment Agreement has been duly created, authorized, executed and delivered by the respective parties thereto.

We are qualified to practice law in the Province of British Columbia only and the opinions expressed in this letter are limited to the laws of the Province of British Columbia, and the laws of Canada applicable therein and no opinions are expressed with respect to the laws of any other jurisdiction. In particular, to the extent that any of the Security Documents are governed by the laws of another jurisdiction, or to the extent that the laws of the Province of British Columbia would require the application of the laws of any other jurisdiction, no opinion is expressed as to the laws of such other jurisdiction.

IV. OUR OPINION ON THE SECURITY

We have examined the Security Documents and found that, if governed by British Columbia law, they have been:

- (a) completed and executed in accordance with the Lender's requirements;
- (b) have been filed and registered where necessary; and
- (c) are valid and enforceable in accordance with their terms, subject to our comments and to the assumptions and qualifications set out in this letter.

V. SPECIFIC COMMENTS

1. Leases

There are a number of Commercial Leases particularized in Schedule 4.01(k) of the Credit Agreement. These leases may affect the priority of the Lender's security. However, as we

are not yet tasked to identify the relative competing claims to the personal property, we have not pursued these issues.

2. Third Party Liens

Third parties have registrations over specific collateral and the general property of the Debtor entities. These registrations may affect the priority of the Lender's security, though we, again, are not yet tasked to identify the relative competing claims to the personal property and have not pursued these issues.

Some liens are permitted under Schedule 4.01(l) of the Credit Agreement and include:

- (a) KGIC Language College (2010) Corp. - Ontario Registration 20111201 1404 1462 5306 in favour of Xerox Canada Ltd.;
- (b) Study English in Canada Inc. - Ontario Registration 20110623 1407 1462 4166 in favour of Xerox Canada Ltd.;
- (c) KGIC Business College (2010) Corp. - Ontario Registration 20140829 1443 1530 1827 in favour of Canadian Imperial Bank of Commerce and BC Registration 477785G in favour of Xerox Canada Ltd.;
- (d) Cornerstone Academic College of ESL, Teacher Training and Test Preparation Inc. - Ontario Registration 20120224 1943 1531 0039 in favour of Ricoh Canada Inc.;
- (e) Pan Pacific College Inc. - BC Registration 035674G in favour of Ricoh Canada Inc.;
- (f) Study English in Canada (Vancouver) Inc. - BC Registration 214309G in favour of Xerox Canada Ltd.;
- (g) Upper Career College of Business & Technology Inc. - Ontario Registration 20120503 1702 1462 5230 in favour of Xerox Canada Ltd.;
- (h) PGIC Vancouver Studies Inc. - BC Registration 013167F and 108927F in favour of IOS Financial Services and 057084G in favour of Ricoh Canada Inc.; and
- (i) Cornerstone Language School Ltd. - BC Registration 003040F and 510177G in favour of De Lage Landen Financial Services Canada Inc. and 974175F in favour of Roynat Inc. and 503036G in favour of National Leasing Group Inc.

Again, as we are not yet tasked to identify the relative competing claims to the personal property we have not pursued these issues nor have we conducted searches under the following further statutes:

- (a) *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3 (Canada);
- (b) Section 427 of the *Bank Act*, S.C. 1991, c. 46; and
- (c) *Execution Act*, R.S.O. 1999, c. E.24.

VI. GENERAL COMMENTS

No opinion is given as to steps needed to be taken by the Lender or the Receiver as to perfecting or continuing to perfect the security and registrations in place.

VII. ADDITIONAL QUALIFICATIONS

The opinions set forth in this letter are subject to the following additional qualifications and limitations:

1. The enforceability of the Security Documents is subject to:
 - (a) applicable bankruptcy, insolvency, reorganization, moratorium, arrangement and other similar laws generally affecting the enforcement of creditors' rights;
 - (b) the discretion exercisable by the Courts with respect to equitable remedies such as specific performance and injunction and with respect to the recovery of legal costs and other expenses;
 - (c) the power of the Court to grant relief from the consequences of default;
 - (d) the inherent power of the Court to decline to hear an action if it is contrary to public policy (as such phrase is understood in British Columbia) for it to do so, or if it is not the proper forum in which to hear such action, or if concurrent proceedings are brought elsewhere;
 - (e) the detailed provisions of the *Personal Property Security Act* of British Columbia and *Personal Property Security Act* of Ontario which set out procedures for the enforcement of security agreements and impose duties with respect to the exercise of rights or remedies thereunder and a general duty to exercise or discharge rights, remedies, duties and obligations in good faith and in a commercially reasonable manner. Such procedures and duties are in most cases applicable notwithstanding waivers or contrary terms in the Security Documents including the Assignment Agreement;
 - (f) any collateral for which, pursuant to applicable conflicts rules (including without limitation the conflicts rules of the *Personal Property Security Act* of British Columbia and *Personal Property Security Act* of Ontario), the validity, perfection and the effect of perfection are governed by the laws of a jurisdiction other than British Columbia and Ontario;
 - (g) any collateral being proceeds which are not identifiable or traceable;
 - (h) whether a security interest has the special status of a purchase money security interest depends upon factors which vary with each transaction;
 - (i) no opinion is given with respect to the availability or enforceability of the remedy of contractual power of sale as set forth in the documents referred to in this opinion; and

- (j) this letter and the opinions set forth herein are limited to the matters stated herein and are solely for your use and benefit and may not be disclosed to or relied upon by anyone other than you.

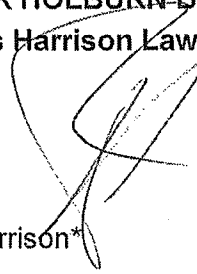
We would be pleased to discuss with you in more detail any of the matters referred to in this report.

Yours truly,

ALEXANDER HOLBURN BEAUDIN + LANG LLP

By R. Hoops Harrison Law Corporation

Per:



R. Hoops Harrison*

/lm

*member of the Law Societies of British Columbia and Alberta