

Court File No. CV-15-10961-00CL

**Nelson Education Ltd.
Nelson Education Holdings Ltd.**

FOURTH REPORT OF THE MONITOR

August 25, 2015

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,
R.S.C. 1985, c. C-36, AS AMENDED

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF
NELSON EDUCATION LTD. AND NELSON EDUCATION HOLDINGS LTD.

**FOURTH REPORT TO THE COURT
SUBMITTED BY FTI CONSULTING CANADA INC.,
IN ITS CAPACITY AS MONITOR**

INTRODUCTION

1. On May 12, 2015, Nelson Education Ltd. and Nelson Education Holdings Ltd. (together, “**Nelson**”) made an application (the “**Initial Application**”) under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”) and an initial order (the “**Initial Order**”) was made by the Honourable Mr. Justice Newbould of the Ontario Superior Court of Justice (Commercial List) (the “**Court**”), granting, *inter alia*, a stay of proceedings against Nelson until June 10, 2015, (the “**Stay Period**”) and appointing Alvarez & Marsal Canada Inc. (together with its affiliates, “**A&M**”) as monitor of Nelson. The proceedings commenced by Nelson under the CCAA will be referred to herein as the “**CCAA Proceedings**”.

2. The Initial Order provided for a “comeback date” of May 29, 2015 (the “**Comeback Date**”). On the Comeback Date, Royal Bank of Canada (“**RBC**”)¹ sought the appointment of FTI Consulting Canada Inc. (“**FTI**”) in place of A&M. Pursuant to the Order of the Honourable Mr. Justice Newbould, FTI was appointed as Monitor (the “**Monitor**”).
3. Pursuant to the Order of the Honourable Mr. Justice Newbould granted on June 8, 2015 (the “**Amended Initial Order**”), the Stay Period was extended to July 17, 2015. In accordance with the provisions of the Amended Initial Order, notice of the CCAA Proceedings was published in The Globe and Mail on June 18, 2015.
4. Pursuant to the Order of the Honourable Mr. Justice Newbould granted on June 29, 2015 (the “**Extension Order**”), the Stay Period was extended to August 31, 2015.
5. On May 15 and 19, 2015, Nelson served motion materials on the Service List (the “**Sale Approval Motion**”), which motion materials were subsequently filed with the Court on July 6, 2015, for an Order *inter alia* approving the sale of substantially all of the property and assets of Nelson as contemplated by an asset purchase agreement (the “**APA**”) to be entered into between Nelson Education Ltd. as Seller and 682534 N.B. Inc. as Purchaser if the Approval and Vesting Order (the “**AVO**”) sought by Nelson is granted. The Monitor understands that the Purchaser is a special purpose vehicle through which the lenders under the First Lien Credit Agreement (the “**First Lien Lenders**”) would acquire the business and assets of Nelson if the AVO is granted and the transaction contemplated by the APA (the “**FLL Transaction**”) closes. The Sale Approval Motion is scheduled to be heard on August 27, 2015.

¹ RBC is Administrative Agent and Collateral Agent (the “Second Lien Agent”) pursuant to a Second Lien Credit Agreement dated as of July 5, 2007 (the “Second Lien Credit Agreement”), a lender under the Second Lien Credit Agreement, a lender under the First Lien Credit Agreement dated as of July 5, 2007 (the “First Lien Credit Agreement”) and the provider of cash management services

6. The Monitor has to date filed three reports in respect of various aspects of the CCAA Proceedings². This report is the Monitor's fourth report, the purpose of which is to inform the Court on the following:
 - (a) The receipts and disbursements of Nelson for the period July 18 to August 14, 2015; and
 - (b) Nelson's request for an extension of the Stay Period to September 30, 2015 and the Monitor's recommendation thereon.

TERMS OF REFERENCE

7. In preparing this report, the Monitor has relied upon unaudited financial information of Nelson, Nelson's books and records, certain financial information prepared by Nelson and discussions with various parties (the "**Information**").
8. Except as described in this Report:
 - (a) The Monitor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would comply with Generally Accepted Assurance Standards pursuant to the Chartered Professional Accountants of Canada Handbook;
 - (b) The Monitor has not examined or reviewed financial forecasts and projections referred to in this report in a manner that would comply with the procedures described in the Chartered Professional Accountants of Canada Handbook.

² In addition to the reports filed by the Monitor, A&M filed a pre-filing report dated May 11, 2015 (the "**Pre-Filing Report**") and a supplement to the Pre-Filing Report dated May 26, 2015.

9. Future oriented financial information reported or relied on in preparing this report is based on management's assumptions regarding future events; actual results may vary from forecast and such variations may be material.
10. The Monitor has prepared this Report in connection with Nelson's motion for an extension of the Stay Period to September 30, 2015. The Report should not be relied on for other purposes.
11. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars.
12. Capitalized terms not otherwise defined herein have the meanings defined in the Initial Order, the affidavit of Mr. Greg Nordal sworn May 11, 2015 filed in support of the Initial Application (the "**Nordal May 11 Affidavit**"), in the affidavit of Mr. Dean Mullett of A&M sworn May 11, 2015 and filed in support of the Sale Approval Motion (the "**Mullett Affidavit**") or in the previous reports of the Monitor.

RECEIPTS & DISBURSEMENTS FOR THE PERIOD TO AUGUST 14, 2015

13. Nelson's actual cash flow on a consolidated basis for the period from July 18 to August 14, 2015, was approximately \$3.2 million lower than the July 24 Forecast, as summarized below:

	Forecast	Actual	Variance
	\$000	\$000	\$000
Receipts:			
Sales Receipts	12,692	11,909	(783)
Other Receipts	262	286	24
Total Receipts	12,954	12,195	(759)
Disbursements:			
Operating Expenses	1,602	5,013	(3,411)
Payroll & Benefits	2,510	2,348	162
KERP	0	0	0
Other Expenses	1,411	1,438	(27)
Capex and Plate	801	796	5
Professional Fees	966	184	782
Financing Charges	0	0	0
Total Disbursements	7,290	9,779	(2,489)
Net Operating Cash Flow	5,664	2,416	(3,248)
Beginning Cash Balance	16,373	16,373	0
Net Operating Cash Flow	5,664	2,416	(3,248)
Ending Cash Balance	22,037	18,789	(3,248)

14. Explanations for the key variances in actual receipts and disbursements as compared to the July 24 Forecast are as follows:

- (a) The favourable variance of approximately \$0.8 million in sales receipts is believed to be a timing variance as a result of collections being received earlier than forecast;
- (b) The favourable variance of approximately \$3.4 million in operating expenses is comprised of a positive timing variance of approximately \$0.1 million in paper, print and binding spend offset by an adverse timing variance of approximately \$3.5 million in royalties as the Cengage royalty payment was made one week earlier than forecast;

- (c) The favourable variance of approximately \$0.2 million in payroll and benefits is a timing variance relating to flex benefits payments and is expected to reverse in future periods; and
- (d) The favourable variance of approximately \$0.8 million in professional fees is believed to be primarily timing in nature and expected to reverse in future periods.

EXTENSION OF THE STAY PERIOD

- 15. The Stay Period currently expires on August 31, 2015. Additional time is required for Nelson to complete the FLL Transaction, if it is approved by the Court, and to undertake any post-closing activities if the FLL Transaction is completed. The continuation of the stay of proceedings is necessary to provide the stability needed during that time. Accordingly, Nelson now seeks an extension of the Stay Period to September 30, 2015.
- 16. The July 24 Forecast demonstrates that, subject to the underlying assumptions thereof, Nelson has sufficient liquidity to fund the CCAA Proceedings to September 30, 2015 in the event that the FLL Transaction is not closed. If the FLL Transaction is approved by the Court and is closed, a cash reserve of \$1.15 million will be retained by Nelson to deal with post-closing activities. Based on the information provided to the Monitor, the Monitor is of the view that such cash reserve should be sufficient to fund the CCAA Proceedings to September 30, 2015 in the event that the FLL Transaction is closed.
- 17. Based on the information currently available, the Monitor believes that creditors would not be materially prejudiced by an extension of the Stay Period to September 30, 2015.

18. The Monitor also believes that Nelson has acted, and is acting, in good faith and with due diligence and that circumstances exist that make an extension of the Stay Period appropriate.
19. The Monitor therefore respectfully recommends that this Honourable Court grant Nelson's request for an extension of the Stay period to September 30, 2015.

The Monitor respectfully submits to the Court this, its Fourth Report.

Dated this 25th day of August, 2015.

FTI Consulting Canada Inc.
In its capacity as Monitor of
Nelson Education Ltd. and Nelson Education Holdings Ltd.



Nigel D. Meakin
Senior Managing Director



Toni Vanderlaan
Senior Managing Director