Court File No. ____________

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.

Applicants

APPLICATION RECORD
(returnable May 12, 2015)

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Court File No. ____________

ONTARIO
SUPERIOR COURT OF JUSTICE

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Applicants

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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.

Applicants

NOTICE OF APPLICATION
(returnable May 12, 2015)

TO THE RESPONDENTS:

A LEGAL PROCEEDING HAS BEEN COMMENCED by the Applicants. The claim made by the Applicants appears on the following page.

THIS APPLICATION will come on for a hearing before a Judge presiding over the Commercial List on May 12, 2015 at 8:30 a.m., or as soon after that time as the application may be heard, at 330 University Avenue, Toronto, Ontario.

IF YOU WISH TO OPPOSE THIS APPLICATION, to receive notice of any step in the application or to be served with any documents in the application, you or an Ontario lawyer acting for you must forthwith prepare a notice of appearance in Form 38A prescribed by the Rules of Civil Procedure, serve it on the Applicants' lawyer or, where the Applicants do not have a lawyer, serve it on the Applicants, and file it, with proof of service, in this court office, and you or your lawyer must appear at the hearing.

IF YOU WISH TO PRESENT AFFIDAVIT OR OTHER DOCUMENTARY EVIDENCE TO THE COURT OR TO EXAMINE OR CROSS-EXAMINE WITNESSES ON THE APPLICATION, you or your lawyer must, in addition to serving your notice of appearance, serve a copy of the evidence on the Applicants' lawyer or, where the Applicants do not have a lawyer, serve it on the Applicants, and file it, with proof of service, in the court office where the application is to be heard as soon as possible, but at least two days before the hearing.

IF YOU FAIL TO APPEAR AT THE HEARING, JUDGMENT MAY BE GIVEN IN YOUR ABSENCE AND WITHOUT FURTHER NOTICE TO YOU. IF YOU WISH TO OPPOSE THIS APPLICATION BUT ARE UNABLE TO PAY LEGAL FEES, LEGAL AID MAY BE AVAILABLE TO YOU BY CONTACTING A LOCAL LEGAL AID OFFICE.

Date May 12, 2015

Issued by ______________________
Local registrar

Address of court office 330 University Avenue
Toronto, Ontario M5G 1E6

TO: THE SERVICE LIST

APPLICATION

1. Nelson Education Ltd. ("**Nelson Education**" or the "**Company**") and Nelson Education Holdings Ltd. ("**Holdings**" and together with Nelson Education, the "**Applicants**") make an Application for an initial order (the "**Initial Order**") pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "**CCAA**") substantially in the form attached at Tab "4" of the within Application Record, *inter alia*:

   (a) abridging the time for and validating the service of this Notice of Application and the Application Record;

   (b) declaring that the Applicants are parties to which the CCAA applies;

   (c) staying all proceedings taken or that might be taken in respect of the Applicants;

   (d) staying all proceedings taken or that might be taken in respect of any of the current, former or future directors or officers of the Applicants;

   (e) authorizing the Applicants to pay certain expenses incurred prior to, on or after the date of the Initial Order, subject to the provisions of the Initial Order;

   (f) appointing Alvarez & Marsal Canada Inc. ("**A&M**") as officer of this Court to monitor the assets, businesses and affairs of the Applicants (the "**Monitor**");

(g) approving a key employee retention program (the "**KERP**"), with respect to certain key employees of the Company, and authorizing and directing the Applicants to perform their obligations thereunder;

(h) granting the following charges over the assets and property of the Applicants, with relative priorities as set out in the order below:

(i) a charge in favour of the Monitor, counsel to the Monitor, counsel to the Applicants, the First Lien Agent (as defined below), the Supplemental Agent, and counsel to the First Lien Steering Committee (as defined below), the First Lien Agent and the Supplemental Agent and the financial advisor to the First Lien Steering Committee (each of the foregoing not otherwise defined herein to be as defined in the proposed Initial Order), such charge to be in a maximum amount of $1 million;

(ii) a charge in favour of the directors and officers of the Applicants, to a maximum amount of $2.2 million (the "**Directors' Charge**"); and

(iii) a charge in favour of the beneficiaries of the KERP, to a maximum amount of $340,000 (the "**KERP Charge**");

(i) sealing the confidential exhibit (the "**Confidential Supplement**") to the affidavit of Greg Nordal sworn May 11, 2015 (the "**Nordal Affidavit**"), which contains the summary of the KERP and the form of Stockholders and Registration Rights Agreement (as defined in the Nordal Affidavit); and

(j) such further and other relief as this Court deems just.

2. The grounds for the Application are:

(a) the Applicants are insolvent;

(b) the Applicants are companies to which the CCAA applies;

(c) in July 2007, the business and assets of Nelson Education were acquired by certain entities owned by OMERS Administration Corporation and certain funds of APAX Partners from The Thomson Corporation together with U.S. business and assets of Thomson Learning for a combined total value of approximately $7.75 billion, of which approximately $550 million was attributed to the Canadian business (the "**2007 Acquisition**");

(d) in connection with the 2007 Acquisition, the Company was financed by way of:

(i) first lien debt in the initial aggregate principal amount of US$311,438,278.60 and a revolver facility[1] in an initial aggregate principal amount of $50 million pursuant to a First Lien Credit Agreement dated July 5, 2007 (the "**First Lien Credit Agreement**") among Nelson Education, Holdings, Royal Bank of Canada, as Administrative Agent, Collateral Agent and Swing Line Lender, as succeeded by Wilmington Trust, National Association, as

[1] The revolving facility under the First Lien Credit Agreement matured in July 2013.

Administrative Agent and Collateral Agent (the "**First Lien Agent**") and the lenders party thereto (the "**First Lien Lenders**"); and

(ii) second lien debt in the initial aggregate principal amount of US$171,291,053.23 pursuant to a Second Lien Credit Agreement dated July 5, 2007 (the "**Second Lien Credit Agreement**" and with the First Lien Credit Agreement, the "**Credit Agreements**") among Nelson Education, Holdings, Royal Bank of Canada, as Administrative Agent and Collateral Agent (the "**Second Lien Agent**") and the lenders party thereto;

(e) at the time of the 2007 Acquisition, the value of the Canadian dollar relative to the U.S. dollar was approximately $1.00 to US$0.9463;

(f) as of the date hereof, the Company is indebted in the aggregate principal amount of US$268,753,930, plus accrued interest, under the First Lien Credit Agreement, the maturity date for which was July 3, 2014;

(g) as of the date hereof, the Company is indebted in the aggregate principal amount of US$153,218,764, plus accrued interest, under the Second Lien Credit Agreement, the maturity date for which is July 3, 2015;

(h) the outstanding principal amount due under the First Lien Credit Agreement was not paid on maturity, and the Company is in default under the Second Lien Credit Agreement;

(i) Holdings has been unable to fulfill its obligations as guarantor under both Credit Agreements;

(j) the Credit Agreements are secured by substantially all of the assets of the Applicants;

(k) commencing in April 2013, with the assistance of its professional advisors, Nelson Education had begun engaging in discussions and exploring a variety of transaction alternatives with the Second Lien Agent and with a steering committee of its First Lien Lenders (the "**First Lien Steering Committee**"), in an effort to achieve a transaction that would, among other things, address the Company's obligations under its Credit Agreements, protect value, improve the financial position of the Company, and create stability for the business, including the Company's employees, customers, lenders and other key stakeholders;

(l) the Company and the First Lien Lenders ultimately agreed to a term sheet dated September 10, 2014 for a sale or restructuring of the business (the "**First Lien Term Sheet**") and entered into a support agreement with 21 out of the 22 First Lien Lenders representing 88% of the principal amounts outstanding under the First Lien Credit Agreement (the "**First Lien Support Agreement**");

(m) the First Lien Term Sheet provided, among other things, for:

(i) a comprehensive and open sale and investment solicitation process (the "**SISP**") to be conducted by the Company to identify potential sale and/or investment transactions; and

(ii) if a transaction that would provide for net sale or investment proceeds sufficient for payment in full of all obligations under the First Lien Credit Agreement or that is otherwise acceptable to First Lien Lenders holding at least 66 2/3% of the outstanding obligations under the First Lien Credit Agreement is not identified pursuant to the SISP, a credit bid by the First Lien Lenders of all of the debt owing to them under the First Lien Credit Agreement to effectuate a conversion of the First Lien Lenders' claims for a new first lien term facility and for common shares of a newly incorporated entity (the "**Purchaser**") to be owned indirectly by the First Lien Lenders (the "**Transaction**");

(n) with the assistance of A&M, which was engaged as the Company's financial advisor, the Company diligently pursued the SISP; however, the SISP ultimately did not result in an executable transaction that would result in proceeds to repay the obligations under the First Lien Credit Agreement in full or would otherwise be supported by the First Lien Lenders, confirming that there is no value available beyond the value of the obligations under the First Lien Credit Agreement;

(o) pursuant to the First Lien Support Agreement, and consistent with the Company's view that the Transaction is the best alternative available in the circumstances, the Company is proceeding at this time with the Transaction;

(p) the Transaction includes, among other things:

(i) the transfer of substantially all of the Company's assets to the Purchaser;

(ii) the assumption by the Purchaser of substantially all of the Company's trade payables, contractual obligations and employment obligations (other than certain obligations in respect of former employees, obligations relating to matters in respect of the Second Lien Credit Agreement and the Nelson Education Promissory Note (as defined in the Nordal Affidavit)); and

(iii) offers of employment by the Purchaser to all of the Company's employees;

(q) after due consideration of the results of the SISP, the circumstances of the Applicants, the status of the business of Nelson Education and the benefits to the Applicants' stakeholders, the Applicants determined that proceeding with the Transaction is in the best interests of the Applicants and their stakeholders;

(r) having regard to the financial circumstances of the Company, the Applicants have determined that it is necessary to seek protection under the CCAA in order to preserve enterprise value and continue as a going concern while seeking to implement the Transaction;

(s) the Applicants intend to pay the ordinary salary, wages, benefits and related amounts to their current employees for services performed in the ordinary course of business so as to minimize any disruption to the business;

(t) the Applicants intend to continue to rely on their independent contractors in the ordinary course of business and consistent with existing policies and arrangements;

(u) the Applicants intend to continue to rely on those suppliers, service providers and content providers with which they have contracts or arrangements that were entered into prior to the date of the Initial Order, if granted;

(v) the Applicants have several customer programs in place pursuant to existing contracts or arrangements with certain of their customers, including refunds, rebates, warranties or similar programs, the continuance of which is necessary in order to maintain customer relationships as part of the Company's going concern business;

(w) Nelson Education requires the ongoing services of the key employees subject to the KERP and the KERP Charge, and the ongoing involvement of the directors and officers subject to the Directors' Charge;

(x) the summary of the KERP in the Confidential Supplement contains individually identifiable information and compensation information, including sensitive salary information, about the individuals who are covered by the KERP, and the Stockholders and Registration Rights Agreement in the Confidential Supplement is commercially sensitive;

(y) the Applicants require a stay of proceedings to protect and preserve the value of the Company's business as they pursue completion of the Transaction;

(z) the Applicants intend to bring a motion before this Court as soon as possible and on notice to all affected parties to seek approval of the Transaction pursuant to section 36 of the CCAA and, if it is approved by this Court, to complete the Transaction as soon as possible and prior to the outside date of June 2, 2015 under the asset purchase agreement pursuant to which the Nelson Education assets and business will be transferred to the Purchaser;

(aa) A&M has consented to act as Court-appointed Monitor of the Applicants in these proceedings if so appointed by the Court;

(bb) the circumstances that exist make the Initial Order sought by the Applicants appropriate;

(cc) such other grounds as set out in the Nordal Affidavit;

(dd) the provisions of the CCAA and this Court's equitable and statutory jurisdiction thereunder;

(ee) Rules 2.03, 3.02, 14.05(2) and 16 of the Ontario *Rules of Civil Procedure*, R.S.O. 1990, Reg. 194, as amended;

(ff) Rule 137(2) of the Ontario *Courts of Justice Act*, R.S.O. 1990, c C.43; and

(gg) such further and other grounds as counsel may advise and this Court may permit.

3. The following documentary evidence will be used at the hearing of the application:

(a) the Nordal Affidavit and the exhibits attached thereto;

(b) the Confidential Supplement and the materials contained therein;

(c) the Monitor's Pre-Filing Report and the appendices attached thereto, to be filed;

(d) the consent of A&M to act as Monitor dated May 11, 2015; and

(e) such further and other materials as counsel may advise and this Court may permit.

Date: May 12, 2015

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

Court File No: ________________

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

Applicants

ONTARIO
SUPERIOR COURT OF JUSTICE-COMMERCIAL LIST

Proceeding commenced at Toronto

NOTICE OF APPLICATION
(returnable May 12, 2015)

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TAB 2

Court File No. ____________

ONTARIO
SUPERIOR COURT OF JUSTICE

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

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Applicants

AFFIDAVIT OF GREG NORDAL
(sworn May 11, 2015)

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Applicants

AFFIDAVIT OF GREG NORDAL
(sworn May 11, 2015)

I, Greg Nordal, of the City of Toronto, in the Province of Ontario, **MAKE OATH AND SAY:**

I. INTRODUCTION

1. I am the President and Chief Executive Officer of Nelson Education Ltd. ("**Nelson Education**" or the "**Company**"), Canada's leading education publishing company, providing learning solutions to universities, colleges, students, teachers, professors, libraries, government agencies, schools, professionals and corporations across the country. I have been the President and Chief Executive Officer of Nelson Education since September 2008 and have been actively engaged in the discussions and negotiations surrounding the proposed restructuring of Nelson Education. I am also a director on the board of directors of Nelson Education and a director on the board of directors of Nelson Education Holdings Ltd. ("**Holdings**"), the sole shareholder of Nelson Education. Accordingly, I have knowledge of the matters deposed to herein. Where I have relied upon other sources of information, I have stated the source of that information and believe such information to be true.

2. This Affidavit is sworn in support of an application for an order (the "**Initial Order**") in respect of Nelson Education and Holdings (together, the "**Applicants**", and collectively with their affiliates, the "**Nelson Group**") pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "**CCAA**"). All dollar amounts expressed herein, unless otherwise noted, are in Canadian currency.

3. The principal objectives of these proceedings are to ensure the ongoing operations of the Applicants for the benefit of their many stakeholders and to complete the sale and transfer of Nelson Education's business to a newly incorporated entity (the "**Purchaser**") to be owned indirectly by the Company's First Lien Lenders (as defined below) pursuant to the Transaction (as defined and further described below). The Transaction will significantly reduce the debt levels of the Company, establish a stronger financial foundation for Nelson Education, create stability for the business, and strengthen the Company's position as Canada's leading educational publisher.

4. As further discussed below, in July 2007 the business and assets of Nelson Education were acquired by certain entities owned by OMERS Administration Corporation and certain funds of APAX Partners from The Thomson Corporation together with the U.S. business and assets of Thomson Learning for a combined total value of approximately US$7.75 billion, of which approximately US$550 million was attributed to the Canadian business (the "**2007 Acquisition**").

5. In connection with the 2007 Acquisition, the Company was financed by way of (i) first lien debt in the initial aggregate principal amount of US$311,438,278.60 and a revolver

facility[1] in an initial aggregate principal amount of $50 million pursuant to a First Lien Credit Agreement dated as of July 5, 2007 (the "**First Lien Credit Agreement**") among Nelson Education, Holdings, Royal Bank of Canada, as Administrative Agent, Collateral Agent and Swing Line Lender, as succeeded by Wilmington Trust, National Association, as Administrative Agent and Collateral Agent (the "**First Lien Agent**") and the lenders party thereto (the "**First Lien Lenders**"); and (ii) second lien debt in an initial aggregate principal amount of US$171,291,053.23 pursuant to a Second Lien Credit Agreement dated as of July 5, 2007 (the "**Second Lien Credit Agreement**", together with the First Lien Credit Agreement, the "**Credit Agreements**") among Nelson Education, Holdings, Royal Bank of Canada, as Administrative Agent and Collateral Agent (the "**Second Lien Agent**") and the lenders party thereto (the "**Second Lien Lenders**"). At the time of the 2007 Acquisition, the value of the Canadian dollar relative to the U.S. dollar was approximately $1.00 to US$0.9463.

6. The Company currently has, in the aggregate, over US$430 million (or over $544 million in Canadian dollars[2]) of secured first and second lien debt (including accrued interest) outstanding under its Credit Agreements, resulting in an unsustainable leverage ratio of debt to EBITDA, net of pre-publication expenditures, of approximately 17:1 for the fiscal year ending March 31, 2015. In addition, Nelson Education's First Lien Credit Agreement matured on July 3, 2014 and has not been repaid, and the Company is in default under its Second Lien Credit Agreement.

[1] The revolving facility under the First Lien Credit Agreement matured in July 2013.

[2] Based on the exchange rate of $1.00 to US$0.7895 as at March 31, 2015.

7. Commencing in April 2013, with the assistance of its professional advisors, Nelson Education had begun engaging in discussions and exploring a variety of transaction alternatives with the Second Lien Agent and with a steering committee of its First Lien Lenders (the "**First Lien Steering Committee**") in an effort to achieve a transaction that would, among other things, address the Company's obligations under its Credit Agreements, protect value, improve the financial position of the Company, and create stability for the business, including the Company's employees, customers, lenders and other key stakeholders.

8. These negotiations ultimately resulted in a transaction framework on the terms set out in the First Lien Term Sheet dated September 10, 2014 (the "**First Lien Term Sheet**") for a sale or restructuring of the business, as discussed in greater detail below. In connection with the First Lien Term Sheet, Nelson Education and Holdings entered into a support agreement (the "**First Lien Support Agreement**") with First Lien Lenders representing approximately 88% of the principal amounts outstanding under the First Lien Credit Agreement (the "**Consenting First Lien Lenders**"). The Consenting First Lien Lenders comprise 21 of the 22 First Lien Lenders, or approximately 95% of all of the First Lien Lenders. The only First Lien Lender that is not a Consenting First Lien Lender is also a Second Lien Lender.

9. Pursuant to the terms of the First Lien Term Sheet and the First Lien Support Agreement, the Company, with the assistance of its financial advisor, commenced on September 22, 2014, a sale and investment solicitation process (the "**SISP**") to identify one or more potential purchasers of, or investors in, the Nelson Business (as defined below). As described in further detail below, a total of 168 potential buyers and 11 potential lenders were contacted, of which seven submitted non-binding expressions of interest pursuant to the SISP. The Company,

with the assistance of its financial advisor, and in consultation with the First Lien Steering Committee, proceeded to the second phase ("**Phase 2**") of the SISP with five bidders.

10. As further discussed below, the SISP ultimately did not result in an executable transaction that would result in proceeds to repay the obligations under the First Lien Credit Agreement in full or would otherwise be supported by the First Lien Lenders, confirming that there is no value available beyond the value of the obligations under the First Lien Credit Agreement. Accordingly, pursuant to the First Lien Support Agreement and consistent with the Company's view that the Transaction is the best option available to Nelson Education, the Company is proceeding at this time with the Transaction pursuant to which the First Lien Lenders will exchange and release all of the indebtedness owing under the First Lien Credit Agreement in exchange for: (i) 100% of the common shares of a newly incorporated entity ("**Purchaser Holdco**") that will own 100% of the common shares of the Purchaser to which substantially all of the Company's assets would be transferred, and (ii) the obligations under a new US$200 million first lien term facility to be entered into by the Purchaser. As further discussed below, the Transaction includes, among other things:

a) the transfer of substantially all of the Company's assets to the Purchaser;

b) the assumption by the Purchaser of substantially all of the Company's trade payables, contractual obligations and employment obligations incurred in the ordinary course and as reflected in the Company's balance sheet (other than as set out in paragraphs 11, 12 and 13 below); and

c) an offer of employment by the Purchaser to all of the Company's employees.

11. Under the Transaction, the Purchaser will not assume the Company's obligations to the Second Lien Agent or the Second Lien Lenders under the Second Lien Credit Agreement and certain other liabilities, as further discussed in paragraph 108 below.

12. I am not aware of any trade payables, contractual obligations or employment obligations, other than certain obligations in respect of former employees, obligations relating to matters in respect of the Second Lien Credit Agreement, and the Nelson Education Promissory Note (as defined below), that are not being assumed by the Purchaser pursuant to the Transaction.

13. Pursuant to the Transaction, the Purchaser may, in its sole and absolute discretion, at any time up to three business days prior to the closing of the Transaction, elect to not acquire any of the assets, properties, and rights of the Company, including contracts of the Company specified by the Purchaser as excluded contracts.

14. Having regard to the financial circumstances of the Company, the Applicants have determined that it is necessary to seek protection under the CCAA in order to preserve enterprise value and continue as a going concern while seeking to implement the Transaction. There is no value available to the Second Lien Lenders and the CCAA proceedings are required to transfer the assets and property of the Company in satisfaction of the indebtedness owing to the First Lien Lenders free and clear of the obligations under the Second Lien Credit Agreement.

15. In connection with the Transaction, the Applicants intend to bring a motion in conjunction with the within application to be heard on a date to be set by this Court to, among other things, approve the Transaction (the "**Sale Approval Motion**"). Further details with

respect to the Transaction are discussed below and will be set out in the affidavit filed in support of the Sale Approval Motion.

II. BACKGROUND

(A) Overview

16. Nelson Education is Canada's leading education publishing company, providing learning solutions to universities, colleges, students, teachers, professors, libraries, government agencies, schools, professionals and corporations across the country. Nelson Education has a deep line of products focused across the various segments of the education market. It is also a leading developer of digital educational resources.

17. Nelson Education is the sole operating entity in the Nelson Group. The registered and principal office of Nelson Education is at 1120 Birchmount Road, Scarborough, Ontario. Nelson Education operates from a 230,000 square foot facility and employs approximately 335 full-time, permanent, non-unionized employees and approximately 38 part-time non-unionized employees.

18. As described in greater detail below, the Company is financed primarily through a term loan under the First Lien Credit Agreement and a term loan under the Second Lien Credit Agreement. As at the date hereof, there is approximately US$268,753,930, plus accrued interest, outstanding under the First Lien Credit Agreement and approximately US$153,218,764, plus accrued interest, outstanding under the Second Lien Credit Agreement. In Canadian dollars, based on the exchange rate as at March 31, 2015, the principal amount outstanding under the First Lien Credit Agreement is approximately $340,410,298, plus accrued interest, and the

principal amount outstanding under the Second Lien Credit Agreement is approximately $194,070,632, plus accrued interest.

19. For the fiscal year ending March 31, 2015, the Company's revenue was approximately $129 million and its EBITDA, net of pre-publication expenditures, was approximately $31.5 million, and for the twelve-month period ending March 31, 2014, the Company's revenue was approximately $128 million and its EBITDA, net of pre-publication expenditures, was approximately $31.7 million. The Company's financial leverage at a ratio of debt to EBITDA, net of pre-publication expenditures, of approximately 17:1 as at March 31, 2015 is not sustainable.

20. As noted above, the First Lien Credit Agreement matured on July 3, 2014, and the Second Lien Credit Agreement has a maturity date of July 3, 2015. Nelson Education has been and continues to be unable to repay the First Lien Credit Agreement and has not made certain interest payments under the Second Lien Credit Agreement, as further discussed below.

(B) <u>History of Nelson Education</u>

21. Nelson Education's history dates back to 1914 when Thomas Nelson and Sons began operations in Canada. In 1962, The Thomson Corporation acquired Thomas Nelson and Sons as a complement to its growing educational publishing business, Thomson Learning Group. Between 2000 and 2006, the company grew significantly both organically and by way of several acquisitions. In 2014, Nelson Education celebrated its centennial anniversary.

22. As discussed above, in 2007, Thomson Learning Group was acquired for a combined total value of approximately US$7.75 billion, of which approximately US$550 million

was attributed to the Canadian business. As a result of, among other factors, certain *Investment Canada Act* (Canada) restrictions with respect to non-Canadian acquisition of a majority interest in a Canadian book publisher, the Canadian operations of the Thomson Learning Group were structured as an independent entity from the rest of the Thomson Learning Group and Nelson Education was incorporated on May 25, 2007 under the laws of Canada to acquire the book publishing assets and liabilities of Thomas Nelson, a division of Thomson Canada Limited, as well as all of the common shares of Group Modulo Inc. ("**Modulo**"), which produces and sells instruction materials, mainly French language books, to schools, school boards, colleges and universities in Quebec. Modulo was subsequently sold on January 31, 2013 to Transcontinental Media Inc.

23. Nelson Education was financed separately from the Thomson Learning Group by way of the financing under the First Lien Credit Agreement and financing under the Second Lien Credit Agreement.

24. In connection with the 2007 Acquisition, an Operating Agreement and a Master Services Agreement were put in place pursuant to which, among other things, the Thomson Learning Group would provide educational content and certain related operational support to Nelson Education. Nelson Education pays approximately US$22 million per year for such content and operational support. The Operating Agreement expires on January 1, 2018, subject to automatic extensions for successive one-year renewal periods unless terminated by either party on at least 270 days' written notice prior to the expiry of the agreement.

25. Shortly after the 2007 Acquisition, Thomson Learning Group, outside of Canada, changed its name to Cengage Learning Holdings II, LP ("**Cengage**").[3]

26. Nelson Education maintains a strong relationship with Cengage and is the exclusive distributor for Cengage education content in Canada. Cengage is a preferred and key business partner of Nelson Education. As further discussed below, Nelson Education has maintained ongoing communication with Cengage in connection with its business in the ordinary course, as well as with respect to its restructuring efforts and has explored with Cengage potential options and alternatives for the benefit of the Company.

(C) <u>The Nelson Business</u>

(i) Overview

27. Nelson Education operates two business segments: (i) "K-12", which services schools, school boards, teachers and students from kindergarten to grade 12 (the "**K-12 Business**"); and (ii) "Higher Education", which services the post-secondary education market, including universities, colleges, and trade schools (the "**Higher Education Business**", together with the K-12 Business, the "**Nelson Business**").

28. Nelson Education is the Canadian industry leader in the K-12 Market and holds a leading position in the Higher Education Market. In 2014, the K-12 Business represented approximately 30% and the Higher Education Business represented approximately 70% of Nelson Education's revenues.

[3] In July 2013, Cengage filed voluntary petitions for reorganization under Chapter 11 of the U.S. Bankruptcy Code in the Bankruptcy Court for the Eastern District of New York. On March 31, 2014, Cengage Learning completed its financial restructuring and emerged from its Chapter 11 reorganization.

29. Nelson Education's K-12 Business produces and distributes print and digital products and materials across all K-12 subject areas (other than first-language French and French immersion), such as science, social studies, humanities, language arts, mathematics, technology, business studies, English and other modern languages. Nelson Education works with various provincial and territorial bodies to provide products that meet requirements of specific curricula or to provide supplemental materials to existing curricula. Nelson Education has the largest "book bag" in comparison to its competitors, offering more than 25,000 titles.

30. Nelson Education's Higher Education Business offers tailored learning solutions for students and professionals and produces and distributes products and materials in the major fields of study including business and economics, humanities, social studies, hard sciences, soft sciences and technology and offers thousands of titles.

31. Within its K-12 Business and its Higher Education Business, Nelson Education has three types of products: (i) "Indigenous" products, being products specifically created and published by Nelson Education for the Canadian market by way of it contracting with Canadian educators and authors, and created either from the ground-up or adapted from existing content that is usually published by Cengage in the United States; (ii) "Cengage Agency" products, being Cengage publications in respect of which Nelson Education is the exclusive distributor for all academic markets in Canada; and (iii) "Third Party Agency" products, being products of certain third party publishers which Nelson Education also distributes. Nelson Education has long-standing relationships with well-known third party publishers.

32. Nelson Education is also a leading developer of digital educational resources, which to date have been adopted at a much more advanced pace in the Higher Education Market

(as defined below) than the K-12 Market (as defined below). Digital penetration is currently relatively limited in the K-12 Market due to a lack of government funding and infrastructure; however, it is generally accepted that the transition to digital products in the classroom will accelerate over the coming years.

(ii) Customers

33. Nelson Education's K-12 Business services primarily schools, school boards, provincial Ministries of Education, teachers and students from kindergarten to grade 12, while its Higher Education Business services primarily public and private colleges and universities and technical training and professional schools across Canada.

34. In the K-12 Market, each province and territory in Canada has authority over curriculum development, deployment and funding, overseen by the applicable Ministry of Education of each province and territory. Nelson Education's sale orders are secured at the board and/or school level, with the exception of Newfoundland where product decisions are made at the provincial level. Nelson Education has a national footprint in the K-12 industry with a customer base of over 5,000 customers. Nelson Education's customers include all major schools and school boards across Canada providing a diversified customer base.

35. In the Higher Education Market, college and university faculty are typically the ultimate decision makers regarding choice and adoption of new materials, but the end users that purchase the products are generally students. Nelson Education sells its Higher Education products across Canada through school bookstores, online and other third party sellers.

(iii) Content Providers

36. In connection with its creation, production and/or adaptation of its K-12 and Higher Education products and materials, Nelson Education works with thousands of authors, illustrators, reviewers, researchers, content editors and other consultants to develop such products and materials. Nelson Education has long-standing relationships with its numerous content providers who are integral to the Nelson Business and the development of Nelson Education's extensive "book bag".

(iv) Offices and Facilities

37. Nelson Education operates from an owned 230,000 square foot facility located in Scarborough, Ontario. Nelson Education does not own or lease any other offices or facilities.

(v) Employees

38. As of the date hereof, Nelson Education employed approximately 335 full-time, permanent, non-unionized employees and approximately 38 part-time non-unionized employees.

(a) Unions

39. Nelson Education does not have any active unions or collective agreements in place.

(b) Pension Plans

40. Nelson Education maintains a defined contribution pension plan (the "**DC Plan**") for its employees and for its executives with Sun Life Assurance Company of Canada ("**Sun Life**").

41. The DC Plan is compulsory for eligible executive members ("**Executive Members**") and Executive Members must join immediately upon becoming eligible for membership. Executive Members are not required or permitted to contribute to the DC Plan. The Company is required to contribute 8.5% of Executive Members' respective earnings (including base employment compensation, including incentive, commissions and accrued bonuses, but excluding overtime pay). Company contributions to the DC Plan in respect of the Executive Members are vested immediately.

42. The DC Plan also covers all employees who meet minimum age and service requirements (the "**Employee Members**") and allows participants to defer a portion of their annual compensation on a pre-tax basis. The Company matches 20% to 100% (depending on years of service and/or position) of the Employee Member's contributions up to the first 6% of the Employee Member's contribution. These matching contributions vest based on the Employee Member's years of service and become fully vested after two years of service.

43. The Company is current on its contributions and its total contribution expense for the fiscal year ending March 31, 2015 was approximately $1,126,949.

(c) <u>Other Employee Benefit Plans</u>

44. Nelson Education offers a group registered retirement savings plan for its executives and employees (the "**Group RRSP Plan**"). Membership in the Group RRSP Plan is voluntary and available to eligible executives and employees. Employees and executives can make contributions to their Group RRSP Plan by way of payroll deductions or by making lump sum contributions at any time. The Company does not contribute to the Employee Group RRSP Plan.

45. Nelson Education also provides medical and dental benefits and insurance coverage through Sun Life and Accidental Death and Dismemberment Insurance and Critical Illness Insurance through ACE INA Life Insurance to its employees and executives. The Company's total benefit plan expense for the fiscal year ending March 31, 2015 was approximately $1,975,916.

(d) Key Employee Retention Program

46. Nelson Education has put in place a key employee retention program for certain key employees and officers, which is described in detail in Section III(F) below.

(D) Corporate Structure and Financial Position of the Applicants

(i) Applicants

(i) Nelson Education

47. Nelson Education, a corporation organized under the *Canadian Business Corporations Act* (**"CBCA"**), is a direct, wholly-owned subsidiary of Holdings.

48. Nelson Education is the sole operating entity in the Nelson Group. The registered and principal office of Nelson Education is at 1120 Birchmount Road, Scarborough, Ontario, M1K 5G4.

49. Nelson Education's financial reporting is done on a consolidated basis and all intercompany balances and transactions are eliminated on consolidation. The following financial statements are being provided to this Court in support of this Affidavit:

(a) Nelson Education's audited financial statements as at March 31, 2014, attached hereto as Exhibit "A"; and

(b) Nelson Education's unaudited financial statements as at December 31, 2014, attached hereto as Exhibit "B".

50. As of March 31, 2014, the Company changed its fiscal year end to March 31 as this better reflects the natural sales cycle of the Company and aligns with the back office systems of Cengage which also moved to a March 31 fiscal year end.

51. Based on Nelson Education's unaudited financial statements dated December 31, 2014, Nelson Education's assets had a book value of approximately $262.7 million. Of this asset value, approximately $86.2 million consists of current assets while the remaining approximately $176.4 million consists of non-current assets. The current assets include cash totalling approximately $40.3 million, accounts receivable of approximately $5.1 million, inventory of approximately $8.8 million and prepaid expense and other current assets of approximately $32.0 million. The non-current assets include pre-publication cost of approximately $18.0 million, property and equipment of approximately $13.0 million, identifiable intangible assets of approximately $111.1 million and goodwill of approximately $34.4 million. As evidenced by the results of the SISP, the book value of Nelson Education's assets does not reflect the market value for many of such assets.

52. As at December 31, 2014, Nelson Education's liabilities amounted to approximately $657.6 million, including approximately $529.6 million of current liabilities and approximately $128.0 million of non-current liabilities. The current liabilities include approximately $31.2 million of accounts payable, approximately $8.8 million of deferred

revenue and approximately $489.5 million of the current portion of long-term debt. The non-current liabilities are comprised of approximately $128.0 million owing under an intercompany promissory note owing to Nelson Education's parent, Holdings (the "**Nelson Education Promissory Note**"), which liability was subsequently reduced to approximately $102.3 million in March 2015 in connection with the waiver by Holdings of certain interest amounts owing by Nelson Education to Holdings pursuant to the Nelson Education Promissory Note.

(ii) Holdings

53. Holdings is a corporation organized under the CBCA and a guarantor under each of the First Lien Credit Agreement and the Second Lien Credit Agreement.

54. Holdings directly owns 100% of the shares of Nelson Education.

55. A copy of Holdings' unaudited financial statements as at March 31, 2014 is attached hereto as Exhibit "C".

56. Based on Holdings' unaudited financial statements dated March 31, 2014, Holdings' assets had a book value of approximately $161.8 million. Of this asset value, approximately $122.5 million consists of the Nelson Education Promissory Note and approximately $39.3 million consists of its investment in Nelson Education.

57. As at March 31, 2014, Holdings' liabilities amounted to approximately $123.4 million, of which approximately $122.2 million consists of a promissory note to its parent and approximately $1.2 million was due to Nelson Education.

(E) Credit Agreements

(i) First Lien Credit Agreement

58. The First Lien Lenders extended credit to Nelson Education pursuant to the First Lien Credit Agreement. In January 2014, Royal Bank of Canada was replaced by Wilmington Trust, National Association as the First Lien Agent. A copy of the First Lien Credit Agreement (without schedules or exhibits) is attached hereto as Exhibit "D".

59. As at the date hereof, Nelson Education is indebted in the aggregate principal amount of US$268,753,930, plus accrued interest, under the First Lien Credit Agreement. The maturity date under the First Lien Credit Agreement was July 3, 2014. The outstanding principal amount due under the First Lien Credit Agreement was not paid on maturity.

60. Interest and any fees accruing under the First Lien Credit Agreement are being paid in cash in the ordinary course.

61. Holdings guaranteed the obligations of Nelson Education under the First Lien Credit Agreement. As security for the repayment of the amounts owed under the First Lien Credit Agreement, each of Nelson Education and Holdings has granted first-priority security over all or substantially all of its respective assets, including a pledge of shares of Nelson Education by Holdings.

(ii) Second Lien Credit Agreement

62. The Second Lien Lenders extended credit to Nelson Education pursuant to the Second Lien Credit Agreement. A copy of the Second Lien Credit Agreement (without schedules or exhibits) is attached hereto as Exhibit "E".

63. As at the date hereof, Nelson Education is indebted in the aggregate principal amount of US$153,218,764, plus accrued interest, under the Second Lien Credit Agreement. The maturity date under the Second Lien Credit Agreement is July 3, 2015.

64. Nelson Education is in default under the Second Lien Credit Agreement and has not paid in full the interest payment due under the Second Lien Credit Agreement on March 31, 2014 and has not paid the interest payments due under the Second Lien Credit Agreement on June 30, 2014, September 30, 2014, December 31, 2014 or March 31, 2015.

65. Holdings guaranteed the obligations of Nelson Education under the Second Lien Credit Agreement. As security for the repayment of the amounts owed under the Second Lien Credit Agreement, each of Nelson Education and Holdings has granted second-priority security over all or substantially all of its respective assets.

(iii) Intercreditor Agreement

66. In connection with the First Lien Credit Agreement and the Second Lien Credit Agreement, Nelson Education, Holdings, Royal Bank of Canada, in its capacity as collateral agent for the obligations under the First Lien Credit Agreement (including its successors and assigns), and Royal Bank of Canada, in its capacity as collateral agent for the obligations under the Second Lien Credit Agreement (including its successors and assigns), entered into an

Intercreditor Agreement dated July 5, 2007 (the "**Intercreditor Agreement**", a copy of which is attached hereto as Exhibit "F").

67. Section 6.1(a) of the Intercreditor Agreement provides as follows:

> The Second Lien Collateral Agent on behalf of the Second Lien Claimholders, agrees that it will raise no objection or oppose a sale or other disposition of any Collateral free and clear of its Liens or other claims under Section 363 of the Bankruptcy Code (or any similar provision of any other Bankruptcy Law[4] or any order of a court of competent jurisdiction) if the First Lien Claimholders have consented to such sale or disposition of such assets and the Second Lien Collateral Agent and each other Second Lien Claimholder will be deemed to have consented under Section 363 of the Bankruptcy Code (or any similar provision of any other Bankruptcy Law or any order of a court of competent jurisdiction) to any sale supported by the First Lien Claimholders and to have released their Liens in such assets.[5]

(F) Educational Publishing Industry Decline

68. The Nelson Business has been affected by a general decline in the Canadian kindergarten to grade 12 market (the "**K-12 Market**") and higher education market (the "**Higher Education Market**") over the past few years. The K-12 Market peaked in 2006 at a value of approximately \$221 million and in 2014, had an approximate value of \$115 million. The Higher Education Market peaked in 2011 at a value of approximately \$339 million and in 2014, had an approximate value of \$319 million. In the past year, overall revenues in the K-12 Market have

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[4] "Bankruptcy Law" is defined in the Intercreditor Agreement to mean "the Bankruptcy Code, the BIA, the CCAA, the WURA and any other applicable law granting relief from or otherwise affecting creditors, and any similar federal, provincial, state or foreign bankruptcy, insolvency, arrangement, reorganization or receivership law."

[5] Capitalized terms in this paragraph shall have the meanings given to such terms in the Intercreditor Agreement.

declined by approximately 13% and overall revenues in the Higher Education Market have declined by approximately 3%. Notwithstanding the industry decline over the last few years, Nelson Education has maintained strong EBITDA results in the circumstances.[6]

(i) K-12 Market

69. In Canada, each province and territory has authority over curriculum development and education funding for the K-12 Market. Following a historic high in Canada in 2006 with respect to new curriculum development and spending, the K-12 Market contracted. The K-12 Market has been negatively affected by reduced spending on new curriculum by Canadian schools over the last five years, and in particular the spending decline in Ontario which represents the largest proportion of educational spending in Canada.

70. The decline in educational spending in Ontario was the result of historic increases in spending in the years leading up to and including 2006, resulting from increased funding from the province and directed specifically towards educational resources for classrooms. These funding programs were subsequently curtailed and this along with certain other factors combined to cause Canadian educational resource spending to fall to historic lows.

71. However, it is generally expected that curricula will be refreshed every seven to ten years, although there are a number of factors ranging from political will to budgetary constraints that impact timing for release of new curricula. As a result of a number of factors across most of the provinces and territories in Canada (and in particular Ontario, Alberta and British Columbia which comprise approximately 70% of book revenue across Canada), there has

[6] The values referenced in this paragraph are based on information compiled by the Canadian Educational Resources Council in respect of the K-12 Market, and by the Canadian Publishers' Council in respect of the Higher Education Market.

been a reduction in the release of new curriculum over the last five years. Ontario, Alberta and British Columbia are each past due or due for new curricula for almost all subjects based on historical curriculum cycles of seven to ten years.

72. There is also some uncertainty surrounding recent amendments to Canada's *Copyright Act*, which is having an impact on the industry. These amendments may have an impact on copyright protection for creators and publishers and have led school boards and Ministries of Education to advise Access Copyright (a cooperative of Canadian media publishers, including Nelson Education, with a mandate to administer and provide access to copyrighted materials) that they will no longer be paying royalties in accordance with their historical practices.

(ii) Higher Education Market

73. The Higher Education Market has been negatively affected by, among other things: a lack of clarity at universities with respect to "ancillary fees", with certain institutions banning digital homework solutions with added fees; increased traction in the open textbook movement due in part to government funding in a number of provinces; and the use of used books, rental books and peer-to-peer sharing, impacting the demand for new textbooks at universities and colleges in Canada. The impact caused by used books and rental books is mitigated by revisions cycles and new textbook editions, the adoption of digital materials and increased use of custom and indigenous products.

74. In addition, the Higher Education Market is in transition from traditional print books to digital products, which is having a transformative effect on the business.

(G) Nelson Education's Efforts to Improve its Financial Position

(i) Cost Savings and Debt Reduction Efforts

75. Nelson Education has pursued efforts to pay-down debt and implement certain cost-saving initiatives in order to improve its financial position. These efforts have resulted in a pay-down of Nelson Education's first lien debt by approximately $20 million and the implementation of approximately $3 million of cost-reductions in the last 2014 fiscal year.

76. Over the years, the Company has regularly reviewed and considered beneficial cost-saving initiatives that could be implemented while preserving value of the Nelson Business and maintaining Nelson Education's commitment to the provision of innovative products and solutions for the diverse learning needs of students and educators across the country. In March, 2015, a third party consultant confirmed that Nelson Education's EBITDA margins and cost metrics are the best among its peer group.

(ii) Digital Product Development

77. Nelson Education has been investing in preparation for an increasing conversion to digital products.

78. In 2013, Nelson Education's Technology Services Group (Digital Center of Excellence) was formalized to enable the successful execution of the Company's technology business strategy. The group has three functional areas of responsibility (Technology Development, Technology Product Management, and Digital Production) and is responsible for the direction, development and deployment of learning platforms, product applications, learning

management system content deployments, common standards, management of product life cycles, as well as technology solutions and recommendations to support product requirements.

79. As discussed above, while digital penetration is currently relatively limited in the K-12 Market due to a lack of government funding and infrastructure, it is generally accepted that the transition to digital products in the classroom will accelerate over the coming years.

80. Digital penetration and adoption is more advanced in the Higher Education Market, and it is expected that the rate of digital adoption in the Higher Education Market will continue to grow at an increasing rate as professor buy-in increases, schools require classrooms to move to a blended platform (print and digital) and as the industry transitions to a "Course Fee Model" (typically 100% digital).

81. Nelson Education's three main digital products include eBooks, practice & learning solutions and homework solutions. Today, in addition to traditional print format, all of Nelson Education's Higher Education products (published from 2010 and forward) are also available in an eBook format and have some combination of a study and practice and/or a homework solution available. All of Nelson Education's digital products are capable of being integrated with a school's learning management system. In Canada, more than 70% of Higher Education institutions now have a learning management system.

82. Five years ago, very few of Nelson Education's Higher Education products were sold with a digital component. Today approximately 37% of Nelson Education's Higher Education sales include a digital component.

83. The experience gained and tools developed by Nelson Education in the Higher Education Market will generally be applied to the K-12 Market as adoption of digital products accelerates in the coming years.

84. Given the foregoing, I believe that Nelson Education is well positioned to take advantage of future increasing opportunities in the digital educational market space.

(iii) Discussions with Stakeholders

85. In March 2013, Nelson Education engaged Alvarez and Marsal Canada Securities ULC ("**A&M**") as its financial advisor to assist the Company in reviewing and considering potential strategic alternatives, including a refinancing and/or restructuring of its Credit Agreements, and developing a five-year business plan. At that time, the Company was facing declines in the K-12 Market and the Higher Education Market over the past few years, and the July 2014 maturity date under the First Lien Credit Agreement.

86. The Second Lien Agent also engaged a financial advisor in March 2013 and the First Lien Steering Committee engaged a financial advisor in June 2013.

87. Commencing in April 2013, Nelson Education, with the assistance of its financial and legal advisors, entered into discussions with a number of stakeholders, including the Second Lien Agent, the First Lien Steering Committee, and their respective advisors, in connection with potential alternatives to address the Company's debt obligations for the benefit of the Company and its stakeholders. Nelson Education and its advisors engaged in continued dialogue and sought continuous feedback in respect of potential consensual transaction alternatives, including the exchange of a number of without prejudice and confidential proposed transaction term sheets

between August 2013 and September 2014, and provided information and updates about the Company and its business to the First Lien Steering Committee, the Second Lien Agent, and their respective advisors. Members of the Company's management and its advisors attended several in-person meetings with the First Lien Steering Committee and its advisors, and with the Second Lien Agent and its advisors, and diligently pursued a consensual solution.

88. As noted above, Cengage had commenced Chapter 11 proceedings in July 2013, and completed its financial restructuring and emerged from its Chapter 11 reorganization on March 31, 2014. It is my understanding that the Company's lenders wanted to better understand the Cengage restructuring prior to advancing in detail Nelson Education's recapitalization.

89. On July 7, 2014, Nelson Education commenced a consent solicitation process to solicit the consent of the First Lien Lenders to the amendment and extension of the First Lien Credit Agreement (the "**July Proposed Extension**"). First Lien Lenders were asked to provide their consent to the July Proposed Extension on or prior to the early consent date in respect of the July Proposed Extension, which consent date had last been extended to September 10, 2014. The July Proposed Extension did not receive the support of the First Lien Lenders.

90. Following the announcement of the July Proposed Extension, the Company and its advisors continued to have discussions and meetings with the First Lien Steering Committee and its advisors, and with the Second Lien Agent and its advisors, with the aim of achieving a consensual solution that would be supported by Nelson Education's lenders.

(iv) First Lien Term Sheet

91. On September 10, 2014, the Company announced to the First Lien Lenders the Company's proposed transaction framework on the terms set out in the First Lien Term Sheet for a sale or restructuring of the business and sought the support of all of its First Lien Lenders.

92. The First Lien Term Sheet provides for among other things (i) a comprehensive and open SISP to be conducted by the Company to identify potential sale and/or investment transactions, and (ii) if a transaction that would provide for net sale or investment proceeds sufficient for payment in full of all obligations under the First Lien Credit Agreement or that is otherwise acceptable to First Lien Lenders holdings at least 66 2/3% of the outstanding obligations under the First Lien Credit Agreement (a "**Superior Offer**") is not identified pursuant to the SISP, a credit bid by the First Lien Lenders of all of the debt owing to them under the First Lien Credit Agreement to effectuate a conversion of the First Lien Lenders' claims for a new first lien term facility and for common shares of the Purchaser (the "**Transaction**").

93. Following the announcement of the First Lien Term Sheet and the Transaction, the Company continued certain limited discussions and exchange of correspondence with the Second Lien Agent.

(v) First Lien Support Agreement

94. As discussed above, in connection with the First Lien Term Sheet, Nelson Education and Holdings entered into the First Lien Support Agreement with the Consenting First Lien Lenders representing approximately 88% of the principal amounts outstanding under the First Lien Credit Agreement. The Consenting First Lien Lenders comprise 21 of the 22 First

Lien Lenders, or approximately 95% of all of the First Lien Lenders. A copy of the First Lien Support Agreement (without lender signature pages) is attached as Exhibit "G" hereto.

95. The First Lien Support Agreement contains certain milestones to be achieved pursuant to the terms of the agreement in connection with SISP and/or the Transaction, as applicable. The initial dates (subsequently extended) for certain of the key milestones under the First Lien Support Agreement were as follows:

a) Definitive Documentation for a Superior Offer: execution of binding definitive documentation, in form and substance acceptable to the Company and the First Lien Steering Committee, in respect of a Superior Offer by December 15, 2014 (or such later date as may be agreed to by the Company and the First Lien Steering Committee);

b) Definitive Documentation for a Transaction: finalization of definitive documentation with respect to the Transaction by October 31, 2014 (or such later date as may be agreed to by the Company and the First Lien Steering Committee);

c) Transaction Implementation Process: in the event the Transaction is to be effectuated, agreement on the process to implement the Transaction by November 14, 2014 (or such later date as may be agreed to by the Company and the First Lien Steering Committee);

d) Outside Date: outside date of February 1, 2015 (or such later date as may be agreed to by the Company and the First Lien Steering Committee) for completion of a Superior Offer or the Transaction.

96. Each of the above milestones was most recently extended to June 2, 2015, by agreement of the parties pursuant to the First Lien Support Agreement (subject to further extensions as may be agreed to by the parties) in order to continue discussions among the parties to advance transaction matters and to work towards a proper transition of the Nelson Business in an efficient manner.

97. Pursuant to the First Lien Support Agreement, Consenting First Lien Lenders who executed the First Lien Support Agreement or a Joinder Agreement (as defined in the First Lien Support Agreement) prior to September 25, 2014 (the "**Early Consenting First Lien Lenders**") are entitled to an amount equal to: (i) their pro rata share of an early cash consent fee of (a) 2% of the aggregate principal amount outstanding under the First Lien Credit Agreement as at July 4, 2014, plus (b) a percentage of the aggregate principal amount outstanding under the First Lien Credit Agreement as at July 4, 2014 calculated based on an annual rate of 10% less the interest rate paid under the First Lien Credit Agreement (including the Default Rate (as defined in the First Lien Credit Agreement)) for the period from July 4, 2014 to September 30 2014 (collectively, the "**Initial First Lien Early Consent Fee**"); and (ii) after September 30, 2014, a monthly cash consent fee calculated based on an annual rate of 10% less the interest rate paid under the First Lien Credit Agreement (including the Default Rate) in respect of the outstanding principal amount owing to such Early Consenting First Lien Lenders under the First Lien Credit Agreement (the "**Additional First Lien Early Consent Fee**").

98. Pursuant to the First Lien Support Agreement, the Initial First Lien Early Consent Fee was due on September 30, 2014 and the Additional First Lien Early Consent Fee is payable on a monthly basis in arrears on the last business day of each month until the termination of the First Lien Support Agreement.

99. The Company paid the Initial First Lien Early Consent Fee on September 30, 2014, and has paid Additional First Lien Early Consent Fee payments as they have become payable, in each case pursuant to the First Lien Support Agreement.

(vi) Sales Process

100. Pursuant to the First Lien Support Agreement, the Company engaged A&M to also assist with the SISP. As discussed above, pursuant to the terms of the First Lien Term Sheet and the First Lien Support Agreement, the Company, with the assistance of its advisors, commenced its SISP on September 22, 2014, to identify one or more potential purchasers of, or investors in, the Nelson Business. A total of 168 potential buyers and 11 potential lenders were contacted, of which 65 parties executed confidentiality agreements with Nelson Education. Parties who executed a confidentiality agreement with the Company were provided with, among other things, a confidential information memorandum and were asked to submit a non-binding expression of interest ("**EOIs**") by 5:00 p.m. (EST) on November 7, 2014.

101. Seven parties submitted EOIs to acquire all or part of the Nelson Business. The Company, with the assistance of its advisors, and following certain clarifying discussions with potential bidders and consultation with the First Lien Steering Committee and its advisors, continued to Phase 2 of the SISP whereby qualified bidders, among other things, received access to the Company's data room and management presentations.

102. Five parties ultimately proceeded to Phase 2 of the SISP of which three parties submitted non-binding offers for the purchase of substantially all of the Nelson Business and one party submitted a non-binding offer to purchase solely the K-12 Business. All of the offers received were reviewed by the Company and its advisors, in consultation with the First Lien Steering Committee and its advisors. Three of the offers received set forth purchase prices that were significantly below the value of the obligations under the First Lien Credit Agreement. The fourth offer was subject to a number of conditions and was not ultimately advanced by the bidder.

103. As noted above, the Company, with the assistance of its advisors, also maintained communications with Cengage throughout its restructuring efforts, including the SISP. The Company and A&M engaged in preliminary discussions with Cengage with respect to a potential transaction and related benefits to each of Nelson Education and Cengage under the agreements between the parties. In February 2015, Cengage and Nelson Education terminated their discussions about a potential sale transaction. Cengage and Nelson Education continue to discuss and advance ongoing business and operational matters and continue to have a strong business relationship related to the creation and delivery of high quality educational products.

104. The Company and A&M conducted a thorough canvassing of the market and are satisfied that all alternatives and expressions of interests were properly and thoroughly pursued. The SISP, however, did not result in an executable transaction that would result in proceeds to repay the obligations under the First Lien Credit Agreement in full or would otherwise be supported by the First Lien Lenders. Accordingly, pursuant to the First Lien Support Agreement, the Company is proceeding at this time with the Transaction.

(vii) Transaction

105. Concurrently with the carrying out of the SISP, the Company and its advisors worked with the First Lien Steering Committee and its advisors in connection with a potential Transaction in the event a Superior Offer was not achieved. Following the determination that there was no executable transaction that would result in proceeds to repay the obligations under the First Lien Credit Agreement in full or would otherwise be supported by the First Lien Lenders, the parties worked to settle the key transaction documents in connection with proceeding with the Transaction, including the asset purchase agreement pursuant to which the Nelson Education assets and business will be transferred to the Purchaser (the "**Purchase Agreement**"). On May 11, 2015, the Applicants entered into a supplemental support agreement (the "**Supplemental Support Agreement**") among the Company, Holdings, the First Lien Agent, Cortland Capital Market Services LLC, as sub-agent and supplemental administrative agent appointed in connection with the implementation of the Transaction (the "**Supplemental Agent**") and Consenting First Lien Lenders party thereto pursuant to which, upon entry of an Approval and Vesting Order approving the Transaction, in the form attached to the Purchase Agreement, the Company agreed to enter into the Purchase Agreement and the Supplemental Agent (the sole shareholder of Purchaser Holdco on behalf of the First Lien Lenders) agreed to cause the Purchaser to enter into the Purchase Agreement with the Company.

106. As discussed above, the Transaction includes, among other things:

a) the transfer of substantially all of the Company's assets to the Purchaser;

b) the assumption by the Purchaser of substantially all of the Company's trade payables, contractual obligations and employment obligations incurred in the ordinary course and as reflected in the Company's balance sheet (other than as set out in paragraphs 11, 12 and 13 above);

c) an offer of employment by the Purchaser to all of the Company's employees; and

d) an exchange and release by the First Lien Lenders of all of the indebtedness owing under the First Lien Credit Agreement for: (i) 100% of the common shares of Purchaser Holdco which will own 100% of the common shares of the Purchaser, and (ii) the obligations under a new US$200 million first lien term facility to be entered into by the Purchaser.

107. Effectuating the Transaction involves, among others, the following key steps:

a) Nelson Education and the Purchaser enter into the Purchase Agreement;

b) Nelson Education sells and transfers the Purchased Assets (as defined in the Purchase Agreement) to the Purchaser pursuant to the Purchase Agreement;

c) in satisfaction of the purchase price for the Purchased Assets, pursuant to the Purchase Agreement, the Purchaser:

(i) assumes the Closing Date Assumed Liabilities (as defined in the Purchase Agreement);

(ii) enters into a new first lien credit agreement (the "**Newco First Lien Credit Agreement**") with Nelson Education and issues to

Nelson Education a US$200 million note (the "**Newco Note**") pursuant to the Newco First Lien Credit Agreement; and

(iii) issues 1,000 non-voting redeemable/retractable preference shares in capital stock of the Purchaser (the "**Newco Preferred Shares**") to Nelson Education with an aggregate redemption amount equal to US$16 million;

d) Nelson Education conveys to the First Lien Lenders the Newco First Lien Credit Agreement, the Newco Note and the Newco Preferred Shares in partial payment and satisfaction of the Company's indebtedness under the First Lien Credit Agreement and the First Lien Lenders forgive the remaining amount owing under the First Lien Credit Agreement.

108. Under the Transaction, the Purchaser will not assume certain of the Company's obligations, including (i) any of the Company's obligations to the Second Lien Agent or the Second Lien Lenders under the Second Lien Credit Agreement, (ii) any liabilities relating to excluded assets, including excluded contracts (if any), (iii) any pre-closing environmental liabilities of the Company, except as required under applicable law, (iv) any liabilities of the Company with respect to any pre-closing infringement, misappropriation, misuse or passing off of intellectual property (if any), and (v) any other liability of the Company not expressly assumed under the Purchase Agreement, including the Nelson Education Promissory Note.

109. As noted above, I am not aware of any trade payables, contractual obligations or employment obligations, other than certain obligations in respect of former employees, obligations relating to matters in respect of the Second Lien Credit Agreement and the Nelson

Education Promissory Note, that are not being assumed by the Purchaser pursuant to the Transaction. I am also not aware of any valid pre-closing infringement, misappropriation, misuse or passing off of intellectual property claim.

110. As also noted above, pursuant to the Transaction, the Purchaser may, in its sole and absolute discretion, at any time up to three business days prior to the closing of the Transaction, elect to not acquire any of the assets, properties, and rights of the Company, including contracts of the Company specified as excluded contracts by the Purchaser.

111. After due consideration of the results of the SISP, the circumstances of the Applicants, the status of the Nelson Business and the benefits to the Applicants' stakeholders, the Applicants determined that proceeding with the Transaction under the terms and conditions of the Purchase Agreement is in the best interests of the Applicants and their stakeholders.

112. The Purchase Agreement represents an enterprise value for the Purchased Assets that is significantly higher than any transaction that could have been achieved under the SISP.

113. The Applicants believe that the Purchase Agreement provides a fair and reasonable price for the Purchased Assets in the circumstances. The Transaction is designed to ensure the ongoing operation of the Nelson Business going forward and to preserve:

a) the employment of all of the Company's 335 full-time, permanent, non-unionized employees and approximately 38 part-time non-unionized employees;

b) substantially all of the Company's contractual obligations (other than as set out in paragraphs 11, 12 and 13 above) incurred in the ordinary course and as reflected in the Company's balance sheet; and

c) all of the Company's trade obligations incurred in the ordinary course and as reflected in the Company's balance sheet.

114. The Transaction is also intended to preserve the Company's ongoing relationship with Cengage, its preferred and key business partner, and the arrangements between the parties are to remain unaffected under the Transaction.

115. The Company maintains the ability under the Transaction to complete a sale transaction that would result in proceeds sufficient to repay the obligations under the First Lien Credit Agreement in full prior to the closing of the Transaction.

116. The Transaction represents a transaction that will eliminate uncertainty, significantly reduce the Company's debt levels and improve its balance sheet, and provide stability to the Nelson Business in a process that is fair and reasonable to all stakeholders. Nelson Education believes that the implementation of the Transaction, which will result in a stronger financial foundation, will enable Nelson Education to solidify its position as Canada's leading education publisher and take advantage of improved market and industry conditions.

117. The Transaction is subject to customary conditions and receipt of requisite approvals. The Company's advisors have had numerous exchanges and discussions with Canadian Heritage in connection with the Transaction. The Company does not believe that there are any further consents required from Canadian Heritage prior to the completion of the

Transaction. The parties are seeking to complete the Transaction prior to the outside date of June 2, 2015 under the Purchase Agreement.

118. As noted above, under the First Lien Support Agreement, the parties agreed they would determine the appropriate process to implement the Transaction by the applicable milestone date under the First Lien Support Agreement. As discussed above, having regard to the current circumstances of the Applicants and the importance of continuing the Nelson Business without disruption, the Applicants and the Consenting First Lien Lenders determined that a Court-supervised CCAA process is the most appropriate manner for implementing the Transaction.

119. As also noted above, the Applicants intend to seek approval of the Transaction at the Sale Approval Motion. Additional details with respect to the Sale Process and the Transaction will be set out in the affidavit filed in support of the Sale Approval Motion.

120. The Applicants also intend to seek at the Sale Approval Motion a mutual release of claims among the Applicants, the Purchaser, their respective affiliates, the First Lien Lenders, the First Lien Agent, the Supplemental Agent and their respective directors, officers, employees, advisors and other representatives in connection the Nelson Business, the SISP, the Transaction, the First Lien Credit Agreement, these proceedings, and other related matters. The Applicants may seek a further release of claims at a later date in respect of such and/or similar matters.

(viii) Stockholders and Registration Rights Agreement

121. The First Lien Term Sheet provides that corporate governance and shareholder agreements acceptable to the Purchaser and the First Lien Steering Committee are to be entered

into in connection with the Transaction as a condition to the Transaction. I understand from our counsel, Robert Chadwick, that a Stockholders and Registration Rights Agreement (the "**Stockholders and Registration Rights Agreement**"), which is to apply in respect of the First Lien Lenders who are to become holders of the common shares of Purchaser Holdco as of the implementation of the Transaction, has been negotiated and agreed to by Purchaser Holdco and the First Lien Steering Committee.

122. A copy of the form of Stockholders and Registration Rights Agreement (attached hereto as Exhibit "H") will be provided to the Court under seal and a sealing order will be sought with respect to such agreement. I understand based on discussions with Mr. Chadwick that the First Lien Lenders believe that the Stockholders and Registration Rights Agreement is commercially sensitive and has already been made available to all First Lien Lenders. I believe sealing the Stockholders and Registration Rights Agreement is appropriate in the circumstances.

123. I further understand based on discussions with Mr. Chadwick that the First Lien Steering Committee requires that all of the First Lien Lenders be bound to the terms of the Stockholders and Registration Rights Agreement.

124. Accordingly, the Applicants intend to seek at the Sale Approval Motion that the Stockholders and Registration Rights Agreement be declared binding on all persons entitled to receive common shares of Purchaser Holdco in connection with the Transaction with the same force and effect as if such persons were signatories to the Stockholders and Registration Rights Agreement.

III. CCAA PROCEEDINGS

125. Nelson Education and Holdings are Applicants within these CCAA proceedings. For reasons discussed in this Affidavit, it is appropriate for this Court to exercise its jurisdiction to grant the Initial Order in respect of the Applicants.

(A) The Applicants are Insolvent for the Purposes of the CCAA

126. Despite its comprehensive efforts to address its financial difficulties, Nelson Education has been unable to find an out-of-court solution that would enable it to repay or refinance the amounts owing under the Credit Agreements.

127. Although the Nelson Business is generating positive EBITDA, Nelson Education does not currently have sufficient funds to repay its obligations under the First Lien Credit Agreement, which matured on July 3, 2014, and is in default under its Second Lien Credit Agreement. Holdings is likewise unable to satisfy its guarantee obligations under the Credit Agreements. In light of the financial circumstances of the Applicants, it is not possible to obtain additional financing that could be utilized to repay the amounts owing under the Credit Agreements and there is no reasonable expectation that the Applicants' financial condition will improve absent these restructuring proceedings.

128. In addition, the value of the Applicants' assets, property and undertaking, taken at fair value, is not sufficient to enable the Applicants to pay all of their obligations under the Credit Agreements, as evidenced by the results of the SISP.

129. The Applicants are therefore insolvent.

130. The Applicants and their respective boards of directors have thoroughly considered the circumstances and the alternatives available to the Applicants in the present circumstances. In exercise of their business judgment and with the assistance of their legal and financial advisors, they have determined that it is in the best interest of the Applicants and their stakeholders for the Applicants to file for protection under the CCAA. By pursuing the implementation of the Transaction under the CCAA at this time, the Nelson Business can continue as a going concern while substantially all of the Company's assets, trade payables and employment obligations are transferred to and assumed by the Purchaser.

(B) Stay of Proceedings under the CCAA

131. The Applicants are concerned that in light of the Applicants' financial circumstances, there could be an erosion of value to the detriment of all stakeholders. In particular, the Applicants are concerned about the following risks:

a) the First Lien Lenders enforcing on their security in respect of the obligations under the First Lien Credit Agreement;

b) potential termination of contracts by key suppliers and content providers; and

c) potential termination of contracts by customers.

132. Having regard to the circumstances, and in an effort to preserve the value of the Nelson Business, the commencement of the within CCAA proceedings and the granting of a stay of proceedings in order to permit the Applicants to restructure their affairs and implement the Transaction are in the best interests of the Applicants and their stakeholders.

133. Subject to the Court's approval of the Transaction at the Sale Approval Motion, the Company is seeking to complete the Transaction as efficiently as reasonably possible in order to minimize the impact of these CCAA proceedings on the Nelson Business. Pursuant to the Purchase Agreement, the Transaction must be completed by June 2, 2015, or such later date as may be agreed to by the Majority Initial Consenting First Lien Lenders and the Company.

(C) The Monitor

134. Alvarez & Marsal Canada Inc., an affiliate of A&M, has been retained to act as Monitor in potential CCAA proceedings. A&M has been engaged as Nelson Education's financial advisor since March 2013, to, among other things, assist the Company in improving its financial and operational performance and developing a five-year business plan, and to assist the Company with the SISP since September 2014. The professionals of Alvarez & Marsal Canada Inc. who have carriage of this matter, and who will have carriage of this matter for Alvarez & Marsal Canada Inc. as the Monitor, have acquired considerable knowledge of the Applicants, the Nelson Business and the Transaction. Alvarez & Marsal Canada Inc. is in a position to immediately assist the Applicants with its restructuring process.

135. Alvarez & Marsal Canada Inc. has consented to act as the Monitor of the Applicants in the within proceedings (the "**Monitor**"), subject to Court approval. A copy of Alvarez & Marsal Canada Inc.'s consent is attached as Tab "3" to the Application Record.

136. In connection with Alvarez & Marsal Canada Inc.'s appointment as the Monitor, it is contemplated that a Court-ordered charge over the assets and property of the Applicants would be granted in favour of the Monitor, its legal counsel, the Applicants' Canadian and U.S. counsel, the First Lien Agent, the Supplemental Agent, and Canadian and U.S. counsel to the

First Lien Steering Committee, the First Lien Agent and the Supplemental Agent in respect of their fees and disbursements incurred at their standard rates and charges, and in favour of the financial advisor to the First Lien Steering Committee pursuant to the engagement letter dated June 24, 2014 (the "**Administration Charge**"), which Administration Charge is to be in an aggregate amount of $1 million. All of the beneficiaries of the Administration Charge have contributed, and continue to contribute, to the restructuring efforts of the Company, including the Transaction.

137. In connection with the Sale Approval Motion, the Applicants expect to seek to amend the Administration Charge to reduce it to an aggregate amount of $400,000 for the benefit of the Monitor and the Monitor's counsel only, effective upon the completion of the Transaction.

(D) Funding of the Applicants

(i) Cash Flow Forecast

138. As at May 6, 2015, the Company had a cash balance of approximately $22.5 million. A copy of cash-flow forecast prepared by the Applicants with the assistance of the proposed Monitor is attached hereto as Exhibit "I" (the "**Cash Flow Forecast**").

139. As set out in the Cash Flow Forecast, the Applicants have sufficient funding through the period of the Cash Flow Forecast. The principal uses of cash during the next five-week period will consist of the costs associated with ongoing payments made in the ordinary course in respect of employee compensation, utility services, suppliers, content providers and other ordinary course of business obligations, and professional fees and disbursements in connection with these CCAA proceedings.

140. As noted above, upon completion of the Transaction, which remains subject to, among other things, approval by this Court, substantially all of the assets of the Company, including the Company's cash, will be transferred to the Purchaser. Under the Purchase Agreement, the parties have agreed to a cash reserve of $1,150,000 to remain with the Company, with any remaining funds to be provided to the Purchaser on the earlier of 18 months or the wind-down of the Company. The amount of the cash reserve was determined with the assistance of the Company's financial advisor and based on estimated professional fees and other post-closing expenses of the Applicants.

(ii) Cash Management System

141. Nelson Education has a banking relationship with the Royal Bank of Canada ("**RBC**") and the Company's cash management system (the "**Cash Management System**") is operated through its accounts held at RBC in Toronto, namely: (i) a Canadian dollar operating account (the "**CAD Operating Account**"); (ii) a U.S. dollar operating account (the "**USD Operating Account**", together with the CAD Operating Account, the "**Operating Accounts**"); (iii) a Canadian dollar positive pay account (the "**CAD Positive Pay Account**"); (iv) a U.S. dollar positive pay account ("**USD Positive Pay Account**", together with the CAD Positive Pay Account, the "**Positive Pay Accounts**"); and (v) one Canadian dollar payroll account, which is only used for infrequent emergency payroll payments. Nelson Education also has one restricted cash account held with Valiant Trust in respect of certain payments payable under the KERP (as defined below), as further discussed below.

142. The Applicants seek the authority to continue to use the existing Cash Management System and to maintain the banking arrangements already in place.

143. Cash receipts on credit sales received by Nelson Education are generally deposited into the CAD Operating Account at RBC, which serves as the Company's primary bank account. Approximately 60% of receipts are paid via customer cheque sent to either a Nelson P.O. Box or its head office, 37% of receipts are paid via direct deposit, and 3% are paid by credit card. Nelson accepts Visa and MasterCard and uses Moneris Solutions to process credit card receipts. The majority of receipts are deposited into the CAD Operating Account, but to the extent that funds are received in U.S. denominated currency, such receipts are deposited into the USD Operating Account.

144. The USD Operating Account is also used to deposit any cash receipts received from Cengage. Cash receipts from Cengage are related to certain back office functions that Nelson Education provides to Cengage, as well as any revenue attribution that arises as per an agreement between the two parties to provide compensation for cross-border online sales. CAD funds are converted to U.S. funds on an as needed basis and vice versa.

145. The Company utilizes the cash in the CAD Operating Account to fund its payroll and make wire transfer or direct deposit payments to various vendors. The USD Operating Account is primarily used to make payments to Cengage; however, non-USD denominated amounts owing to Cengage are paid via the CAD Operating Account. The USD Operating Account is also used to make wire transfers and direct deposit payments to other U.S. based vendors. Additionally, funds from the USD Operating Account are used to make interest and principal repayments under the Company's Credit Agreements. Funds are transferred from the CAD Operating Account to the USD Operating Account through electronic fund transfers on an as needed basis in order to pay for third-party vendors as well as Cengage-related products,

service fees and royalties, and obligations under the Credit Agreements. Nelson is not required to maintain a minimum amount of cash on hand.

146. The Positive Pay accounts are the Company's primary disbursement accounts that process all cheque payments, generally to third party vendors. The CAD Positive Pay Account is used to pay the majority of the Company's vendors related to day-to-day operations. Approximately 75% of the Company's aggregate cash disbursements are paid from the CAD Positive Pay Account. The USD Positive Pay Account is used to process cheques to U.S. based vendors. Funds are transferred from the Operating Accounts to the respective Positive Pay accounts using electronic fund transfers through RBC Express on a weekly basis.

147. Nelson Education's payroll account is used to process cheque payments relating to payroll transactions outside of the typical bi-monthly payroll payments.

148. The current Cash Management System includes the necessary accounting controls to enable the Applicants, as well as its creditors and this Court, to trace funds through the system and ensure that all transactions are adequately ascertainable. As such, it is hereby requested that this Court grant a continuation of the current Cash Management System.

(E) <u>Payments during the CCAA Proceedings</u>

149. During the course of these CCAA proceedings, subject to the terms of the Supplemental Support Agreement, the Applicants intend to make payments for goods, content and services supplied pre-filing and post-filing in the ordinary course as set out in the Cash Flow Forecast described above and as permitted by the Initial Order.

150. It is also contemplated by the Cash Flow Forecast that all employee obligations owing to current employees will be paid in the ordinary course, whether such obligations are incurred pre-filing or post-filing.

(i) Suppliers and Content Providers

151. Nelson Education relies on the supply of products and services from its suppliers and service providers and content from its numerous content providers in connection with the ongoing creation, development and/or adaptation of its products and materials as an integral part of the Nelson Business.

152. It is my understanding that, without approval from the Court, amounts owing to suppliers in respect of pre-filing debt cannot be paid. For the reasons discussed below, the Applicants are seeking Court approval to allow them to pay ordinary course pre-filing amounts to Nelson Education's suppliers, service providers and content providers.

153. Nelson Education operates in a highly competitive environment where the ongoing creation of products and materials and the timely provision of its products and materials is essential in order for Nelson Education to remain a successful player in the industry and to ensure the continuance of the Nelson Business.

154. Nelson Education intends to continue to rely on those suppliers, service providers and content providers with which it has contracts or arrangements that were entered into prior to the date of the filing. The Applicants must ensure continued good relations with suppliers, service providers and content providers for the benefit of the ongoing Nelson Business.

155. As will be set out in further detail in the Proposed Monitor's Pre-Filing Report, the Cash Flow Forecast currently contemplates the ability to make ordinary course pre-filing payments to suppliers, service providers and content providers.

(ii) Customer Programs

156. The Applicants have several customer programs in place pursuant to existing contracts or arrangements with certain of their customers, including refunds, returns, rebates, warranties and similar programs.

157. In order to maintain customer relationships as part of the Company's going concern business, the Applicants are seeking approval of the Court to continue providing certain existing customer programs in compliance with the contracts and arrangements in place with customers and to pay certain ordinary course amounts owing or allow the customer application of credits in accordance with certain customer programs.

158. As will be set out in further detail in the Proposed Monitor's Pre-Filing Report, the Cash Flow Forecast currently contemplates customer application of pre-filing credits and the ability to make pre-filing payments relating to customer programs in the ordinary course.

(F) Key Employee Retention Program

(i) KERP

159. The retention of key employees and officers has been and continues to be of vital importance to Nelson Education during its restructuring efforts, including preserving the value of the Nelson Business in the context of a going concern sale.

160. In January 2014, Nelson Education developed a key employee retention program (the "**KERP**") with the principal purpose of providing an incentive for certain key existing employees critical to the preservation of the Company's enterprise value to remain with the Company despite the financial difficulties that the Company is currently facing. The Company consulted with the First Lien Steering Committee in connection with the KERP. The KERP was reviewed and approved by the Company's Board of Directors.

161. Under the KERP, the eligible employees will become eligible to receive a retention payment if such employees remain with the Company until their applicable retention date (collectively, the "**Retention Payments**"). Remaining Retention Payments under the KERP become payable to certain eligible employees on June 30, 2015 and are to be paid by no later than July 15, 2015. Funds in respect of the Retention Payments have been set aside by the Company in an escrow account.

162. If an eligible employee resigns or is terminated for just cause prior to the applicable retention date for such employee, such employee will not be eligible for its Retention Payment under the KERP. If an eligible employee is terminated without cause prior to the applicable retention date for such employee, such employee will remain eligible for its Retention Payment under the KERP as though such employee had remained until the applicable retention date. In the case of death or disability prior to the applicable retention date, an eligible employee will receive its pro rata portion of its Retention Payment under the KERP for the number of completed months following the date of the KERP agreement with such employee and prior to the applicable retention date that such employee was actively employed by the Company.

163. Eligible employees have to this point relied on the KERP and are focussed on working to complete a transaction to maximize the value of the Nelson Business.

164. The eligible employees are essential for a successful restructuring of the Company and the preservation of the Company's value during the restructuring process and are likely to seek alternative employment absent the KERP. It would be detrimental to the restructuring process if the Company were required to find replacements for eligible employees during this critical period. It is the Company's belief that the KERP, including the payments payable thereunder, not only provides appropriate incentives for the eligible employees to remain in their current positions, but also ensures that they are properly compensated for their assistance in the Company's restructuring process.

(ii) KERP Charge

165. The maximum aggregate amount of Retention Payments is approximately $340,000. The Applicants request a Court-ordered charge in the amount of $340,000 over the assets and property of the Applicants as security for the Retention Payments (the "**KERP Charge**").

166. In connection with the Sale Approval Motion, the Applicants expect to seek a release and discharge of the KERP Charge upon the completion of the Transaction and the assumption by the Purchaser of all of the obligations under the KERP.

167. A detailed summary of the individual Retention Payments (attached hereto as Exhibit "J") will be provided to the Court under seal and a sealing order will be sought with respect to such information. Nelson Education does not wish to make the salaries of its

employees publically known. I believe sealing this information is appropriate in the circumstances.

(G) Director and Officer Protections

168. The directors of the Applicants have been actively involved in the attempts to address the Applicants' current financial circumstances and difficulties, including through the exploration of alternatives, communicating with the principal secured lenders, implementation of the SISP, and the commencement of the within CCAA proceedings. The directors have been mindful of their duties with respect to the supervision and guidance of the Applicants in advance of these CCAA proceedings.

169. It is my understanding that in certain circumstances directors and officers can be held personally liable for certain of a company's obligations to the federal and provincial governments, including in connection with payroll remittances, harmonized sales taxes, goods and services taxes, workers compensation remittances, etc. Furthermore, I understand it may be possible for directors and officers of a corporation to be held personally liable for certain wage-related obligations to employees.

170. Nelson Education maintains a Director and Officer Insurance Policy (the "**D&O Policy**") with AIG Insurance Company of Canada ("**AIG**") for the directors and officers of the Applicants which expires on June 30, 2015. The current Primary D&O Policy provides $15 million in coverage. The D&O Policy also includes certain additional coverage for the directors and officers of the Applicants in certain circumstances where indemnification is unavailable of up to $1 million in excess of coverage otherwise provided by the D&O Policy.

171. The D&O Policy contains several exclusions and limitations to the coverage provided by such policy, and there is a potential for there to be insufficient coverage in respect of the potential directors' liabilities for which the directors and/or officers may be found to be responsible.

172. The directors and officers of the Applicants have expressed their desire for certainty with respect to potential personal liability if they continue in their current capacities. In order to complete a successful restructuring, including the Transaction, the Applicants require the active and committed involvement of their directors and officers.

173. The Applicants request a Court-ordered charge in the amount of $2.2 million over the assets and property of the Applicants to indemnify the directors and officers of the Applicants in respect of liabilities they may incur in such capacities from and after the commencement of these proceedings (the "**Directors' Charge**").

(H) <u>Priorities of Charges</u>

174. It is contemplated that the priorities of the various charges set out herein will be as follows:

a) First – the Administration Charge (to a maximum of $1 million);

b) Second – the Directors' Charge (to a maximum of $2.2 million); and

c) Third – the KERP Charge (to a maximum of $340,000).

175. The Initial Order sought by the Applicants provides for the Administration Charge, the Directors' Charge and the KERP Charge (collectively, the "**Charges**") on the assets

and property of the Applicants, ranking in priority to all other security interests, trusts, liens, charges and encumbrances, claims of secured creditors, statutory or otherwise (collectively, "**Encumbrances**") in favour of any person, notwithstanding the order of perfection or attachment, except for any validly perfected security interest in favour of a "secured creditor" as defined in the CCAA other than any validly perfected security interest in favour of the First Lien Agent, the First Lien Lenders, the Second Lien Agent and the Second Lien Lenders under the Credit Agreements. Counsel to the First Lien Agent, the First Lien Lenders, the Second Lien Agent and the Second Lien Lenders that are affected by the Charges have been given notice of these CCAA proceedings.

176. The Applicants believe the amounts of the Charges are fair and reasonable in the circumstances.

IV. CONCLUSION

177. The Applicants currently have unsustainable debt levels when compared to their annual revenue and EBITDA. The Applicants' First Lien Credit Agreement matured in July 2014 and remains unpaid, and the Applicants are also in default under their Second Lien Credit Agreement which matures on July 3, 2015.

178. The Company, with the assistance of its advisors, conducted a comprehensive sales and investment solicitation process that did not result in an executable transaction that would result in proceeds to repay the obligations under the First Lien Credit Agreement in full or would otherwise be supported by the First Lien Lenders.

179. There is no value available to the Second Lien Lenders and the within CCAA proceedings are necessary to preserve the value of the Nelson Business with minimal disruption while the Applicants pursue the completion of the Transaction and the transfer of the assets and property of the Company in satisfaction of the indebtedness owing to the First Lien Lenders free and clear of the obligations under the Second Lien Credit Agreement.

180. The Transaction is the only executable transaction in the circumstances and will significantly reduce the debt levels of the Company, establish a stronger financial foundation for Nelson Education, create stability for the business, and strengthen the Company's position as Canada's leading educational publisher for the benefit of the Company's many stakeholders.

SWORN before me at the City of Vancouver, on May 11, 2015. A Commissioner for taking affidavits	Greg Nordal

GAVIN A. MAH
Barrister & Solicitor
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TAB A

THIS IS EXHIBIT "A" REFERRED TO IN THE

AFFIDAVIT OF GREG NORDAL

SWORN BEFORE ME

ON THIS 11TH DAY OF MAY, 2015

A COMMISSIONER FOR TAKING AFFIDAVITS

Nelson Education Ltd.

Consolidated Financial Statements
For the nine month period ended March 31, 2014 and year ended
June 30, 2013

pwc

June 30, 2014

Independent Auditor's Report

To the Directors of
Nelson Education Ltd.

We have audited the accompanying consolidated financial statements of Nelson Education Ltd., which comprise the consolidated balance sheets as at March 31, 2014 and the consolidated statements of operations, shareholders' deficit and cash flows for the period ended March 31, 2014, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian accounting standards for private enterprises, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Nelson Education Ltd. as March 31, 2014 and the results of its operations and their cash flows for the period then ended in accordance with Canadian accounting standards for private enterprises.

Emphasis of matter
Without qualifying our opinion, we draw attention to note 2 in the consolidated financial statements which describe matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about Nelson Education Ltd.'s ability to continue as a going concern.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Nelson Education Ltd.
Consolidated Balance Sheets
As of March 31, 2014 and June 30, 2013

(Thousands of Canadian dollars unless otherwise indicated)

	March 31, 2014	June 30, 2013
Assets		
Cash and restricted cash	$ 32,165	$ 42,414
Accounts receivable, net (note 5)	1,272	24,421
Inventory, net (note 6)	11,420	12,393
Prepaid expenses and other current assets (note 10, 19)	19,570	5,053
Current portion of the fair value of derivative assets (note 12)	238	363
Total current assets	64,665	84,644
Pre-publication cost, net	17,202	16,933
Property and equipment, net (note 7)	13,660	14,375
Identifiable intangible assets, net (note 8)	116,328	190,877
Goodwill (note 8)	34,393	41,587
Other assets (note 10)	-	1,650
Total assets	$ 246,248	$ 350,066
Liabilities and shareholders' deficit		
Accounts payable and accrued expenses	$ 18,238	$ 25,394
Deferred revenue	7,368	8,496
Current portion of long-term debt (note 10)	296,737	13,542
Current portion of fair value of derivative liabilities (note 12)	1,228	4,719
Total current liabilities	323,571	52,151
Non-current liabilities	-	29
Long-term debt (note 10)	169,178	449,224
Promissory note due to parent (note 19)	122,495	116,969
Total liabilities	615,244	618,373
Shareholders' Deficit	(368,996)	(268,307)
Total liabilities and shareholders' deficit	$ 246,248	$ 350,066

Commitments and contingencies (note 13)

Going concern assumption (note 2)

The accompanying notes are an integral part of these Consolidated Financial Statements.

Nelson Education Ltd.
Consolidated Statements of Shareholders' Deficit
For the Nine Month Period Ended March 31, 2014 and Year Ended June 30, 2013

(Thousands of Canadian dollars unless otherwise indicated)

	Share Capital	Contributed Surplus	Accumulated Deficit	Total
Balance, June 30, 2013	$ 39,338	$ 1,889	$ (309,534)	$ (268,307)
Net loss	-	-	(100,689)	(100,689)
Balance, March 31, 2014	$ 39,338	$ 1,889	$ (410,223)	$ (368,996)
Balance, June 30, 2012	$ 39,338	$ 1,442	$ (288,561)	$ (247,781)
Net loss	-	-	(20,848)	(20,848)
Stock based compensation expense	-	447	-	447
Dividends	-	-	(125)	(125)
Balance, June 30, 2013	$ 39,338	$ 1,889	$ (309,534)	$ (268,307)

The accompanying notes are an integral part of these Consolidated Financial Statements.

Nelson Education Ltd.
Consolidated Statements of Operations
For the Nine Month Period Ended March 31, 2014 and Year Ended June 30, 2013

(Thousands of Canadian dollars unless otherwise indicated)

	9 months ended March 31, 2014	12 months ended June 30, 2013
Revenue	$ 87,962	$ 138,501
Costs and expenses:		
Cost of revenue	(30,174)	(43,258)
Amortization of pre-publication costs	(7,492)	(13,603)
Selling, general and administrative (note 19)	(32,287)	(44,709)
Depreciation	(1,058)	(1,404)
Impairment of goodwill	(7,194)	-
Amortization and impairment of identifiable intangible assets (note 8)	(74,929)	(10,709)
Total costs and expenses	(153,134)	(113,683)
Operating (loss) profit	(65,172)	24,818
Impairment of long term notes receivable (note 19)	-	(15,586)
Gain on sale of long term notes receivable (note 19)	6,353	-
Foreign exchange loss on revaluation of US denominated debt and related swap agreements, net (note 14)	(22,578)	(16,692)
Interest expense, net (note 15)	(23,783)	(29,234)
Fair value gain on interest rate swap (note 12)	3,491	5,056
Loss before income taxes from continuing operations	(101,689)	(31,638)
Income taxes (note 16)	-	-
Net loss from continuing operations	(101,689)	(31,638)
Net earnings from discontinued operations (note 4)	1,000	10,790
Net loss	$ (100,689)	$ (20,848)

The accompanying notes are an integral part of these Consolidated Financial Statements.

Nelson Education Ltd.
Consolidated Statements of Cash Flows
For the Nine Month Period Ended March 31, 2014 and and Year Ended June 30, 2013

(Thousands of Canadian dollars unless otherwise indicated)

	9 months ended March 31, 2014	12 months ended June 30, 2013
Cash flows from operating activities		
Net loss from continuing operations	$ (101,689)	$ (31,638)
Adjustments to reconcile net earnings to cash provided by operating activities:		
Depreciation and amortization	16,445	25,716
Impairment of identifiable intangible assets	67,034	-
Impairment of goodwill	7,194	-
Foreign exchange loss on revaluation of US denominated debt and related foreign exchange swaps	22,578	16,692
Fair value gain on interest rate swap	(3,491)	(5,056)
Interest rate swap settlements	3,711	4,826
Amortization of finance costs attributed to the acquisition	623	831
Amortization of discount on long term note receivable	-	(1,043)
Stock-based compensation expense	-	447
Foreign exchange gain on revaluation of long term note receivable	-	(300)
Impairment of long term notes receivable	-	15,586
Accrued interest on promissory note due to parent	5,526	7,355
	17,931	33,416
Changes in current assets and liabilities, net of acquisitions & discontinued operations:		
Decrease in accounts receivable, net	23,149	2,949
Decrease (increase) in inventory, net	973	(212)
Increase (decrease) in prepaid expenses and other current assets	(6,973)	411
Decrease (increase) in accounts payable and accrued expenses	(7,156)	5,299
Decrease in non-current liabilities	(29)	(79)
Decrease (increase) in deferred revenue	(1,128)	2,382
Net cash provided by continuing operations	26,767	44,166
Net cash provided by discontinued operations	-	207
Net cash provided by operating activities	26,767	44,373
Cash flows from investing activities		
Net additions to property and equipment	(343)	(779)
Additions to pre-publication costs	(7,761)	(10,226)
Additions to identifiable intangible assets	(380)	(576)
Net cash used in investing activities of continuing operations	(8,484)	(11,581)
Net cash provided by investing activities of discontinued operations	1,000	20,433
Net cash (used in) provided by investing activities	(7,484)	8,852

The accompanying notes are an integral part of these Consolidated Financial Statements.

Nelson Education Ltd.
Consolidated Statements of Cash Flows (cont'd)
For the Nine Month Period Ended March 31, 2014 and and Year Ended June 30, 2013

(Thousands of Canadian dollars unless otherwise indicated)

	9 months ended March 31, 2014	12 months ended June 30, 2013
Cash flows from financing activities		
Quarterly payments on foreign exchange swaps	277	(278)
Net cash paid on settlement of interest swaps	(3,711)	(4,826)
Financing fees (note 10)	(5,894)	(1,650)
Dividend paid	-	(125)
Repayment of short-term debt	-	(7,500)
Repayment of long-term debt	(20,204)	-
Net cash used in financing activities	(29,532)	(14,379)
Cash flows from continuing operations	(11,249)	18,206
Cash flows from discontinued operations	1,000	20,640
Net (Decrease) Increase in Cash	(10,249)	38,846
Cash - Beginning of Period	42,414	3,568
Cash - End of Period	$ 32,165	$ 42,414

The accompanying notes are an integral part of these Consolidated Financial Statements.

Nelson Education Ltd.
Notes to Consolidated Financial Statements
For the Nine Month Period Ended March 31, 2014 and Year Ended June 30, 2013

(Thousands of Canadian dollars unless otherwise indicated)

1. Description of Business

Nelson Education Ltd. ("Nelson" or the "Company") was incorporated on May 25, 2007 under the laws of Canada to acquire all of the book publishing assets and liabilities of Thomson Nelson, a division of Thomson Canada Limited as well as all of the common shares of Groupe Modulo Inc. ("Modulo").

The Company is a 100% owned subsidiary of Nelson Education Holdings Ltd. which is privately owned and controlled by TN Holdings, LP. The Company was inactive until the commencement of operations on July 5, 2007.

Nelson Education Ltd. delivers learning solutions for universities, students, professors, libraries, government agencies, schools, professionals and corporations primarily in Canada. Although printed materials continue to be the most widely-used learning resource, the Company also provides customers with electronic resources.

Modulo produces and sells instructional materials, mainly French language books, to schools, school boards, colleges and universities in Quebec. On January 31, 2013, Modulo was sold to Transcontinental Media Inc. (note 4).

2. Summary of Significant Accounting Policies and Going Concern Assumption

The financial statements have been prepared in accordance with Canadian accounting standards for private enterprises ("ASPE") on a going concern basis. Under the going concern assumption, the Company is viewed as being able to realize its assets and discharge its liabilities in the normal course of operations. However, the use of ASPE based on the company's ability to continue as a going concern is potentially inappropriate given that there is some doubt about the appropriateness of the going concern assumption.

The Company has reported losses of $100,689 for 2014 and $20,848 for 2013 and has an accumulated deficit of $368,996. Cash flows from operating activities from continuing operations were $26,767 (2013: $44,166). At March 31, 2014, excluding current deferred revenue and the current portion of long term debt, the Company had working capital of $45,199.

In addition, as disclosed in Note 10, the Company's first-lien of $296,737 matures on July 4, 2014 while its second lien of $169,178 matures July 3, 2015. Although management is projecting positive cash flows for the year ending March 31, 2015 and beyond, the Company will not have sufficient funds to settle these liens, without new financing or an extension of the existing financing. The Company has commenced negotiations for an extension of this first lien and is concurrently renegotiating the second lien. Management has engaged a financial consultant to assist with the negotiations, and while management is working toward a consensual agreement with lenders before July 3, 2014, there is no assurance that these negotiations will be successful. Failure to re-finance this debt or find an alternative source of funding would mean that the Company would not be able to meet its financial obligations as they fall due. As of May 31, the Company is also in violation of one of the contractual covenants related to the second lien as the Company missed an interest payment that was due on March 31, 2014 and extended to May 31, 2014. This breach would permit the lender to demand accelerated repayment.

These financial statements do not reflect any adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary if the company was not able to continue its operations for the foreseeable future and realize its assets and settle its liabilities in the normal course of operations. Such adjustments to the carrying values could be material.

Nelson Education Ltd.
Notes to Consolidated Financial Statements
For the Nine Month Period Ended March 31, 2014 and Year Ended June 30, 2013

(Thousands of Canadian dollars unless otherwise indicated)

2. Summary of Significant Accounting Policiesand Going Concern Assumption (cont'd)

Basis of Presentation and Consolidation

These Consolidated Financial Statements include the financial position, results of operations and cash flows of the Company and its wholly owned subsidiary Modulo. All intercompany balances and transactions are eliminated upon consolidation.

As of March 31, 2014, the Company changed its fiscal year end to March 31 as it better reflects the natural sales cycle of the company and to align with the back office systems with Cengage who were also moving to a March 31st year end. Due to the change, the amounts presented in the financial statements at March 31 are not entirely comparible as they only represent 9 months of financial results.

Use of Estimates

The preparation of financial statements in conformity with ASPE requires management to make estimates and assumptions that affect the amounts reported in these Consolidated Financial Statements and accompanying notes. Although these estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future, actual results could differ from these estimates. These estimates include, but are not limited to, reserve for doubtful accounts, reserve for sales returns, realization of deferred tax assets, inventory obsolescence provision and the determination of fair values used in the assessment of the realizability of long-lived assets, derivatives, goodwill, identifiable intangible assets and recoverability of royalty advances and prepublication costs.

Revenue Recognition

Revenue from the sale of print and digital products, less estimated returns, is recognized when the product is shipped and title passes to the customer. Amounts billed to customers in a sales transaction for shipping and handling are classified as revenue.

The Company recognizes revenues from sales of subscription-based products ratably over the term of the subscription. Subscription revenue received or receivable in advance of the delivery of services or publications is included in deferred revenue. Incremental costs that are directly related to the subscription revenue are deferred and amortized over the subscription period.

Where a contractual arrangement consists of two or more separate elements that can be provided to customers either on a stand-alone basis or as an optional extra, such as the provision of supplementary materials with textbooks, revenue is recognized for each element as if it were an individual contractual arrangement.

Accounts Receivable and Allowance for Doubtful Accounts

Most of the Company's accounts receivable are due from schools, universities, professional associations and government agencies.

Accounts receivable are recorded at the invoiced amount and do not bear interest. Accounts receivable are reflected net of an allowance for doubtful accounts. The Company assesses the adequacy of the allowance for doubtful accounts periodically, evaluating general factors such as the length of time individual receivables are past due, historical collection experience, and the economic and competitive environment.

Nelson Education Ltd.
Notes to Consolidated Financial Statements
For the Nine Month Period Ended March 31, 2014 and Year Ended June 30, 2013

(Thousands of Canadian dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies and Going Concern Assumption (cont'd)

Reserve for Sales Returns

Accounts receivable are reflected net of reserve for sales returns which represents the estimated future returns for historical sales. The Company's policy is to allow customers up to twelve months to return product.

The Company estimates the reserve for sales returns based on the historical rate of return and current market conditions. The Company analyzes historical sales returns data to estimate the amount of future returns.

Pre-Publication Costs

Pre-publication costs are costs to create a book or other media and include costs for the associated delivery method when such media is electronic. Such costs are amortized over the period that the majority of sales relating to the content is expected to be generated. This period of time begins in the year of publication and normally extends three to five years.

Cash and Restricted Cash

The Company considers cash to consist of cash on deposit in banks. Restricted cash in the amount of $1,114 consists of cash held in trust in regards to a retention bonus as a part of a key employee retention plan.

Inventory

Inventory which is principally comprised of books, compact discs, and other print products, is stated at the lower of cost or net realizable value, with cost determined generally using the weighted average method. Allowances are established to reduce the cost of excess and obsolete inventory to its estimated net realizable value.

Property and Equipment

Property and equipment is stated at cost less accumulated depreciation. Depreciation is computed on a straight-line basis over the following estimated useful lives:

Computer hardware and systems	3 years
Furniture and fixtures	7 years
Machinery and equipment	5 - 7 years
Building	40 years

Royalty Advances and Royalty Payable

The Company pays royalties to authors either as a lump-sum prepayment or as products are sold, in accordance with the author's contract. The royalties are expensed to "Cost of revenue" as revenue from the associated products is recognized. Amounts paid to authors in advance of publication of books are offset by related royalties earned by the author. When management considers that a portion of an advance made to an author is not recoverable, a provision is made and recorded against the royalty advances. The provision is estimated by management based on the age of the advances.

Royalty payable arises when the book has been sold and the royalties earned less actual returns exceed the advances paid to the author.

Nelson Education Ltd.
Notes to Consolidated Financial Statements
For the Nine Month Period Ended March 31, 2014 and Year Ended June 30, 2013

(Thousands of Canadian dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies and Going Concern Assumption (cont'd)

Goodwill

Goodwill is carried at cost less accumulated impairment losses. Goodwill is reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of the reporting unit to which the goodwill is assigned may exceed the fair value of the reporting unit.

Identifiable Intangible Assets

Upon acquisition, identifiable intangible assets are recorded at fair value. Identifiable intangible assets with finite lives are amortized on a straight-line basis over the following estimated useful lives:

Customer relationships	18 - 20 years
Agency relationships	17 - 20 years
Content	16 - 20 years
Computer software	3 years

Impairment of Long-lived Assets

Long-lived assets, including property and equipment and intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset group may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset group to the estimated undiscounted future cash flows expected to be generated by the asset group. If the carrying amount of an asset group exceeds its estimated undiscounted future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset group exceeds its fair value.

Derivative Financial Instruments

Derivative financial instruments are used to reduce interest rate and foreign currency risk on the Company's long term debt (note 11). The Company does not enter into derivative financial instruments for trading or speculative purposes. Derivative financial instruments are recorded at fair value and are reported as financial assets when they have a positive fair value and as financial liabilities when they have a negative fair value. Changes in fair values of the derivative financial instruments are recorded as earnings or an expense in the year in the statement of operations.

Other Financial Instruments

Upon initial recognition, the Company records its financial assets and liabilities at fair value, adjusted for any financing fees or transaction costs, except for certain related party transactions. Subsequently, the Company records its financial assets and liabilities at amortized cost. Financial assets are tested for impairment at the end of each reporting period when there are indications the assets may be impaired.

Related party transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Nelson Education Ltd.
Notes to Consolidated Financial Statements
For the Nine Month Period Ended March 31, 2014 and Year Ended June 30, 2013

(Thousands of Canadian dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies and Going Concern Assumption (cont'd)

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates of exchange in effect at the date of the Consolidated Balance Sheet. Non-monetary assets, non-monetary liabilities, revenues and expenses arising from transactions denominated in foreign currencies, are translated at rates of exchange in effect at the date of the transaction. Excluding long-term debt, adjustments to the Canadian dollar equivalent of foreign denominated monetary assets and liabilities due to the impact of exchange rate changes are recorded in "Selling, general and administrative" in the statement of operations.

Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on future income tax assets and liabilities is recognized in income in the period that includes the enactment or substantive enactment date. A valuation allowance is established, if necessary, to reduce any future income tax asset to an amount that is more likely than not to be realized.

Stock-based Compensation

Compensation costs are measured using the fair value method at the time of grant based on the number of units expected to vest and management's best estimate of the Company achieving specific performance conditions.

3. Financial Instruments

The Company is exposed to exchange risk, interest rate risk, credit risk and liquidity risk. Detailed below is the Company's exposure to each of these risks, as well as objectives, policies and processes of measuring and managing risk.

Foreign Currency Risk

The Company is primarily exposed to foreign currency risk associated with the US denominated long-term debt. Two cross currency swaps were entered into to mitigate against significant future foreign currency fluctuations. These swaps hedge approximately 100% of the quarterly US$ interest payment related to the long-term debt outstanding. As of March 31, 2014 and June 30, 2013, foreign currency fluctuations of +/- 5% on the unhedged portion of long-term debt interest payments would, everything else being equal, have an effect on income before taxes for the period ended March 31, 2014 of approximately +/- $nil and +/- $37 for the year ended June 30, 2013.

The company is also exposed to foreign currency risk from the Company's purchase of books and educational materials from a related company and other international companies which are made mostly in US dollars. As a result, the Company will experience foreign exchange exposures between the Canadian and US dollar affecting net income. As of March 31, 2014 and June 30, 2013, foreign currency fluctuations of +/- 5% would, everything else being equal, have an effect on income before taxes for the period ended March 31, 2014 of approximately +/- $397 and +/- $551 for the year end June 30, 2013.

Nelson Education Ltd.
Notes to Consolidated Financial Statements
For the Nine Month Period Ended March 31, 2014 and Year Ended June 30, 2013

(Thousands of Canadian dollars unless otherwise indicated)

3. Financial Instruments (cont'd)

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate risk arising from fluctuations in market interest rates on its variable interest rate associated with the long-term debt. As of March 31, 2014 and June 30, 2013, fluctuations of +/- 1/4 pt. on the unhedged portion would, everything else being equal, have an effect on income before taxes for the period ended March 31, 2014 of approximately +/- $849 and +/- $1,112 for the year ended June 30, 2013. The remainder of the Company's financial assets and liabilities are not exposed to interest rate risk.

Credit Risk

The Company is exposed to credit risk in the event of non-performance or default on contractual obligations by counterparties in connection with the derivative contracts used to mitigate the Company's exposure to foreign exchange and interest rate risk on the long-term debt. The Company does not obtain collateral or other security to support the derivative instruments subject to credit risk but mitigates this risk by dealing with counterparties that are of strong credit quality and accordingly, does not anticipate loss for non-performance.

The Company is also exposed to credit risk from the accounts receivables. The Company's maximum exposure to credit risk from accounts receivables is equal to the carrying value of the accounts receivable balance. Credit risk from receivables is minimal because most of the balances are from schools, universities, professional associations and government agencies. The Company also mitigates credit risk through the use of credit limits, except for non-corporate customers, who are required to make pre-payments before the sale will be released. For some customers such as school boards and government funded entities, credit limits can be unlimited. Credit limits are set based on a number of factors including credit reports, prior business and other factors. Credit limits are reviewed by management regularly. The carrying amounts of accounts receivable is reduced through the use of an allowance for doubtful accounts and an allowance for estimated returns. When a receivable balance is considered uncollectible, it is written off against the allowance for doubtful accounts.

Nelson Education Ltd.
Notes to Consolidated Financial Statements
For the Nine Month Period Ended March 31, 2014 and Year Ended June 30, 2013

(Thousands of Canadian dollars unless otherwise indicated)

4. Discontinued Operations

On January 31, 2013, the Company announced the completion of the sale of Modulo, the Company's Quebec based subsidiary to Transcontinental Media Inc. for the selling price of $22,565. Of the selling price, $21,565 was received in cash with $1,000 held back based on certain conditions being met. The $1,000 hold back was received on December 12, 2013.

The sale of Modulo resulted in a gain of $11,442. The gain on the sale was calculated as follows:

Net assets sold		
Net working capital	$	1,640
Property and equipment		299
Pre-publication costs		3,394
Identifiable intangible assets, net		3,568
Goodwill		327
		9,228
Legal and exit costs		1,895
	$	11,123
Consideration		
Cash consideration received on January 31, 2013	$	21,565
Cash consideration received on December 12, 2013		1,000
Total Consideration	$	22,565
Gain on sale of discontinued operations	$	11,442

Operating results related to these assets and liabilities have been included in net income from discontinued operations on the Consolidated Statement of Operations. Comparative period balances have been reclassified.

Nelson Education Ltd.
Notes to Consolidated Financial Statements
For the Nine Month Period Ended March 31, 2014 and Year Ended June 30, 2013

(Thousands of Canadian dollars unless otherwise indicated)

4. Discontinued Operations (cont'd)

Net earnings from discontinued operations reported on the Consolidated Statements of Operations is comprised of the following:

	9 months ended March 31, 2014	12 months ended June 30, 2013
Revenue	$ -	$ 6,763
Costs and expenses:		
Cost of revenue	-	(1,537)
Amortization of pre-publication costs	-	(1,384)
Selling, general and administrative	-	(3,362)
Depreciation	-	(67)
Amortization and impairment of identifiable intangible assets	-	(69)
Total costs and expenses	-	(6,419)
Operating profit	-	344
Interest income	-	4
Earnings from discontinued operations	-	348
Gain on sale of discontinued operations	1,000	10,442
Net Earnings from discontinued operations	$ 1,000	$ 10,790

5. Accounts Receivable

Accounts receivable consisted of the following as of March 31, 2014 and June 30, 2013:

	2014	2013
Accounts receivable, gross	$ 9,289	$ 35,433
Reserve for sales returns	(7,906)	(10,866)
Allowance for doubtful accounts	(111)	(146)
Accounts receivable, net	$ 1,272	$ 24,421

The carrying value of accounts receivable approximate their fair value given their short term nature.

Nelson Education Ltd.
Notes to Consolidated Financial Statements
For the Nine Month Period Ended March 31, 2014 and Year Ended June 30, 2013

(Thousands of Canadian dollars unless otherwise indicated)

6. Inventories

Inventory consisted of the following as of March 31, 2014 and June 30, 2013:

	2014	2013
Raw materials	$ 186	$ 199
Finished goods	25,458	26,207
Reserve for inventory returns and write offs	(14,224)	(14,013)
Inventory, net	$ 11,420	$ 12,393

The cost of inventory recognized as an expense and included in the income statement as a part of cost of revenue was $11,240 for the period ended March 31, 2014 and $16,824 for the year ended June 30, 2013. Inventory provisions charged to the income statement was $1,045 for the period ended March 31, 2014 and $827, for the year ended June 30, 2013 respectively. There was no reversal during the period ended March 31, 2014 of any write-downs in inventory that were recognized as an expense in prior periods.

7. Property and Equipment

Property and equipment, net, consisted of the following as of March 31, 2014 and June 30, 2013:

	Cost	Accumulated Amortization	Net Book Value March 31, 2014
Computer hardware and systems	$ 2,598	$ 2,017	$ 581
Machinery and equipment	5,234	3,943	1,291
Furniture and fixtures	1,427	1,392	35
Building	8,639	1,703	6,936
Land	4,817	-	4,817
Total property and equipment, net	$ 22,715	$ 9,055	$ 13,660

	Cost	Accumulated Amortization	Net Book Value June 30, 2013
Computer hardware and systems	$ 2,480	$ 1,788	$ 692
Machinery and equipment	5,216	3,541	1,675
Furniture and fixtures	1,427	1,304	123
Building	8,535	1,467	7,068
Land	4,817	-	4,817
Total property and equipment, net	$ 22,475	$ 8,100	$ 14,375

Nelson Education Ltd.
Notes to Consolidated Financial Statements
For the Nine Month Period Ended March 31, 2014 and Year Ended June 30, 2013

(Thousands of Canadian dollars unless otherwise indicated)

8. Identifiable Intangible Assets and Goodwill

Identifiable intangible assets, net, consisted of the following as of March 31, 2014 and June 30, 2013:

	Gross	Accumulated Amortization	Net Book Value March 31, 2014
Customer relationships	$ 125,600	$ 103,632	$ 21,968
Agency relationships	177,200	119,999	57,201
Trade names	31,500	-	31,500
Content	11,381	6,799	4,582
Computer Software	6,197	5,120	1,077
	$ 351,878	$ 235,550	$ 116,328

	Gross	Accumulated Amortization	Net Book Value June 30, 2013
Customer relationships	$ 125,600	$ 102,295	$ 23,305
Agency relationships	177,200	77,318	99,882
Trade names	60,300	-	60,300
Content	11,381	5,244	6,137
Computer Software	5,845	4,592	1,253
	$ 380,326	$ 189,449	$ 190,877

Nelson Education Ltd.
Notes to Consolidated Financial Statements
For the Nine Month Period Ended March 31, 2014 and Year Ended June 30, 2013

(Thousands of Canadian dollars unless otherwise indicated)

8. Identifiable Intangible Assets and Goodwill (cont'd)

Amortization expense for identifiable intangible assets was $7,895 for the period ended March 31, 2014 and $10,709 for the year ended June 30, 2013.

As of March 31, 2014, estimated future amortization expense for each of the next five fiscal years is as follows:

Year ending March 31,		
2015	$	6,837
2016		6,837
2017		6,837
2018		6,837
2019		6,837
	$	34,185

As a result of the impairment testing for the period ended March 31, 2014, management concluded that impairment had occurred and consequently the Company reduced the carrying value of the identifiable intangible assets by $67,034 and goodwill by $7,194 through a charge to operations. The specific identifiable intangible assets that were deemed to be impaired were Content ($1,021), Agency Relationships ($37,213), and Trade names ($28,800). The impairment primarily reflected the result of adverse changes in market conditions and declines in management's expectations of revenue and cash flows driven by softness in the school and higher education segments.

9. Benefit Plans

Defined Contribution Pension Plan

Certain employees participate in a defined contribution pension plan, administered by Nelson Education Ltd. The plan covers all employees who meet minimum age and service requirements and allows participants to defer a portion of their annual compensation on a pre-tax basis. The Company matches 25% to 100% (depending on years of service and/or position) of employee contributions up to the first 6% of the employee contribution. These matching contributions vest based on employees' years of service and become fully vested after two years of service. Matching contribution expense was $994 for the period ended March 31, 2014 (2013 - $1,031).

Nelson Education Ltd.
Notes to Consolidated Financial Statements
For the Nine Month Period Ended March 31, 2014 and Year Ended June 30, 2013

(Thousands of Canadian dollars unless otherwise indicated)

10. Long-term Debt

Long-term debt consisted of the following as of March 31, 2014 and June 30, 2013:

	2014	2013
First Lien, committed, non-revolving, reducing, US dollar credit facility, bearing interest at the LIBOR rate plus 2.50%, payable in quarterly installments. Maturing on July 4, 2014.	$ 296,737	$ 302,037
Second Lien, committed, non-revolving, US dollar credit facility, bearing interest at the LIBOR rate plus 6.00%. Maturing on July 3, 2015.	169,178	160,729
	465,915	462,766
Less: current portion	296,737	13,542
	$ 169,178	$ 449,224

The required minimum principal repayments in each of the next five fiscal years are as follows:

2015	$ 296,737
2016	169,178
2017	-
2018	-
2019	-
	$ 465,915

Commencing in fiscal 2010, the Company is required to make an annual mandatory prepayment on the First Lien and each year's repayment will be based on the previous year's excess cash flow as defined in the First Lien agreement.

A mandatory prepayment of $13,557 was made on September 30, 2013 based on the excess cash flow from fiscal 2013. The Company was not required to make a mandatory prepayment based on the excess cash flow from fiscal 2012. On March 31, 2014, the Company made a voluntary repayment of $6,647 on the outstanding principal of the First Lien credit facility.

Financing fees incurred in connection with the issuance of long term debt are deducted from the carrying amount of the debt and amortized using the effective interest method. For the period ended March 31, 2014 and year ended June 30, 2013, $623 and $831 have been included in interest expense, net.

These credit facilities contain financial and other covenants which must be complied with beginning December 31, 2008. The Company is in compliance with the financial covenants as of March 31, 2014.

Financing fees incurred in the negotiations of the refinancing of the long-term debt is included in Prepaid expenses and other current assets. As of March 31, 2014, capitalized financing fees totalled $7,544. Once the refinancing has been completed, the financing fees will be deducted from the carrying amount of the debt and amortized using the effective interest method.

Nelson Education Ltd.
Notes to Consolidated Financial Statements
For the Nine Month Period Ended March 31, 2014 and Year Ended June 30, 2013

(Thousands of Canadian dollars unless otherwise indicated)

11. Short-term Debt

The Company had an additional revolving credit facility up to $50,000 which expired on July 5, 2013. As of June 30, 2013, there was $nil drawn on this credit facility. In accordance with the terms of the agreement, the Company is required to pay a commitment fee in the amount of 0.50% per annum payable quarterly on the unused portion of the revolving facility. The commitment fee was $nil for the period ended March 31, 2014 and $250 for the year ended June 30, 2013, respectively.

12. Fair Value of Derivatives

Derivative asset or (liability) consists of the following as of March 31, 2014 and June 30, 2013:

	2014	2013
Fair market value of foreign currency swap agreements	$ 238	$ 363
Fair market value of interest swap agreement	(1,228)	(4,719)
	$ (990)	$ (4,356)

The fair value of derivatives is estimated from quotes obtained from the Company's counterparties for the same or similar financial instruments.

Since incorporation, the Company has entered into several derivative arrangements as described below.

Eight cross currency swaps were entered into to mitigate against significant future fluctuations in US dollar foreign currency risk associated with the US denominated long-term debt (note 10). Six of these swap agreements settled as at June 28, 2012 with the remaining two maturing on June 30, 2014.

The unexpired swaps provided foreign currency fluctuation coverage of 97% of the outstanding debt during fiscal year 2013 at an average foreign exchange rate of $US1=$CDN0.9680, and foreign currency fluctuation coverage of 100% of the outstanding debt during fiscal year 2014 at an average foreign exchange rate of $US1=$CDN0.9680.

An interest rate swap with a notional value of $310,000 was entered into on May 19, 2011, became effective on June 29, 2012 and will be terminating on June 30, 2014. This swap will provide variable interest rate fluctuation coverage on approximately 75% of the outstanding debt for fiscal years 2013 and 2014. The swap converts variable interest to the fixed rate of 2.858% (plus the spreads of 2.5% on Lien 1 on 6% on Lien 2).

Due to the terms of the lien agreements, as well as the terms of the derivatives, it was determined that hedge accounting could not be applied and as such, mark to market adjustments related to both swap agreements are reflected in the Consolidated Statement of Operations.

Nelson Education Ltd.
Notes to Consolidated Financial Statements
For the Nine Month Period Ended March 31, 2014 and Year Ended June 30, 2013

(Thousands of Canadian dollars unless otherwise indicated)

13. Contingencies, Commitments and Guarantees

Claims and Legal Actions
The Company is involved in ordinary and routine litigation incidental to its business. In the opinion of management, there are no pending legal proceedings that would have a material adverse effect on the Consolidated Financial Statements of the Company.

Leases
The Company leases certain facilities and other operating equipment under non-cancelable operating lease arrangements expiring at various dates through 2019. Future minimum lease payments under these leases are as follows:

Year ending March 31,		
2015	$	840
2016		604
2017		440
2018		-
2019		-
	$	1,884

Guarantees
Under the Company's standard terms and conditions of sale, the Company warrants ownership of its products and provides certain warranties and indemnifications in relation thereto. The Company is not aware of any instances that would result in payments being made as a result of these warranties and indemnifications, and therefore, no reserve has been recorded in the Consolidated Financial Statements in relation thereto.

14. Foreign Exchange

The components of foreign exchange (loss) gain on revaluation of US denominated debt and related swap agreements, net include the following for the period ended March 31, 2014 and the year ended June 30, 2013:

		9 months ended March 31, 2014		12 months ended June 30, 2013
Foreign exchange loss on translation of long-term debt	$	(22,730)	$	(14,866)
Gain (loss) on foreign currency swaps		152		(1,826)
	$	(22,578)	$	(16,692)

Nelson Education Ltd.
Notes to Consolidated Financial Statements
For the Nine Month Period Ended March 31, 2014 and Year Ended June 30, 2013

(Thousands of Canadian dollars unless otherwise indicated)

15. Interest Expense, Net

The components of interest expense, net include the following for the period ended March 31, 2014 and year ended June 30, 2013:

	9 months ended March 31, 2014	12 months ended June 30, 2013
Bank fees	$ 120	$ 469
Interest expense on promissory note to parent	5,526	7,355
Interest expense on long-term debt	14,745	19,165
Interest rate swap settlements	3,711	4,826
Interest income	(319)	(1,238)
Amortization of discount on long term notes receivable	-	(1,043)
Foreign exchange gain on revaluation of long term notes receivable	-	(300)
	$ 23,783	$ 29,234

Interest paid on the long term debt was $14,031 for the period ended March 31, 2014 and $18,379 for the year ended June 30, 2013, respectively.

No interest payments were made on the promissory note to parent.

16. Income Taxes

The provision for income taxes differs from the amount that would have resulted by applying the combined federal and provincial income tax rates to earnings for the period ended March 31, 2014 and the year ended June 30, 2013, due to the following:

	9 months ended March 31, 2014	12 months ended June 30, 2013
Combined federal and provincial income taxes (recovery) at statutory rates	$ (26,078)	$ (11,039)
Permanent differences	7,318	7,742
Movement in valuation allowance	18,429	3,288
Other	331	9
Provision for income taxes	$ -	$ -

Nelson Education Ltd.
Notes to Consolidated Financial Statements
For the Nine Month Period Ended March 31, 2014 and Year Ended June 30, 2013

(Thousands of Canadian dollars unless otherwise indicated)

16. Income Taxes (cont'd)

Current future income tax assets consist of the following:

	March 31, 2014	June 30, 2013
Non-deductible reserves	$ 1,777	$ 2,417
Valuation Allowance	(1,777)	(2,417)
Net current future income tax assets	-	-

Non-current future income tax assets consist of the following:

	March 31, 2014	June 30, 2013
Pre-publication costs	$ (236)	$ (45)
Unrealized/realized capital loss carryforwards	5,781	4,105
Non-capital loss carryforwards	32,423	27,544
Property and equipment	1,321	1,256
Intangible assets	26,254	14,504
Goodwill	5,473	4,750
Other	(132)	(301)
Total non-current future income tax assets	70,884	51,813
Valuation allowance	(70,884)	(51,813)
Net non-current future income tax assets	-	-
Net total future tax assets	$ -	$ -

17. Capital Stock

Authorized
Unlimited number of common shares without par value

	March 31, 2014	June 30, 2013
Issued		
39,338,360 Common shares	$ 39,338	$ 39,338

Nelson Education Ltd.
Notes to Consolidated Financial Statements
For the Nine Month Period Ended March 31, 2014 and Year Ended June 30, 2013

(Thousands of Canadian dollars unless otherwise indicated)

18. Stock-Based Compensation

In May 2008, certain employees of the Company were granted the opportunity to purchase profit interest units ("Units") in an entity affiliated with TN Holdings LP. This arrangement is considered to be a stock-based compensation plan with the related compensation charge recorded in Selling, general and administrative expense in the statement of operations.

These Units vest in 20% increments over a five year period contingent upon the Company achieving a specified performance target set at the beginning of each fiscal year. If the performance target is not achieved in any given year, the Units remain unvested unless, in any subsequent year, the target for such subsequent fiscal year is achieved at which time the then current year's and all prior years' Units that are unvested will become vested Units provided the employee remains employed with the Company. In addition, all unvested Units would fully vest should certain events occur (i.e. a liquidity event). Upon termination of employment for any reason, the unvested Units will be forfeited and the vested Units will be subject to call rights by the affiliate.

The following table summarizes the activity of the Units for the year ended June 30, 2013:

(Units in thousands and dollars in whole Canadian dollars)

For the year ended June 30, 2013	Number of Units	Weighted Average Grant Date Fair Value
Unvested at June 30, 2012	2,700	$ 0.25
Vested	(2,700)	0.25
Unvested at June 30, 2013	-	$ -

The weighted compensation charge of $447 was recognized and included in the Consolidated Statement of Operations for the year ended June 30, 2013. As the Units granted are in respect of an entity affiliated with TN Holdings LP, $447 was also recorded in Contributed Surplus for the year ended June 30, 2013.

The fair value of the Units at the time of grant was determined using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	1.31%
Volatility factor	32.0%
Expected life (years)	2.5

The expected life represents management's estimate of the expected time to a liquidity event. Since the Units are not publicly traded, the expected volatility factor is based on a historical volatility factor of publicly traded peer group companies. The risk-free rate was interpolated from the Constant Maturity Treasury rate as of July 1, 2008 for a term equal to the liquidity horizon.

Nelson Education Ltd.
Notes to Consolidated Financial Statements
For the Nine Month Period Ended March 31, 2014 and Year Ended June 30, 2013

(Thousands of Canadian dollars unless otherwise indicated)

19. Related Party Transactions

Promissory note due to parent

The Company has a subordinated promissory note payable to Nelson Education Holdings Ltd. in the amount of $72,981, maturing on July 5, 2032. The loan bears interest at the rate of 10.05% per annum, which accrues daily and is payable in arrears on each anniversary date of the note (July 5th of each year).

The holder may elect to receive the annual interest in cash or as an addition to the outstanding principal balance of the note ("payment in kind"). Any interest paid in kind, will be added to the unpaid principal balance. Interest calculated on this loan will be simple interest based on the original outstanding principal of the loan. Notwithstanding the "payment in kind" election, the terms of the First Lien agreement restricts cash payments for interest expense for the foreseeable future. As of March 31, 2014, $49,514 was added to the carrying amount of the promissory note since its inception.

Agreements with Cengage Learning Inc.

Nelson entered into a Master Services Agreement with Cengage Learning Inc. ("Cengage"). Until March 31, 2014, Cengage was majority owned by funds affiliated with Apax Partners L.P. ("Apax"), with OMERS Private Equity ("OMERS") holding a minority interest.

Under the Master Services arrangement, Cengage is to provide Nelson with various services including business and technology services, content services, commissions' services, customer service and operations, management services, fulfillment services and business information support services and Nelson is to provide Cengage with certain real estate services. The cost of each of the services to be provided under the Master Services Agreement is based on a set fee. For the period ended March 31, 2014 and year ended June 30, 2013, service fees of $1,806 and $2,542 were paid to Cengage, respectively.

All services under the Master Services Agreement are to be provided for a specified period of time, and Nelson can generally terminate those services in advance upon 30 days written notice without penalty.

In addition, Nelson is party to an Operating Agreement with Cengage under which Nelson is the exclusive authorized distributor for sale and/or distribution of print and electronic publications in Canada. Nelson also has the exclusive right to adapt, customize and translate Cengage publications. The Operating Agreement sets certain restrictions on the use of Cengage content, including restricting Nelson's ability to adapt certain texts, limiting the dollar amount of sales of "first edition" texts and restricting Nelson from marketing adaptations or translations it has created outside of Canada. As a result of this distribution agreement, a significant amount of Nelson's revenue is derived from Cengage and therefore Nelson is economically dependent upon Cengage. For the period ended March 31, 2014 and year ended June 30, 2013, sales of Cengage publications represented $28,833 (33%) and $49,581 (36%) of Nelson's total revenues, respectively.

Nelson is required by the Operating Agreement to pay Cengage Learning Inc. royalties as a percentage of net sales for certain specified publications, adaptations of textbooks created by Nelson, translations of textbooks by Nelson and certain Nelson customized products. Royalties expense due to Cengage was $11,131 and $18,040 for the period ended March 31, 2014 and year ended June 30, 2013, respectively. All related party transactions are at arms length.

The Operating Agreement has an 11-year term to January 1, 2018, and thereafter it is subject to automatic one year extensions unless cancelled by one of the parties. The Operating Agreement may also be terminated upon material breach, bankruptcy of Nelson or the saemutual agreement of the parties.

On July 2, 2013, Cengage entered into Chapter 11 bankruptcy. Since this date, there have been no disruptions of services from Cengage. On March 31, 2014, Cengage emerged from Chapter 11 bankruptcy.

Nelson Education Ltd.
Notes to Consolidated Financial Statements
For the Nine Month Period Ended March 31, 2014 and Year Ended June 30, 2013

(Thousands of Canadian dollars unless otherwise indicated)

19. Related Party Transactions

Long Term Note Receivable

In November 2011, the Company purchased US dollar Senior Subordinated Discount Notes in Cengage with a face value of $17,118 USD for $13,156 USD. The Notes bear interest at a rate of 10.50% and mature on January 15, 2015. Amortization of the discount on the long term notes receivable was $1,043 for the year ended June 30, 2013.

For the year ended June 30, 2013, interest earned on these notes was $891 and is included in interest income with the related interest receivable included in Prepaid expenses and other current assets.

As of June 30, 2013, it was determined that the value of long term notes receivable was impaired and an impairment charge of $15,586 recorded against the notes receivable.

On March 21, 2014, the long term notes receivable were sold for $6,353 which has resulted in a gain of $6,353 on the consolidated statement of operations and is included in prepaid expenses and other current assets.

20. Segment Information

Nelson operates in two reportable market segments throughout Canada. Such segments are strategic business groups that offer products and services to target markets. The accounting policies applied by the segments are the same as those applied by Nelson. The Company's segments are:

Higher Education

The Higher Education segment publishes higher-education textbooks, electronic resources and provides tailored learning solutions for students and professionals.

School

The School segment publishes books and materials and provides services to schools, school boards, teachers and students from Kindergarten to Grade 12.

Select financial information for the Company's segments is as follows:

Period ended March 31, 2014	**Revenues**	**Segment operating profit**
Higher Education	$ 65,345	$ 18,565
School	22,617	(1,614)
Segment totals	87,962	16,951
Impairment of goodwill	-	(7,194)
Amortization and impairment of identifiable intangible assets	-	(74,929)
Total	$ 87,962	$ (65,172)

Year ended June 30, 2013:	**Revenues**	**Segment operating profit**
Higher Education	$ 95,490	$ 28,522
School	43,011	7,005
Segment totals	138,501	35,527
Amortization and impairment of identifiable intangible assets	-	(10,709)
Total	$ 138,501	$ 24,818

Nelson Education Ltd.
Notes to Consolidated Financial Statements
For the Nine Month Period Ended March 31, 2014 and Year Ended June 30, 2013

(Thousands of Canadian dollars unless otherwise indicated)

20. Segment Information (cont'd)

		March 31, 2014		June 30, 2013
Goodwill is allocated by segment as follows:				
Higher Education	$	28,626	$	35,820
School		5,767		5,767
Segment totals	$	34,393	$	41,587

		March 31, 2014		June 30, 2013
Identifiable intangible assets are allocated by segment as follows:				
Higher Education	$	87,143	$	148,658
School		29,185		42,219
Segment totals	$	116,328	$	190,877

The Company discloses information about its reportable segments based upon the measures used by management in assessing the performance of those reportable segments. The Company uses segment operating profit, which is operating profit before amortization of identifiable intangible assets, provision for income taxes and interest expense, to measure the operating performance of its segments. Management uses this measure because the excluded costs are not considered to be a controllable operating cost for purposes of assessing the current performance of its segments. While in accordance with ASPE, the Company's definition of segment operating profit may not be comparable to that of other companies. Total asset information by segment is not shown because it is not provided to or reviewed by the chief operating decision maker.

21. Retroactive Royalty Payment

On October 22, 2012, the Company received from Access Copyright, the Canadian copyright licensing agency, a one-time net payment of $3,034 for retroactive royalties, mainly related to the K-12 educational sector. The payment for retroactive royalties is included in Revenue.

22. Comparative Information

Certain comparative balances have been reclassified to conform to the March 31, 2014 financial statement presentation.

TAB B

THIS IS EXHIBIT "B" REFERRED TO IN THE

AFFIDAVIT OF GREG NORDAL

SWORN BEFORE ME

ON THIS 11TH DAY OF MAY, 2015

A COMMISSIONER FOR TAKING AFFIDAVITS

Nelson Education Ltd.

Consolidated Financial Statements (unaudited)
For the three and nine months ended December 31, 2014 and 2013

Nelson Education Ltd.
Consolidated Balance Sheets
(unaudited)
As of December 31, 2014 and March 31, 2014

(Thousands of Canadian dollars unless otherwise indicated)

	December 31, 2014	March 31, 2014
Assets		
Cash and restricted cash	$ 40,288	$ 32,165
Accounts receivable, net (note 6)	5,097	1,272
Inventory, net (note 7)	8,849	11,420
Prepaid expenses and other current assets (note 11)	32,013	19,570
Current portion of the fair value of derivative assets (note 12)	-	238
Total current assets	86,247	64,665
Pre-publication cost, net	18,023	17,202
Property and equipment, net (note 8)	12,993	13,660
Identifiable intangible assets, net (note 9)	111,085	116,328
Goodwill	34,393	34,393
Total assets	$ 262,741	$ 246,248
Liabilities and shareholders' deficit		
Accounts payable and accrued expenses	$ 31,243	$ 18,238
Deferred revenue	8,811	7,368
Current portion of long-term debt (note 11)	489,531	296,737
Current portion of the fair value of derivative liabilities (note 12)	-	1,228
Total current liabilities	529,585	323,571
Long-term debt (note 11)	-	169,178
Promissory note due to parent (note 19)	128,021	122,495
Total liabilities	657,606	615,244
Shareholders' Deficit	(394,865)	(368,996)
Total liabilities and shareholders' deficit	$ 262,741	$ 246,248

Commitments and contingencies (note 13)

The accompanying notes are an integral part of these Consolidated Financial Statements.

Nelson Education Ltd.
Consolidated Statements of Shareholders' Deficit
(unaudited)
Three and Nine Months Ended December 31, 2014 and 2013

(Thousands of Canadian dollars unless otherwise indicated)

	Share Capital	Contributed Surplus	Deficit	Total
Balance, September 30, 2014	$ 39,338	$ 1,889	$ (413,270)	$ (372,043)
Net loss	-	-	(22,822)	(22,822)
Balance, December 31, 2014	$ 39,338	$ 1,889	$ (436,092)	$ (394,865)
Balance, September 30, 2013	$ 39,338	$ 1,889	$ (298,230)	$ (257,003)
Net loss	-	-	(14,616)	(14,616)
Balance, December 31, 2013	$ 39,338	$ 1,889	$ (312,846)	$ (271,619)
Balance, March 31, 2014	$ 39,338	$ 1,889	$ (410,223)	$ (368,996)
Net loss	-	-	(25,869)	(25,869)
Balance, December 31, 2014	$ 39,338	$ 1,889	$ (436,092)	$ (394,865)
Balance, March 31, 2013	$ 39,338	$ 1,778	$ (290,077)	$ (248,961)
Net loss	-	-	(22,769)	(22,769)
Stock based compensation expense	-	111	-	111
Balance, December 31, 2013	$ 39,338	$ 1,889	$ (312,846)	$ (271,619)

The accompanying notes are an integral part of these Consolidated Financial Statements.

Nelson Education Ltd.
Consolidated Statements of Operations
(unaudited)
Three and Nine Months Ended December 31, 2014 and 2013

(Thousands of Canadian dollars unless otherwise indicated)

	Three months ended December 31, 2014	Three months ended December 31, 2013	Nine months ended December 31, 2014	Nine months ended December 31, 2013
Revenue	$ 31,415	$ 30,590	$ 112,172	$ 110,875
Costs and expenses:				
Cost of revenue	(10,355)	(10,276)	(39,538)	(38,373)
Amortization of pre-publication costs	(2,109)	(3,076)	(6,876)	(9,577)
Selling, general and administrative (note 19)	(11,345)	(9,299)	(33,245)	(32,868)
Depreciation	(272)	(348)	(864)	(1,067)
Amortization of identifiable intangible assets	(1,842)	(2,632)	(5,613)	(7,934)
Total costs and expenses	(25,923)	(25,631)	(86,136)	(89,819)
Operating profit	5,492	4,959	26,036	21,056
Impairment of long term notes receivable (note 19)	-	-	-	(3,289)
Foreign exchange loss on revaluation of US denominated debt and related swap agreements, net (note 14)	(16,921)	(13,929)	(23,191)	(20,409)
Interest expense, net (note 11, 15)	(11,393)	(7,856)	(29,942)	(23,917)
Fair value gain on interest rate swap	-	1,210	1,228	3,695
Loss	(22,822)	(15,616)	(25,869)	(22,864)
Income taxes (note 16)	-	-	-	-
Net loss from continuing operations	(22,822)	(15,616)	(25,869)	(22,864)
Net earnings from discontinued operations (note 5)	-	1,000	-	95
Net loss	$ (22,822)	$ (14,616)	$ (25,869)	$ (22,769)

The accompanying notes are an integral part of these Consolidated Financial Statements.

Nelson Education Ltd.
Consolidated Statements of Cash Flows
(unaudited)

Three and Nine Months Ended December 31, 2014 and 2013

(Thousands of Canadian dollars unless otherwise indicated)

	Three months ended December 31,		Nine months ended December 31,	
	2014	2013	2014	2013
Cash flows from operating activities				
Net loss from continuing operations	$ (22,822)	$ (15,616)	$ (25,869)	$ (22,864)
Adjustments to reconcile net loss to cash provided by operating activities:				
Depreciation and amortization	4,223	6,056	13,353	18,578
Foreign exchange loss on revaluation of US denominated debt and change in fair value of related swaps	16,921	13,929	23,191	20,409
Revaluation of interest rate swap	-	(1,210)	(1,228)	(3,695)
Amortization of finance costs attributed to the acquisition	160	208	575	623
Interest rate swap settlements	-	1,248	1,230	3,742
Stock-based compensation expense	-	-	-	111
Impairment of long term notes receivable	-	-	-	3,289
Amortization of discount on long term notes receivable	-	-	-	(107)
Foreign exchange gain on revaluation of long term notes receivable	-	-	-	(312)
Accrued interest on promissory note due to parent	1,849	1,849	5,526	5,527
	331	6,464	16,778	25,301
Changes in current assets and liabilities, net of acquisitions & discontinued operations:				
Decrease (increase) in accounts receivable, net	9,573	6,903	(3,825)	(3,237)
Decrease in inventory, net	635	691	2,571	1,851
Decrease (increase) in prepaid expenses and other current assets	233	1,322	6,188	(301)
Increase (decrease) in accounts payable and accrued expenses	6,316	(2,019)	13,005	(6,788)
Decrease in non-current liabilities	-	(15)	-	(44)
(Decrease) increase in deferred revenue	(1,439)	(945)	1,443	3,839
Net cash provided by operating activities of continuing operations	15,649	12,401	36,160	20,621
Net cash used in operating activities of discontinued operations	-	-	-	(906)
Net cash provided by operating activities	15,649	12,401	36,160	19,715
Cash flows from investing activities				
Additions to property and equipment	(136)	(136)	(197)	(992)
Additions to pre-publication costs	(2,788)	(2,273)	(7,697)	(7,472)
Additions to identifiable intangible assets	(246)	(71)	(370)	(372)
Net cash used in investing activities of continuing operations	(3,170)	(2,480)	(8,264)	(8,836)
Net cash provided by investing activities of discontinued operations	-	1,000	-	1,000
Net cash used in investing activities	(3,170)	(1,480)	(8,264)	(7,836)

The accompanying notes are an integral part of these Consolidated Financial Statements.

Nelson Education Ltd.
Consolidated Statements of Cash Flows (cont'd)
(unaudited)
Three and Nine Months Ended December 31, 2014 and 2013

(Thousands of Canadian dollars unless otherwise indicated)

	Three months ended December 31, 2014	Three months ended December 31, 2013	Nine months ended December 31, 2014	Nine months ended December 31, 2013
Cash flows from financing activities				
Net cash paid on settlement of interest swaps	-	(1,248)	(1,230)	(3,742)
Quarterly settlements of foreign exchange swaps	-	73	88	67
Refinancing fees	(5,589)	(2,035)	(18,631)	(5,778)
Repayment of long-term debt	-	-	-	(13,557)
Net cash used in financing activities	(5,589)	(3,210)	(19,773)	(23,010)
Cash flows from continuing operations	6,890	6,711	8,123	(11,225)
Cash flows from discontinued operations	-	1,000	-	94
Net Increase (Decrease) in Cash	6,890	7,711	8,123	(11,131)
Cash - Beginning of Period	33,398	34,000	32,165	52,842
Cash - End of Period	$ 40,288	$ 41,711	$ 40,288	$ 41,711

The accompanying notes are an integral part of these Consolidated Financial Statements.

Nelson Education Ltd.
Notes to Consolidated Financial Statements (unaudited)
Three and Nine Months Ended December 31, 2014 and 2013

(Thousands of Canadian dollars unless otherwise indicated)

1. Description of Business

Nelson Education Ltd. ("Nelson" or the "Company") was incorporated on May 25, 2007 under the laws of Canada to acquire all of the book publishing assets and liabilities of Thomson Nelson, a division of Thomson Canada Limited as well as all of the common shares of Groupe Modulo Inc. ("Modulo").

The Company is a 100% owned subsidiary of Nelson Education Holdings Ltd. which is privately owned and controlled by TN Holdings, LP. The Company was inactive until the commencement of operations on July 5, 2007.

Nelson Education Ltd. delivers learning solutions for universities, students, professors, libraries, government agencies, schools, professionals and corporations primarily in Canada. Although printed materials continue to be the most widely-used learning resource, the Company also provides customers with electronic resources.

Modulo produces and sells instructional materials, mainly French language books, to schools, school boards, colleges and universities in Quebec. On January 31, 2013, Modulo was sold to Transcontinental Media Inc. (note 5).

The interim financial statements of Nelson have been prepared by management in accordance with Canadian accounting standards for private enterprises ("ASPE"); accordingly, these financial statements have been prepared in accordance with Canadian generally accepted accounting principles and are unaudited. The interim financial statements of Nelson have been prepared following the same accounting policies and methods of computation as the audited financial statements for the period ended March 31, 2014. The disclosures which follow do not include all disclosures required for the annual financial statements. These unaudited interim financial statements should be read in conjunction with the audited financial statements and notes thereto for the period ended March 31, 2014.

As of March 31, 2014, the Company changed its fiscal year end to March 31 as it better reflects the natural sales cycle of the Company and to align with the back office systems with Cengage who were also moving to a March 31st year end.

2. Going Concern Assumption

The financial statements have been prepared in accordance with Canadian accounting standards for private enterprises ("ASPE") on a going concern basis. Under the going concern assumption, the Company is viewed as being able to realize its assets and discharge its liabilities in the normal course of operations. However, the use of ASPE based on the company's ability to continue as a going concern is potentially inappropriate given that there is some doubt about the appropriateness of the going concern assumption.

The Company has net losses of ($22,822) and ($25,869) for the three and nine months ending December 31, 2014 and has an accumulated deficit of $436,092. Cash flows from operating activities from continuing operations was $6,890 and $8,123 for the three and nine months ending December 31, 2014. At December 31, 2014, excluding current deferred revenue and the current portion of long term debt, the Company had working capital of $55,004.

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2. Going Concern Assumption (cont'd)

In addition, as disclosed in Note 11, the Company's first-lien credit facility of $311,782 matured on July 3, 2014 and its second lien credit facility of $177,749 matures July 3, 2015. Although management is projecting positive cash flows for the year ending March 31, 2015 and beyond, the Company will not have sufficient funds to repay its first lien and second lien obligations in full without new financing, an extension or amendment of such credit facilities, or a sale of the Company's assets and property. On September 10, 2014, the Company entered into a support agreement with first lien lenders holding approximately 88% of the outstanding first lien loans (the "Support Agreement"). The Support Agreement provides, among other things, an agreement by the Company to conduct a sale and investment solicitation process. The Support Agreement further provides that, in the event the sale and investment solicitation process does not result in a transaction (i) that would provide for net sale or investment proceeds sufficient to provide for the payment in full in cash of all first lien obligations and is acceptable to the Company and a majority of the first lien lenders of the first lien steering committee, or (ii) that is otherwise acceptable to first lien lenders holding at least 66 2/3% of the outstanding first lien loans, the first lien lenders would exchange the first lien debt for a new first lien term facility and for equity of a newly incorporated company to which all or substantially all of the assets of Nelson would be transferred (the "Exchange Transaction"). As part of such Exchange Transaction, it is expected that the second lien obligations would be fully extinguished on completion of the Exchange Transaction. The Company continues to be in dialogue with lenders under the first lien and second lien credit facilities with respect to the outstanding debt obligations.

The Company is in default of the first lien credit facility as the Company has not repaid the first lien Term Loan on maturity.

The Company is in default of the second lien credit facility as the Company has not paid interest related to the second lien credit facility that was due on March 31, 2014, June 30, 2014, September 30, 2014 and December 31, 2014.

Both the first and second lien credit facilities have been classified as current because the first lien is past due, while the second lien is due within the next twelve months.

These financial statements do not reflect any adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary if the company was not able to continue its operations for the foreseeable future and realize its assets and settle its liabilities in the normal course of operations. Such adjustments to the carrying values could be material.

3. Seasonality

The Company's revenues, operating profit and operating cash flows are impacted by the inherent seasonality of the academic calendar. Consequently, the performance of the business may not be comparable quarter to consecutive quarter and should be considered on the basis of results for the whole year or by comparing results in a quarter with results in the same quarter for the previous year.

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4. Financial Instruments

The Company is exposed to exchange risk, interest rate risk, credit risk and liquidity risk. These risks are consistent with risks disclosed in the notes to the audited financial statements for the year ended March 31, 2014. Detailed below is the Company's exposure to each of these risks, as well as Nelson's objectives, policies and processes of measuring and managing risk.

Foreign Currency Risk

The Company is primarily exposed to foreign currency risk associated with the US denominated long-term debt. Three cross currency swaps were entered into to mitigate against significant future fluctuations. These swaps expired on June 30, 2014. These swaps had hedged approximately 100% of the quarterly $US interest payment related to the long-term debt outstanding. As of December 31, 2014, fluctuations of +/- 5% on the unhedged portion of long-term debt would, everything else being equal, have an effect on income before taxes of approximately +/- $24,810.

The Company is also exposed to foreign currency risk from the Company's purchase of books and educational materials from a related company and other international companies which are made mostly in US dollars. As a result, the Company will experience foreign exchange exposures between the Canadian and US dollar affecting net income. As of December 31, 2014, fluctuations of +/- 5% would, everything else being equal, have an effect on income before taxes for the three and nine months ended December 31, 2014 of approximately +/- $134 and $478 respectively.

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate risk arising from fluctuations in market interest rates on its variable interest rate associated with the long-term debt. As of December 31, 2014, fluctuations of +/- 1/4 pt. on the unhedged portion would, everything else being equal, have an effect on income before taxes for the three and nine months ended December 31, 2014 of approximately +/- $305 and $880, respectively. The remainder of the Company's financial assets and liabilities are not exposed to interest rate risk.

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4. Financial Instruments (cont'd)

Credit Risk

The Company is exposed to credit risk in the event of non-performance or default on contractual obligations by counterparties in connection with the derivative contracts used to hedge the Company's exposure to foreign exchange and interest rate risk on the long-term debt. The Company does not obtain collateral or other security to support the derivative instruments subject to credit risk but mitigates this risk by dealing with counterparties that are of strong credit quality and accordingly, does not anticipate loss for non-performance.

The Company is also exposed to credit risk from the accounts receivable. The Company's maximum exposure to credit risk from accounts receivable is equal to the carrying value of the accounts receivable balance. Credit risk from receivables is minimal because most of the balances are from schools, universities, professional associations and government agencies. The Company also mitigates credit risk through the use of credit limits except for non-corporate customers who are required to make pre-payments before the sale will be released. For some customers such as school boards and government funded entities, credit limits can be unlimited. Credit limits are set based on a number of factors including credit reports, prior business and other factors. Credit limits are reviewed by management regularly. The carrying amounts of accounts receivable is reduced through the use of an allowance for doubtful accounts and an allowance for estimated returns. When a receivable balance is considered uncollectible, it is written off against the allowance for doubtful accounts.

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5. Discontinued Operations

On January 31, 2013, the Company announced the completion of the sale of Modulo, the Company's Quebec based subsidiary to Transcontinental Media Inc. for the selling price of $22,565. Of the selling price, $21,565 was received in cash with $1,000 held back based on certain conditions being met. The $1,000 hold back was received on December 12, 2013.

The sale of Modulo resulted in a gain of $11,442. The gain on the sale was calculated as follows:

Net assets sold		
Net working capital	$	1,640
Property and equipment, net		299
Pre-publication costs, net		3,394
Identifiable intangible assets, net		3,568
Goodwill		327
		9,228
Legal and exit costs		1,895
		11,123
Consideration		
Cash consideration received on January 31, 2013	$	21,565
Cash consideration received on December 12, 2013		1,000
Total Consideration	$	22,565
Gain on sale of discontinued operations	$	11,442

Operating results related to these assets and liabilities have been included in net income from discontinued operations on the Consolidated Statement of Operations. Comparative periods have been reclassified.

Net income from discontinued operations reported on the Consolidated Statements of Operations is comprised of the following:

	Three months ended December 31,		Nine months ended December 31,	
	2014	2013	2014	2013
Earnings from discontinued operations	$ -	$ -	$ -	$ -
Gain on sale of discontinued operations	-	1,000	-	95
Net Earnings from discontinued operations	$ -	$ 1,000	$ -	$ 95

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6. Accounts Receivable

Accounts receivable consisted of the following as of December 31, 2014 and March 31, 2014:

	December 31, 2014	March 31, 2014
Accounts receivable, gross	$ 21,334	$ 9,289
Reserve for sales returns	(16,173)	(7,906)
Allowance for doubtful accounts	(64)	(111)
Accounts receivable, net	$ 5,097	$ 1,272

The carrying value of accounts receivable approximate their fair value given their short term nature.

7. Inventories

Inventory consisted of the following as of December 31, 2014 and March 31, 2014:

	December 31, 2014	March 31, 2014
Raw materials	$ 181	$ 186
Finished goods	22,526	24,149
Reserve for inventory returns and write offs	(13,858)	(12,915)
Inventory, net	$ 8,849	$ 11,420

The cost of inventory recognized as an expense and included in the income statement as a part of cost of sales was $3,487 and $14,100 for the three and nine months ended December 31, 2014 and $3,753 and $14,836 for the three and nine month periods ended December 31, 2013, respectively. Inventory provisions charged to the income statement were $321 and $1,278 for the three and nine months ended December 31, 2014 and $292 and $1,561 for the three and nine months ended December 31, 2013 respectively. There was no significant reversal during the three and nine months ended December 31, 2014 of any write-downs in inventory that were recognized as an expense in prior periods.

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8. Property and Equipment

Property and equipment, net, consisted of the following as of December 31, 2014 and March 31, 2014:

	Cost	Accumulated Amortization	Net Book Value December 31, 2014
Computer hardware and systems	$ 2,355	$ 1,958	$ 397
Machinery and equipment	4,973	4,047	926
Furniture and fixtures	1,554	1,412	142
Building	8,654	1,943	6,711
Land	4,817	-	4,817
Total property and equipment, net	$ 22,353	$ 9,360	$ 12,993

	Cost	Accumulated Amortization	Net Book Value March 31, 2014
Computer hardware and systems	$ 2,598	$ 2,017	$ 581
Machinery and equipment	5,234	3,943	1,291
Furniture and fixtures	1,427	1,392	35
Building	8,639	1,703	6,936
Land	4,817	-	4,817
Total property and equipment, net	$ 22,715	$ 9,055	$ 13,660

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9. Identifiable Intangible Assets and Goodwill

Identifiable intangible assets, net consisted of the following as of December 31, 2014 and March 31, 2014:

	Gross	Accumulated Amortization	Net Book Value December 31, 2014
Customer relationships	$ 125,600	$ 104,997	$ 20,603
Agency relationships	177,200	123,401	53,799
Trade names	31,500	-	31,500
Content	11,381	7,178	4,203
Computer software	6,566	5,586	980
	$ 352,247	$ 241,162	$ 111,085

	Gross	Accumulated Amortization	Net Book Value March 31, 2014
Customer relationships	$ 125,600	$ 103,632	$ 21,968
Agency relationships	177,200	119,999	57,201
Trade names	31,500	-	31,500
Content	11,381	6,799	4,582
Computer software	6,197	5,120	1,077
	$ 351,878	$ 235,550	$ 116,328

Amortization expense for identifiable intangible assets was $1,842 and $5,613 for the three and nine months ended December 31, 2014 and $2,632 and $7,934 for the three and nine months ended December 31, 2013, respectively.

As of December 31, 2014, estimated future amortization expense for each of the next five fiscal years is as follows:

Year ending March 31,	
2016	$ 6,837
2017	6,837
2018	6,837
2019	6,837
2020	6,837
	$ 34,185

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10. Benefit Plans

Defined Contribution Plan
Certain employees participate in a defined contribution savings plan, administered by Nelson Education Ltd. The plan covers all employees who meet minimum age and service requirements and allows participants to defer a portion of their annual compensation on a pre-tax basis. The Company matches 25% to 100% (depending on years of service and/or position) of employee contributions up to the first 6% of the employee contribution. These matching contributions vest based on employees' years of service and become fully vested after two years of service. Matching contribution expense was $257 and $784 for the three and nine months ended December 31, 2014 and $258 and $968 for the three and nine months ended December 31, 2013, respectively.

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11. Long-term Debt

Long-term debt consisted of the following as of December 31, 2014 and March 31, 2014:

	December 31, 2014	March 31, 2014
First Lien, committed, non-revolving, reducing, US dollar credit facility, bearing interest at the LIBOR rate plus 2.50%, payable in quarterly installments. Maturing on July 4, 2014.	$ 311,782	$ 296,737
Second Lien, committed, non-revolving, US dollar credit facility with no fixed repayment date, bearing interest at the LIBOR rate plus 6.00%. Maturing on July 3, 2015.	177,749	169,178
	489,531	465,915
Less: current portion	489,531	296,737
	$ -	$ 169,178

Commencing in fiscal 2010, the Company is required to make an annual mandatory prepayment on the First Lien and each year's repayment will be based on the previous year's excess cash flow as defined in the First Lien agreement.

A mandatory prepayment of $13,557 was made on September 30, 2013 based on the excess cash flow from fiscal 2013. The Company was not required to make a mandatory prepayment based on the excess cash flow from fiscal 2012. On March 31, 2014, the Company made a voluntary repayment of $6,647 on the outstanding principal of the First Lien credit facility.

Financing fees incurred in connection with the issuance of long term debt are added to the carrying amount of the debt and amortized using the effective interest method. For the three and nine month periods ended December 31, 2014 and 2013, $160 and $575 have been expensed and is included in interest expense, net.

Financing fees incurred in the negotiations of the refinancing of the long-term debt are included in Prepaid expenses and other current assets. As of December 31, 2014, capitalized financing fees totaled $26,175. Once the refinancing has been completed, the financing fees will be deducted from the carrying amount of the debt and amortized using the effective interest method.

The Company is required to pay a Default Margin of 2.0% under its first lien credit facility. For the quarter ending December 31, 2014, the default margin expensed and included in Interest expense, net is $1,538. The Company will incur approximately $1,500 in Default Margin per quarter until the first lien obligations are paid in full or the completion of a refinancing, amendment or extension transaction, or the sale of its assets and property.

The Company is required to pay a Default Margin of 2.0% under its second lien credit facility. For the quarter ending December 31, 2014, the default margin expensed and included in Interest expense, net is $877. The Company will incur approximately $850 in Default Margin per quarter until the second lien obligations are paid in full or the completion of a refinancing, amendment or extension transaction, or the sale of its assets and property.

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12. Fair Value of Derivatives

Fair value of derivatives consists of the following as of December 31, 2014 and March 31, 2014:

	December 31, 2014	March 31, 2014
Fair market value of foreign currency swap agreements	$ -	$ 238
Fair market value of interest swap agreement	-	(1,228)
	$ -	$ (990)

The fair value of derivatives is estimated from quotes obtained from the Company's counterparties for the same or similar financial instruments.

Since incorporation, the Company has entered into several derivative arrangements as described below.

Eight cross currency swaps were entered into to mitigate against significant future fluctuations in US dollar foreign currency risk associated with the US denominated long-term debt (note 11). Six of these swap agreements settled on June 28, 2012 with the remaining two having matured on June 30, 2014.

The swaps that expired on June 30, 2014 provided foreign currency fluctuation coverage of 100% of the outstanding debt during fiscal year 2014 at an average foreign exchange rate of $US1=$CDN0.9680.

An interest rate swap with a notional value of $310,000 was entered into on May 19, 2011, became effective on June 29, 2012, and terminated on June 30, 2014. This swap provided variable interest rate fluctuation coverage on approximately 75% of the outstanding debt for fiscal years 2013 and 2014. The swap converts variable interest to the fixed rate of 2.858% (plus the spreads of 2.5% on Lien 1 on 6% on Lien 2).

Due to the terms of the lien agreements, as well as the terms of the derivatives, it was determined that hedge accounting could not be applied and as such, mark to market adjustments related to the swap agreements are reflected in the Statement of Operations.

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13. Contingencies, Commitments and Guarantees

Claims and Legal Actions
The Company is involved in ordinary and routine litigation incidental to its business. In the opinion of management, there are no pending legal proceedings that would have a material adverse effect on the Consolidated Financial Statements of the Company.

Leases
The Company leases certain facilities and other operating equipment under non-cancelable operating lease arrangements expiring at various dates through 2017. Future minimum lease payments under these leases are as follows:

Year ending March 31,	
2016	$ 604
2017	440
2018	-
2019	-
2020	-
	$ 1,044

Guarantees
Under the Company's standard terms and conditions of sale, the Company warrants ownership of its products and provides certain warranties and indemnifications in relation thereto. The Company is not aware of any instances that would result in payments being made as a result of these warranties and indemnifications, and therefore, no reserve has been recorded in the Consolidated Financial Statements in relation thereto.

14. Foreign Exchange

The components of foreign exchange loss on revaluation of US denominated debt and related swap agreements, net include the following for the three and nine months ended December 31, 2014 and 2013:

	Three months ended December 31,		Nine months ended December 31,	
	2014	2013	2014	2013
Foreign exchange loss on translation of long-term debt	$ (16,921)	$ (14,251)	$ (23,040)	$ (20,575)
Fair value gain (loss) on foreign currency swaps	-	322	(151)	166
	$ (16,921)	$ (13,929)	$ (23,191)	$ (20,409)

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15. Interest Expense

The components of Interest expense, net include the following for the three and nine months ended December 31, 2014 and December 31, 2013:

	Three months ended December 31,		Nine months ended December 31,	
	2014	2013	2014	2013
Bank fees	$ 31	$ (16)	$ 67	$ 200
Interest expense on promissory note to parent	1,849	1,849	5,526	5,527
Interest expense on long-term debt	9,617	4,871	23,358	14,758
Interest rate swap settlements	-	1,248	1,230	3,742
Interest income, net	(104)	(96)	(239)	108
Amortization of discount on long term notes receivable	-	-	-	(106)
Foreign exchange gain on revaluation of long term notes receivable	-	-	-	(312)
	$ 11,393	$ 7,856	$ 29,942	$ 23,917

Interest accrued on the long term debt was $8,855 and $21,992 for the three and nine months ended December 31, 2014 and $4,619 and $14,055 for the three and nine months ended December 31, 2013, respectively.

No interest payments were made on the promissory note to parent.

16. Income Taxes

The provision for income taxes differs from the amount that would have resulted by applying the combined federal and provincial income tax rates to earnings for the nine months ended December 31, 2014 and 2013, due to the following:

	2014	2013
Combined federal and provincial income taxes at statutory rates	$ (6,700)	$ (2,953)
Permanent differences	3,385	4,635
Movement in valuation allowance	3,789	(1,253)
Other	(474)	(429)
Provision for income taxes	$ -	$ -

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16. Income Taxes (cont'd)

Current future income tax assets consist of the following:

	December 31, 2014	March 31, 2014
Non-deductible reserves	$ 3,550	$ 2,337
Valuation Allowance	(3,550)	(2,337)
Net current future income tax assets	$ -	$ -

	December 31, 2014	March 31, 2014
Non-current future income tax assets (liabilities) consist of the following:		
Pre-production costs	$ (491)	$ (236)
Unrealized/realized capital loss carryforwards	8,785	5,781
Non-capital loss carryforwards	33,757	32,423
Property and equipment	1,329	1,321
Intangible assets	24,689	26,254
Goodwill	4,832	5,473
Other	(1)	(132)
Total non-current future income tax assets	72,900	70,884
Valuation allowance	(72,900)	(70,884)
Net non-current future income tax assets	$ -	$ -
Net total future tax assets	$ -	$ -

17. Capital Stock

Authorized
Unlimited number of common shares without par value

	December 31, 2014	March 31, 2014
Issued		
39,338,360 Common shares	$ 39,338	$ 39,338

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18. Stock-Based Compensation

In May 2008, certain employees of the Company were granted the opportunity to purchase profit interest units ("Units") in an entity affiliated with TN Holdings LP. This arrangement is considered to be a stock-based compensation plan with the related compensation charge recorded in Selling, general and administrative expense.

These Units vest in 20% increments over a five year period contingent upon the Company achieving a specified performance target set at the beginning of each fiscal year. If the performance target is not achieved in any given year, the Units remain unvested unless, in any subsequent year, the target for such subsequent fiscal year is achieved at which time the then current year's and all prior years' Units that are unvested will become vested Units provided the employee remains employed with the Company. In addition, all unvested Units would fully vest should certain events occur (i.e. a liquidity event). Upon termination of employment for any reason, the unvested Units will be forfeited and the vested Units will be subject to call rights by the affiliate.

The following table summarizes the activity of the Units for the three and nine months ended December 31, 2013:

(Units in thousands and dollars in whole Canadian dollars)

For the three months ended December 31, 2013	Number of Units	Weighted Average Grant Date Fair Value
Nonvested at September 30, 2013	-	$ -
Vested	-	-
Nonvested at December 31, 2013	-	$ -

For the nine months ended December 31, 2013	Number of Units	Weighted Average Grant Date Fair Value
Nonvested at March 31, 2013	675	$ 0.25
Vested	(675)	0.25
Nonvested at December 31, 2013	-	$ -

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18. Stock-Based Compensation (cont'd)

A compensation charge of $nil and $nil was recognized and included in the Consolidated Statement of Operations for the three and nine months ended December 31, 2014 and $nil and $112 for the three and nine months ended December 31, 2013, respectively. As the Units granted are in respect of an entity affiliated with TN Holdings LP, $nil and $nil was also recorded in Contributed Surplus for the three and nine months ended December 31, 2014 and $nil and $112 for the three and nine months ended December 31, 2013, respectively.

19. Related Party Transactions

Promissory note due to parent
The Company has a subordinated promissory note payable to Nelson Education Holdings Ltd. in the amount of $72,981, maturing on July 5, 2032. The loan bears interest at the rate of 10.05% per annum, which accrues daily and is payable in arrears on each anniversary date of the note (July 5th of each year).

The holder may elect to receive the annual interest in cash or as an addition to the outstanding principal balance of the note ("payment in kind"). Any interest paid in kind, will be added to the unpaid principal balance. Interest calculated on this loan will be simple interest based on the original outstanding principal of the loan. Notwithstanding the "payment in kind" election, the terms of the First Lien agreement restricts cash payments for interest expense for the foreseeable future As of December 31, 2014, $55,040 was added to the carrying amount of the promissory note.

Agreements with Cengage Learning Inc.
Nelson entered into a Master Services Agreement with Cengage Learning Inc. ("Cengage"). Until March 31, 2014, Cengage was majority owned by funds affiliated with Apax Partners L.P. ("Apax"), with OMERS Private Equity ("OMERS") holding a minority interest.

Under a Master Services arrangement, Cengage Learning Inc. ("Cengage") is to provide Nelson with various services including business and technology services, content services, commissions' services, customer service and operations, management services, fulfillment services and business information support services and Nelson is to provide Cengage with certain real estate services. The cost of each of the services to be provided under the Master Services Agreement is based on a set fee. For the three and nine months ended December 31, 2014, service fees of $652 and $1,890 were paid to Cengage and $595 and $1,830 for the three and nine months ended December 31, 2013, respectively.

All services under the Master Services Agreement are to be provided for a specified period of time, and Nelson can generally terminate those services in advance upon 30 days written notice without penalty.

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19. Related Party Transactions (cont'd)

Agreements with Cengage Learning Inc. (cont'd)

In addition, Nelson is party to an Operating Agreement with Cengage under which Nelson is the exclusive authorized distributor for sale and/or distribution of print and electronic publications in Canada. Nelson also has the exclusive right to adapt, customize and translate Cengage publications. The Operating Agreement sets certain restrictions on the use of Cengage content, including restricting Nelson's ability to adapt certain texts, limiting the dollar amount of sales of "first edition" texts and restricting Nelson from marketing adaptations or translations it has created outside of Canada. As a result of this distribution agreement, a significant amount of Nelson's revenue is derived from Cengage and therefore Nelson is economically dependent upon Cengage. For the nine months ended December 31, 2014 and 2013, sales of Cengage publications represented $46,377 (41%) and $44,835 (40%) of Nelson's total revenues, respectively.

Nelson is required by the Operating Agreement to pay Cengage Learning Inc. royalties of a percentage of net sales for certain specified publications, adaptations of textbooks created by Nelson, translations of textbooks by Nelson and certain Nelson customized products. Royalties expense due to Cengage was $3,893 and $17,388 for the three and nine months ended December 31, 2014 and $3,887 and $17,836 for the three and nine months ended December 31, 2013.

Initially the Operating Agreement has an 11-year term to January 1, 2018, and thereafter it is subject to automatic one year extensions unless cancelled by one of the parties. The Operating Agreement may also be terminated upon material breach, bankruptcy or the mutual agreement of the parties.

Cengage entered Chapter 11 bankruptcy on July 2, 2013 and emerged from Chapter 11 bankruptcy on March 31, 2014. For the duration of the bankruptcy, there were no disruptions of services from Cengage.

Long-term Note Receivable

In November, 2011, the Company purchased US dollar Senior Subordinated Discount Notes in Cengage with a face value of $17,118 USD for $13,156 USD. The Notes bear interest at a rate of 10.50% and mature on January 15, 2015.

As of June 30, 2013, it was determined that the value of long term notes receivable was impaired and an impairment charge of $15,586 was recorded against the notes receivable.

On March 21, 2014, the long term notes receivable were sold for $6,353 which has resulted in a gain of $6,353 on the consolidated statement of operations and is included in prepaid expenses and other current assets as of March 31, 2014. The sales proceeds were received during the three month period ended June 30, 2014.

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(Thousands of Canadian dollars unless otherwise indicated)

20. Segment Information

Nelson operates in two reportable market segments throughout Canada. Such segments are strategic business groups that offer products and services to target markets. The accounting policies applied by the segments are the same as those applied by Nelson. The Company's segments are:

Higher Education
The Higher Education segment publishes higher-education textbooks and provides tailored learning solutions for students and professionals.

School
The School segment publishes books and materials and provides services to schools, school boards, teachers and students from Kindergarten to Grade 12.

Select financial information for the Company's segments is as follows:

Three months ended December 31, 2014:	**Revenues**	**Segment operating profit**
Higher Education	$ 24,852	$ 8,299
School	6,563	(965)
Segment totals	31,415	7,334
Amortization of identifiable intangible assets	-	(1,842)
Total	$ 31,415	$ 5,492

Three months ended December 31, 2013:	**Revenues**	**Segment operating profit**
Higher Education	$ 24,484	$ 9,160
School	6,106	(1,569)
Segment totals	30,590	7,591
Amortization of identifiable intangible assets	-	(2,632)
Total	$ 30,590	$ 4,959

Nelson Education Ltd.
Notes to Consolidated Financial Statements (unaudited)
Three and Nine Months Ended December 31, 2014 and 2013

(Thousands of Canadian dollars unless otherwise indicated)

20. Segment Information (cont'd)

Nine months ended December 31, 2014:	**Revenues**	**Segment operating profit**
Higher Education	$ 82,585	$ 27,740
School	29,587	3,909
Segment totals	112,172	31,649
Amortization of identifiable intangible assets	-	(5,613)
Total	$ 112,172	$ 26,036

Nine months ended December 31, 2013:	**Revenues**	**Segment operating profit**
Higher Education	$ 80,314	$ 25,414
School	30,561	3,576
Segment totals	110,875	28,990
Amortization of identifiable intangible assets	-	(7,934)
Total	$ 110,875	$ 21,056

Goodwill is allocated by segment as follows:	December 31, 2014	March 31, 2014
Higher Education	$ 28,626	$ 28,626
School	5,767	5,767
Segment totals	$ 34,393	$ 34,393

Identifiable intangible assets are allocated by segment as follows:	December 31, 2014	March 31, 2013
Higher Education	$ 83,345	$ 87,143
School	27,740	29,185
Segment totals	$ 111,085	$ 116,328

The Company discloses information about its reportable segments based upon the measures used by management in assessing the performance of those reportable segments. The Company uses segment operating profit, which is operating profit before amortization of identifiable intangible assets, provision for income taxes and interest expense, to measure the operating performance of its segments. Management uses this measure because the excluded costs are not considered to be a controllable operating cost for purposes of assessing the current performance of its segments. While in accordance with ASPE, the Company's definition of segment operating profit may not be comparable to that of other companies. Total asset information by segment is not shown because it is not provided to or reviewed by the chief operating decision maker.

TAB C

THIS IS EXHIBIT "C" REFERRED TO IN THE

AFFIDAVIT OF GREG NORDAL

SWORN BEFORE ME

ON THIS 11TH DAY OF MAY, 2015

A COMMISSIONER FOR TAKING AFFIDAVITS

Nelson Education Holdings Ltd.

Non-Consolidated Financial Statements (unaudited)

For the nine month period ended March 31, 2014 and year ended June 30, 2013

Nelson Education Holdings Ltd.
Non-Consolidated Balance Sheet
(unaudited)
As of March 31, 2014 and June 30, 2013

(Canadian dollars unless otherwise indicated)

	March 31, **2014**	June 30, **2013**
Assets		
Promissory notes from subsidiary	$ 122,494,602	$ 116,968,536
Investment in Nelson Education Ltd.	39,338,360	39,338,360
Total assets	$ 161,832,962	$ 156,306,896
Liabilities and shareholders' equity		
Corporate taxes payable	$ -	$ 10,266
Promissory note due to parent	122,208,276	116,729,698
Due to related party	1,158,915	693,443
Total liabilities	123,367,191	117,433,407
Shareholders' Equity		
Capital Stock	39,338,360	39,338,360
Deficit	(872,589)	(464,871)
	38,465,771	38,873,489
Total liabilities and shareholders' equity	$ 161,832,962	$ 156,306,896

Nelson Education Holdings Ltd.
Non-Consolidated Statement of Changes in Deficit
(unaudited)
For the Nine Month Period Ended March 31, 2014 and Year Ended June 30, 2013

(Canadian dollars unless otherwise indicated)

	March 31, **2014**	June 30, **2013**
Deficit - Beginning of Period	$ (464,871)	$ (268,369)
Net loss	(407,718)	(71,502)
Dividends declared and paid on common shares	-	(125,000)
Deficit - End of Period	$ (872,589)	$ (464,871)

Nelson Education Holdings Ltd.
Non-Consolidated Statement of Earnings
(unaudited)
For the Nine Month Period Ended March 31, 2014 and Year Ended June 30, 2013

(Canadian dollars unless otherwise indicated)

	9 months ended March 31, **2014**	12 months ended June 30, **2013**
Revenue:		
Dividend income	$ -	$ 125,000
Interest income	5,526,065	7,354,691
Total revenue	5,526,065	7,479,691
Costs and expenses:		
Interest expense	5,478,578	7,298,106
General and administrative	2,000	2,000
Total costs and expenses	5,480,578	7,300,106
Earnings before income taxes	45,487	179,585
Income taxes	(453,205)	(251,087)
Net Loss	$ (407,718)	$ (71,502)