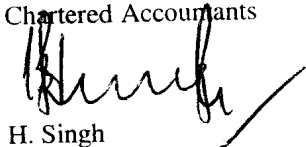


**Auditors' Report to the Board of Directors of  
Element K Canada Inc.**

1. We have audited the attached Balance Sheet of Element K Canada Inc., as at March 31 2010, and the Profit and Loss Account and Cash Flow Statement for the year ended on that date annexed thereto, which we have signed under reference to this report. These financial statements are the responsibility of the Element K Canada Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We have conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. Attention is drawn to Note 6 on Schedule 11 regarding the financial support extended by the holding company, Element K Corporation, USA, and future plans of the Company with a consequent impact on the financial position of the Company.
4. Based on our audit, without qualifying para 3 above and *subject to the non disclosure of related party transactions in accordance with AS 18 'Related Party Disclosures' notified by the Government of India under Section 211(3C) of the Companies Act, 1956*, in our opinion and to the best of our information and according to the explanations given to us, the attached financial statements together with the notes thereon, give a true and fair view in conformity with the accounting principles generally accepted in India :
  - a. in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2010;
  - b. in the case of the Profit and Loss Account, of the Profit of the Company for the year ended on that date; and
  - c. in case of the Cash Flow Statement, of the cash flows for the year ended on that date.

For Price Waterhouse  
Firm Registration Number: 301112E  
Chartered Accountants



H. Singh

Partner

Membership No. F-86994

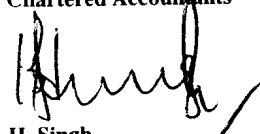
Place: Gurgaon, India  
Date: April 22, 2010

**Element K Canada Inc.**  
**Balance Sheet as at March 31, 2010**

	Schedule No. (Note Reference)	As at March 31, 2010 INR	As at March 31, 2009 INR
<b>SOURCES OF FUNDS</b>			
<b>SHAREHOLDERS' FUNDS</b>			
Share Capital	'1'	388	388
Currency Translation Reserve	'1A'	2,868,734	5,511,406
		<u>2,869,122</u>	<u>5,511,794</u>
<b>CURRENT ASSETS, LOANS AND ADVANCES</b>			
Sundry Debtors	'2'	36,359,670	25,339,877
Cash and Bank Balances	'3'	4,318,337	14,430,056
Loans and Advances	'4'	6,139,166	1,076,206
		<u>46,817,173</u>	<u>40,846,139</u>
<b>Less : CURRENT LIABILITIES AND PROVISIONS</b>			
Current Liabilities	'5'	91,105,020	86,481,543
		<u>91,105,020</u>	<u>86,481,543</u>
Net Current Assets		(44,287,847)	(45,635,404)
Profit and Loss account (Debit)		47,156,969	51,147,198
		<u>2,869,122</u>	<u>5,511,794</u>
<b>NOTES TO ACCOUNTS</b>			
'11'			


The Schedules referred to above form an integral part of the Balance Sheet  
This is the Balance Sheet referred to in our report of even date

For Price Waterhouse  
Firm Registration Number: 301112E  
Chartered Accountants



H. Singh  
Partner  
Membership No. F-86994

Place : Gurgaon, India  
Date : April 22, 2010




Paul Krause  
CEO & Whole Time Director



Jaydip Gupta  
Chief Financial Officer

Place : Rochester, NY, USA  
Date : April 22, 2010



Vijay Kumar Thadani  
Director

**Element K Canada Inc.**  
**Profit and Loss Account for the year ended March 31, 2010**

	Schedule No. (Note Reference)	For the year ended March 31, 2010 INR	For the year ended March 31, 2009 INR
<b>INCOME</b>			
<b>Revenue from Operations</b>	11 [1B(i)]		
Subscription from Catalog Products		66,480,027	27,858,480
Development Services		21,264,814	5,695,159
Print Courseware		104,716,983	131,349,091
Other Income	'6'	238,910	11,176
		<b>192,700,734</b>	<b>164,913,906</b>
<b>EXPENDITURE</b>			
Personnel	'7'	16,666,557	16,197,281
Development, Production and Execution	'8'	150,785,682	153,752,308
Administration, Finance and Others	'9'	11,337,410	8,785,024
Selling and Marketing	'10'	9,920,856	6,053,481
		<b>188,710,505</b>	<b>184,788,094</b>
Profit/(Loss) before Tax		3,990,229	(19,874,188)
Income Tax Expense	11[1B(v) & 5]	-	-
<b>Profit/(Loss) after Tax</b>		<b>3,990,229</b>	<b>(19,874,188)</b>
Loss brought forward from previous year		(51,147,198)	(31,273,010)
Balance available for appropriation		<b>(47,156,969)</b>	<b>(51,147,198)</b>
<b>APPROPRIATION</b>			
Balance Carried to Balance Sheet		(47,156,969)	(51,147,198)
		<b>(47,156,969)</b>	<b>(51,147,198)</b>
Basic / Diluted Earning (Loss) per share. (Face value of CAD 0.01 each fully paid up)	'11(4)'	3,990	(19,874)

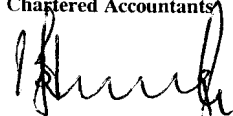
**NOTES TO ACCOUNTS**

'11'

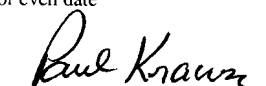
The Schedules referred to above form an integral part of the Profit and Loss Account

This is the Profit and Loss Account referred to in our report of even date


For Price Waterhouse  
Firm Registration Number: 301112E  
Chartered Accountants




H. Singh  
Partner  
Membership No. F-86994



Paul Krause  
CEO & Whole Time Director



Jaydip Gupta  
Chief Financial Officer



Vijay Kumar Thadani  
Director

Place : Gurgaon, India  
Date : Apr 12, 2010

Place : Rochester, NY USA  
Date : Apr 12, 2010

Element K Canada Inc.

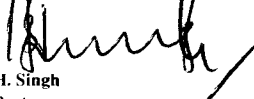
**CASH FLOW STATEMENT  
FOR YEAR ENDED MARCH 31, 2010**

		Year ended March 31, 2010 INR	Year ended March 31, 2009 INR
A. Cash flow from operating activities:			
Net (loss)/profit before tax but after exceptional/extraordinary items		3,990,229	(19,874,188)
Adjustments for:			
Interest Expense		75,530	-
Provision for Bad & doubtful debts		3,970,044	2,705,355
<b>Operating profit before working capital changes</b>		<b>8,035,803</b>	<b>(17,168,833)</b>
<b>Add / (Less) : Increase / Decrease in Operating working capital</b>			
Trade receivable	(14,989,836)		(17,383,194)
Loans and advances	(5,062,960)		1,080,572
Current liabilities and provisions	4,623,476	(15,429,320)	33,862,241
<b>Net cash (used in)/from operating activities</b>	<b>A</b>	<b>(7,393,517)</b>	<b>390,786</b>
B. Cash flow from Investing activities:	<b>B</b>	-	-
C. Cash flow from financing activities:			
Interest Paid		(75,530)	-
<b>Net cash used in financing activities</b>	<b>C</b>	<b>(75,530)</b>	<b>-</b>
<b>Net Increase/(Decrease) in Cash &amp; Cash Equivalents</b>	<b>(A+B+C)</b>	<b>(7,469,047)</b>	<b>390,786</b>
Adjustments on account of exchange rate		(2,642,672)	(1,850,175)
<b>Cash and cash equivalents as at the beginning of the year</b>		<b>14,430,056</b>	<b>15,889,445</b>
<b>Cash and cash equivalents as at the end of the year</b>		<b>4,318,337</b>	<b>14,430,056</b>
<b>Cash and cash equivalents comprise</b>			
Balance with Scheduled Banks		4,318,337	14,430,056
<b>Cash and cash equivalents as at the end of the year</b>		<b>4,318,337</b>	<b>14,430,056</b>

Notes :

- 1 The above Cash flow statement has been prepared under the indirect method setout in AS-3 notified u/s 211 (3C) of the Companies Act, 1956.
- 2 The schedule 1 to 11 forms an integral part of the Cash Flow Statement.
- 3 Figures in brackets indicate cash outgo.
- 4 This is the Cash Flow Statement referred to in our report of even date.

For Price Waterhouse  
Firm Registration Number: 301112E  
Chartered Accountants

  
H. Singh  
Partner  
Membership No. F-86994

Place : Gurgaon, India

Date : April 22, 2010

  
Paul Krause  
CEO & Whole Time Director

  
Vijay Kumar Thadani  
Director

  
Jaydip Gupta  
Chief Financial Officer

Place : Rochester, NY, USA

Date : April 22, 2010

**Element K Canada Inc.**

**Schedules annexed to and forming part of the Accounts  
as at March 31, 2010**

Schedule No.	As at March 31, 2010 INR	As at March 31, 2009 INR
<b>1. SHARE CAPITAL</b>		
<b>Authorized Share Capital</b>		
1,000 Equity Shares of CAD 0.01 each	388	388
	<u>388</u>	<u>388</u>
<b>Issued, Subscribed and Paid-up Capital</b>		
1,000 Equity Shares of CAD 0.01 each	388	388
(All of the above shares are held by Holding Company, Element K Corporation, USA)		
	<u>388</u>	<u>388</u>
<b>1A. Currency Translation Reserve</b> [Refer Note 1A on Schedule 11]		
Opening balance	5,511,406	7,361,580
Additions during the year	(2,642,672)	(1,850,174)
	<u>2,868,734</u>	<u>5,511,406</u>



**Element K Canada Inc.**  
**Schedules annexed to and forming part of the Accounts**  
**as at March 31, 2010**

Schedule No.	As at March 31, 2010 INR	As at March 31, 2009 INR
<b>2 SUNDRY DEBTORS</b> (Unsecured)		
Outstanding for over six months		
- Considered Good	-	-
- Considered Doubtful	43,747	3,783,503
	<u>43,747</u>	<u>3,783,503</u>
Less : Provision for Doubtful Debts	43,747	3,783,503
	<u>43,747</u>	<u>3,783,503</u>
Outstanding for less than six months (considered good)	36,359,670	25,339,877
	<u><b>36,359,670</b></u>	<u><b>25,339,877</b></u>
<b>3 CASH AND BANK BALANCES</b>		
Balances with Banks in :		
- Current Accounts	4,318,337	14,430,056
	<u><b>4,318,337</b></u>	<u><b>14,430,056</b></u>



Element K Canada Inc.

Schedules annexed to and forming part of the Accounts  
as at March 31, 2010

Schedule No.	As at March 31, 2010 INR	As at March 31, 2009 INR
<b>4 LOANS AND ADVANCES</b> [Refer Note 1B(ii) on Schedule 11]		
Deferred expenses		
- Commission	5,535,636	
Advances recoverable in cash or in kind or for value to be received	-	939,624
Security Deposits	603,530	136,582
	<b>6,139,166</b>	<b>1,076,206</b>
<b>5 CURRENT LIABILITIES</b> [Refer Note 1B(i) on Schedule 11]		
Sundry Creditors -		
- other than micro and small enterprises	2,726,252	1,845,732
Amount payable to Holding Company	24,615,489	51,117,906
Unearned revenue (net)	6,813,756	
Deferred revenue	55,855,818	33,497,014
Other Liabilities	1,093,705	20,891
	<b>91,105,020</b>	<b>86,481,543</b>



**Element K Canada Inc.**  
**Schedules annexed to and forming part of the Accounts**  
**as at March 31, 2010**

Schedule No.		For the year ended March 31, 2010 INR	For the year ended March 31, 2009 INR
6	<b>OTHER INCOME</b> [Refer Notes 1B (iii) on Schedule 11]		
		42,360	10,753
	Gain on exchange fluctuations (Net)	196,550	423
	Miscellaneous	<u>238,910</u>	<u>11,176</u>
7	<b>PERSONNEL</b> [Refer Notes 1B (vi) on Schedule 11]		
		16,488,822	16,064,462
	Salaries and Benefits	83,388	118,228
	Contribution to retirement benefits	94,347	14,591
	Welfare and Other Expenses	<u>16,666,557</u>	<u>16,197,281</u>
8	<b>DEVELOPMENT, PRODUCTION AND EXECUTION</b> [ Refer Note 2 on Schedule 11]		
		62,109,496	96,718,402
	Courseware and manuals	224,239	184,384
	Professional Charges	4,333	47,726
	Consumables	78,974,642	44,244,011
	Management services recovery	9,472,972	12,557,785
	Dispatch & Shipping	<u>150,785,682</u>	<u>153,752,308</u>





**Element K Canada Inc.**

**Schedules annexed to and forming part of the Accounts  
as at March 31, 2010**

Schedule No.	For the year ended March 31, 2010 INR	For the year ended March 31, 2009 INR
<b>9 ADMINISTRATION, FINANCE AND OTHERS</b> [ Refer Note 2 on Schedule 11]		
Rates and Taxes	2,521,561	-
Communication	1,601,338	875,338
Legal and Professional	769,894	1,406,459
Traveling and Conveyance	567,056	1,462,472
Bank, Discounting and Other Financial Charges	1,565,757	1,900,288
Bad debt expense	3,970,044	2,705,355
Interest on loans	75,530	-
Sundry Expenses	266,230	435,112
	<b>11,337,410</b>	<b>8,785,024</b>
<b>10 SELLING AND MARKETING</b> [Refer Notes 1B (ii) to Schedule 11]		
Sales commission	9,023,023	5,189,196
Advertisement and Publicity	508,502	331,583
Others	389,331	532,702
	<b>9,920,856</b>	<b>6,053,481</b>



**ELEMENT K CANADA INC.**  
**SCHEDULE '11': NOTES TO ACCOUNTS FOR THE ACCOUNTING YEAR**  
**APRIL 1, 2009 TO MARCH 31, 2010**

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- 1A** These financial statements are prepared to comply in all material aspects with the applicable accounting principles in India, the applicable Accounting Standards notified under Section 211(3C) of the Companies Act, 1956 and the relevant provisions of the Companies Act, 1956 on an accrual basis, under historical cost convention.

The books of the company are maintained in Canadian Dollar. These accounts have been prepared in Indian Rupees. The Canadian Dollar balances as per books of the company have been converted into Indian Rupees as follows:

- i. All revenue and expense items have been converted at average rate for the year.
- ii. All assets and liabilities have been converted at the year end rate
- iii. Share capital and reserves and surplus is translated at the historical rate.

The net difference on translation is taken to Currency Translation Reserve and is shown as a separate component under Shareholder's Fund.

**1B STATEMENT ON SIGNIFICANT ACCOUNTING POLICIES**

**i). Revenue Recognition**

The revenue in respect of print courseware consists of print product sales and content licensing arrangements. Revenue is recognized on dispatch of the material to the customer.

The Company receives contracts for subscription revenue and invoices the license fee based on the invoicing terms in the agreement. The subscription is hosted on the Company's server, in advance. The subscription fees for subsequent terms of the arrangements are billed on the respective invoicing date as in the agreement. The Company records deferred revenue amounts that have been billed in advance to the customers for products or services to be provided. Deferred revenue includes the unamortized portion of revenue associated with license fees for which the Company has received payment or for which amounts have been billed and are due for payment. Revenue derived pursuant to content hosted on customers' server for a definite period is recognized on delivery of the content.

The Company recognizes service revenue such as customized content development, website development/hosting and implementation services, as the services are performed under proportionate completion method.

The Company records revenue net of discounts and applicable sales tax collected. Taxes collected from customers are recorded as part of accrued expenses on the balance sheet and are remitted to state and local taxing jurisdictions based on the filing requirements of each jurisdiction.

**ii). Deferred Charges**

Sales commissions are amortized over the term of the license or subscription associated with the related revenue.

**iii). Foreign Currency Transactions**

Transactions in foreign currency (currency other than company's reporting currency) are booked at standard rates determined periodically which approximates the actual rates, and all monetary assets and liabilities in foreign currency are restated at the end of accounting year. Gain/Loss arising out of fluctuations on realization/payment or restatement is charged/ credited to the Profit and Loss Account.

A handwritten signature in black ink is written over a circular stamp. The stamp contains some text, but it is mostly illegible due to the signature and the quality of the scan. The signature appears to be in a cursive style.

**ELEMENT K CANADA INC.**  
**SCHEDULE '11': NOTES TO ACCOUNTS FOR THE ACCOUNTING YEAR**  
**APRIL 1, 2009 TO MARCH 31, 2010**

iv). **Provisions and Contingencies**

The Company creates a provision when there is present obligation as a result of a past event that probably requires an outflow of resources and a reliable estimate can be made of the amount of obligation. A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that probably will not require an outflow of resources or where a reliable estimate of the obligation cannot be made.

v). **Taxation**

Tax expense, comprising of both current tax and deferred tax is included in determining the net results for the year. Deferred tax reflects the effect of timing differences between the assets and liabilities recognized for financial reporting purposes and the amounts that are recognized for current tax purposes. As a matter of prudence deferred tax assets are recognized and carried forward only to the extent, there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realized. Current tax is determined based on the provisions of the applicable taxation laws of the respective countries.

vi). **Employee Benefits**

**Defined Contribution Plans**

The Company makes defined contribution on a monthly basis towards retirement benefits of the employees based in U.S.A under a 401K plan, which is charged to the profit and loss account. The Company has no further obligations towards the retirement benefits.

2. **CONTINGENT LIABILITIES**

The transfer pricing analysis in relation to transactions with the holding Company subsequent to March 31, 2007 is under process. The management does not foresee any financial implication on these statements of accounts upon completion of such analysis or upon completion of any assessments.

3. **SEGMENT INFORMATION**

i. **Primary Segment Information – business segment**

In the view of the management, the Company operates in a single business segment i.e. Learning Business.

ii. **Secondary Segment Information – Geographical**

The Company operates in only one geography i.e. Canada.

4. **EARNINGS PER SHARE:**

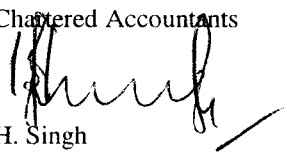
Particulars	Amounts in INR	
	For the year ended March 31, 2010	For the year ended March 31, 2009
Profit/(Loss) attributable to equity shareholders - (A)	3,990,229	(19,874,188)
Weighted average number of equity shares outstanding during the year – (B)	1,000	1,000
Nominal Value of Equity Shares (CAD)	0.01	0.01
Basic/Diluted Earnings (Loss) per Share (Rs.) (A/B)	3.990	(19.874)





**ELEMENT K CANADA INC.**  
**SCHEDULE '11': NOTES TO ACCOUNTS FOR THE ACCOUNTING YEAR**  
**APRIL 1, 2009 TO MARCH 31, 2010**


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5. a. There is no current tax in view of carried forward losses of the company.
- b. There are no timing differences between book profit/loss and profit/loss determined in accordance with the applicable tax laws of the country in which the Company is incorporated. Deferred tax assets have not been created on cumulative tax losses in view of the substantial losses incurred by the Company and consequent lack of reasonable certainty of utilization of such losses in the near future.
6. The net worth of the Company has eroded as at March 31, 2010. However, the revenue from subscription business has increased and the Company expects to achieve further growth in terms of subscription revenue based on the new products launches which would result in greater profitability. Based on this and along with continuous support from parent company, Element K Corporation, USA, the liquidity and financial position is expected to improve and accordingly, these accounts have been prepared on going concern basis.
7. Previous year figures have been regrouped to conform to current year's classification.

For Price Waterhouse  
Firm Registration Number: 301112E  
Chartered Accountants  
  
H. Singh  
Partner  
Membership No. F-86994

  
Paul Krause  
CEO & Whole Time Director

  
Vijay Kumar Thadani  
Director

  
Jaydip Gupta  
Chief Financial Officer

Place : Gurgaon, India  
Date : April 22, 2010

Place : Rochester, NY, USA  
Date : April 22, 2010