

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

1. We have audited the attached Balance Sheet of Element K Canada Inc. (the "Company"), as at March 31 2011, and the related 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 Company's Management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with the 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. 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 *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*, 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, 2011;
 - b. in the case of the Profit and Loss Account, of the results of operations of the Company for the year ended on that date; and
 - c. in case of the Cash Flow Statement, of the cash flows of the Company for the year ended on that date.
4. We conducted our audit of these financial statements in accordance with the requirements of section 212 of the Companies Act, 1956. Accordingly, we neither accept nor assume any responsibility or liability to any other person, or to the Company for any other use, without our prior consent in writing.

For Price Waterhouse
Firm Registration Number: 301112E
Chartered Accountants

Place: Gurgaon, India
Date: May 6, 2011

Partner : Usha Rajeev
Membership No. F-87191

Element K Canada Inc.
Balance Sheet as at March 31, 2011

	Schedule No. (Note Reference)	As at March 31, 2011 INR	As at March 31, 2010 INR
SOURCES OF FUNDS			
SHAREHOLDERS' FUNDS			
Share Capital	1	388	388
Currency Translation Reserve	1A	<u>1,738,805</u>	<u>2,868,734</u>
		<u>1,739,193</u>	<u>2,869,122</u>
CURRENT ASSETS, LOANS AND ADVANCES			
Sundry Debtors	2	43,988,681	36,359,670
Cash and Bank Balances	3	3,625,722	4,318,337
Loans and Advances	4	<u>6,436,878</u>	<u>6,139,166</u>
		<u>54,051,281</u>	<u>46,817,173</u>
Less : CURRENT LIABILITIES AND PROVISIONS			
Current Liabilities	5	<u>88,819,296</u>	<u>91,105,020</u>
		<u>88,819,296</u>	<u>91,105,020</u>
Net Current Assets		(34,768,015)	(44,287,847)
Profit and Loss account (Debit)		36,507,208	47,156,969
		<u>1,739,193</u>	<u>2,869,122</u>
NOTES TO ACCOUNTS	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

Sd/-

For Price Waterhouse
Firm Registration Number: 301112E
Chartered Accountants

Paul Krause
CEO & Whole Time Director

Sd/-

Vijay Kumar Thadani
Director

Sd/-

Usha Rajeev
Partner
Membership No. F-87191

Sd/-

Jaydip Gupta
Chief Financial Officer

Place : Gurgaon, India
Date : May 6, 2011

Place : Rochester, NY, USA
Date : May 6, 2011

Element K Canada Inc.
Profit and Loss Account for the year ended March 31, 2011

	Schedule No. (Note Reference)	For the year ended March 31, 2011 INR	For the year ended March 31, 2010 INR
INCOME			
Revenue from Operations	11 [1B(i)]		
Subscription from Catalog Products		96,935,814	66,480,027
Development Services		31,606,966	21,264,814
Print Courseware		116,199,102	104,716,983
Other Income	6	1,593,484	238,910
		246,335,366	192,700,734
EXPENDITURE			
Personnel	7	20,909,297	16,666,557
Development, Production and Execution	8	194,600,857	150,785,682
Administration, Finance and Others	9	6,639,545	11,337,410
Selling and Marketing	10	13,535,906	9,920,856
		235,685,605	188,710,505
Profit/(Loss) before Tax		10,649,761	3,990,229
Income Tax Expense	11[1B(v) & 5]	-	-
Profit/(Loss) after Tax		10,649,761	3,990,229
Loss brought forward from previous year		(47,156,969)	(51,147,198)
Balance available for appropriation		(36,507,208)	(47,156,969)
APPROPRIATION			
		-	-
Balance Carried to Balance Sheet		(36,507,208)	(47,156,969)
		(36,507,208)	(47,156,969)
Basic / Diluted Earning (Loss) per share. (Face value of CAD 0.01 each fully paid up)	11(4)	10,650	3,990

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

Sd/-
Paul Krause
CEO & Whole Time Director

Sd/-
Vijay Kumar Thadani
Director

Sd/-
Usha Rajeev
Partner
Membership No. F-87191

Sd/-
Jaydip Gupta
Chief Financial Officer

Sd/-

Place : Gurgaon, India
Date : May 6, 2011

Place : Rochester, NY USA
Date : May 6, 2011

Element K Canada Inc.

**CASH FLOW STATEMENT
FOR YEAR ENDED MARCH 31, 2011**

		Year ended March 31, 2011 INR	Year ended March 31, 2010 INR
A. Cash flow from operating activities:			
Net (loss)/profit before tax but after exceptional/extraordinary items		10,649,761	3,990,229
Adjustments for:			
Interest Expense		-	75,530
Provision for Bad & doubtful debts		-	3,970,044
Operating profit before working capital changes		10,649,761	8,035,804
Add / (Less) : Increase / Decrease in Operating working capital			
Trade receivable	(7,629,012)		(14,989,836)
Loans and advances	(297,711)		(5,062,960)
Current liabilities and provisions	(2,285,724)	(10,212,447)	4,623,476
		437,314	(7,393,517)
Net cash (used in)/from operating activities	A		
B. Cash flow from Investing activities:	B	-	-
Net cash used in investing activities		-	-
C. Cash flow from financing activities:			
Interest Paid		-	(75,530)
Net cash used in financing activities	C	-	(75,530)
Net Increase/(Decrease) in Cash & Cash Equivalents	(A+B+C)	437,314	(7,469,047)
Adjustments on account of exchange rate		(1,129,929)	(2,642,672)
Cash and cash equivalents as at the beginning of the year		4,318,337	14,430,056
Cash and cash equivalents as at the end of the year		3,625,722	4,318,337
Cash and cash equivalents comprise			
Balance with Scheduled Banks		3,625,722	4,318,337
Cash and cash equivalents as at the end of the year		3,625,722	4,318,337

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.

Sd/-

For Price Waterhouse
Firm Registration Number: 301112E
Chartered Accountants

Sd/-

Usha Rajeev
Partner
Membership No. F-87191

Place : Gurgaon, India
Date : May 6, 2011

Paul Krause
CEO & Whole Time Director

Sd/-

Jaydip Gupta
Chief Financial Officer

Place : Rochester, NY, USA
Date : May 6, 2011

Sd/-

Vijay Kumar Thadani
Director

Element K Canada Inc.

**Schedules annexed to and forming part of the Accounts
as at March 31, 2011**

Schedule No.	As at March 31, 2011 INR	As at March 31, 2010 INR
1. SHARE CAPITAL		
Authorized Share Capital		
1,000 Equity Shares of CAD 0.01 each	388	388
	388	388
Issued, Subscribed and Paid-up Capital		
1,000 Equity Shares of CAD 0.01 each (All of the above shares are held by Holding Company, Element K Corporation, USA)	388	388
	388	388
1A. Currency Translation Reserve [Refer Note 1A on Schedule 11]		
Opening balance	2,868,734	5,511,406
Additions during the year	(1,129,929)	(2,642,672)
	1,738,805	2,868,734

Element K Canada Inc.
Schedules annexed to and forming part of the Accounts
as at March 31, 2011

Schedule No.	As at March 31, 2011 INR	As at March 31, 2010 INR
2 SUNDRY DEBTORS (Unsecured)		
Outstanding for over six months		
- Considered Good	-	-
- Considered Doubtful	354,786	43,747
	<u>354,786</u>	<u>43,747</u>
Less : Provision for Doubtful Debts	354,786	43,747
	-	-
Outstanding for less than six months (considered good)	43,988,681	36,359,670
	<u>43,988,681</u>	<u>36,359,670</u>
3 CASH AND BANK BALANCES		
Balances with Banks in :		
- Current Accounts	3,625,722	4,318,337
	<u>3,625,722</u>	<u>4,318,337</u>

Element K Canada Inc.

**Schedules annexed to and forming part of the Accounts
as at March 31, 2011**

Schedule No.		As at March 31, 2011 INR	As at March 31, 2010 INR
4	LOANS AND ADVANCES		
	[Refer Note 1B(ii) on Schedule 11]		
	Advances recoverable in cash or in kind or for value to be received		
	- Considered Good	5,751,097	5,535,636
	Security Deposits	685,781	603,530
		6,436,878	6,139,166
5	CURRENT LIABILITIES		
	[Refer Note 1B(i) on Schedule 11]		
	Sundry Creditors -		
	- other than micro and small enterprises	2,877,483	2,726,252
	Amount payable to Holding Company	12,082,084	24,615,489
	Unearned revenue (net)	2,102,211	6,813,756
	Deferred revenue	69,450,421	55,855,818
	Other Liabilities	2,307,097	1,093,705
		88,819,296	91,105,020

Element K Canada Inc.

**Schedules annexed to and forming part of the Accounts
as at March 31, 2011**

Schedule No.		For the year ended March 31, 2011 INR	For the year ended March 31, 2010 INR
6	OTHER INCOME [Refer Notes 1B (iii) on Schedule 11]		
	Gain on exchange fluctuations (Net)	-	42,360
	Miscellaneous	1,593,484	196,550
		1,593,484	238,910
7	PERSONNEL [Refer Notes 1B (vi) on Schedule 11]		
	Salaries and Benefits	20,782,567	16,488,822
	Contribution to retirement benefits	86,361	83,388
	Welfare and Other Expenses	40,369	94,347
		20,909,297	16,666,557
8	DEVELOPMENT, PRODUCTION AND EXECUTION [Refer Note 2 on Schedule 11]		
	Courseware and manuals	9,885,129	62,109,496
	Royalties	89,769,258	-
	Professional Charges	804,948	224,239
	Management services recovery	82,251,014	78,974,642
	Dispatch & Shipping	11,890,508	9,472,972
		194,600,857	150,785,682

Element K Canada Inc.

**Schedules annexed to and forming part of the Accounts
as at March 31, 2011**

Schedule No.	For the year ended March 31, 2011 INR	For the year ended March 31, 2010 INR
9 ADMINISTRATION, FINANCE AND OTHERS [Refer Note 2 on Schedule 11]		
Rates and Taxes	-	2,521,561
Communication	1,211,698	1,601,338
Legal and Professional	2,606,423	769,894
Traveling and Conveyance	642,579	567,056
Bank, Discounting and Other Financial Charges	2,128,845	1,565,757
Bad debt expense	-	3,970,044
Interest on loans	-	75,530
Loss on exchange fluctuations (Net)	50,000	-
Sundry Expenses	-	266,230
	<u>6,639,545</u>	<u>11,337,410</u>
10 SELLING AND MARKETING [Refer Notes 1B (ii) to Schedule 11]		
Sales commission	12,404,460	9,023,023
Advertisement and Publicity	771,661	508,502
Others	359,785	389,331
	<u>13,535,906</u>	<u>9,920,856</u>

ELEMENT K CANADA INC.
SCHEDULE '11': NOTES TO ACCOUNTS FOR THE ACCOUNTING YEAR
APRIL 1, 2010 TO MARCH 31, 2011

- 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). Prepaid Expenses

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.

ELEMENT K CANADA INC.
SCHEDULE '11': NOTES TO ACCOUNTS FOR THE ACCOUNTING YEAR
APRIL 1, 2010 TO MARCH 31, 2011

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, 2010 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, 2011	For the year ended March 31, 2010
Profit/(Loss) attributable to equity shareholders - (A)	10,649,762	3,990,229
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)	10,650	3,990

ELEMENT K CANADA INC.
SCHEDULE '11': NOTES TO ACCOUNTS FOR THE ACCOUNTING YEAR
APRIL 1, 2010 TO MARCH 31, 2011

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, 2011. However, the revenue from the subscription business has increased and the Company expects to achieve further growth in terms of subscription revenue based on the new product 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 a 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

Paul Krause
CEO & Whole Time Director

Vijay Kumar Thadani
Director

Usha Rajeev
Partner
Membership No. F-87191

Jaydip Gupta
Chief Financial Officer

Place : Gurgaon, India
Date : May 6, 2011

Place : Rochester, NY, USA
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