

Management's Report

Management's Responsibility for the Consolidated Financial Statements

The consolidated financial statements have been prepared by management in accordance with the basis of accounting described in Note 2 to the consolidated financial statements, and the integrity and objectivity of these statements are management's responsibility. Management is also responsible for all of the notes to the consolidated financial statements and schedules, and for ensuring that this information is consistent, where appropriate, with the information contained in the consolidated financial statements. A summary of the significant accounting policies is described in Note 2 to the consolidated financial statements. The preparation of consolidated financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods


Management is also responsible for implementing and maintaining a system of internal controls to provide reasonable assurance that reliable financial information is produced. The internal controls are designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded in compliance with legislative and regulatory requirements, and reliable financial information is available on a timely basis for preparation of the consolidated financial statements.

The Board of Directors are responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control, and exercises these responsibilities through the Board. The Board reviews internal consolidated financial statements on a monthly basis and external audited consolidated financial statements yearly. The Board also discuss any significant financial reporting or internal control matters prior to their approval of the consolidated financial statements.

The external auditors, BDO Canada LLP, conduct an independent examination, in accordance with Canadian auditing standards, and express their opinion on the consolidated financial statements. The external auditors have full and free access to financial management of Knowledge Network Corporation and meet when required. The accompanying Auditor's Report outlines their responsibilities, the scope of their examination and their opinion on the consolidated financial statements.

On behalf of Knowledge Network Corporation


Rudy Buttingol
President and Chief Executive Officer


Nini Baird
Chair of the Board

May 18, 2012

Knowledge Network Corporation
Consolidated Financial Statements
For the year ended March 31, 2012

Knowledge Network Corporation
Consolidated Financial Statements
For the year ended March 31, 2012

Contents

Independent Auditor's Report	2 - 3
Consolidated Financial Statements	
Consolidated Statement of Financial Position	4
Consolidated Statement of Operations	5
Consolidated Statement of Remeasurement Gains and Losses	6
Consolidated Statement of Changes in Net Debt	7
Consolidated Statement of Cash Flows	8
Consolidated Schedule of Segment Disclosure	9
Notes to the Consolidated Financial Statements	10 - 22



Tel: 604 688 5421
Fax: 604 688 5132
vancouver@bdo.ca
www.bdo.ca

BDO Canada LLP
600 Cathedral Place
925 West Georgia Street
Vancouver BC V6C 3L2 Canada

Independent Auditor's Report

To the Board of Directors of the Knowledge Network Corporation

We have audited the accompanying consolidated financial statements of Knowledge Network Corporation, which comprise the Consolidated Statement of Financial Position as at March 31, 2012, March 31, 2011 and April 1, 2010 and the Consolidated Statements of Operations, Remeasurement Gains and Losses, Changes in Net Debt and Cash Flows for the year then ended March 31, 2012 and March 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of these consolidated financial statements in accordance with the basis of accounting described in Note 2 to the consolidated financial statements, 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 audit. 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 presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements of Knowledge Network Corporation as at March 31, 2012, March 31, 2011, and April 1, 2010 and the results of its consolidated operations and its cash flows for the years ended March 31, 2012 and March 31, 2011 are prepared, in all material respects, in accordance with the basis of accounting described in Note 2 to the financial statements.

Basis of Accounting

Without modifying our opinion, we draw attention to Note 2 to the consolidated financial statements which describes the basis of accounting and the significant differences between such basis of accounting and Canadian public sector accounting standards. Note 16 to the consolidated financial statements discloses the impact of these differences.

BDO Canada LLP

Chartered Accountants

Vancouver, British Columbia
May 18, 2012

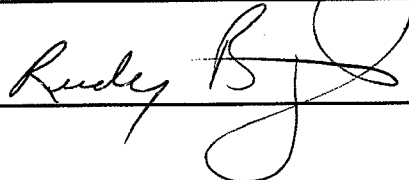
Knowledge Network Corporation
Consolidated Statement of Financial Position

	March 31, 2012	March 31, 2011	April 1, 2010
Financial Assets			
Cash (Note 3)	\$ 1,608,557	\$ 1,507,167	\$ 1,078,010
Accounts receivable	1,369,908	103,574	46,396
Portfolio investments (Note 3)	1,833,480	2,098,973	2,651,192
	<u>4,811,945</u>	<u>3,709,714</u>	<u>3,775,598</u>
Liabilities			
Accounts payables and accruals	948,153	995,098	1,155,229
Taxes payable	112,187	-	-
Deferred revenue, projects	988,342	496,004	886,811
Deferred contributions (Note 6 and 7)	2,761,875	3,055,088	3,001,257
	<u>4,810,557</u>	<u>4,546,190</u>	<u>5,043,297</u>
Net Financial Assets (Net Debt)	<u>1,388</u>	<u>(836,476)</u>	<u>(1,267,699)</u>
Non-Financial Assets			
Broadcast rights (Note 5)	7,206,859	6,567,460	6,448,929
Tangible capital assets (Schedule 1)	2,809,837	3,289,925	3,657,888
Prepaid expenses	5,956	6,439	17,823
	<u>10,022,652</u>	<u>9,863,824</u>	<u>10,124,640</u>
Accumulated Surplus (Note 14)	<u>\$ 10,024,040</u>	<u>\$ 9,027,348</u>	<u>\$ 8,856,941</u>
Accumulated surplus represented by:			
Accumulated surplus from operations	\$ 9,964,445	\$ 8,890,365	\$ 8,762,400
Accumulated rereasurement gains and losses	59,595	136,983	94,541
	<u>\$ 10,024,040</u>	<u>\$ 9,027,348</u>	<u>\$ 8,856,941</u>

Commitments (Note 8)

Approved on behalf of:


 _____ Chair of the Board


 _____ President and Chief Executive Officer

The accompanying notes are an integral part of these financial statements.

Knowledge Network Corporation
Consolidated Statement of Operations

	Budget (Note 15)	March 31, 2012	March 31, 2011
Revenue			
Province of British Columbia			
Operating grants	\$ 6,409,506	\$ 6,409,506	\$ 6,409,506
Donations and sponsorships	2,615,000	3,159,760	2,749,857
Specialty TV channel subscription fees	1,326,910	1,310,449	-
Amortization of deferred capital contributions (Note 6 and 7)	325,000	460,605	442,171
Other	322,000	157,221	329,299
	<u>10,998,416</u>	<u>11,497,541</u>	<u>9,930,833</u>
Expenses			
Programming and presentation	1,621,064	1,668,411	1,673,998
Marketing and development	1,741,217	1,735,865	1,766,241
Broadcast platforms and Corporate IT	2,082,467	2,076,948	2,139,279
General	2,951,691	3,058,680	3,063,640
Administration	1,275,067	1,336,672	1,284,591
Specialty TV Channel	1,104,359	755,529	156,777
	<u>10,775,865</u>	<u>10,632,105</u>	<u>10,084,526</u>
Annual surplus from operations excluding endowment contributions	222,551	865,436	(153,693)
Endowment contributions	200,000	208,644	281,658
Annual surplus from operations	422,551	1,074,080	127,965
Accumulated surplus from operations, beginning of year	8,890,365	8,890,365	8,762,400
Accumulated surplus from operations, end of year	<u>\$ 9,312,916</u>	<u>\$ 9,964,445</u>	<u>\$ 8,890,365</u>

The accompanying notes are an integral part of these financial statements.

Knowledge Network Corporation
Consolidated Statement of Remeasurement Gains and Losses

<u>For the year ended March 31</u>	<u>2012</u>	<u>2011</u>
Accumulated remeasurement gains, beginning of year	\$ 136,983	\$ 94,541
Unrealized gains (losses) attributable to portfolio investments	(76,116)	45,796
Amounts reclassified to statement of operations:		
Realized gain on portfolio investments	(1,272)	(3,354)
Net remeasurement gains (losses) for the year	(77,388)	42,442
Accumulated remeasurement gains, end of year	\$ 59,595	\$ 136,983

The accompanying notes are an integral part of these financial statements.

Knowledge Network Corporation
Consolidated Statement of Changes in Net Debt

	Budget (Note 15)	March 31, 2012	March 31, 2011
Annual surplus	\$ 422,551	\$ 1,074,080	\$ 127,965
Remeasurement gains for the year	-	(77,388)	42,442
Acquisition of tangible capital asset	-	(6,897)	(127,959)
Amortization of tangible capital assets	447,250	486,985	495,922
	447,250	480,088	367,963
Acquisition of broadcast rights	(3,756,550)	(3,253,807)	(2,534,306)
Amortization of broadcast rights	2,556,449	2,614,409	2,415,775
	(1,200,101)	(639,398)	(118,531)
Acquisition of prepaid expenses	-	(5,957)	(6,439)
Use of prepaid expenses	-	6,439	17,823
	-	482	11,384
Increase (decrease) in net debt	(330,300)	837,864	431,223
Net debt, beginning of year	(836,476)	(836,476)	(1,267,699)
Net debt, end of year	\$ (1,166,776)	\$ 1,388	\$ (836,476)

The accompanying notes are an integral part of these financial statements.

Knowledge Network Corporation
Consolidated Statement of Cash Flows

For the year ended March 31	2012	2011
Cash provided (used) by		
Operating transactions		
Annual surplus from operations	\$ 1,074,080	\$ 127,965
Items not involving cash:		
Amortization of deferred contributions	(460,605)	(442,171)
Amortization of capital assets	486,985	495,922
Amortization of broadcast rights	2,614,409	2,415,775
Change in non-cash operating working capital	(708,271)	(596,731)
	<u>3,006,598</u>	<u>2,000,760</u>
Financing transactions		
Contributions received for broadcast rights	167,392	496,002
	<u>167,392</u>	<u>496,002</u>
Investing transactions		
Redemption of portfolio investments	188,104	594,660
	<u>188,104</u>	<u>594,660</u>
Capital transactions		
Purchase of capital assets	(6,897)	(127,959)
Purchase of broadcast rights	(3,253,807)	(2,534,306)
	<u>(3,260,704)</u>	<u>(2,662,265)</u>
Increase in cash for the year	101,390	429,157
Cash, beginning of year	1,507,167	1,078,010
Cash, end of year	<u>\$ 1,608,557</u>	<u>\$ 1,507,167</u>
Change in non-cash operating working capital		
Accounts receivable	\$ (1,266,334)	\$ (57,178)
Prepaid expenses	483	11,384
Payables and accruals	(46,945)	(160,130)
Taxes payable	112,187	-
Deferred revenue, projects	492,338	(390,807)
	<u>\$ (708,271)</u>	<u>\$ (596,731)</u>

The accompanying notes are an integral part of these financial statements.

Knowledge Network Corporation Consolidated Schedule of Segment Disclosure

	Programming and Presentation	Marketing and Development	Broadcast Platforms and Corporate IT	General	Administration	Specialty TV Channel	March 31, 2012 Consolidated	Budget (Note 15) Consolidated	March 31, 2011 Consolidated
Revenues									
Provincial operating and other grants	\$ -	\$ -	\$ -	\$ 6,409,506	\$ -	\$ -	\$ 6,409,506	\$ 6,409,506	\$ 6,409,506
Donations and sponsorships	167,392	2,992,368	-	-	-	-	3,159,760	2,615,000	2,749,857
Specialty TV Channel subscription fees	-	-	-	-	-	1,310,449	1,310,449	1,326,910	-
Amortization of deferred contributions	-	-	-	460,605	-	-	460,605	325,000	442,171
Other	-	-	-	78,762	-	78,459	157,221	322,000	329,299
	167,392	2,992,368	-	6,948,873	-	1,388,908	11,497,541	10,998,416	9,930,833
Expenses									
Salaries and benefits	1,086,100	772,442	1,292,022	(2,947)	884,389	96,969	4,128,975	4,174,605	3,935,807
Amortization of capital assets and broadcast rights	-	-	-	2,959,273	-	142,121	3,101,394	3,003,699	2,911,697
Purchased services	470,224	498,218	129,331	18,853	64,491	275,194	1,456,311	1,516,835	1,386,694
Supplies, shipping, minor software, maintenance	47,421	348,474	633,293	67,864	19,052	119,447	1,235,551	1,370,148	1,096,592
Travel, miscellaneous, other	64,666	106,012	22,302	15,637	79,307	9,611	297,535	400,518	487,657
Facilities operating costs, rental	-	10,719	-	-	289,433	-	300,152	289,560	266,079
Income taxes	-	-	-	-	-	112,187	112,187	20,500	-
	1,668,411	1,735,865	2,076,948	3,058,680	1,336,672	755,529	10,632,105	10,775,865	10,084,526
	\$ (1,501,019)	\$ 1,256,503	\$ (2,076,948)	\$ 3,890,193	\$ (1,336,672)	\$ 633,379	\$ 865,436	\$ 222,551	\$ (153,693)

The accompanying notes are an integral part of these financial statements.

Knowledge Network Corporation

Notes to the Consolidated Financial Statements

March 31, 2012

1. Nature of Operations

Knowledge Network Corporation (the "Corporation") was incorporated as a Crown corporation in 2009 under the Knowledge Network Corporation Act, a statute of the Province of British Columbia. In years prior to 2009, the organization operated as part of the Open Learning Agency under the Open Learning Agency Act.

The Corporation is British Columbia's public educational broadcaster across multiple platforms including television, web, and mobile. The principal source of funding is from the Ministry of Labour, Citizens' Services and Open Government.

The Corporation continues to be a registered charity under the provision of the Income Tax Act of Canada and is not subject to income taxes. The Corporation's 50% owned subsidiary is subject to income taxes.

2. Summary of Significant Accounting Policies

Basis of Accounting These consolidated financial statements are prepared by management in accordance with Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia. This Section requires that the consolidated financial statements be prepared in accordance with Canadian public sector accounting standards established by the Canadian Public Sector Accounting Board, except in regard to the accounting for broadcast rights and government transfers.

In addition, the Corporation has obtained approval to continue to capitalize broadcast rights, the impact of which is described in Note 16.

The consolidated financial statements reflects the assets, liabilities, revenue, expenses, and accumulated surplus of the reporting entity, which includes proportionate consolidation of the Corporation's 50% owned subsidiary, Knowledge-West Communications Corporation ("KWCC"). Inter-entity balances and transactions have been eliminated on consolidation.

Knowledge Network Corporation
Notes to the Consolidated Financial Statements

March 31, 2012

2. Summary of Significant Accounting Policies (continued)

**Conversion to
Public Sector
Accounting
Standards**

Commencing with the 2012 fiscal year, the Corporation has adopted Canadian public sector accounting ("PSA") standards as issued by the Public Sector Accounting Board. These consolidated financial statements are the first consolidated financial statements for which the Corporation has applied PSA standards. The Corporation has early adopted the accounting standards contained in PS 1201 - Financial statement presentation, PS 3410 - Government transfers, PS 2601 - Foreign currency translation and PS 3450 - Financial instruments in the preparation of these financial statements.

The transition date for the new standards was April 1, 2010 with result that all comparative figures presented throughout these financial statements are prepared following the requirement of the new standards.

There is no impact on the accumulated surplus at the date of transition on the conversion to PSA standards.

Revenue Recognition The corporation follows the deferral method of accounting for contributions. Under this method, restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Endowment contributions are recognized as direct increases in net assets.

Donations are recorded on the cash basis, but designated donations are deferred to match program expenditures.

Subscription fees are recognized in the period in which the transactions occurred that gave rise to the revenues. All revenues are recorded on an accrual basis, except when the accruals cannot be determined with a reasonable degree of certainty or when their estimation is impracticable. Interest and other revenues are recognized when earned.

Knowledge Network Corporation
Notes to the Consolidated Financial Statements

March 31, 2012

2. Summary of Significant Accounting Policies (continued)

**Tangible Capital
Assets**

Purchased tangible capital assets are recorded at cost. Equipment, furniture and fixtures are amortized over the estimated useful life on the declining balance basis at 10% to 30% per annum, computer software are amortized over the estimated useful life on the declining balance basis at 50%, and leasehold improvements are amortized over the term of the lease.

**Deferred Contributions
for Capital Assets and
Broadcast Rights**

Funding received from the Province of British Columbia used for the acquisition of tangible capital assets is recorded as deferred contributions and is recognized as a recovery in the Statement of Operations equal to amortization charged on the assets purchased with the funding. This accounting treatment is not consistent with the requirements of Canadian public sector accounting standards which require that government transfers be recognized as revenue when approved by the transferor and eligibility criteria have been met, unless the transfer contains a stipulation that creates a liability, in which case the transfer is recognized as revenue over the period that the liability is extinguished. See Note 16 for the impact of this policy on these financial statements.

Broadcast rights are recorded at cost and amortized over the period the broadcast is authorized for (generally 4 to 6 years).

**Financial
Instruments**

The Corporation's financial instruments consist of cash, accounts receivable, portfolio investments and accounts payable and accruals. Financial instruments other than portfolio investments are recorded at cost or amortized cost. Portfolio investments are recorded at market value.

**Measurement
Uncertainty**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the year then ended. Actual results could differ from those reported.

Knowledge Network Corporation
Notes to the Consolidated Financial Statements

March 31, 2012

3. Cash and Portfolio Investments

a) Cash

The Corporation's bank accounts are held at one Canadian chartered bank. Interest is earned at prime minus 1.95% and is paid on a monthly basis.

The Corporation has a revolving demand credit facility bearing interest at prime plus 0.50% per annum. The available facility is to a maximum of \$500,000. As at March 31, 2012 and March 31, 2011 the Corporation did not utilize this credit facility.

b) Portfolio investments

	March 31, 2012	March 31, 2011	April 1, 2010
Fixed income	\$ 450,303	\$ 225,232	\$ 1,106,521
Common shares	919,859	1,422,663	1,066,731
Managed assets	-	480	33,804
Mutual funds	411,795	416,571	391,154
Cash	51,523	34,027	52,982
	<u>\$ 1,833,480</u>	<u>\$ 2,098,973</u>	<u>\$ 2,651,192</u>

Fixed income investments bear interest ranging from 3.15% - 8.00% (2011 - 3.15% - 8.00%) with maturities ranging from June 2013 to June 2041 (2011 - June 2012 to June 2037). Mutual funds consist of money market funds which are redeemable at any time.

Knowledge Network Corporation
Notes to the Consolidated Financial Statements

March 31, 2012

4. Tangible Capital Assets

	Furniture and Fixtures	Computer Equipment	Equipment	Software	Broadcast Network Equipment	Leasehold Improvements	March 31, 2012
Cost							
Opening balance	\$ 871,317	\$ 2,816,560	\$ 2,396,439	\$ 365,755	\$ 13,067,461	\$ 37,695	\$ 19,555,227
Additions	-	-	-	-	4,689	-	4,689
Closing balance	871,317	2,816,560	2,396,439	365,755	13,072,150	37,695	19,559,916
Accumulated Amortization							
Opening balance	733,465	2,293,037	2,321,076	363,507	10,589,026	15,867	16,315,978
Amortization	13,785	104,705	11,304	2,248	297,694	4,365	434,101
Closing balance	747,250	2,397,742	2,332,380	365,755	10,886,720	20,232	16,750,079
Net Book Value	\$ 124,067	\$ 418,818	\$ 64,059	\$ -	\$ 2,185,430	\$ 17,463	\$ 2,809,837

	Furniture and Fixtures	Computer Equipment	Equipment	Software	Broadcast Network Equipment	Leasehold Improvements	March 31, 2011
Cost							
Opening balance	\$ 871,317	\$ 2,807,349	\$ 2,506,614	\$ 365,755	\$ 12,999,388	\$ 37,695	\$ 19,588,118
Additions (disposal)	-	9,211	(110,175)	-	118,749	-	17,785
Closing balance	871,317	2,816,560	2,396,439	365,755	13,118,137	37,695	19,605,903
Accumulated Amortization							
Opening balance	718,148	2,163,308	2,417,951	361,260	10,259,154	10,409	15,930,230
Amortization	15,317	129,729	(96,875)	2,247	329,872	5,458	385,748
Closing balance	733,465	2,293,037	2,321,076	363,507	10,589,026	15,867	16,315,978
Net Book Value	\$ 137,852	\$ 523,523	\$ 75,363	\$ 2,248	\$ 2,529,111	\$ 21,828	\$ 3,289,925

Knowledge Network Corporation
Notes to the Consolidated Financial Statements

March 31, 2012

4. Tangible Capital Assets (continued)

	Furniture and Fixtures	Computer Equipment	Equipment	Software	Broadcast Network Equipment	Leasehold Improvements	March 31, 2010
Cost							
Opening balance	\$ 855,893	\$ 2,719,503	\$ 2,507,696	\$ 365,755	\$ 12,633,524	\$ 36,889	\$ 19,119,260
Additions (disposal)	15,424	87,846	(1,082)	-	365,864	806	468,858
Closing balance	871,317	2,807,349	2,506,614	365,755	12,999,388	37,695	19,588,118
Accumulated Amortization							
Opening balance	701,986	2,013,279	2,403,386	356,765	9,910,432	3,689	15,389,537
Amortization	16,162	150,029	14,565	4,495	348,722	6,720	540,693
Closing balance	718,148	2,163,308	2,417,951	361,260	10,259,154	10,409	15,930,230
Net Book Value	\$ 153,169	\$ 644,041	\$ 88,663	\$ 4,495	\$ 2,740,234	\$ 27,286	\$ 3,657,888

Knowledge Network Corporation
Notes to the Consolidated Financial Statements

March 31, 2012

5. Broadcast Rights

	March 31, 2012	March 31, 2011	April 1, 2010
	Accumulated Cost	Amortization	Net Book Value
Broadcast rights	\$ 12,073,056	\$ 4,866,197	\$ 7,206,859
			\$ 6,567,460
			\$ 6,448,929

6. Deferred Contributions, Capital Assets

Deferred contributions related to capital assets represent the unamortized amount of grants received for the purchase of capital assets. Amortization of deferred contributions is recorded as revenue.

	2012	2011
Balance, beginning of year	\$ 2,543,437	\$ 2,918,557
Less:		
Amounts recognized as revenue	(325,599)	(375,120)
Balance, end of year	<u>\$ 2,217,838</u>	<u>\$ 2,543,437</u>

7. Deferred Contributions, Broadcast Rights

Deferred contributions related to broadcast rights represent the unamortized amount of funds received for the acquisition of programs. Amortization of deferred contributions is recorded as revenue.

	2012	2011
Balance, beginning of year	\$ 511,651	\$ 82,700
Contribution received	167,392	496,002
Amounts recognized as revenue	(135,006)	(67,051)
Balance, end of year	<u>\$ 544,037</u>	<u>\$ 511,651</u>

Knowledge Network Corporation
Notes to the Consolidated Financial Statements

March 31, 2012

8. Commitments

Satellite Transmission Service

The Corporation acquires satellite transmission services at an annual cost of approximately \$392,000 under agreements that are renewed periodically.

Production Costs

The Corporation acquires programs which require the commitment of funds. As at March 31, 2012 the Corporation is committed to pay \$2,189,080 for licence fees over the period 2013 to 2015.

9. Related Party Transactions

The Corporation is related through common ownership to all Province of British Columbia ministries, agencies, school districts, health authorities, colleges, universities, and Crown corporations. Transactions with these entities, considered to be in the normal course of operations, are recorded at the exchange amount.

In the normal course of operations, the Corporation pays rent to BCIT, a Provincially controlled university, of \$1 per annum and its share of the building operating costs totaling \$289,433 (2011 - \$261,882).

Included in the 2012 balance of Accounts Receivable is \$750,000 related to a loan due from its subsidiary. This represents the \$1,500,000 (2011 - \$528,000) balance of the loan less the 50% impact resulting from proportionate consolidation. The loan is unsecured and bears interest at 5% per annum.

Knowledge Network Corporation
Notes to the Consolidated Financial Statements

March 31, 2012

10. Segmented Information

For reporting purposes, the Corporation's activities have been aggregated into functional areas. The Consolidated Schedule of Segment Disclosure reports the revenues and expenses that are directly attributable to each functional segment. The revenues and expenses that cannot be directly attributable or allocated on a reasonable basis to individual segments are reported in the General segment. The following describes the activities of each segment:

Program Management, Presentation, and Promotions

This segment includes salaries and benefits costs of staff responsible for the acquisition of broadcast rights, management and design of broadcast content including branding, captioning of programs, and management of broadcast traffic. This segment also includes the cost of contracted editors hired to create promotional content.

Marketing and Development

This segment includes salaries and benefits costs of staff responsible for administering our Partners' donations and Knowledge Endowment Fund. This includes other operating costs related to the servicing of our donors such as the production and distribution of the program guide.

This segment also includes salaries and benefits costs of staff responsible for maintaining government reporting requirements, reporting on audience and viewership results, and implementing our marketing plans.

Broadcast Platforms and Corporate Information Technology

This segment includes salaries and benefits costs of staff responsible for the maintenance and administration of the broadcast platforms and corporate information technology infrastructures. This segment also includes operating costs related to the distribution of our broadcast signal to our audiences.

General

This segment includes all other revenues, and year-end adjustments related to the capitalization and amortization of assets, and minority interest in our subsidiary operations.

Administration

This segment includes salaries and benefits costs of staff responsible for overall administration, finance, and human resources. Operating costs also include the Corporation's share of leased facilities costs, and the costs of training and professional development of our staff.

Specialty TV Channel

This segment represents the operations of the BBC Kids tier 2 digital specialty channel via KWCC. BBC Kids is available to Canadian cable and Internet TV subscribers.

Knowledge Network Corporation
Notes to the Consolidated Financial Statements

March 31, 2012

11. Pensions

The Corporation and its employees contribute to the College Pension Plan and Municipal Pension Plan, jointly trustee pension plans. The boards of trustees for these plans represent plan members and employers and are responsible for the management of the pension plan including investment of assets and administration of benefits. The pension plans are multi-employer contributory pension plans. Basic pension benefits provided are defined. The College Pension Plan has about 11,000 active members from college senior administration and instructional staff and approximately 3,500 retired members. The Municipal Pension Plan has about 150,000 active members, with approximately 5,000 from colleges.

Every three years, an actuarial valuation is performed to assess the financial position of the plan and the adequacy of the plan funding. The valuation for the College Pension Plan as at August 31, 2009 indicated an unfunded liability of \$28 million for basic pension benefits. The next valuation will be as at August 31, 2012, with results being available in mid-2013. The most recent valuation for the Municipal Pension Plan as at December 31, 2009 indicated an unfunded liability of \$1.024 billion for basic pension benefits. The next valuation will be December 31, 2012 with results being available in 2013. The actuary does not attribute portions of the unfunded liability to individual employees.

Employer contributions to the plans in the current year amounted to \$299,349 (2011 - \$274,003).

12. Financial Instruments Risks

The Corporation, through its financial assets and liabilities, is exposed to various risks. The following analysis provides a measurement of those risks at March 31, 2012.

a) **Credit Risk**

Credit risk is the risk that the Corporation will incur a loss due to the failure by its debtors to meet their contractual obligations. Financial instruments that potentially subject the Corporation to credit risk consist primarily of cash, short-term investments, restricted investments and accounts receivable. The Corporation has an investment policy to ensure investments are managed appropriately to secure the preservation of capital and the availability of liquid funds. The Corporation has also retained an investment firm to invest surplus funds in accordance with its investment policy. The receivables are due from various entities and individuals, thus the Corporation is not subject to concentration of credit risk.

b) **Foreign Exchange Risk**

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Corporation is not exposed to foreign exchange risk as all securities are denominated in Canadian dollars.

Knowledge Network Corporation
Notes to the Consolidated Financial Statements

March 31, 2012

12. Financial Instruments Risks - Continued

c) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Short-term and restricted investments bear some interest rate risk as the market price of fixed income securities may fluctuate based on changes in interest rates (Note 3).

d) Market Risk

Market risk is the risk that the value of an investment will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual investment, or factors affecting all securities traded in the market (Note 3). The Corporation is exposed to fair value and interest rate risks on its short-term restricted investments.

e) Liquidity Risk

Liquidity risk is the risk that the Corporation will not be able to meet its obligations as they fall due. The Corporation maintains adequate levels of working capital to ensure all its obligations can be met when they fall due.

13. Capital Management

The capital structure of the Corporation consists of accumulated surplus from operations and accumulated remeasurement gains and losses. The primary objective of the Corporation's capital management is to provide financial flexibility to take advantage of future strategic opportunities.

Included in accumulated surplus is the endowment fund which provides income to advance programming initiatives. Contributed principal to endowment funds are held in perpetuity and invested in accordance with the Corporation's investment policy.

Also included in accumulated surplus is the net investment in capital assets and broadcast rights represents the amount of net assets that are not available for other purposes because they have been invested.

Unrestricted net assets are funds available for the Corporation's future operations.

Knowledge Network Corporation
Notes to the Consolidated Financial Statements

March 31, 2012

14. Accumulated Surplus

Accumulated surplus is comprised of the following:

	March 31, 2012	March 31, 2011	April 1, 2010
Invested in tangible capital assets	\$ 591,999	\$ 746,487	\$ 739,330
Invested in broadcast rights	6,662,822	6,055,809	6,366,229
Endowment funds	1,038,801	819,694	529,676
Unrestricted amounts	1,730,418	1,405,358	1,221,706
	\$ 10,024,040	\$ 9,027,348	\$ 8,856,941

15. Budgeted Figures

Budgeted figures have been provided for comparison purposes and have been derived from the estimates approved by the Board of Directors.

16. Impact of Accounting for Intangible Assets and Government Transfers in Accordance with the Budget Transparency and Accountability Act

As noted in the significant accounting policies, the Corporation has been granted approval to capitalize and amortize certain key intangible assets. Canadian public sector accounting standards do not recognize intangible assets in their accounting framework and require that such amounts be expensed as incurred.

The Budget Transparency and Accountability Act and its related regulations require the Corporation to account for government transfers for capital assets by deferring and amortizing them to income on the same basis as the related amortization expense. As these transfers do not contain stipulations that create a liability, Canadian public sector accounting standards would require these grants to be reported in income.

Knowledge Network Corporation
Notes to the Consolidated Financial Statements

March 31, 2012

16. Impact of Accounting for Intangible Assets and Government Transfers in Accordance with the Budget Transparency and Accountability Act (continued)

The impact of this difference on the financial statements of the Corporation is as follows:

April 1, 2010

Increase accumulated surplus and decrease deferred contributions by	\$ 2,918,557
Broadcast rights and accumulated surplus overstated by	\$ 6,448,929

March 31, 2011

Increase accumulated surplus and decrease deferred contributions by	\$ 2,543,437
Broadcast rights and accumulated surplus overstated by	\$ 6,567,460

March 31, 2012

Increase accumulated surplus and decrease deferred contributions by	\$ 2,217,838
Broadcast rights and accumulated surplus overstated by	\$ 7,206,859

Year-ended March 31, 2011

Amortization expense overstated by	\$ 2,415,775
Amortization of deferred capital contributions overstated by	\$ 442,171

Year-ended March 31, 2012

Amortization expense overstated by	\$ 2,614,409
Amortization of deferred capital contributions overstated by	\$ 460,605