

CHINA EDUCATION RESOURCES INC.



**Management's Discussion and Analysis
For the year ended December 31, 2008**

FORM 51-102F1

April 28, 2009

This Management Discussion and Analysis (“MD&A”) reviews the activities of China Education Resources Inc., its Chinese operating subsidiaries, Today’s Teachers Technology & Culture Ltd. (“TTTC”) and CEN Smart (“CEN”) (and/or collectively “CER” or the “Company”) and compares the financial results for the year ended December 31, 2008 with the same period of 2007. The MD&A should be read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2008, copy of which is filed on the SEDAR website.

The Company prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principals, and these statements are filed with the relevant regulatory authorities in Canada. All dollar amounts presented are expressed in United States dollars unless otherwise noted.

FORWARD LOOKING INFORMATION

Except for statements of historical fact, the discussion and analysis of financial performance and position including, without limitation, statements regarding projections, future plans, and objectives of CER are forward-looking statements that are subject to various risks and uncertainties. Forward-looking statements are based on management experience, historical results, current expectations and analyses, trends, government policies, and current business and economic conditions, including CER’s analysis of its product and distribution system and its expectations regarding the effects of anticipated product and distribution changes and the potential benefits of such efforts and activities on CER’s results of operations in future periods. There can be no assurance that such statements will prove to be accurate; actual results and future events could differ materially from those anticipated in such statements.

DESCRIPTION AND OVERVIEW OF BUSINESS

The Company is a corporation organized under the predecessor to the *Business Corporations Act* of British Columbia. CER is public company traded on the TSX Venture Exchange with the trading symbol “CHN” and OTCQX with the trading symbol “CHNUF”. The Company, through its subsidiaries in China, is a leading provider of kindergarten to grade 12 (“K – 12”) education resources and services through its national internet portal, China Education Resources and Services Platform (“CERSP”), www.cersp.com, to China’s kindergarten to grade 12 education market.

The Company has worked in all areas of education resources development, marketing and sales. Working with the Curriculum Development Center (“CDC”) of China’s Ministry of Education (“MOE”), CER has developed a unique national education portal (www.CERSP.com) to help the Central Government implement policy reform. This reform effort is designed to bring China’s education system into the twenty first century by changing teaching methods from rote memory learning to a more individualized and creative approach. In collaboration with China’s various education authorities and experts, the CERSP portal is designed to support all stakeholders and participants in the K-12 education domain; teachers, students, administrators, subject matter experts, and parents.

In late 2008, the Company launched its comprehensive Education Services Portal (“ESP”). ESP is a natural extension of CERSP, and helps to organize the wealth of teaching, learning, and administrative resources available through CERSP at the individual school level.

CERSP is the equivalent of a mega-portal. It is designed to be accessible by everyone associated with K-12 education across China and is loaded with robust features and resources that enable the development, delivery, and support of resources and activities related to the national K-12 education reform initiative. CERSP is a primary venue for teacher training in schools, districts, cities, and provinces. It is also the aggregator for subject matter experts in all K-12 subject areas and a place where they can gather virtually to improve upon the work they have done in response to national mandates.

ESP, on the other hand, is a commercial service for the K-12 education marketplace that extends the reach and relevance of the CERSP portal at the school and individual level. Its primary function is to support the administrative, teaching, learning, testing, and assessment needs of an individual school, and it does so in a way that is standardized, allowing for combined results to the district, city, province, or national level. CERSP can be regarded as a large "back-end" resource that greatly enriches each instance of ESP. ESP can be considered as a way to monetize the momentum of CERSP by creating a direct, revenue producing relationship with every school, administrator, teacher, parent and student that subscribes.

Currently, our ESP provides the following services:

(a) School Platform

The school platform provides a link between a school with its teachers, students and parents. Through the platform, the school can send messages to the teachers, students and parents. The teachers can upload homework and tests to the platform and the students can go to the platform to complete and submit their homework and write the tests. The school can automatically collect the markings received by each student. Each teacher and student has his own account number registered with the platform. Currently, approximately 1,500 schools have applied to join the platform. We have already opened accounts for approximately 500 schools with around 500,000 students and teachers.

(b) Online tutoring program

Online tutoring program is a platform developed for a teacher to provide online tutoring services through the internet to his students. Currently, we are the only company providing such comprehensive education resources, services and technology in China. Right now we have around 2,000 online tutoring courses provided from 5,000 teachers. Students have to prepay for the services to TTTC and TTTC pays the net amount to the teachers after deducting our share of revenue.

(c) CD products

CD products are packages with CDs containing tutorial materials that are sold at retail stores. We sell them at a discount price to the wholesalers. The CDs only contain some tutorial materials and if a student has further interest, he / she can go to our website for further pay services and attend our online tutoring. There are many competitors in this area. However, we have the advantage of linking our CD products to other services provided by our ESP.

Currently, the Company's revenues are derived from our interests in TTTC which develops and maintains the CERSP and ESP. Our cash flow and financial condition is dependent on TTTC.

Even though CER is focused on commercializing its national CERSP and ESP web portals in China, the Company still maintains the distribution of third party textbooks and supplementary materials.

OVERALL PERFORMANCE

Comparative Figures

Certain comparative figures have been reclassified to conform to the presentation of the current year. These reclassifications do not have any impact on results of operations for the period.

Selected Annual Information

	2008	2007	2006
Total revenue	\$ 476,691	\$ 1,457,648	\$ 1,435,581
Loss before discontinued operations	(3,534,628)	(4,242,521)	(2,812,775)
Loss before discontinued operations per share	(0.08260)	(0.11160)	(0.0763)
Net loss	(3,534,628)	(4,242,521)	(2,568,387)
Net loss per share	(0.0826)	(0.1116)	(0.0696)
Long-term liabilities	-	22,248	477,914
Cash dividends	-	-	-

Revenue decreased when comparing 2008 with 2006 and 2007. This was due to the change of government policy on delegation of engaging teacher training services from the central government level to the province, municipal and school level and also more competitors come into the teacher training market. The Company has to contact different level of governments to re-establish the revenue from teacher training program.

The increase in net loss in 2007 as compared with 2006 was mainly due to the amortization of the previously capitalized web-site development cost of \$871,860 after the commercialization of the portal in February 2007 and the recording of website operating expenses of \$1,641,093 in 2007.

Results of Operations

For the three months ended December 31, 2008:

For the three months ended December 31, 2008, the Company reported aggregate sales of \$27,453 (2007: \$451,862). Sales revenue of \$25,028 (2007: \$410,910) was attributable to revenue derived from teacher training service through the internet portal and \$2,425 (2007: \$40,952) was from the Company's traditional business, book selling, with related cost of sales of \$70,369 (2007: \$ (651)).

The Company recognized a net loss for the three months ended December 31, 2008 of \$1,211,586 as compared to a net loss of \$2,565,891 for the comparable 2007 period. The net loss per share

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was \$0.0282 for the three months ended December 31, 2008 as compared to a net loss per share of \$0.0670 for comparable period ended December 31, 2007.

The following is a discussion of certain expense categories:

General and administrative expenses

For the three months ended December 31, 2008, selling and general and administrative expenses were \$70,410 compared to \$799,169 recorded in 2007. The decrease in expenses was due to a decrease in development expenditures for the portal and the cessation of work on the registration statement for a US listing.

Included as part of the general and administrative expenses:

Accounting and audit fees decreased from \$143,957 for the three months ended December 31, 2007 to \$16,538 for the comparable 2008 period. The decrease was mainly due to the expenses associated with the preparation of a US registration statement in 2007 and under-provision of the 2006 audit.

Travel decreased to \$11,362 for the three months ended December 31, 2008 from \$31,618 for the comparable 2007 period due to reduction in travel by management to China and the United States.

Amortization

The amortization decreased to \$270,243 in 2008 as compared to \$857,781 in 2007 was mainly due to the capturing of amortization of web-site development cost for the whole year in the last quarter of 2007.

Bad debts

The Company made an additional provision of doubtful debt receivable of \$614,136 in 2008 for the amount receivable from Shengshi Education Service Company. As of December 31, 2008, the Company has made a total provision for doubtful debt of \$1,099,863 for the amount of \$1,118,405 receivable from Shengshi Education Service Company resulting in a net receivable of \$18,542 equivalent to the realizable value of the collateral securities.

The Company also made an additional provision of doubtful debt receivable of \$76,329 in 2008 for the amount receivable from Beijing Anli Information and Consulting Company. As of December 31, 2008, the Company has made a total provision for doubtful debt of \$95,057 for the amount of \$175,896 receivable from Beijing Anli Information and Consulting Company resulting in a net receivable of \$80,839 equivalent to the realizable value of the collateral securities.

Selling expenses

The selling expenses of \$198,462 for the three months ended December 31, 2008 is reduced as compared to \$677,726 in the same period of 2007 as a result of decrease in revenue.

Web-site operating costs

The Company recorded web-site operating costs of \$7,693 in 2008 as compared to \$1,149,985 in 2007 as the web-site was fully developed in 2007 and a much lesser amount of maintenance cost is required.

Stock based compensation

During the three months ended December 31, 2008, the Company recorded stock based compensation expenses of \$(56,276) (2007: \$(5,945)) for options previously granted and vesting over time.

For the year ended December 31, 2008:

For the year ended December 31, 2008, the Company reported aggregate sales of \$476,691 (2007: \$1,457,648). Sales revenue of \$312,833 (2007: \$998,810) was attributable to revenue derived from teacher training service through the internet portal and \$163,858 (2007: \$458,838) was from the Company's traditional business, book selling, with related cost of sales of \$139,985 (2007: \$240,694).

The Company recognized a net loss for the year ended December 31, 2008 of \$3,534,628 as compared to a net loss of \$4,242,521 for the comparable 2007 period. The net loss per share decreased to \$0.0826 for the year ended December 31, 2008 as compared to a net loss per share of \$0.1116 for comparable period ended December 31, 2007.

The following is a discussion of certain expense categories:

General and administrative expenses

For the year ended December 31, 2008, general and administrative expenses were \$1,094,548 compared to \$2,221,512 recorded in 2007. Decrease in activities on the development of the internet portal and the cessation of work on a registration statement in the US resulted in a significant decrease in expenses for the year 2008.

Included as part of the general and administrative expenses:

Accounting and audit fees decreased from \$454,166 for the year ended December 31, 2007 to \$173,935 for the comparable 2008 period. The decrease was mainly due to the expenses associated with the preparation of a US registration statement in 2007 and under-provision of the 2006 audit.

Travel decreased to \$32,924 for the year ended December 31, 2008 from \$83,053 for the comparable 2007 period due to reduction in travel by management to China and the United States.

Amortization

The amortization increased to \$1,162,858 in 2008 as compared to \$985,006 in 2007 was mainly due to the amortization of web-site development cost incurred in previous years.

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Bad debt

The Company made an additional provision of doubtful debt receivable of \$614,136 in 2008 for the amount receivable from Shengshi Education Service Company. As of December 31, 2008, the Company has made a total provision for doubtful debt of \$1,099,863 for the amount of \$1,118,405 receivable from Shengshi Education Service Company resulting in a net receivable of \$18,542 equivalent to the realizable value of the collateral securities.

The Company also made an additional provision of doubtful debt receivable of \$76,329 in 2008 for the amount receivable from Beijing Anli Information and Consulting Company. As of December 31, 2008, the Company has made a total provision for doubtful debt of \$95,057 for the amount of \$175,896 receivable from Beijing Anli Information and Consulting Company resulting in a net receivable of \$80,839 equivalent to the realizable value of the collateral securities.

Selling expenses

The selling expenses of \$601,782 for the year ended December 31, 2008 is reduced as compared to \$756,571 in the same period of 2007 as a result of the decrease in revenue.

Web-site operating costs

The Company recorded web-site operating costs of \$42,255 (2007: \$1,820,074) in relation to the maintenance and update of the portal and web-site as the Company has already completed the development of the web-site in 2007 and the related maintenance cost incurred in 2008 was relatively small.

Stock based compensation

During the year ended December 31, 2008, the Company recorded stock based compensation expenses of \$306,771 (2007: \$218,068) for options previously granted and vesting over time.

SUMMARY OF QUARTERLY AND ANNUAL RESULTS

All amounts are expressed in United States dollars. In addition, all amounts are in thousands except for per share amounts.

	For the Quarters Ended			
	12/31/2008	9/30/2008	6/30/2008	3/31/2008
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Revenue	27.5	148.8	187.8	112.6
Loss before non-controlling interest	(1,211.6)	(714.0)	(721.0)	(888.1)
Net loss for the period	(1,211.6)	(714.0)	(721.0)	(888.1)
Net loss per share	(0.0282)	(0.0166)	(0.0168)	(0.0210)
Total assets	5,981.0	7,084.4	7,974.2	8,561.3
Total liabilities including non-controlling interest	4,843.9	4,486.3	4,720.4	4,612.7

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	For the Quarters Ended			
	12/31/2007 (\$'000)	9/30/2007 (\$'000)	6/30/2007 (\$'000)	3/31/2007 (\$'000)
Revenue	451.9	605.7	113.8	286.2
Loss before non-controlling interest	(2,638.7)	(634.1)	(658.0)	(444.3)
Net loss for the period	(2,565.9)	(608.0)	(633.1)	(435.5)
Net loss per share	(0.0671)	(0.0161)	(0.0168)	(0.0116)
Total assets	7,139.5	8,747.1	8,921.5	9,633.2
Total liabilities including non-controlling interest	4,875.9	4,187.9	3,938.8	4,113.4

The increase in loss before non-controlling interest in Q4 of 2008 was due to the recording of bad debt provision of \$690,465.

The increase in loss before non-controlling interest in Q4 of 2007 was due to the recording of website operating expenses of \$1,641,093 after the web-site development stage was completed.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

Working capital

Working capital improved by \$268,312 to a negative working capital of \$3,762,813 from a negative working capital of \$4,031,125 at the beginning of the year, primarily as a result of the net proceeds received on issuance of shares of \$2,139,548, which were partially offset by the cash used in operating activities of \$1,387,410 and investing activities of \$12,072.

On January 17, 2008, the Company completed a \$2,300,000 private placement consisting of 4.6 million common shares at \$0.49 (C\$0.50) each.

On February 21, 2008, the Company granted 650,000 common share purchase options to directors and employees. These options vested immediately and are exercisable at a price of \$0.57 (C\$0.60) per common share expiring February 21, 2013. The Company also cancelled 100,000 common share purchase options held by an ex-employee.

On July 28, 2008, the Company granted 450,000 common share purchase options to directors. These options vested immediately and are exercisable at a price of \$0.94 (C\$1.00) per common share expiring July 28, 2013. The Company also granted 500,000 common share purchase options at a price of \$0.57 (C\$0.60) per share exercisable up to July 28, 2013 to employees. All the options vested 25% on the date of grant and 25 % of the options vested every year for 3 years. The Company also cancelled 300,000 common share purchase options held by an ex-employee.

Equipment and website development costs

At December 31, 2008, the Company's net equipment and website development costs were \$1,590,321 as compared to \$2,569,780 as at December 31, 2007. This decrease was primarily due to the amortization of \$1,079,592 in website development costs.

Liabilities

The Company's total liabilities were \$4,843,874 as at December 31, 2008, which is comparable with \$4,875,862 at December 31, 2007.

Shareholders' Equity

The shareholders' equity was \$1,137,107 at December 31, 2008 as compared to \$2,263,594 at December 31, 2007. The decrease was primarily due to an increase in the share capital of \$2,236,033, offset by a loss of \$3,534,628 in the year ended December 31, 2008.

Outstanding share data

The Company's common shares outstanding as at April 28, 2009 were 43,004,983.

At April 28, 2009, the Company has outstanding stock options of 3,574,000. Details are as follows:

Exercise Prices (CND)	Number	Expiry Date
\$ 0.50	150,000	October 11, 2010
0.60	20,000	February 15, 2010
0.60	300,000	August 20, 2012
0.60	650,000	February 21, 2013
0.60	500,000	July 28, 2013
0.65	400,000	October 20, 2010
0.70	100,000	October 26, 2012
0.75	200,000	February 15, 2010
1.00	450,000	July 28, 2013
1.05	200,000	October 20, 2010
1.05	604,000	September 11, 2010
	<u>3,574,000</u>	

At April 28, 2009, there is no outstanding stock purchase warrants.

Dividend

The payment of dividends to shareholders will depend on a number of factors such as earnings, CER's financial requirements and other factors that the Board of Directors considers relevant in the circumstances. The Company currently does not have intention to pay dividends on the common shares. The Board of Directors will review this policy, from time to time, as circumstances change. To date, CER has not declared or paid any dividends on any of its shares.

TRANSACTIONS WITH RELATED PARTIES

All related party transactions are recorded at the exchange amounts as agreed upon by the related parties.

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	2008	2007
Amount due from Beijing Anli Information and Consulting Company ("Anli"), net of bad debt provision of \$95,057 [i]	\$ 80,839	\$ 164,316

[i] Anli and its major shareholder are shareholders of the Company. In 2003, the Company advanced funds of RMB 1,200,000 (\$175,896) to Anli. A loan agreement was signed on October 28, 2003 for a one-year term, non-interest bearing. The loan was extended to October 31, 2008. At December 31, 2008, the loan was not yet been repaid and collateralized by the shares of the Company owned by Anli. The Company made a bad debt provision of RMB648,500 (\$95,057) in total based on the market value of the shares of the Company that held by the Company as the guarantee at December 31, 2008.

The Company's subsidiary, CEN Smart rented its office space from Anli. During the year ended December 31, 2008, the Company accrued rent of \$nil (2007: \$22,018).

During the year ended December 31, 2008, the Company incurred 66,353 (2007: \$10,820) accounting fees for accounting services provided by a company controlled by an officer of the Company. Included in accounts payable, is an amount of \$4,371 due to the Company controlled by an officer as at December 31, 2008 (2007: \$10,820).

The Company rent office space from a company controlled by a director/officer of the Company. Included in accounts payable, is an amount due to this company of \$nil (2007 - \$2,130) at December 31, 2008. The Company paid rent of \$22,346 (2007: \$21,600) for the year ended December 31, 2008.

The Company paid management fees of \$938 (2007: \$84,162) to a director of the Company for the year ended December 31, 2008 and a corporation controlled by a former officer of the Company for the year ended December 31, 2007.

The Company paid wage of \$199,623 (2007: \$163,367) to a director of the Company for the year ended December 31, 2008. Included in accounts payable, \$1,699 was payable to the director of the Company relating to the travel reimbursement.

RISK AND UNCERTAINTY FACTORS

History of losses and anticipate that we may continue for the foreseeable future

The Company has incurred a net loss of \$3,534,628 for the year ended December 31, 2008 compared to a loss of \$4,242,521 for the same period of 2007. The Company has incurred a cumulative loss of \$29,289,098 since inception. The Company's future business plan includes the further development and operation of CER's education service portal and sino-foreign co-operation to develop English as a second language training program in China and Chinese Mandarin training program in U.S. The Company's ability to continue as a going concern is dependant upon achieving acceptance by the users and profitable level of operations of the education service portal and on the ability to obtain necessary financing to fund our operations. The outcome of these matters cannot be predicted at this time.

Seasonality

Historically in its traditional distribution business, the operations of the business are highly seasonal. The Company is attempting to lessen the seasonality of the business by expanding its business into other related areas in the education sector through its internet education service portals.

Reliance on Government Relationships

The Company is relying upon continued good working relationships and acceptance from both the national and regional governments it works with. Additionally, continued collaboration with the CDC is important to the Company being able to sell and deliver the teacher training programs. If the CERSP portal was no longer acceptable or it failed to meet acceptable government standards for the K-12 sector, it would seriously impact the continued successful deployment of the CERSP portal and education service portal.

Tax and Legal Systems in China

The Company, through its subsidiaries, conducts a significant amount of its business in China. China currently has a number of laws related to various taxes imposed by both federal and regional governmental authorities. Applicable taxes include value added tax, corporate income tax (profits tax), and payroll (social) taxes, together with others. Laws related to these taxes have not been in force for a significant period, in contrast to more developed market economies; therefore, implementing regulations are often unclear or nonexistent. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organizations; thus, creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, which are enabled by law to impose extremely severe fines, penalties and interest charges. These facts create tax risks in China substantially more significant than typically found in countries with more developed tax systems.

Management believes that the Company is in substantial compliance with the tax laws affecting its operations; however, the risk remains that the relevant authorities could take different positions with regard to interpretive issues and the effect could be significant. The fact that a year has been reviewed does not close that year, or any tax declaration applicable to that year, from further review.

Subsequent to the year-end, the National People's Congress of China passed "The Law of the People's Republic of China on Enterprise Income Tax" (the "Enterprise Income Tax Law"). The Enterprise Income Tax Law became effective on January 1, 2008. This new law eliminated the existing preferential tax treatment that is available to the foreign invested enterprises ("FIEs") but provides grandfathering of the preferential tax treatment currently enjoyed by the FIEs. Under the new law, both domestic companies and FIEs are subject to a unified income tax rate of 25%.

Competition

Foreign direct investment in China has increased rapidly and the investment environment has further improved to encourage foreign and local investors to invest in fields, such as education, high-tech, modern agriculture and infrastructure construction. A number of large companies are involved in the publishing and distribution of educational products in the mainstream areas of

math, science and language arts. There is no guarantee that other competitors will not become involved in business similar to that of the Company.

Management

The Company currently has a small executive management group, which is sufficient for its present stage of development. Although the Company's development to date has largely depended and in the future will continue to depend upon the efforts of certain current executive management, the loss of a member of this group could have a material adverse effect on the Company.

Funds Remittance

Provided that conversion of Renminbi into foreign exchange and the remittance of foreign exchange are duly arranged in accordance with the relevant laws and regulations on foreign exchange, a Foreign Investment Enterprise ("FIE") is able to remit dividends and other payments from China.

According to the 1999 Circular on Relevant Questions Concerning the Remittance of Profits, Dividends and Bonuses out of China Through Designated Foreign Exchange Banks, effective from 1 October 1999, an FIE is permitted to remit profits, dividends and bonuses out of China in proportion to the amount of registered capital that has been paid up, notwithstanding that its registered capital has not been paid up pursuant to its constitutional documents.

Financial Instruments

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's financial instruments consist of cash and cash equivalents, accounts receivable, other receivables, due from a related party, long term other receivable and accounts payable and accrued liabilities.

The Company's financial instruments are exposed to the risks described below:

(a) Credit risk

Credit risk is the risk of an unexpected loss if a party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to cash and cash equivalents and accounts receivables. The Company has no significant concentration of credit risk arising from operations. Other receivables consist of goods and services tax due from the Federal Government of Canada, interest receivable and amount advanced to employees and others. Management assesses the credit risk concentration with respect to accounts receivable and other receivables annually and adjusts them accordingly.

Two (2007: Three) customers represent in excess of 10% of trade accounts receivable at December 31, 2008. Three (2007: One) customers represent in excess of 10% of total revenue at December 31, 2008.

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. At December 31, 2008, the Company had a negative working capital of \$3,762,813 (2007 - \$4,031,125). The Company is focused on generating sales revenue and is actively pursuing additional sources of financing to ensure that it can meet its ongoing operating requirements and planned capital expenditures.

(c) Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates and equity prices.

(i) 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. The Company is exposed to short term interest rates through the interest earned on cash and cash equivalents. The Company has significant cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in short-term deposits with its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

(ii) Foreign currency exchange rate risk

Foreign currency exchange rate risk is the risk that the fair value of financial instruments or future cash flows will fluctuate as a result of changes in foreign exchange rates.

The majority of the Company's assets, liabilities, revenues and expenses are denominated in Chinese Renminbi ("RMB"), which was tied to the US dollar and is now tied to a basket of currencies of China's largest trading partners, is not a freely convertible currency. The appreciation of the RMB against the US dollar would result in an increase in the assets, liabilities, revenues and expenses of the Company and a foreign currency gain included in comprehensive income. Conversely, the devaluation of the RMB against the US dollar would result in a decrease in the assets, liabilities, revenues and expenses of the Company and a foreign currency loss included in comprehensive income.

The Company's functional currency is the Canadian dollar and major transactions are transacted in Canadian dollars and RMB. The Company maintains Chinese RMB bank accounts in China to support monthly forecasted cash outflows. Management believes the foreign exchange risk derived from currency conversions is minimal and therefore does not hedge its foreign exchange risk. At December 31, 2008, approximately \$556,433 of the cash was held in RMB.

Fluctuation in the value of Canadian dollar relative to US dollar has some impact on the Company's head office financial results. However, such exchange rate fluctuations have not materially affected the overall financial earnings and results on a consolidated basis.

(iii) Price risk

The Company is exposed to risk of equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. The Company monitors the movements of the stock market to determine the appropriate course of action to be taken by the Company.

(d) Sensitivity analysis

The Company has designated its cash as held-for-trading, which is measured at fair value. Accounts receivable, other receivable, due from a related party and long term other receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a year:

- (i) Cash and cash equivalents are subject to floating interest rates. Sensitivity to a plus or minus 1% change in rates would affect net loss by approximately \$5,700 for the year ended December 31, 2008.
- (ii) The Company is exposed to foreign currency risk on fluctuations of financial instruments related to cash and cash equivalents, accounts receivables, other receivables, due from a related party, long term other receivables and accounts payable and accrued liabilities that are denominated in Chinese RMB. Sensitivity to a plus or minus 5% change in the foreign exchange rates would affect net loss by approximately \$150,000 for the year ended December 31, 2008.

SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates and Measurement Uncertainty

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses for the years reported. Actual results could differ from these estimates. The most significant estimates included in these consolidated financial statements are the amortization of website development cost, future income tax assets, accounts receivable provision and impairment assessments of website development cost and goodwill. Actual results could differ from the estimates used.

The Company is currently focusing on deployment of its educational internet portal which aims to provide online training, educational content and resources to its users. Management expects the portal business will generate the majority of the Company's revenue in the near future. The recoverability of website development costs and management's assessment that goodwill is not impaired is currently supported by management's best estimate of projected cash flows from the new portal business. Because the internet portal business is new to the Company, the actual results are highly uncertain and could differ significantly from management's estimates resulting in significant adjustment to the carrying value of website development costs and goodwill.

Stock-Based Compensation

The Company adopted the recommendations of the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 3870 Stock-Based Compensation and Other Stock-Based Payments (“CICA 3870”) with respect to the recognition, measurement, and disclosure of all stock-based compensation and other stock-based payments to employees and non-employees. Stock-based compensation granted to employees and non-employees is expensed at the fair value as determined using the Black-Scholes option valuation model.

Stock-based compensation is accrued and charged to operations, with an offsetting credit to contributed surplus, on a straight-line basis over the vesting periods. Option pricing models require the input of highly subjective assumptions regarding the expected volatility. Changes in assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Company’s stock options at the date of the grant or thereafter.

Future Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on “temporary differences” (differences between the accounting basis and the tax basis of the assets and liabilities), and are measured using the currently enacted, or substantively enacted, tax rates and laws expected to apply when these differences reverse. A valuation allowance is recorded against any future income tax asset if it is more likely than not that the asset will not be realized. Income tax expense or benefit is the sum of the Company’s provision for current income taxes and the difference between the opening and ending balances of the future income tax assets and liabilities.

Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the identifiable assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated as of the date of the business combination to the Company’s reporting units that are expected to benefit from the synergies of the business combination. When the net of the amounts assigned to identifiable net assets exceeds the cost of the purchase (“negative goodwill”), the excess is eliminated, to the extent possible, by a pro-rata allocation to certain non-current assets, with the balance presented as an extraordinary gain.

Goodwill is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. Impairment is assessed through a comparison of the carrying amount of the reporting unit with its fair value. When the fair value of a reporting unit is less than its carrying amount, goodwill of the reporting unit is considered to be impaired, and the fair value of the reporting unit’s goodwill shall be compared with its carrying amount to measure the amount of the impairment loss. Any impairment of goodwill will be expensed in the period of impairment.

Revenue Recognition

Sales from product sales are recognized when title and risk are transferred and payments are received or rights to receive consideration are obtained, evidence of an arrangement exists, and collection of consideration is reasonably assured. Revenues received in advance of these criteria are deferred until future periods.

Sales from distribution and consulting services are recognized when services are rendered and payments are received or rights to receive consideration are obtained and collection of consideration is reasonably assured. Revenues received in advance of these criteria are deferred until future periods. Sales from distribution and consulting services are not material.

Teacher training services provided through the internet portal are recognized when services are rendered and payments are received or rights to receive consideration are obtained and collection of consideration is reasonably assured.

Interest income is recognized when earned.

Change in Accounting Policies including Initial Adoption

The Company adopted the following new accounting policies since January 1, 2008:

(a) Capital Disclosures

On January 1, 2008, the Company adopted Handbook Section 1535 “Capital Disclosures”, which specifies the disclosure of (i) an entity’s objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

The Company has included disclosures recommended by the new Handbook section in note 3 to the consolidated financial statements.

(b) Financial Instruments

The Company has classified its cash and cash equivalents as held for trading, which is measured at fair value. Accounts receivable, other receivables, due from a related party and long term other receivable are classified as loans and receivables, which are measured at amortized cost.

Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

As at December 31, 2008, the fair value amounts of the Company’s financial instruments related to cash and cash equivalents, accounts receivable, other receivable, due from a related party, long term other receivable and accounts payable and accrued liabilities approximate their carrying value due to their short terms to maturity.

On January 1, 2008, the Company adopted Handbook Sections 3862 and 3863, which replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation

requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

The Company has included disclosures recommended by the new Handbook sections in note 4 to the consolidated financial statements.

(c) Inventories

Effective from January 1, 2008, the Company adopted Handbook Section 3031, Inventories, which establishes standards for the measurement and disclosure of inventories and provides the Canadian equivalent to International Accounting Standard IAS 2, Inventories. There was no material impact on the Company's financial condition or operating results, as a result of the adoption of this new standard.

The main features of Section 3031 are:

- measurement of inventories at the lower of cost and net realizable value, with guidance on the determination of cost, including allocation of overheads and other costs to inventory;
- cost of inventories of items that are not ordinarily interchangeable, and goods or services produced and segregated for specific projects, assigned by using a specific identification of their individual costs;
- consistent use (by type of inventory with similar nature and use) of either first-in, first-out ("FIFO") or weighted average cost formula to measure the cost of other inventories; and
- reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories.

(d) General Standards of Financial Statement Presentation

As from January 1, 2008, the Company adopted Handbook Section 1400 "General Standards of Financial Statement Presentation", which includes requirements to assess and disclose an entity's ability to continue as a going concern. This new standard will not have any significant impact on the consolidated financial statements of the Company.

Future Accounting Pronouncements

(a) International Financial Reporting Standards ("IFRS")

In January 2006, the CICA's Accounting Standards Board ("AcSB") formally adopted the strategy of replacing Canadian GAAP with IFRS for Canadian enterprises with public accountability. The current conversion timetable calls for financial reporting under IFRS for accounting periods commencing on or after January 1, 2011. On February 13, 2008, the AcSB confirmed that the use of IFRS will be required in 2011 for publicly accountable profit-oriented enterprises. For these entities, IFRS will be required for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company continues to monitor and assess the impact of convergence of Canadian GAAP and IFRS.

(b) Goodwill and Intangible Assets

CICA Handbook Section 3064, Goodwill and Intangible Assets, establishes the recognition, measurement, presentation and disclosure of goodwill subsequent to initial recognition and of intangible assets by profit-oriented enterprises. The section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008, and is not expected to have a material impact on the Company's financial condition or operation results.

OUTLOOK

CER believes that while the commercialization of its business has been slow in terms of revenue generation, the business strategy is fundamentally sound. The Company has completed the development of certain ESP products which is an important step in the Company's commercialization strategy. The overall feedback to ESP has been positive.

CER has developed 25 teacher training courses and approximately 2,000 online tutoring courses with minimal capital expenditure. More than 130,000 teachers have already been trained in CER's teacher training programs. The CERSP portal has built up the largest K-12 teacher blog system in China with more than one million K-12 teacher registered and is the most popular education portal visited by teachers and education administrators. All these factors are significant advantages for CER to promote its online education services and will accelerate the generation of revenue commencing in summer 2009.