

China Education Resources Inc.

Consolidated Financial Statements
(Expressed in U.S. Dollars)

Six Months Ended June 30, 2010

(Unaudited)

Management's Responsibility for Financial Reporting

The accompanying unaudited interim consolidated financial statements of China Education Resources Inc. were prepared by management in accordance with Canadian generally accepted accounting principles. The most significant of these accounting principles have been set out in the December 31, 2009 audited consolidated financial statements. Only changes in accounting policies have been disclosed in these unaudited interim consolidated financial statements. Management acknowledges responsibility for the preparation and presentation of the unaudited interim consolidated financial statements, including responsibility for significant accounting judgments and estimates and the choice of accounting principles and methods that are appropriate to the Company's circumstances.

Management has established processes, which are in place to provide them sufficient knowledge to support management representations that they have exercised reasonable diligence that (i) the unaudited interim consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the unaudited interim consolidated financial statements and (ii) the unaudited interim consolidated financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented by the unaudited interim consolidated financial statements.

The Board of Directors is responsible for reviewing and approving the unaudited interim consolidated financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the unaudited interim consolidated financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the unaudited interim consolidated financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

Notice to Reader

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements; they must be accompanied by a notice indicating that the consolidated financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these unaudited interim consolidated financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

CHINA EDUCATION RESOURCES INC.
Consolidated Balance Sheets
As at June 30, 2010 and December 31, 2009
(See Note 1 - Basis of Presentation)

(Expressed in U.S. Dollars)

	June 30, 2010 (Unaudited)	December 31, 2009 (Audited)
ASSETS		
Current assets		
Cash and cash equivalents	\$ 168,151	\$ 138,432
Accounts receivable (Note 5)	2,847,053	1,480,627
Inventory	348,419	12,970
Prepaid expenses & deposits	90,657	37,752
Other receivable (Note 12)	689,014	225,412
Total current assets	4,143,294	1,895,193
Due from related parties (Note 12)	81,324	95,425
Long-term other receivable (Note 6)	25,353	25,183
Equipment and website development costs (Note 7)	246,074	411,335
Goodwill	2,560,218	2,560,218
Total assets	\$ 7,056,263	\$ 4,987,354
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Accounts payable and accrued liabilities (Note 10, 11)	\$ 3,788,949	\$ 2,728,126
Income taxes payable	2,559,169	2,415,455
	6,348,118	5,143,581
Non-controlling interest	689,282	435,723
Commitments (Note 15)	-	-
SHAREHOLDERS' EQUITY (DEFICIENCY)		
Share capital (Note 13)	29,455,512	28,709,895
Contributed surplus	2,103,912	1,577,462
Accumulated other comprehensive income	511,631	490,461
Deficit	(32,052,192)	(31,369,768)
Total shareholders' equity (Deficiency)	18,863	(591,950)
Total liabilities and shareholders' equity	\$ 7,056,263	\$ 4,987,354

Approved by the Board:

"CF Zhou"

Director

"Bill Calvin"

Director

(The accompanying notes are an integral part of these consolidated financial statements)

CHINA EDUCATION RESOURCES INC.
Consolidated Statements of Operations and Comprehensive Loss
For the three months and six months ended June 30, 2010 and 2009
(Unaudited)

(Expressed in U.S. Dollars)

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Revenue				
Book sales and distribution services	\$ 845,478	\$ 13,124	\$ 2,264,947	\$ 20,606
Teacher training	48,736	40,195	332,055	44,185
	894,214	53,319	2,597,002	64,791
Cost of sales	486,968	8,986	1,036,668	13,621
Gross profit	407,246	44,333	1,560,334	51,170
Expenses				
General and administrative	331,717	315,759	656,204	611,535
Amortization	41,875	296,542	172,631	593,024
Selling expenses	360,437	39,250	636,738	90,973
Stock-based compensation (Note 13(b))	27,955	11,760	526,450	22,799
	761,984	663,311	1,992,023	1,318,331
Operating loss	(354,738)	(618,978)	(431,689)	(1,267,161)
Other income				
Accounts payable written off	-	295,627	-	295,627
Gain on disposal of equipment	-	-	2,295	-
Interest income	304	127	528	588
	304	295,754	2,823	296,215
Loss before non-controlling interest	(354,434)	(323,224)	(428,866)	(970,946)
Non-controlling interest	(13,971)	-	(253,558)	-
Net loss for the period	(368,405)	(323,224)	(682,424)	(970,946)
Unrealized exchange gain (loss) on translation of self-sustaining foreign operations	(441)	(82,327)	21,170	(78,087)
Comprehensive loss	\$ (368,846)	\$ (240,897)	\$ (661,254)	\$ (892,859)
Loss per share - Basic and diluted (1)	\$ (0.0078)	\$ (0.0075)	\$ (0.0146)	\$ (0.0226)
Weighted average number of common shares used to calculate basic and diluted loss per share	47,364,983	43,004,983	46,751,723	43,004,983

(1) Basic and diluted loss per share was the same as the inclusion of potential dilutive 3,994,000 (2009: 3,474,000) stock options in the calculation of diluted loss per share would be anti-dilutive.

(The accompanying notes are an integral part of these consolidated financial statements)

CHINA EDUCATION RESOURCES INC.
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
For the six months ended June 30, 2010 and year ended December 31, 2009

(Expressed in U.S. Dollars)	Number of Shares	Amount	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total
Balance, December 31, 2008	43,004,983	\$ 28,376,584	\$ 1,557,616	\$ 492,005	\$ (29,289,098)	\$ 1,137,107
Issued for acquisition of ZYCY (Note 9)	2,860,000	333,311	-	-	-	333,311
Stock-based compensation	-	-	19,846	-	-	19,846
Foreign currency translation	-	-	-	(1,544)	-	(1,544)
Net loss for the year ended December 31, 2009	-	-	-	-	(2,080,670)	(2,080,670)
Balance December 31, 2009 (Audited)	45,864,983	\$ 28,709,895	\$ 1,577,462	\$ 490,461	\$ (31,369,768)	\$ (591,950)
Issued common shares	1,500,000	745,617	-	-	-	745,617
Stock-based compensation	-	-	526,450	-	-	526,450
Foreign currency translation	-	-	-	21,170	-	21,170
Net loss for the six months ended June 30, 2010	-	-	-	-	(682,424)	(682,424)
Balance June 30, 2010 (Unaudited)	47,364,983	\$ 29,455,512	\$ 2,103,912	\$ 511,631	\$ (32,052,192)	\$ 18,863

(The accompanying notes are an integral part of these consolidated financial statements)

CHINA EDUCATION RESOURCES INC.
Consolidated Statements of Cash Flows
For the three months and six months ended June 30, 2010 and 2009
(Unaudited)

(Expressed in U.S. Dollars)

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Cash flows used in operating activities				
Net loss from continuing operations	\$ (368,405)	\$ (323,224)	\$ (682,424)	\$ (970,946)
Items not affecting cash:				
Amortization	41,875	296,542	172,631	593,024
Gain on disposal of equipment	-	-	(2,295)	-
Non-controlling interest	13,971	-	253,558	-
Stock based compensation	27,955	11,760	526,450	22,799
Changes in non-cash working capital items				
Accounts and other receivable	(234,254)	61,640	(1,414,408)	74,161
Inventory	(297,848)	6,773	(333,201)	6,645
Prepaid expenses and deposits	63,915	12,761	(53,510)	(13,156)
Accounts payable & accrued liabilities	804,290	(446,135)	1,320,248	(497,921)
Income taxes payable	(13,368)	1,709	130,122	16,297
	38,131	(378,174)	(82,829)	(769,097)
Cash flows from (used in) investing activities				
Additions to equipment	(17,292)	-	(17,292)	(1,865)
Proceeds on disposal of equipment	0	-	13,915	-
	(17,292)	-	(3,377)	(1,865)
Cash flows from financing activities				
Net proceeds on issuance of share capital	-	-	745,617	-
Repayment to related parties	(209,833)	25,151	(636,784)	23,542
	(209,833)	25,151	108,833	23,542
Effect of foreign exchange rate	3,547	54,172	7,091	103,632
Net cash inflow (outflow) during the period	(185,446)	(298,851)	29,719	(643,788)
Cash and cash equivalents, beginning of period	353,597	511,690	138,432	856,627
Cash and cash equivalents, end of period	\$ 168,151	\$ 212,839	\$ 168,151	\$ 212,839
Supplemental disclosure of cash flow information				
Interest paid	\$ -	\$ -	\$ 2	\$ -
Taxes paid	\$ -	\$ -	\$ -	\$ -

(The accompanying notes are an integral part of these consolidated financial statements)

China Education Resources Inc.
Consolidated Financial Statements
(Expressed in U.S. Dollars)
Six Months Ended June 30, 2010
(Unaudited)

1. Nature of Operations and Going Concern

(a) Nature of Operations

China Education Resources Inc., together with its subsidiaries (individually and collectively referred to as the “Company”), provides an education internet portal with educational content, resources and training programs to users in People’s Republic of China (“China”) and distributes educational textbooks and materials developed by the Company to bookstores and schools in China. Due to the size of the Company, the provision of education internal portal services and distribution of educational textbooks and materials were considered in one segment based on the organizational structure, strategies, decision making and the availability of financial information.

(b) Going Concern

These consolidated financial statements have been prepared on the basis of a going concern, which presumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. Management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as going concern as described in the following paragraph. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying consolidated financial statements.

The Company has a need for financing for working capital, development and updating its education internet education portal. The ability of the Company to continue as a going concern is dependant upon the acceptance of the education internet portal by the users to achieve a profitable level of operations by the Company and on the ability of the Company to obtain necessary financing to fund the Company’s future business plan. The outcome of these matters cannot be predicted at this time. Since inception, the Company has incurred cumulative losses of \$32,052,192 and for the six months ended June 30, 2010, incurred negative operating cash flow from continuing operations of approximately \$82,829.

2. Basis of Presentation and Accounting Policies

The unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and notes to the consolidated financial statements required by Canadian generally accepted accounting principles for annual consolidated financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the six months ended June 30, 2010 may not necessarily be indicative of the results that may be expected for the year ended December 31, 2011.

China Education Resources Inc.
Consolidated Financial Statements
(Expressed in U.S. Dollars)
Six Months Ended June 30, 2010
(Unaudited)

2. Basis of Presentation and Accounting Policies - Continued

The consolidated balance sheet at December 31, 2009 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by Canadian generally accepted accounting principles for annual consolidated financial statements. The interim consolidated financial statements have been prepared by management in accordance with the accounting policies described in the Company's annual audited consolidated financial statements for the year ended December 31, 2009, except as noted below. For further information, refer to the audited consolidated financial statements and notes thereto for the year ended December 31, 2009.

These unaudited consolidated financial statements of the Company include the accounts of the Company and its wholly owned subsidiaries, CEN China Education Network Ltd. ("CEN Network"), China Education International Inc. and CEN China Education Overseas Corporation, its 90% owned subsidiaries, CEN Smart Networks Ltd. ("CEN Smart") and Today's Teachers Technology & Culture Ltd. ("TTTC") and its 54% owned subsidiary, Zhong Yu Cheng Yuan Curriculum Development Center Ltd. (previously known as Yu Cheng Yuan Consulting and Service Ltd.) ("ZYCY") as from July 1, 2009 (see Note 8). All significant inter-company transactions and accounts have been eliminated.

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

Recent Accounting Pronouncements

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

In February 2008, the Accounting Standards Board (AcSB) confirmed that the use of IFRS will be required in 2011 for publicly accountable enterprises in Canada. In April 2008, the AcSB issued an IFRS Omnibus Exposure Draft proposing the publicly accountable enterprises be required to apply IFRS, in full and without modification, on January 1, 2011. The adoption date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by the Corporation for its year ended December 31, 2010, and of the opening balance sheet as of January 1, 2010. The AcSB proposed that CICA Handbook Section, Accounting Changes, paragraph 1506.30, which would require an entity to disclose information relating to a new primary source of GAAP that has been issued but is not yet effective and that the entity has not applied, not be applied with respect to the IFRS Omnibus Exposure Draft. The Company is continuing to assess the financial reporting impacts of the adoption of IFRS and, at this time, the impact on future financial position and results of operations is not reasonably determinable or estimable. The Company does anticipate a significant increase in disclosure resulting from the adoption of IFRS and is continuing to assess the level of disclosure required, as well as system changes that may be necessary to gather and process the required information.

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2. Basis of Presentation and Accounting Policies - Continued

(ii) Business combinations

In January 2009, the CICA issued the new handbook Section 1582, “Business Combinations” effective for fiscal years beginning on or after January 1, 2011. Earlier adoption of Section 1582 is permitted. This pronouncement further aligns Canadian GAAP with US GAAP and IFRS and changes the accounting for business combinations in a number of areas. It establishes principles and requirements governing how an acquiring company recognizes and measures in its financial statements identifiable assets acquired, liabilities assumed, any non-controlling interest in the acquire, and goodwill acquired. The section also establishes disclosure requirements that will enable users of the acquiring company’s financial statements to evaluate the nature and financial effects of its business combinations. Although the Company is considering the impact of adopting this pronouncement on the consolidated financial statements, it will be limited to any future acquisitions beginning in 2010.

(iii) Consolidated financial statements and non-controlling interests

In January 2009, the CICA issued the new handbook Section 1601, “Consolidated Financial Statements”, and Section 1602, “Non-controlling Interests”, effective for fiscal years beginning on or after January 1, 2011. Earlier adoption of these recommendations is permitted. These pronouncements further align Canadian GAAP with US GAAP and IFRS. Sections 1601 and 1602 change the accounting and reporting for ownership interest in subsidiaries held by parties other than the parent. Non-controlling interests are to be presented in the consolidated statement of financial position within equity but separate from the parent’s equity. The amount of consolidated net income attributable to the parent and to the non-controlling interest is to be clearly identified and presented on the face of the consolidated statement of income. In addition, these pronouncements establish standards for a change in the parent’s ownership interest in a subsidiary and the valuation of retained non-controlling equity investments when a subsidiary is deconsolidated. They also establish reporting requirements for providing sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. The Company is currently considering the impact of adopting these pronouncements on its consolidated financial statements in 2010 in connection with the conversion to IFRS.

(iv) Multiple Deliverable Revenue Arrangements

CICA Emerging Issues Committee 175, “Multiple Deliverable Revenue Arrangements” was released and requires a vendor to allocate arrangement consideration at the inception of an arrangement to all deliverables using the relative selling price method. The new requirements are effective for fiscal years beginning on or after January 1, 2011 with early adoption permitted. The Company is currently evaluating the impact of the adoption of this standard.

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(Unaudited)

3. Capital Management

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the development and update of the educational internet portal. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

Although the Company has commercialized its teaching training portal in February 2007 and launched its education internet portal in late 2008, the Company is still dependent on external financing to fund its future business plan until it achieves a profitable level of operations. The Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to develop additional features for its education internet portal and will also look into other opportunities to provide educational services provided through the internet if it has adequate financial resources to do so. Acquisition of ZYCY by share exchange is one of the strategies to improve the working capital position of the Company.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the six months ended June 30, 2010. Neither the Company nor its subsidiaries are subject to externally imposed capital requirements.

4. 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 mainly consist of an advance to a third party for project development which accounts for 57% of the other receivable as of June 30, 2010, as well as goods and services tax due from the Federal Government of Canada, interest receivable and amounts advanced to employees and others. Management assesses the credit risk concentration with respect to accounts receivable and other receivables annually and adjusts them accordingly.

China Education Resources Inc.
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Six Months Ended June 30, 2010
(Unaudited)

4. Financial Instruments – Continued

(a) Credit risk

100% of the Company's revenue for the six months ended June 30, 2010 and 2009 were derived from customers located in China. Four (December 31, 2009: Three) customer represent in excess of 10% of trade accounts receivable at June 30, 2010. Three (2009: Three) customers represent in excess of 10% of total revenue at June 30, 2010.

(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 June 30, 2010, the Company had a negative working capital of \$2,204,824 (December 31, 2009: \$3,248,388). 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. From time to time, the Company is exposed to short term interest rates through the interest earned on cash and cash equivalents. The Company has 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.

China Education Resources Inc.
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4. Financial Instruments – Continued

(c) Market risk

The Company's functional currency is the Canadian dollar and RMB, respectively, 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 June 30, 2010, approximately \$167,278 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, and due to related parties 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 \$766 (December 31, 2009: \$1,100) for the six months ended June 30, 2010.
- (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 \$38,000 (December 31, 2009: \$111,000) for the six months ended June 30, 2010.

China Education Resources Inc.
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(Unaudited)

5. Accounts Receivable

	June 30, 2010	December 31, 2009
Trade receivables	\$ 2,899,903	\$ 1,533,123
Bad debt provision	(52,850)	(52,496)
	\$ 2,847,053	\$ 1,480,627

6. Long-Term Other Receivable

	June 30, 2010	December 31, 2009
Loan due from Shengshi Education Service Company ("Shengshi") [i]	\$ 643,177	\$ 638,859
Bad debt provision	(617,824)	(613,676)
	\$ 25,353	\$ 25,183

[i] Shengshi is a non-related business partner of one of the Chinese subsidiaries. The total loan due from Shengshi was RMB7,630,000 (\$1,118,405) of which RMB 3,970,000 (\$581,923) was non-interest bearing and was due September 2006, RMB1,320,000 (\$193,486) was bearing 10% interest and was due on June 2006 and RMB2,340,000 (\$342,997) was bearing 10% interest and was due on August 2006. Of the total loan, RMB4,551,269 (\$667,125) was collateralized by the shares of the Company owned by Beijing Anli Information and Consulting Company ("Anli") and a shareholder of the Company. In 2006, management determined the collectibility of this loan became uncertain. In light of this uncertainty management set up a provision of RMB3,078,731 (\$451,280) for the portion of the loan that is unsecured and did not accrue the interest income. In 2007, management set up additional provision of RMB235,000 (\$34,446). As of December 31, 2008, management decided to adjust the receivable to net realizable amount by recording an additional provision of RMB4,189,769 (\$614,136). No additional provision was recorded as of December 31, 2009. As the above noted receivable had been long overdue and the anticipated time of collection is not certain, the Company has classified the receivable as long term other receivable.

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7. Equipment and Website Development Cost

	June 30, 2010		
	Cost	Accumulated depreciation	Net book value
Computer equipment	\$ 427,424	\$ 302,110	\$ 125,314
Office equipment	40,277	9,934	30,343
Motor vehicles	382,503	319,704	62,799
Leasehold improvement	52,954	25,336	27,618
Website development costs	3,074,870	3,074,870	-
	\$ 3,978,028	\$ 3,731,954	\$ 246,074

	December 31, 2009		
	Cost	Accumulated depreciation	Net book value
Computer equipment	\$ 408,466	\$ 261,022	\$ 147,444
Office equipment	38,999	8,120	30,879
Motor vehicles	416,629	301,083	115,546
Leasehold improvement	52,597	19,906	32,691
Website development costs	3,051,894	2,967,119	84,775
	\$ 3,968,585	\$ 3,557,250	\$ 411,335

The website development was substantially completed in January 2007 and the capitalized amount was fully amortized over 3 years.

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8. Goodwill

	June 30,	December 31,
	2010	2009
Goodwill	<u>\$ 2,560,218</u>	<u>\$ 2,560,218</u>

During the year ended December 31, 2009, due to changes in economic circumstances and the performance of the Company, the Company assessed the fair value of TTTC to which underlying goodwill is attributed. As a result of this assessment, the Company determined that there had been impairment in the carrying value of TTTC's goodwill and, accordingly, recorded a write-down in the amount of \$650,000 as at December 31, 2009.

9. Acquisition of Zhong Yu Cheng Yuan Curriculum Development Center Ltd. (previously known as Yu Cheng Yuan Consulting and Service Ltd.) (“ZYCY”)

On July 18, 2009, the Company, through TTTC (a 90% owned subsidiary), acquired a 60% interest in Zhong Yu Cheng Yuan Curriculum Development Center Ltd. (“ZYCY”), a distributor of education products in China for RMB6,000,000 (\$878,460) payable in 2,860,000 shares of common stock of the Company at a deemed value of C\$0.35 (\$0.30) per share. The 2,860,000 shares of common stock were issued on October 15, 2009 (Note 10). One-third of the shares were released to the other party according to the agreement and the balance of the shares of common stock are held in escrow and half of them will be released on the first and second anniversary of the closing date, respectively, contingent upon ZYCY generating an annual net profit of RMB2,000,000 (\$292,820). At June 30, 2010, the Company’s effective ownership in ZYCY was 54%.

China Education Resources Inc.
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9. Acquisition of Zhong Yu Cheng Yuan Curriculum Development Center Ltd. (previously known as Yu Cheng Yuan Consulting and Service Ltd.) (“ZYCY”) - Continued

As a part of the purchase agreement, the Company was entitled to the earnings of ZYCY effective from July 1, 2009. Since virtually most of the assets and liabilities acquired were either cash or monetary in nature, the non-monetary exchange of securities has been recorded at the more reliably measurable fair value of the net assets received. The consideration and acquisition allocation is summarized in the following table:

Assets acquired	
Current assets	\$ 315,775
Equipment	29,140
	344,915
Liabilities assumed	
Current liabilities	11,423
Income tax liabilities	181
Fair value of net assets acquired	\$ 333,311
Consideration payable by shares (1)	\$ 333,311

(1) The total consideration of the acquisition was \$333,311. Costs related to this acquisition were minimal and have been expensed accordingly.

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10. Settlement of Accounts Payable

TTTC entered into an agreement with a Chinese government agency to reference its name in the Company's internet training website, whereby the Company agreed to pay RMB1,200,000 (\$175,896) per year until 2009 and RMB500,000 (\$73,290) in 2010. As of December 31, 2008, the Company's accrued amount was RMB2,300,000. On April 23, 2009, both parties agreed to cancel the agreement and TTTC has to pay RMB280,000 (\$40,995) to the other party as the final settlement of any outstanding balance payable. The Company thus wrote off RMB2,020,000 (\$295,708) payable previously accrued and included it in other income. As of the date of this report, the Company had not made the payment of RMB280,000.

11. Accounts Payable Written Off

At December 31, 2009, accounts payable of RMB2,190,095 (\$320,608) in relation to the website development expenses that were over 2 years old with no attempt at collection by the vendors are considered statute barred and have been written off and included in other income.

12. Related Party Transactions

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

	June 30, 2010	December 31, 2009
Amount due from Beijing Anli Information and Consulting Company ("Anli"), net of bad debt provision of \$94,960 [i]	\$ 81,324	\$ 80,778
Amount due from a shareholder of the subsidiary company [ii]	-	14,647
	\$ 81,324	\$ 95,425

[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, 2009, 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. No additional provision was recorded as of December 31, 2009. As the amount due from Anli has been long overdue, the anticipated time of collection is not certain, the Company has classified the amount as non-current item.

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12. Related Party Transactions - Continued

[ii] It represents an advance to a shareholder of ZYCY.

During the three-month and six-month periods ended June 30, 2010, the Company incurred \$19,005 (2009: \$16,250) and \$37,948 (2009: \$33,973) accounting fees for accounting services provided by a company controlled by an officer of the Company respectively. Included in accounts payable, was an amount of \$38,274 (December 31, 2009: \$10,269) due to the Company controlled by an officer as at June 30, 2010.

The Company rents office space from a company controlled by a director of the Company. The Company paid rent of \$5,223 (2009: \$4,728) and \$10,446 (2009: (\$9,456)) for the three-month and six-month periods ended June 30, 2010 respectively.

The Company paid/accrued wages of \$44,108 (2009: \$39,924) and \$88,216 (2009: \$82,600) to a director of the Company for the three-month and six-month periods ended June 30, 2010 respectively.

Included in accounts payable, \$115,327 (December 31, 2009: \$165,109) was payable to four directors of the Company relating to the salary payable, director fee payable and travel expenses reimbursement at June 30, 2010.

Included in other receivable, \$395,146 (December 31, 2009: \$nil) was receivable from a company controlled by the minority shareholders of ZYCY for the normal operations of the Company at June 30, 2010.

Included in other payable, \$nil (December 31, 2009: \$276,406 payable) was payable to a company controlled by the minority shareholders of ZYCY for the normal operations of the Company at June 30, 2010.

13. Share Capital, Warrants and Stock Options

(a) Share Capital

The authorized capital consists of unlimited voting common shares without par value and 20,000,000 preferred shares. The preferred shares rank equally on winding up. The directors shall by resolution determine the rights and restrictions attaching to the preferred shares prior to their issuance. No preferred shares have been issued to date.

On October 15, 2009, the Company issued 2,860,000 shares for completion of the acquisition of ZYCY (Note 9). One-third of the shares were released to the other party according to the agreement and the balance of the shares of common stock are held in escrow and half of them will be released on the first and second anniversary of the closing date, respectively, contingent upon ZYCY generating an annual net profit of RMB2,000,000 (\$292,820).

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13. Share Capital, Warrants and Stock Options - Continued

(a) Share Capital - Continued

On February 3, 2010, the Company completed a non-brokered private placement of C\$795,000 (\$749,364) consisting of 1,500,000 common shares at C\$0.53 (\$0.50) per share. The shares are subject to a four-month holding period expiring on June 3, 2010.

(b) Options

The Company has stock option plans that allow it to grant options to its employees, officers, directors and consultants to acquire up to 10% of issued and outstanding common stock. The exercise price of each option shall not be less than the weighted average closing price of the common shares on the TSX Venture Exchange on the last five trading days before the date of the grant. Options have a maximum term of five years and terminate thirty to ninety days following the termination of the optionee's employment. The right to exercise the options will vest in installments over the life of the option as determined at the time the option is granted.

	Number of Shares	Weighted Average Exercise Price Per Share (USD)	Weighted Average Exercise Price Per Share (CND)
Balance, December 31, 2008	3,574,000	0.71	0.76
Options cancelled/expired	(100,000)	0.57	0.60
Balance, December 31, 2009	3,474,000	0.74	0.77
Options granted	620,000	0.77	0.79
Options cancelled/expired	(100,000)	0.58	0.60
Balance, June 30, 2010	3,994,000	0.76	0.79

Changes in outstanding stock options were as follows:

On February 3, 2010, the Company granted incentive stock options of 120,000 shares at C\$0.60 (\$0.57) per share expiring on February 3, 2011 to a consultant with 17,500 share purchase option vested immediately and the balance in equal installments on April 3, 2010, June 3, 2010 and September 3, 2010 respectively.

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13. Share Capital, Warrants and Stock Options - Continued

(b) Options - Continued

On February 3, 2010, the Company granted incentive stock options of 300,000 shares at C\$1.00 (\$0.94) per share to four directors expiring on February 3, 2011 and all the share purchase option were vested immediately.

On February 3, 2010, the Company granted incentive stock options of 200,000 shares at C\$0.60 (\$0.57) per share to an employee expiring on February 3, 2011 with 40,000 share purchase option vested immediately and another 20% will vest every 12 months.

The fair value of each option granted was estimated on the date of grant using the Black-Scholes option pricing model with weighted average assumptions for grants as follows:

	2010
Risk free interest rate	0.54% - 2.50%
Expected life of options in years	1 year - 5 years
Expected volatility	145.01% - 214.76%
Dividend per share	\$0.00

The Company also extended the expiry date of 924,000 incentive stock options to February 3, 2015. The exercise price of the options was C\$1.05 per share. The additional fair value totalling \$498,495 has been recorded as stock-based compensation in the consolidated statement of operations. The additional fair value of these stock options was estimated on the date of granting the extension of expiry date using the Black-Scholes option pricing model with weighted average assumptions for grants as follows:

Risk free interest rate	0.54% - 2.50%
Expected life of options in years	5 years
Expected volatility	145.01% - 190.87%
Dividend per share	\$0.00

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13. Share Capital, Warrants and Stock Options - Continued

The following table summarized the stock options outstanding at June 30, 2010:

Range of Exercise Prices (USD)	Range of Exercise Prices (CND)	Number Outstanding at June 30, 2010	Weighted Average Remaining Contractual Life (Years)	Number Exercisable at June 30, 2010
\$ 0.48	\$ 0.50	150,000	0.28	150,000
0.58	0.60	1,670,000	2.75	1,440,000
0.63	0.65	300,000	0.31	300,000
0.68	0.70	100,000	2.33	100,000
0.97	1.00	750,000	3.69	750,000
1.02	1.05	1,024,000	4.17	1,024,000
\$0.48 - \$1.02	\$0.50 - \$1.05	3,994,000	3.00	3,764,000

The following table summarized the stock options outstanding at December 31, 2009:

Range of Exercise Prices (USD)	Range of Exercise Prices (CND)	Number Outstanding at December 31, 2009	Weighted Average Remaining Contractual Life (Years)	Number Exercisable at December 31, 2009
\$ 0.43	\$ 0.50	150,000	0.78	150,000
0.52	0.60	1,370,000	3.12	1,170,000
0.56	0.65	400,000	0.80	400,000
0.60	0.70	100,000	2.82	100,000
0.65	0.75	200,000	0.13	200,000
0.86	1.00	450,000	3.58	450,000
0.90	1.05	804,000	0.72	804,000
\$0.43 - \$0.90	\$0.50 - \$1.05	3,474,000	2.08	3,274,000

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13. Share Capital, Warrants and Stock Options - Continued

During the six months ended June 30, 2010, the weighted average grant date fair value of options granted during the period was \$0.48 and compensation expense of \$526,450 was recognized for options previously and currently granted and vesting over time using the Black-Scholes option pricing model.

(c) Warrants

During the six months ended June 30, 2010 and year ended December 31, 2009, the Company did not issue any warrants.

At June 30, 2010, there were no outstanding warrants.

14. Segmented Information

Geographic Information

The Company's head office is located in Vancouver, British Columbia, Canada. The operations of the Company are primarily in two geographic areas: Canada and China. All of the Company's revenue was generated in China. All goodwill and majority of all of the capital assets were located in China. A summary of geographical information for the Company's assets and net loss for the periods were as follows:

Three months ended June 30, 2010	Canada	China	Total
Revenue from external customers	\$ -	\$ 894,214	\$ 894,214
Equipment and website development costs	-	246,074	246,074
Goodwill	-	2,560,218	2,560,218

Three months ended June 30, 2009	Canada	China	Total
Revenue from external customers	\$ -	\$ 53,319	\$ 53,319
Equipment and website development costs	-	939,496	939,496
Goodwill	-	3,210,218	3,210,218

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14. Segmented Information - Continued

Geographic Information - Continued

Six months ended June 30, 2010	Canada	China	Total
Revenue from external customers	\$ -	\$ 2,597,002	\$ 2,597,002
Equipment and website development costs	-	246,074	246,074
Goodwill	-	2,560,218	2,560,218

Six months ended June 30, 2009	Canada	China	Total
Revenue from external customers	\$ -	\$ 64,791	\$ 64,791
Equipment and website development costs	-	939,496	939,496
Goodwill	-	3,210,218	3,210,218

15. Commitments

The Company has commitments in respect of office and warehouse leases in China requiring the following payments:

Year ended December 31,	
2010	52,677
2011	103,321
2012	74,206
Total	\$ 230,204

According to the terms of agreement dated September 30, 2006, the aggregate purchase price for acquiring an additional 13% interest in TTTC was RMB 790,000 (\$115,798). Cash is payable over four years with RMB 200,000 (\$25,263) paid in March 2007, RMB 200,000 (\$29,316) is due on or before December 31, 2007 (unpaid as at November 26, 2008), RMB 200,000 (\$29,316) due on or before December 31, 2008 and RMB190,000 (\$27,850) due on or before December 31, 2009. As at June 30, 2010, \$83,950 was not paid and included in the accounts payable in connection with the above noted purchase price.