

# **China Education Resources Inc.**

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

**Years Ended December 31, 2011 and 2010**

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of China Education Resources Inc.:

We have audited the accompanying consolidated financial statements of China Education Resources Inc. and its subsidiaries ("the Group"), which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated statements of comprehensive income (loss), changes in equity, and cash flows for the years ended December 31, 2011 and 2010, and notes, comprising a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' 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 auditors' 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 overall 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 present fairly, in all material respects, the financial position of the Group as at December 31, 2011, December 31, 2010 and January 1, 2010, and its financial performance and cash flows for the years ended December 31, 2011 and 2010 in accordance with International Financial Reporting Standards.

### Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the financial statements which indicates that the Group had a working capital deficiency of \$1,862,874 as at December 31, 2011. This condition, along with other matters as set forth in Note 2, indicates the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Vancouver, BC, Canada  
April 30, 2012

MNP LLP

Chartered Accountants

**CHINA EDUCATION RESOURCES INC.**  
**Consolidated Statements of Financial Position**

(Expressed in U.S. Dollars)

	Note	December 31, 2011	December 31, 2010 (Note 21)	January 1, 2010 (Note 21)
<b>Assets</b>				
<b>Current assets</b>				
Cash		\$ 2,113,732	\$ 1,028,481	\$ 138,432
Accounts receivables	5,19	2,470,309	2,825,421	1,801,464
Inventories	6	330,865	140,195	12,970
Prepaid expenses and deposits		126,007	41,887	37,752
<b>Total current assets</b>		<b>5,040,913</b>	<b>4,035,984</b>	<b>1,990,618</b>
<b>Non-current assets</b>				
Other receivables	5, 9	-	26,085	25,183
Equipment and website development costs	7	145,426	225,592	411,335
Goodwill	8	2,777,487	2,651,985	2,560,218
<b>Total non-current assets</b>		<b>2,922,913</b>	<b>2,903,662</b>	<b>2,996,736</b>
<b>Total assets</b>		<b>\$ 7,963,826</b>	<b>\$ 6,939,646</b>	<b>\$ 4,987,354</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Trade and other payables	13	\$ 3,084,722	\$ 3,707,481	\$ 2,873,321
Deferred revenue		76,896	75,048	-
Income taxes payable		2,587,547	2,282,828	2,415,455
Loan payables	14	79,450	-	-
Loan payables - related parties	21	411,551	-	-
Due to related parties	19	663,621	221,899	116,516
<b>Total current liabilities</b>		<b>6,903,787</b>	<b>6,287,256</b>	<b>5,405,292</b>
<b>Non-current liabilities</b>				
Deferred income tax liability		252,951	250,893	-
<b>Total non-current liabilities</b>		<b>252,951</b>	<b>250,893</b>	<b>-</b>
<b>Total liabilities</b>		<b>7,156,738</b>	<b>6,538,149</b>	<b>5,405,292</b>
<b>Equity</b>				
Share capital	10	29,455,512	29,455,512	28,709,895
Contributed surplus		2,338,572	2,200,911	1,577,462
Accumulated other comprehensive income (loss)		63,580	6,280	-
Deficit		(31,583,786)	(31,549,759)	(30,879,307)
<b>Total equity (deficit) attributable to equity holders of the Company</b>		<b>273,878</b>	<b>112,944</b>	<b>(591,950)</b>
<b>Non-controlling interest</b>		<b>533,210</b>	<b>288,553</b>	<b>174,012</b>
<b>Total equity (deficit)</b>		<b>807,088</b>	<b>401,497</b>	<b>(417,938)</b>
<b>Total liabilities and equity</b>		<b>\$ 7,963,826</b>	<b>\$ 6,939,646</b>	<b>\$ 4,987,354</b>

Approved by the Board:

"CF Zhou"

Director

"Danny Hon"

Director

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

**CHINA EDUCATION RESOURCES INC.**  
**Consolidated Statements of Comprehensive Income (Loss)**  
For the years ended December 31, 2011 and 2010

(Expressed in U.S. Dollars)

	Note	2011	2010 (Note 21)
<b>Revenue</b>			
Book sales and distribution services		\$ 4,365,308	\$ 3,684,951
Teacher training		2,187,832	1,751,214
		6,553,140	5,436,165
<b>Cost of sales</b>			
Book sales and distribution services		(1,872,019)	(1,605,395)
Teacher training		(866,218)	(403,432)
<b>Gross profit</b>		3,814,903	3,427,338
General and administrative		(2,176,283)	(1,422,925)
Amortization		(107,803)	(237,165)
Selling expenses		(1,951,025)	(1,672,912)
Stock-based compensation	14	(47,452)	(623,449)
Equipment written-off		-	(19,339)
Inventory written off		-	(7,042)
Gain on disposal of equipment		-	12,508
Recovery of accounts receivable written off		103,952	-
Accounts payable written off		540,718	44,322
<b>Result from operating activities</b>		177,010	(498,664)
Finance income		1,620	1,233
Finance costs		(61,100)	(5,696)
<b>Net finance costs</b>	5	(59,480)	(4,463)
<b>Profit (loss) before income tax</b>		117,530	(503,127)
Income tax recovery (expenses)		(34,049)	(57,975)
<b>Profit (loss) for the year</b>		83,481	(561,102)
<b>Other comprehensive income (loss) for the year, net of income tax</b>			
Unrealized exchange gain (loss) on translation of self-sustaining foreign operations		88,970	11,471
<b>Other comprehensive income (loss) for the year, net of income tax</b>		88,970	11,471
<b>Total comprehensive income (loss) for the year</b>		\$ 172,451	\$ (549,631)
<b>Profit (loss) attributable to:</b>			
Owners of the Company		\$ (34,027)	\$ (670,452)
Non-controlling interest		117,508	109,350
<b>Net profit (loss) for the year</b>		\$ 83,481	\$ (561,102)
<b>Total comprehensive income (loss) attributable to:</b>			
Owners of the Company		\$ 23,273	\$ (664,172)
Non-controlling interest		149,178	114,541
<b>Total comprehensive income (loss) for the year</b>		\$ 172,451	\$ (549,631)
<b>Earnings per share</b>			
Basic and diluted earnings per share	12	\$ (0.00)	\$ (0.01)
Weighted average number of common shares used to calculate basic and diluted loss per share		47,364,983	47,060,873

(1) Basic and diluted loss per share was the same as the inclusion of potential dilutive 3,524,000 (2010: 3,994,000) 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 Changes in Equity**  
For the Year ended December 31, 2010

<b>(Expressed in U.S. Dollars)</b>	<b>Attributable to equity holders of the Company</b>							
	<b>Number of Shares</b>	<b>Share Capital</b>	<b>Contributed Surplus</b>	<b>Accumulated other comprehensive income</b>	<b>Deficit</b>	<b>Total</b>	<b>Non- controlling interest</b>	<b>Total equity</b>
Balance January 1, 2010 (Note 21)	45,864,983	\$ 28,709,895	\$ 1,577,462	\$ -	\$ (30,879,307)	\$ (591,950)	\$ 174,012	\$ (417,938)
Loss for the year ended December 31, 2010	-	-	-	-	(670,452)	(670,452)	109,350	(561,102)
Foreign currency translation differences	-	-	-	6,280	-	6,280	5,191	11,471
Issue of common shares	1,500,000	745,617	-	-	-	745,617	-	745,617
Stock-based compensation expenses	-	-	623,449	-	-	623,449	-	623,449
<b>Balance December 31, 2010 (Note 21)</b>	<b>47,364,983</b>	<b>29,455,512</b>	<b>2,200,911</b>	<b>6,280</b>	<b>(31,549,759)</b>	<b>112,944</b>	<b>288,553</b>	<b>401,497</b>

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

**CHINA EDUCATION RESOURCES INC.**  
**Consolidated Statement of Changes in Equity**  
For the year ended December 31, 2011

(Expressed in U.S. Dollars)	Attributable to equity holders of the Company						Non- controlling interest	Total equity
	Number of Shares	Share Capital	Contributed Surplus	Cumulative translation account	Deficit	Total		
Balance January 1, 2011 (Note 21)	47,364,983	\$ 29,455,512	\$ 2,200,911	\$ 6,280	\$ (31,549,759)	\$ 112,944	\$ 288,553	\$ 401,497
Profit for the year ended December 31, 2011	-	-	-	-	(34,027)	(34,027)	117,508	83,481
Foreign currency translation differences	-	-	-	57,300	-	57,300	31,670	88,970
Addition paid in capital in ZYCY	-	-	-	-	-	-	185,688	185,688
Non-controlling interest forgiven by a minority owner	-	-	90,209	-	-	90,209	(90,209)	-
Stock-based compensation expenses	-	-	47,452	-	-	47,452	-	47,452
Balance December 31, 2011 (Note 21)	47,364,983	29,455,512	2,338,572	63,580	(31,583,786)	273,878	533,210	807,088

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

# CHINA EDUCATION RESOURCES INC.

## Consolidated Statements of Cash Flows

For the years ended December 31, 2011 and 2010

(Expressed in U.S. Dollars)

	2011	2010 (Note 21)
<b>Cash flows from (used in) operating activities</b>		
Income (Loss) for the year	\$ 83,481	\$ (561,102)
Adjustments for:		
Amortization	107,803	237,165
Gain on disposal of equipment	-	(12,508)
Equipment written off	-	19,339
Provision	108,845	8,707
Recovery of accounts receivable written off	(103,952)	-
Rent inducement	-	-
Stock based compensation	47,452	623,449
Inventory written off	-	7,042
Accounts payable written off	(540,718)	(44,322)
Changes in accounts receivable	(634,760)	448,400
Changes in inventory	(179,194)	(123,435)
Changes in prepaid expenses and deposits	(80,430)	(2,597)
Changes in trade and other payables	(111,112)	1,251,181
Changes in income tax payable	345,170	(213,456)
Changes in deferred income tax payable	(9,558)	244,312
Changes in deferred income	26,191	73,079
Cash from (used in) operating activities	(940,783)	1,955,253
Interest paid	(1,839)	-
Taxes paid	(153,657)	-
<b>Net cash from (used in) operating activities</b>	<b>(1,096,279)</b>	<b>1,955,253</b>
<b>Cash flows used in investing activities</b>		
Acquisition of equipment	(19,351)	(35,439)
Proceeds from sale of equipment	-	46,480
<b>Net cash used in investing activities</b>	<b>(19,351)</b>	<b>11,041</b>
<b>Cash flows from (used in) financing activities</b>		
Proceeds from issue of share capital	-	745,617
Loan payables	187,113	-
Loan payables - related parties	400,725	-
Repayment from (advance to) related parties	1,575,456	(1,730,791)
<b>Net cash from (used in) financing activities</b>	<b>2,163,293</b>	<b>(985,174)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	1,047,663	981,120
Cash at January 1,	1,028,481	138,432
Effect of exchange rate fluctuations on cash held	37,588	(91,071)
<b>Cash at December 31,</b>	<b>\$ 2,113,732</b>	<b>\$ 1,028,481</b>

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

**China Education Resources Inc.**  
**Notes to the Consolidated Financial Statements**  
**(Expressed in U.S. Dollars)**  
**Year Ended December 31, 2011**

**1. Reporting Entity**

China Education Resources Inc. (“the Company”) is a company domiciled in Canada. The address of the Company’s registered office is Suite 300, 515 West Pender Street, Vancouver, B.C., V6B 6H5. The consolidated financial statements of the Company as at and for the year ended December 31, 2011 comprise the Company and its subsidiaries (together referred to as the “Group”). The Group 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 Group to bookstores and schools in China.

**2. Basis of Preparation**

**(a) Statement of compliance**

The Group previously prepared its consolidated financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants (“CICA Handbook”). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards (“IFRS”), and requires publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. The Groups’ transition date to IFRS was January 1, 2010. Accordingly, these are the Group’s first annual consolidated financial statements prepared in accordance with IFRSs. IFRS 1 “*First-time Adoption of International Financial Reporting Standards*” has been applied. In these consolidated financial statements, the term “Canadian GAAP” refers to Canadian generally accepted accounting principles previously adopted by the Group before the Group’s adoption of IFRS.

The preparation of these consolidated financial statements resulted in changes to the accounting policies as compared to the consolidated financial statements as of December 31, 2010, prepared under Canadian GAAP. Note 21 contains the reconciliations between previous Canadian GAAP and IFRS for the comparative periods and a description of the transition adjustments, including detail of the exemptions and elections taken by the Group on transition from previous Canadian GAAP to IFRS.

The consolidated financial statements were authorized for issue by the Board of Directors on April 30, 2012.

**(b) Basis of measurement**

The consolidated financial statements have been prepared on the historical cost and going concern basis, which presumes that the Group 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 Group 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.



**China Education Resources Inc.**  
**Notes to the Consolidated Financial Statements**  
**(Expressed in U.S. Dollars)**  
**Year Ended December 31, 2011**

**2. Basis of Preparation (cont'd)**

**(b) Basis of measurement (cont'd)**

The Group has a need for financing for working capital, development and updating its education internet education portal. Since inception, the Group has incurred cumulative losses of \$31,583,786 and a working capital deficiency of \$1,862,874 at December 31, 2011. The ability of the Group to continue as a going concern is dependent upon the acceptance of the education internet portal by the users to achieve a profitable level of operations by the Group and on the ability of the Group to obtain necessary financing to fund the Group's future business plan. The outcome of these matters cannot be predicted at this time.

**(c) Functional and presentation currency**

These consolidated financial statements are presented in U.S. dollars, which is the Group's reporting currency. The Company's functional currency is Canadian dollars in Canada and the functional currency of the Company's subsidiaries in China is Chinese Renminbi ("RMB").

**(d) Use of estimates and judgments**

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenues and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the statement of the financial position date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- The recoverability of accounts receivables and prepaid expenses which are included in the statements of financial position;
- The estimated useful lives of equipment which are included in the statements of financial position and the related depreciation included in the statements of comprehensive income(loss);
- The estimated value of the deferred development costs which is recorded in the statements of financial position;
- The inputs used in accounting for share-based payments expense in the statements of comprehensive income (loss);
- The composition of deferred tax assets and liabilities included in the statements of financial position and notes to the consolidated financial statements;
- The inputs used in determining the various commitments accrued in the statements of financial position.

**China Education Resources Inc.**  
**Notes to the Consolidated Financial Statements**  
**(Expressed in U.S. Dollars)**  
**Year Ended December 31, 2011**

**3. Group entities**

Significant subsidiaries

Name of subsidiary	Country of incorporation	Ownership interest		
		December 31, 2011	December 31, 2010	January 1, 2010
CEN China Education Network Ltd. ("CEN Network")	Canada	100%	100%	100%
China Education International Inc.	BVI	100%	100%	100%
CEN China Education Overseas Corporation	BVI	100%	100%	100%
CEN Smart Networks Ltd. ("CEN Smart")	China	100%	90%	90%
Today's Teachers Technology & Culture Ltd. ("TTTC")	China	100%	90%	90%
The Winning Edge Ltd. ("TWE")	China	100%	100%	100%
Zhong Yu Cheng Yuan Education Technology Ltd. ("ZYCY")	China	60%	54%	54%

The Company, through its China subsidiary The Winning Edge Ltd., acquired the remaining 10% equity ownership of its China subsidiary, CEN Smart Networks Ltd. ("CEN Smart") for a nominal value on September 26, 2011 resulting in a 100% equity ownership of CEN Smart. Through CEN Smart, the Company now has an effective ownership of 100% and 60% equity interests in its China subsidiaries, TTTC and ZYCY, respectively. The transaction was accounted for as an equity transaction and the non-controlling interest was adjusted to reflect the changes in the interest in CEN Smart.

**4. Significant Accounting Policies**

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing the opening IFRS statement of financial position at January 1, 2010 for the purposes of the transition to IFRSs, unless otherwise indicated.

The accounting policies have been applied consistently by the Group entities.

**(a) Basis of consolidation**

**(i) Business combinations**

*Acquisitions on or after January 1, 2010*

For acquisitions on or after January 1, 2010, the Group measures goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

The Group elects on a transaction-by-transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognized amount of the identifiable net assets, at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

**China Education Resources Inc.**  
**Notes to the Consolidated Financial Statements**  
**(Expressed in U.S. Dollars)**  
**Year Ended December 31, 2011**

**4. Significant Accounting Policies (cont'd)**

**(a) Basis of consolidation (cont'd)**

**(i) Business combinations (cont'd)**

*Acquisitions prior to January 1, 2010*

As part of its transition to IFRSs, the Group elected not to restate those business combinations that occurred on or before January 1, 2010. In respect of acquisitions prior to January 1, 2010, goodwill represents the amount recognized under previous Canadian GAAP.

**(ii) Change in ownership interest in a subsidiary**

Changes in ownership interest in a subsidiary without loss of control are accounted for as transactions with equity holders in their capacity as equity holders; therefore no goodwill is recognized as a result of such transactions.

**(iii) Subsidiaries**

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

**(iv) Transactions eliminated on consolidation**

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

**(b) Foreign currency**

**(i) Foreign currency transactions**

Transactions in foreign currencies are initially recorded by the Group and its subsidiaries at their respective functional currency rates prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rate of exchange at the reporting date. All differences are taken to the statement of comprehensive income (loss).

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

**China Education Resources Inc.**  
**Notes to the Consolidated Financial Statements**  
**(Expressed in U.S. Dollars)**  
**Year Ended December 31, 2011**

**4. Significant Accounting Policies (cont'd)**

**(b) Foreign currency (cont'd)**

**(ii) Foreign operations**

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to U.S. dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated into U.S. dollars at exchange rates at the dates of the transactions.

Foreign currency differences are recognized in other comprehensive income in the accumulated of other comprehensive income (loss).

When a foreign operation is disposed of, the relevant amount in the cumulative amount of foreign currency translation differences is recognized in profit or loss. On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in other comprehensive income in the cumulative amount of foreign currency translation differences.

**(c) Financial instruments – Recognition and Measurements**

All financial instruments are classified into one of five categories: fair value through profit and loss, held-to-maturity investments, loans and receivables, available-for-sale financial assets, or other financial liabilities. All financial instruments are initially measured at fair value plus directly attributable transaction costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value.

Subsequent measurement and changes in fair value will depend on their initial classification, as follows:

- fair value through profit and loss financial instruments are measured at fair value and changes in fair value are recognized in profit or loss;
- available-for-sale financial assets are measured at fair value with changes in fair value recorded in other comprehensive income until the asset is derecognized or impaired at which time the amounts would be recorded in profit or loss;
- loans and receivables, held to maturity investments, and other financial liabilities are measured at amortized cost using the effective interest method.

**China Education Resources Inc.**  
**Notes to the Consolidated Financial Statements**  
**(Expressed in U.S. Dollars)**  
**Year Ended December 31, 2011**

**4. Significant Accounting Policies (cont'd)**

**(c) Financial instruments – Recognition and Measurements (cont'd)**

The Group has classified its financial instruments as follows:

Cash	Fair value through profit and loss
Accounts receivables	Loans and receivables
Trade and other payables, due to related parties, loan payables	Other financial liabilities

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

**(iii) Share capital**

*Common shares*

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

*Repurchase of share capital (treasury shares)*

When share capital recognized as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognized as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity.

When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to/from retained earnings.

**(d) Property, plant and equipment**

**(i) Recognition and measurement**

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. The Group has elected to continue to measure its plant and equipment at cost as at the Group's transition date.

Cost includes expenditure that is directly attributable to the acquisition of the asset. When significant components of plant and equipment have different useful lives, they are accounted for as separate items.

An item of plant and equipment is derecognized upon disposal, or impaired when no future economic benefits are expected to arise from continued use of the asset. Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net within other income in profit or loss.

**China Education Resources Inc.**  
**Notes to the Consolidated Financial Statements**  
**(Expressed in U.S. Dollars)**  
**Year Ended December 31, 2011**

**4. Significant Accounting Policies (cont'd)**

**(d) Property, plant and equipment (cont'd)**

**(ii) Subsequent costs**

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

**(iii) Depreciation**

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

The estimated useful lives for the current and comparative periods are as follows:

Computer equipment	2 to 5 years
Software	2 years
Office equipment	2 to 5 years
Motor vehicle	3 to 10 years
Website development costs	3 years

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

**(e) Intangible assets**

**(i) Goodwill**

In respect of acquisitions prior to January 1, 2010, goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous Canadian GAAP.

*Subsequent measurement*

Goodwill is measured at cost less accumulated impairment losses.

**China Education Resources Inc.**  
**Notes to the Consolidated Financial Statements**  
**(Expressed in U.S. Dollars)**  
**Year Ended December 31, 2011**

**4. Significant Accounting Policies (cont'd)**

**(e) Intangible assets (cont'd)**

**(ii) Other intangible assets (cont'd)**

Other intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses.

**(iii) Subsequent expenditure**

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

**(iv) Amortization**

Amortization is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

**(f) Inventories**

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Inventory consists of books and CD products that are recorded at the lower of cost and net realizable value. Costs are mainly printing cost and material cost. Net realizable value is calculated as the estimated selling price in the ordinary course of business less the estimated costs of completion, discounts, commissions and other selling expenses necessary to make the sale.

**China Education Resources Inc.**  
**Notes to the Consolidated Financial Statements**  
**(Expressed in U.S. Dollars)**  
**Year Ended December 31, 2011**

**4. Significant Accounting Policies (cont'd)**

**(g) Impairment**

**(i) Financial assets (including receivables)**

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

**(ii) Non-financial assets**

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.



**China Education Resources Inc.**  
**Notes to the Consolidated Financial Statements**  
**(Expressed in U.S. Dollars)**  
**Year Ended December 31, 2011**

**4. Significant Accounting Policies (cont'd)**

**(g) Impairment (cont'd)**

**(ii) Non-financial assets (cont'd)**

An impairment loss is recognized if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

**(h) Employee benefits**

**(i) Short-term employee benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

**(ii) Share-based payment transactions**

The grant date fair value of share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Share-based payment arrangements in which the Group receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Group.

The Group uses the Black-Scholes option valuation model to calculate the fair value of share purchase options at the date of grant. Option pricing models require the input of highly subjective assumptions, including the expected price volatility. Changes in these assumptions can materially affect the fair value estimate.

**China Education Resources Inc.**  
**Notes to the Consolidated Financial Statements**  
**(Expressed in U.S. Dollars)**  
**Year Ended December 31, 2011**

**4. Significant Accounting Policies (cont'd)**

**(i) Revenue**

**(i) Goods sold**

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

The timing of the transfers of risks and rewards varies depending on the individual terms of the contract of sale. 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.

**(ii) Services**

Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

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. Revenues received in advance of these criteria are deferred until future periods.

**(j) Finance income and finance costs**

Finance income comprises interest income on funds invested that are recognized in profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, and impairment losses recognized on financial assets. Borrowing costs that are not directly attributable to the acquisition or production of a qualifying asset are recognized in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

**China Education Resources Inc.**  
**Notes to the Consolidated Financial Statements**  
**(Expressed in U.S. Dollars)**  
**Year Ended December 31, 2011**

**4. Significant Accounting Policies (cont'd)**

**(k) Income tax**

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when the related asset is realized or liability is settled, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

**(l) Earnings per share**

The Group presents basic and diluted earnings per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Group by the weighted average number of common shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for own shares held, for the effects of all dilutive potential common shares, which comprise convertible notes and share options granted to employees.

**(m) Comparative Figures**

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.

**China Education Resources Inc.**  
**Notes to the Consolidated Financial Statements**  
**(Expressed in U.S. Dollars)**  
**Year Ended December 31, 2011**

**4. Significant Accounting Policies (cont'd)**

**(n) New standards and interpretations not yet adopted**

The Group has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Group:

*IFRS 9 “Financial Instruments – Classification and Measurement”*

IFRS 9, *Financial Instruments*, was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39, *Financial Instruments – Recognition and Measurement*, for debt instruments with a new mixed measurement model having only two categories: amortized costs and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely. Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, *Financial Instruments – Recognition and Measurement*, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income. In January 2012, the effective date was revised to January 1, 2015 with earlier application permitted.

*IFRS 10 “Consolidated Financial Statements”*

In May 2011, the IASB issued IFRS 10 *Consolidated Financial Statements*, which is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. IFRS 10 replaces the guidance in IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities*. IAS 27 (2008) survives as IAS 27 (2011) *Separate Financial Statements*, only to carry forward the existing accounting requirements for separate financial statements. IFRS 10 provides a single model to be applied in the control analysis for all investees, including entities that currently are SPEs in the scope of SIC-12. In addition, the consolidation procedures are carried forward substantially unmodified from IAS 27 (2008). The Group intends to adopt IFRS 10 in its consolidated financial statements for the annual period beginning on January 1, 2013. The extent of the impact of adoption of IFRS 10 has not yet been determined.

**China Education Resources Inc.**  
**Notes to the Consolidated Financial Statements**  
**(Expressed in U.S. Dollars)**  
**Year Ended December 31, 2011**

**4. Significant Accounting Policies (cont'd)**

**(n) New standards and interpretations not yet adopted (cont'd)**

*IFRS 11 “Joint Arrangements”*

In May 2011, the IASB issued IFRS 11 *Joint Arrangements*, which is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. If an entity applies this Standard earlier, it shall also apply IFRS 10, IFRS 12, IAS 27 (2011) and IAS 28 (2011) at the same time. IFRS 11 replaces the guidance in IAS 31 *Interests in Joint Ventures*. Under IFRS 11, joint arrangements are classified as either joint operations or joint ventures. IFRS 11 essentially carves out of previous jointly controlled entities, those arrangements which although structured through a separate vehicle, such separation is ineffective and the parties to the arrangement have rights to the assets and obligations for the liabilities and are accounted for as joint operations in a fashion consistent with jointly controlled assets/operations under IAS 31. In addition, under IFRS 11, there is no longer a free choice of equity accounting or proportionate consolidation for joint ventures; the equity method is now required. Upon application of IFRS 11, entities which had previously accounted for joint ventures using proportionate consolidation shall collapse the proportionately consolidated net asset value (including any allocation of goodwill) into a single investment balance at the beginning of the earliest period presented. The investment's opening balance is tested for impairment in accordance with IAS 28 (2011) and IAS 36 *Impairment of Assets*. Any impairment losses are recognized as an adjustment to opening retained earnings at the beginning of the earliest period presented. The Group intends to adopt IFRS 11 in its consolidated financial statements for the annual period beginning on January 1, 2013. The extent of the impact of adoption of IFRS 11 has not yet been determined.

*IFRS 12 “Disclosure of Interests in Other Entities”*

In May 2011, the IASB issued IFRS 12 *Disclosure of Interests in Other Entities*, which is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. If an entity applies this Standard earlier, it need not apply IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011) at the same time. IFRS 12 contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The required disclosures aim to provide information in order to enable users to evaluate the nature of, and the risks associated with, an entity's interest in other entities, and the effects of those interests on the entity's financial position, financial performance and cash flows. The Group intends to adopt IFRS 12 in its consolidated financial statements for the annual period beginning on January 1, 2013. The Group does not expect IFRS 12 to have a material impact on the consolidated financial statements.

**China Education Resources Inc.**  
**Notes to the Consolidated Financial Statements**  
**(Expressed in U.S. Dollars)**  
**Year Ended December 31, 2011**

**4. Significant Accounting Policies (cont'd)**

**(n) New standards and interpretations not yet adopted (cont'd)**

*IFRS 13 “Fair Value Measurement”*

In May 2011, the IASB published IFRS 13 *Fair Value Measurement*, which is effective prospectively for annual periods beginning on or after January 1, 2013. The disclosure requirements of IFRS 13 need not be applied in comparative information for periods before initial application. IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income. IFRS 13 explains ‘how’ to measure fair value when it is required or permitted by other IFRSs. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. The Group intends to adopt IFRS 13 prospectively in its consolidated financial statements for the annual period beginning on January 1, 2013. The Group does not expect IFRS 13 to have a material impact on the consolidated financial statements.

*IAS 1 “Presentation of Financial Statements”*

As of January 1, 2013, the Group will be required to adopt the amendments to IAS 1 *“Presentation of Financial Statements”* as it relates to the presentation of other comprehensive income (OCI). The amendments to this standard do not change the nature of the items that are currently recognized in OCI, but requires presentational changes. The adoption of this standard is not expected to have a material impact on the Group’s consolidated financial statements.

*IFRS 7 “Financial Instruments: Disclosures”*

As of January 1, 2013, the Group will be required to adopt the amendments to IFRS 7, *Financial Instruments: Disclosures*. The amendment requires new disclosures relating to the offset of financial assets and financial liabilities that will enable the users of financial statements better compare financial statements prepared in accordance with IFRS and US Generally Accepted Accounting Principles. The adoption of the amended standard is not expected to have a material impact on the Group’s consolidated financial statements.

**China Education Resources Inc.**  
**Notes to the Consolidated Financial Statements**  
**(Expressed in U.S. Dollars)**  
**Year Ended December 31, 2011**

**5. Accounts receivables**

	<b>December 31, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
Trade receivables	1,858,527	1,085,398	1,480,627
Other receivables - current portion	189,141	221,389	225,412
Due from related parties	-	48,434	80,778
Loan to a company related to the non-controlling shareholders of ZYCY [i]	422,641	1,470,200	14,647
	<u>2,470,309</u>	<u>2,825,421</u>	<u>1,801,464</u>
Accounts receivables - long term	-	26,085	25,183
	<u>2,470,309</u>	<u>2,851,506</u>	<u>1,826,647</u>

[i] The short term loans are unsecured and due on demand from a company related to the non-controlling shareholders of the Group's subsidiaries.

**6. Inventories**

Inventories as of December 31, 2011, 2010 and January 1, 2010 consist of textbooks in transit, which represent their net realizable value.

**China Education Resources Inc.**  
**Notes to the Consolidated Financial Statements**  
**(Expressed in U.S. Dollars)**  
**Year Ended December 31, 2011**

**7. Property, Plant and Equipment**

	Computer equipment	Office equipment	Motor vehicles	Leasehold improvement	Website development	Total
<b>Cost or deemed cost</b>						
Balance, at January 1, 2010	\$ 408,466	\$ 38,999	\$ 416,629	\$ 52,597	\$ 3,051,894	\$ 3,968,585
Additions	34,988	2,534	34,553	-	347,411	419,486
Disposals	(16,095)	(30,951)	(67,256)	-	-	(114,302)
Effect of movements in exchange rates	64,705	1,466	11,522	1,886	121,843	201,422
Balance, at December 31, 2010	<u>\$ 492,064</u>	<u>\$ 12,048</u>	<u>\$ 395,448</u>	<u>\$ 54,483</u>	<u>\$ 3,521,148</u>	<u>\$ 4,475,191</u>
Balance, at January 1, 2011	\$ 492,064	\$ 12,048	\$ 395,448	\$ 54,483	\$ 3,521,148	\$ 4,475,191
Additions	7,870	11,482	-	-	-	19,352
Disposals	-	-	-	-	-	-
Effect of movements in exchange rates	21,393	2,345	18,835	2,578	166,635	211,786
Balance, at December 31, 2011	<u>\$ 521,327</u>	<u>\$ 25,875</u>	<u>\$ 414,283</u>	<u>\$ 57,061</u>	<u>\$ 3,687,783</u>	<u>\$ 4,706,329</u>



**China Education Resources Inc.**  
**Notes to the Consolidated Financial Statements**  
**(Expressed in U.S. Dollars)**  
**Year Ended December 31, 2011**

**7. Property, Plant and Equipment (cont'd)**

	Computer equipment	Office equipment	Motor vehicles	Leasehold improvement	Website development	Total
<b>Depreciation and impairment losses</b>						
Balance, at January 1, 2010	\$ 261,022	\$ 8,120	\$ 301,083	\$ 19,906	\$ 2,967,119	\$ 3,557,250
Depreciation for the period	108,959	3,273	67,800	-	433,005	613,037
Impairment loss	-	-	-	-	-	-
Disposals	(11,485)	(6,582)	(60,920)	-	-	(78,987)
Effect of movements in exchange rates	12,488	832	11,187	12,768	121,024	158,299
Balance, at December 31, 2010	<u>\$ 370,984</u>	<u>\$ 5,643</u>	<u>\$ 319,150</u>	<u>\$ 32,674</u>	<u>\$ 3,521,148</u>	<u>\$ 4,249,599</u>
Balance, at January 1, 2011	\$ 370,984	\$ 5,643	\$ 319,150	\$ 32,674	\$ 3,521,148	\$ 4,249,599
Depreciation for the period	80,950	4,537	14,846	11,112	-	111,445
Impairment loss	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Effect of movements in exchange rates	17,947	411	15,872	(1,006)	166,635	199,859
Balance, at December 31, 2011	<u>\$ 469,881</u>	<u>\$ 10,591</u>	<u>\$ 349,868</u>	<u>\$ 42,780</u>	<u>\$ 3,687,783</u>	<u>\$ 4,560,903</u>
<b>Carrying amounts</b>						
At January 1, 2010	\$ 147,444	\$ 30,879	\$ 115,546	\$ 32,691	\$ 84,775	\$ 411,335
At December 31, 2010	<u>\$ 121,080</u>	<u>\$ 6,405</u>	<u>\$ 76,298</u>	<u>\$ 21,809</u>	<u>\$ -</u>	<u>\$ 225,592</u>
At January 1, 2011	\$ 121,080	\$ 6,405	\$ 76,298	\$ 21,809	\$ -	\$ 225,592
At December 31, 2011	<u>\$ 51,446</u>	<u>\$ 15,284</u>	<u>\$ 64,415</u>	<u>\$ 14,281</u>	<u>\$ -</u>	<u>\$ 145,426</u>

**8. Goodwill**

Goodwill represents the amount recognized on the acquisition of 90% equity interest in TTTC in previous year.

On September 1, 2011, the Group acquired the remaining 10% equity interest in TTTC for a nominal amount (see Note 3). This transaction is accounted for within equity, whereas no goodwill is recognized.

**China Education Resources Inc.**  
**Notes to the Consolidated Financial Statements**  
**(Expressed in U.S. Dollars)**  
**Year Ended December 31, 2011**

**8. Goodwill (cont'd)**

	<b>Goodwill</b>
<b>Cost</b>	
Balance, at January 1, 2010	\$ 2,560,218
Movements during the period - foreign exchange effect	<u>91,767</u>
Balance, at December 31, 2010	<u>\$ 2,651,985</u>
Balance, at January 1, 2011	\$ 2,651,985
Movements during the period - foreign exchange effect	<u>125,502</u>
Balance, at December 31, 2011	<u>\$ 2,777,487</u>
	<b>Goodwill</b>
Carrying amounts	
At January 1, 2010	\$ 2,560,218
At December 31, 2010	\$ 2,561,985
At January 1, 2011	\$ 2,561,985
At December 31, 2011	\$ 2,777,487

There was no impairment recognized for the years ended December 31, 2011 and 2010.

**China Education Resources Inc.**  
**Notes to the Consolidated Financial Statements**  
**(Expressed in U.S. Dollars)**  
**Year Ended December 31, 2011**

**9. Long-Term Other Receivable**

	December 31, 2011	December 31, 2010	January 1, 2010
Loan due from Shengshi Education Service Company ("Shengshi") [i]	\$ -	\$ 640,221	\$ 638,859
Bad debt provision	-	(614,136)	(613,676)
	\$ -	\$ 26,085	\$ 25,183

[i] Shengshi is a non-related business partner of one of the Chinese subsidiaries. The total loan due from Shengshi was RMB 7,630,000 (\$1,118,405) of which RMB 3,970,000 (\$581,923) was non-interest bearing and was due September 2006, RMB 1,320,000 (\$193,486) was bearing 10% interest and was due on June 2006 and RMB 2,340,000 (\$342,997) was bearing 10% interest and was due on August 2006. Of the total loan, RMB 4,551,269 (\$667,125) was collateralized by the shares of the Group owned by Beijing Anli Information and Consulting Company ("Anli") and a shareholder of the Group. In 2006, management determined the collectability of this loan became uncertain. In light of this uncertainty, management set up a provision of RMB 3,078,731 (\$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 RMB 235,000 (\$34,446). As of December 31, 2008, management decided to adjust the receivable to net realizable amount by recording an accumulated provision of RMB4,189,769 (\$614,136). The Group returned to Anli the shares of the Group owned by Anli related to the acquisition of the remaining 10% ownership of CEN Smart (see Note 19). As a result, additional provision of RMB126,500 (\$19,572) was provided as of December 31, 2011.

**10. Share Capital and Contributed Surplus**

**Issuance of common shares**

On February 3, 2010, 1,500,000 common shares were issued at C\$0.53 (\$0.50) per share upon completion of a non-brokered private placement for gross proceeds of C\$795,000 (\$745,617).

**Common shares and preferred shares**

At December 30, 2011, the authorized share capital comprised of unlimited voting common shares without par value and 20,000,000 preferred shares. No preferred shares have been issued to date.

The holders of common shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Group. 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.

**China Education Resources Inc.**  
**Notes to the Consolidated Financial Statements**  
**(Expressed in U.S. Dollars)**  
**Year Ended December 31, 2011**

**10. Share Capital and Reserves (cont'd)**

**Accumulated other comprehensive income (“AOCI”)**

AOCI is the cumulative translation account, which comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

**11. Earnings (Loss) Per Share**

(a) Basic earnings (loss) per share

The calculation of basic earnings (loss) per share for the year ended December 31, 2011 was based on the net income attributable to common shareholders of \$8,012 (2010: loss of \$560,995), and a weighted average number of common shares outstanding of 47,364,983 (2010: 47,060,873), calculated as follows:

Weighted average number of common shares for basic earnings (loss) per share calculations:

	<b>Year ended December 31,</b>	
	<b>2011</b>	<b>2010</b>
Issued common share at January 1	47,364,983	45,864,983
Effect of shares issued in February 2010	-	1,195,890
Weighted average number of common shares at December 31	47,364,983	47,060,873

(b) Diluted earnings per share

For the year ended December 31, 2011, 3,149,000 share options (2010: 3,574,000) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

**12. Share Purchase Options and Warrants**

(a) Stock options

At December 31, 2011, the Group has the following share-based payment arrangements:

The Group 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.

The terms and conditions relating to the grants of the share options are as follows:

**China Education Resources Inc.**  
**Notes to the Consolidated Financial Statements**  
**(Expressed in U.S. Dollars)**  
**Year Ended December 31, 2011**

**12. Share Purchase Options and Warrants (cont'd)**

(a) Stock options (cont'd)

On February 3, 2010, the Group granted incentive stock options of 50,000 shares at C\$0.60 (\$0.57) per share expiring on February 3, 2011 (expired subsequently) which exceeds the market price at the grant date to a consultant with 12,500 share purchase option vested immediately and the balance in equal installments on April 3, 2010, June 3, 2010 and September 3, 2010 respectively.

On February 3, 2010, the Group granted incentive stock options of 300,000 shares at C\$1.00 (\$0.94) per share which exceeds the market price at the grant date to four directors expiring on February 3, 2015 and all the share purchase option were vested immediately.

On February 3, 2010, the Group granted incentive stock options of 200,000 shares at C\$0.60 (\$0.57) per share which exceeds the market price at the grant date to an employee expiring on February 3, 2015 with 40,000 share purchase option vested immediately and another 20% will vest every 12 months.

On October 6, 2010, the Group granted incentive stock options of 100,000 shares at C\$0.45 (\$0.45) per share which is less than market price at the grant date to a consultant expiring on October 5, 2013 with 25,000 share purchase option vested immediately and each 25% of the total options will vest every 3 months. The Group granted incentive stock options of another 100,000 shares at C\$0.60 (\$0.60) per share which exceeds the market price at the grant date to the same consultant expiring on October 5, 2013 with 25,000 share purchase option vested immediately and each 25% of the total options will vest every 3 months.

The number and weighted average exercise prices of the share options are as follows:

	<b>Number of Shares</b>		<b>Weighted Average Exercise Price Per Share (USD)</b>		<b>Weighted Average Exercise Price Per Share (CND)</b>
Balance, January 1, 2010	3,474,000	\$	0.75	\$	0.77
Granted during the period	820,000		0.71		0.73
Cancelled/expired during the period	(720,000)		0.82		0.84
Balance, December 31, 2010	3,574,000		0.78		0.80
Cancelled/expired during the period	(425,000)	-	0.27		(0.28)
Balance, December 31, 2011	3,149,000	\$	0.75	\$	0.78

The options outstanding at December 31, 2011 have an exercise price in the range of \$0.47 to \$1.09 (December 31, 2010: \$0.45 to \$1.04) and a weighted average contractual life of 1.99 years (December 31, 2010: \$2.98).

There are 3,029,000 options exercisable at December 31, 2011, which have an exercise price in the range of \$0.47 to \$1.09 (December 31, 2010: \$0.45 to \$1.04) and a weighted average contractual life of 1.94 years (December 31, 2010: \$2.94).

**China Education Resources Inc.**  
**Notes to the Consolidated Financial Statements**  
**(Expressed in U.S. Dollars)**  
**Year Ended December 31, 2011**

**12. Share Purchase Options and Warrants (cont'd)**

(a) Stock options (cont'd)

There were no stock options granted during the year ended December 31, 2011.

Inputs for measurement of grant date fair values

The grant date fair value of share-based payment plans was measured based on the Black-Scholes formula. Expected volatility is estimated by considering historic average share price volatility. The inputs used in the measurement of the fair values at grant date of the share-based payment plan are the following:

<b>Fair value of share options and assumptions</b>	<b>Year ended December 31, 2010</b>
Fair value at grant date (per share)	\$0.37 - \$0.56
Share price at grant date	\$0.40 - \$0.58
Exercise price	\$0.45 - \$1.01
Expected volatility	179.76% - 331.15%
Option life	1 year - 5 years
Expected dividends	\$ -
Risk-free interest rate	1.59% - 2.45%

(b) Share purchase warrants

At December 31, 2011, December 31, 2010 and January 1, 2010, there were no outstanding warrants.

**13. Trade and Other Payables**

	<b>December 31, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
Trade payables	\$ 1,543,776	\$ 1,731,298	\$ 496,195
Non-trade payables and accrued expenses	1,540,946	1,976,183	1,839,009
Non-trade payable to a related party [i]	-	-	538,117
	<u>\$ 3,084,722</u>	<u>\$ 3,707,481</u>	<u>\$ 2,873,321</u>

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 15.

[i] The balance represents the unsecured, non-interest bearing short term loan payable to a company related to the non-controlling shareholders of one of the Group's subsidiaries.

**China Education Resources Inc.**  
**Notes to the Consolidated Financial Statements**  
**(Expressed in U.S. Dollars)**  
**Year Ended December 31, 2011**

**14. Loans Payable**

Terms and conditions of outstanding loans were summarized as follows:

	December 31, 2011				
	RMB	Canadian dollars	U.S. dollars equivalent	Annual interest rate	Due date
Unsecured loan	500,000	-	79,450	15%	12/31/2012
	500,000	-	79,450		

At December 31, 2010 and January 1, 2010, there was no outstanding loans payable.

**15. Financial Instruments**

**Credit risk**

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Carrying amount		
	December 31, 2011	December 31, 2010	January 1, 2010
Account receivables	\$ 2,470,309	\$ 2,851,506	\$ 1,826,647
Cash	2,113,732	1,028,481	138,432
	\$ 4,584,041	\$ 3,879,987	\$ 1,965,079

The maximum exposure to credit risk for accounts receivables at the reporting date by geographic region was:

	Carrying amount		
	December 31, 2011	December 31, 2010	January 1, 2010
China	\$ 2,468,646	\$ 2,844,783	\$ 1,823,838
Canada	1,663	6,723	2,809
	\$ 2,470,309	\$ 2,851,506	\$ 1,826,647

The maximum exposure to credit risk for accounts receivables at the reporting date by type of counterparty was:

**China Education Resources Inc.**  
**Notes to the Consolidated Financial Statements**  
**(Expressed in U.S. Dollars)**  
**Year Ended December 31, 2011**

**15. Financial Instruments (cont'd)**

**Credit risk (cont'd)**

Exposure to credit risk (cont'd)

	<b>Carrying amount</b>		
	<b>December 31, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
End-user customers	\$ 1,858,527	\$ 1,085,398	\$ 1,480,627
Others	611,782	1,766,108	346,020
	<b>\$ 2,470,309</b>	<b>\$ 2,851,506</b>	<b>\$ 1,826,647</b>

The Group's most significant customer accounted for \$485,676 of receivables carrying amount at December 31, 2011 (December 31, 2010: \$575,991; January 1, 2010: \$116,496).

The aging of receivables at the reporting date was:

	December 31, 2011		December 31, 2010		January 1, 2010	
	Gross amount	Impairment	Gross amount	Impairment	Gross amount	Impairment
Outstanding 0 - 30 days	\$ 317,280	\$ -	\$ 359,914	\$ -	\$ 366,525	\$ -
Outstanding 31 - 120 days	890,964	-	679,493	-	1,261,273	-
Outstanding 121 - 365 days	90,813	-	1,064,087	-	46,094	-
Outstanding for more than 1 year	1,273,367	(102,115)	811,331	(63,319)	205,251	(52,496)
	<b>\$ 2,572,424</b>	<b>\$ (102,115)</b>	<b>\$ 2,914,825</b>	<b>\$ (63,319)</b>	<b>\$ 1,879,143</b>	<b>\$ (52,496)</b>

The movement in the allowance for impairment in respect of accounts receivables during the period was as follows:

	2010
Balance at January 1	\$ 52,496
Change during the year	10,823
Balance at December 31	<b>\$ 63,319</b>
	2011
Balance at January 1	\$ 63,319
Change during the year	38,796
Balance at December 31	<b>\$ 102,115</b>

Based on the historic default rates, the Group believes that, apart from the above, no impairment allowance is necessary in respect of accounts receivables other than those specified.



**China Education Resources Inc.**  
**Notes to the Consolidated Financial Statements**  
**(Expressed in U.S. Dollars)**  
**Year Ended December 31, 2011**

**15. Financial Instruments (cont'd)**

**Credit risk (cont'd)**

Exposure to credit risk (cont'd)

100% of the Group's revenue for the year ended December 31, 2011 and 2010 were derived from customers located in China. Two (December 31, 2010: Three) customers represent in excess of 10% of accounts receivable at December 31, 2011. Two (2010: Four) customers represent in excess of 10% of total revenue at December 31, 2011.

The allowance accounts in respect of accounts receivables are used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at which point the amounts are considered irrecoverable and are written off against the financial asset directly. As December 31, 2011 the Group has collective impairments on its loans and receivables of \$102,115. (December 31, 2010: \$63,319).

**Currency risk**

The Group's exposure to foreign currency risk was as follows based on notional amounts:

<b>Foreign currency in U.S. dollar equivalent</b>	<b>December 31, 2011</b>		<b>December 31, 2010</b>		<b>January 1, 2010</b>	
	<b>CAD</b>	<b>RMB</b>	<b>CAD</b>	<b>RMB</b>	<b>CAD</b>	<b>RMB</b>
Cash at bank	\$ 1,018	\$ 2,112,714	\$ 12,830	\$ 1,015,651	\$ 29,800	\$ 108,632
Accounts receivables	1,663	2,468,646	6,723	2,818,698	2,809	1,798,655
Accounts receivables (non-current)	-	-	-	26,085	-	25,183
Trade and other payables	(371,891)	(2,736,085)	(767,239)	(2,906,618)	(613,032)	(2,250,019)
Loan payable	-	(79,450)	-	-	-	-
Loan payable - related parties	-	(411,551)	-	-	-	-
Due to related parties	(663,367)	-	(255,523)	-	(126,785)	-

Gross statement of financial

**Sensitivity analysis**

A strengthening of the U.S. dollars, as indicated below, against the Canadian dollars ("CAD") and Renmenbi ("RMB") at December 31, 2011 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2010, albeit that the reasonably possible foreign exchange rate variances were different, as indicated below:

**China Education Resources Inc.**  
**Notes to the Consolidated Financial Statements**  
**(Expressed in U.S. Dollars)**  
**Year Ended December 31, 2011**

**15. Financial Instruments (cont'd)**

**Sensitivity analysis (cont'd)**

<b>U.S. dollars against</b>	<b>Equity</b>	<b>Profit or loss</b>
<b>December 31, 2011</b>		
CAD (10% strengthening)	\$ -	\$ 101,000
RMB (10% strengthening)	\$ -	\$ 135,000
<b>December 31, 2010</b>		
CAD (10% strengthening)	\$ -	\$ 100,000
RMB (10% strengthening)	\$ -	\$ 95,000

A weakening of the U.S. dollar against the above currencies at December 31, 2011 and December 31, 2010 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

**Interest rate risk**

The fluctuation of interest rate has minimal impact on the Group as most of the financial instruments are not interest bearing.

**Fair values**

Fair values versus carrying amounts

The fair values of cash, current accounts receivables, trade and other payables, income tax payables, and loan payables approximate their carrying value due to their short-term nature.

**16. Determination of fair values**

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

**(i) Long term accounts receivable**

The fair value of long term accounts receivable is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

**China Education Resources Inc.**  
**Notes to the Consolidated Financial Statements**  
**(Expressed in U.S. Dollars)**  
**Year Ended December 31, 2011**

**16. Determination of fair values (cont'd)**

**(ii) Share-based payment transactions**

The fair value of the employee share options and the share appreciation rights is measured using the Black-Scholes formula. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behavior), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

**17. Financial risk management**

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's financial instruments consist of cash, trade and other receivables, due from related parties, long term other receivable, and trade and other payables.

The Group'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 Group's credit risk is primarily attributable to cash and accounts receivables. The Group has no significant concentration of credit risk arising from operations. Other receivables mainly consist of an advance to a third party for project development, 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 according.

**(b) Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. At December 31, 2011, the Group had a working capital deficiency of \$1,862,874 (December 31, 2010: \$2,251,271). The Group 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 Group is exposed to short term interest rates through the interest earned on cash. The Group only has debt with fixed interest rates. The Group's current policy is to invest excess cash in short-term deposits with its banking institutions. The Group periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

**China Education Resources Inc.**  
**Notes to the Consolidated Financial Statements**  
**(Expressed in U.S. Dollars)**  
**Year Ended December 31, 2011**

**17. Financial risk management (cont'd)**

(c) Market risk (cont'd)

(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 Group's assets, liabilities, revenues and expenses are denominated in Chinese Renminbi ("RMB"), which was tied to the U.S. 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 U.S. dollar would result in an increase in the assets, liabilities, revenues and expenses of the Group 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 Group and a foreign currency loss included in comprehensive income.

The Group's functional currency is the Canadian dollar and RMB, respectively, and major transactions are transacted in Canadian dollars and RMB. The Group 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.

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

(d) Capital management

The Group manages its capital structure and makes adjustments to it, based on the funds available to the Group, 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 Group's management to sustain future development of the business.

Although the Group has commercialized its teaching training portal in February 2007 and launched its education internet portal in late 2008, the Group is still dependent on external financing to fund its future business plan until it achieves a profitable level of operations. The Group will spend its existing working capital and raise additional amounts as needed. The Group 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 Group.

**China Education Resources Inc.**  
**Notes to the Consolidated Financial Statements**  
**(Expressed in U.S. Dollars)**  
**Year Ended December 31, 2011**

**17. Financial risk management (cont'd)**

(d) Capital management (cont'd)

The Group's debt to capital ratio at the end of the reporting period was as follows:

	<b>December 31,</b>		<b>January 1,</b>
	<b>2011</b>	<b>2010</b>	<b>2010</b>
Total liabilities	\$ 7,156,738	\$ 6,538,149	\$ 5,405,292
Less: cash	(2,113,732)	(1,028,481)	(138,432)
Net debt	<u>\$ 5,043,006</u>	<u>\$ 5,509,668</u>	<u>\$ 5,266,860</u>
Total equity	<u>\$ 807,088</u>	<u>\$ 401,497</u>	<u>\$ 417,938</u>
Debt to capital ratio	6	14	13

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

There were no changes in the Group's approach to capital management during the year ended December 31, 2011. Neither the Group nor its subsidiaries are subject to externally imposed capital requirements.

**18. Operating segments**

Strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies.

Due to the size of the Group, 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. The Group's CEO reviews internal management reports on at least a quarterly basis.

**Geographical segments**

The Group's head office is located in Vancouver, British Columbia, Canada. The operations of the Group are primarily in two geographic areas: Canada and China. In presenting information on the basis of geographical information, segment revenue is based on the geographical location of the customers. Segment assets are based on the geographical location of the assets. All of the Group's revenue was generated in China. All goodwill and majority of all of the capital assets were located in China.

**China Education Resources Inc.**  
**Notes to the Consolidated Financial Statements**  
**(Expressed in U.S. Dollars)**  
**Year Ended December 31, 2011**

**18. Operating segments (cont'd)**

**Geographical segments (cont'd)**

A summary of geographical information for the Group's assets and net loss for the period and year were as follows:

<b>Year ended December 31, 2011</b>	<b>Canada</b>	<b>China</b>	<b>Total</b>
Revenue from external customers	\$ -	\$ 6,553,140	\$ 6,553,140
Goodwill	-	2,777,487	2,777,487

<b>Year ended December 31, 2010</b>	<b>Canada</b>	<b>China</b>	<b>Total</b>
Revenue from external customers	\$ -	\$ 5,436,165	\$ 5,436,165
Goodwill	-	2,651,985	2,651,985

**Major customer**

Revenues from one customer represents approximately \$1,088,826 (2010: \$871,392) of the Group's total revenues for the year ended December 31, 2011.

**19. Related parties**

All related party transactions are recorded in the normal course of operations on normal commercial terms and conditions and at market rates, which is the amount of consideration established and agreed to by the related parties.

**Key management personnel and director transactions**

Directors of the Group control 16.9% percent of the voting shares of the Group.

A number of key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities.

The aggregate value of transactions and outstanding balances relating to key management personnel and entities over which they have control or significant influence were as follows:

Director/ officer	Transaction	Transaction value years ended December 31,	
		2011	2010
C F Zhou	Salary and benefits	\$ 174,913	\$ 177,373
Danny Hon (i)	Accounting fees	96,050	64,173
		<u>\$ 270,963</u>	<u>\$ 241,546</u>

**China Education Resources Inc.**  
**Notes to the Consolidated Financial Statements**  
**(Expressed in U.S. Dollars)**  
**Year Ended December 31, 2011**

**19. Related parties (cont'd)**

**Key management personnel and director transactions (cont'd)**

Director/ officer	Transaction	Balance outstanding		
		December 31, 2011	December 31, 2010	January 1, 2010
C F Zhou	Salary and benefits	\$ 390,384	\$ 221,899	\$ 116,516
C F Zhou	Loan payable (i)	42,773	-	-
C F Zhou	Loan interest payable (i)	1,710	-	-
Danny Hon	Accounting fees payable (ii)	159,382	33,624	10,269
Danny Hon	Loan payable (i)	63,965	-	-
Danny Hon	Loan interest payable (i)	5,407	-	-
		<u>\$ 663,621</u>	<u>\$ 255,523</u>	<u>\$ 126,785</u>

(i) During the year ended December 31, 2012, the Group has received short term loans from two directors. The short-term loans were unsecured and due on demand with an annual interest rate of 15%. At December 31, 2011, there was an interest payable balance of \$7,117 owed to directors of the Group.

(ii) The Group engaged a company, which is controlled by Danny Hon, to provide accounting services.

**Unsecured loan payable**

The Group had the following loan payables to the key management personnel of the Group with the terms and conditions summarized as follows:

	December 31, 2011				
	RMB	Canadian dollars	U.S. dollars equivalent	Annual interest rate	Due date
Unsecured loans payable					
Qi Li	1,000,000	-	158,900	15%	due on demand
Weiguo Mu	500,000	-	79,450	15%	11/02/2012 [i]
Weiguo Mu	400,000	-	63,560	15%	due on demand
Pu Chen	90,000	-	14,301	15%	due on demand
Rongrong Mu	300,000	-	47,670	15%	due on demand
Yan Zhang	300,000	-	47,670	15%	due on demand
	<u>2,590,000</u>	<u>-</u>	<u>411,551</u>		

[i] Subsequently repaid in 2012.

At December 31, 2010, there was no outstanding loans payable.

At December 31, 2011, interest payable of \$31,328 was accrued and grouped under due to related parties.

**China Education Resources Inc.**  
**Notes to the Consolidated Financial Statements**  
**(Expressed in U.S. Dollars)**  
**Year Ended December 31, 2011**

**19. Related parties (cont'd)**

**Other related party transactions**

	December 31, 2011	December 31, 2010	January 1, 2010
Amount due from Beijing Anli Information and Consulting Company ("Anli"), net of bad debt provision of \$94,960 [i]	\$ -	\$ 48,434	\$ 80,778
Amount due from a company related to the non-controlling shareholders of ZYCY [ii]	422,641	1,470,200	14,647
	\$ 422,641	\$ 1,518,634	\$ 95,425

[i] Anli and its major shareholder are shareholders of the Group, as well as the former non-controlling shareholders of CEN Smart. In 2003, the Group 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 Group owned by Anli. The Group made a bad debt provision of RMB648,500 (\$95,057) in total based on the market value of the shares of the Group that held by the Group as the guarantee at December 31, 2008. No additional provision was recorded as of January 1, 2010 and December 31, 2010. The remaining balance of RMB319,230 (\$49,391) was repaid in full during the period ended March 31, 2011.

On September 1, 2011, the Group entered into an agreement with Anli, which allows the Group to acquire the remaining 10% of ownership of CEN Smart while the Group has to return back the shares to guarantee both Anli loans and Shenshi loans (see note 9). This transaction was completed on September 26, 2011. As of December 31, 2011, there was \$nil amount due from Anli.

[ii] It represents an advance to a company related to the non-controlling shareholders of ZYCY as non-secured and non-interest bearing short-term loan.

**20. Income Tax**

The Group is subject to Canadian federal and provincial income taxes at an approximate rate of 26.5% [2010 – 28.5%]. The Group's Chinese subsidiaries are subject to Chinese taxes.

The reconciliation of the provision (recovery) for income taxes at the Canadian statutory rate compared to the Group's income tax expense as reported is as follows:



**China Education Resources Inc.**  
**Notes to the Consolidated Financial Statements**  
**(Expressed in U.S. Dollars)**  
**Year Ended December 31, 2011**

**20. Income Tax (cont'd)**

<b>Tax expense (recovery) in Canadian statutory rate</b>	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Loss before tax, non-controlling interest	118	(503)
Expected income tax expense (recovery)	31	(151)
Adjustments resulting from:		
Permanent differences	268	185
Timing Difference	(249)	(161)
Changes in enacted rates	(185)	-
Foreign tax rate difference	(10)	(33)
Other	(41)	(10)
Change in valuation allowance	220	228
<b>Total</b>	<b>34</b>	<b>58</b>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Group's deferred income tax assets and liabilities as of December 31, 2011 and 2010 and January 1, 2010 are as follows:

	<b>2011</b>	<b>2010</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Equipments	(17)	(188)	(245)
Net operating loss carried forward	2,603	2,702	2,761
Net capital loss carried forward	310	335	171
Other	90	252	891
Valuation allowance	(3,238)	(3,352)	(3,578)
Future income tax assets	(252)	(251)	-

<b>Income tax consisted of</b>	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Current income tax expense	48	-
Future income tax (recovery) expense	(14)	58
	<u>34</u>	<u>58</u>

The Group has recognized a valuation allowance for the future tax assets for which it is more likely than not that realization will not occur.

**China Education Resources Inc.**  
**Notes to the Consolidated Financial Statements**  
**(Expressed in U.S. Dollars)**  
**Year Ended December 31, 2011**

**20. Income Tax (cont'd)**

As at December 31, 2011, the Group has non-capital loss carry forwards for Canadian purposes aggregating approximately \$6,365,157 available to reduce taxable income otherwise calculated in future years. The Group also has non-capital loss carry forwards for China tax purposes aggregating \$3,573,000 available to reduce taxable income otherwise calculated in future years.

The non-capital losses expire as follows:

('000)	Canada	China	Consolidated
2011	-	-	-
2012	-	978	978
2013	-	1,796	1,796
2014	1,049	783	1,832
2015	763	16	779
2026	1,113	-	1,113
2027	1,335	-	1,335
2028	444	-	444
2029	611	-	611
2030	571	-	571
2031	480	-	480
	<u>6,366</u>	<u>3,573</u>	<u>9,939</u>

The Group also has capital losses of \$1,264,770 available to offset future capital gains in Canada. The capital loss is carried forward indefinitely.

The Group, 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 central 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, who 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.

The risk remains that the relevant authorities could take differing 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.

**China Education Resources Inc.**  
**Notes to the Consolidated Financial Statements**  
**(Expressed in U.S. Dollars)**  
**Year Ended December 31, 2011**

**21. Explanation of transition to IFRSs**

As stated in note 2(a), these are the Group's first annual consolidated financial statements prepared in accordance with IFRS.

The accounting policies set out in note 4 have been applied in preparing the financial statements for the year ended December 31, 2011 and 2010, and in the preparation of an opening IFRS statement of financial position at January 1, 2010 (the Group's date of transition).

In preparing its opening IFRS statement of financial position, the Group has adjusted amounts reported previously in consolidated financial statements prepared in accordance with previous Canadian GAAP. An explanation of how the transition from previous Canadian GAAP to IFRSs has affected the Group's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables:

**Mandatory Exceptions to Retrospective Application**

In preparing these consolidated financial statements using IFRS 1, the Group has applied the following mandatory exceptions from full retrospective application of IFRS as described below:

- Estimates – In accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under previous GAAP unless those estimates were in error. The Group's IFRS estimates as at the Transition Date are consistent with its Canadian GAAP estimates as at that date.

**Elected Exemptions from Full Retrospective Application**

Upon transition, IFRS 1 permits certain exemptions from full retrospective application. The following items are relevant to these financial statements:

- Share-based payments – IFRS 2, *Share-based Payments* ("IFRS 2"), encourages application of its provisions to equity instruments granted on or before November 7, 2002, but permits the application only to equity instruments granted after November 7, 2002 that had not vested by the Transition Date. The Group elected to avail itself of the exemption provided under IFRS 1 and applied IFRS 2 for all equity instruments granted after November 7, 2002 that had not vested by its Transition Date.
- Currency translation differences – Retrospective application of IFRS would require the Group to determine cumulative currency translation differences in accordance with IAS 21, *The Effects of Changes in Foreign Exchange Rates* ("IAS 21"), from the date a subsidiary or equity method investee was formed or acquired. IFRS 1 permits cumulative translation gains and losses to be reset to zero at the Transition Date. The Group elected to reset all cumulative translation gains and losses to zero.
- Business combinations – IFRS 1 provides the option to apply IFRS 3, *Business Combinations* ("IFRS 3"), retrospectively or prospectively from the Transition Date. The retrospective basis would require restatement of all business combinations that occurred prior to the Transition Date. The Group elected not to retrospectively apply IFRS 3 to business combinations that occurred prior to its Transition Date. As a result of this election, the classification and accounting treatment of business combinations prior to the Transition Date have not been restated.

**China Education Resources Inc.**  
**Notes to the Consolidated Financial Statements**  
**(Expressed in U.S. Dollars)**  
**Year Ended December 31, 2011**

**21. Explanation of transition to IFRSs (cont'd)**

**Elected Exemptions from Full Retrospective Application (cont'd)**

- Fair value as deemed cost – The Group has not elected to measure any item of property, plant and equipment at its fair value at the Transition Date; property, plant and equipment have been measured at cost in accordance with IFRS which approximates costs in accordance with Canadian GAAP.

**Reconciliation of Statement of Financial Position as of December 31, 2010 and January 1, 2010**

	January 1, 2010			December 31, 2010		
	Previous Canadian GAAP	Effect of transition to IFRSs	IFRSs	Previous Canadian GAAP	Effect of transition to IFRSs	IFRSs
Assets						
Current assets						
Cash and cash equivalents	\$ 138,432	\$ -	\$ 138,432	\$ 1,028,481	\$ -	\$ 1,028,481
Accounts receivables	1,801,464	-	1,801,464	2,825,421	-	2,825,421
Prepaid expenses	37,752	-	37,752	41,887	-	41,887
Inventories	12,970	-	12,970	140,195	-	140,195
Total current assets	<u>\$ 1,990,618</u>	<u>\$ -</u>	<u>\$ 1,990,618</u>	<u>\$ 4,035,984</u>	<u>\$ -</u>	<u>\$ 4,035,984</u>
Long-term other receivable	\$ 25,183	\$ -	\$ 25,183	\$ 26,085	\$ -	\$ 26,085
Property, plant and equipment	411,335	-	411,335	225,592	-	225,592
Goodwill	2,560,218	-	2,560,218	2,560,218	91,767	2,651,985
Total non-current assets	<u>\$ 2,996,736</u>	<u>\$ -</u>	<u>\$ 2,996,736</u>	<u>\$ 2,811,895</u>	<u>\$ 91,767</u>	<u>\$ 2,903,662</u>
Total assets	<u>\$ 4,987,354</u>	<u>\$ -</u>	<u>\$ 4,987,354</u>	<u>\$ 6,847,879</u>	<u>\$ 91,767</u>	<u>\$ 6,939,646</u>

**China Education Resources Inc.**  
**Notes to the Consolidated Financial Statements**  
**(Expressed in U.S. Dollars)**  
**Year Ended December 31, 2011**

**21. Explanation of transition to IFRSs (cont'd)**

**Reconciliation of Statements of Financial Position as of December 31, 2010 and January 1, 2010**

Liabilities												
Current liabilities												
Accounts payables	\$	2,873,321	\$	-	\$	2,873,321	\$	3,691,820	\$	15,661	\$	3,707,481
Deferred income		-		-		-		75,048		-		75,048
Income tax payable		2,415,455		-		2,415,455		2,263,852		18,976		2,282,828
Deferred tax liabilities		-		-		-		250,893		(250,893)		-
Due to related parties		116,516		-		116,516		221,899		-		221,899
Total current liabilities	\$	5,405,292	\$	-	\$	5,405,292	\$	6,503,512	\$	(216,256)	\$	6,287,256
Deferred tax liabilities												
Deferred tax liabilities	\$	-	\$	-	\$	-	\$	-	\$	250,893	\$	250,893
Total non-current liabilities	\$	-	\$	-	\$	-	\$	-	\$	250,893	\$	250,893
Total liabilities												
	\$	5,405,292	\$	-	\$	5,405,292	\$	6,503,512	\$	34,637	\$	6,538,149
Non-controlling interest												
(d)	\$	174,012	\$	(174,012)	\$	-	\$	240,386	\$	(240,386)	\$	-
Equity												
Share capital	\$	28,709,895	\$	-	\$	28,709,895	\$	29,455,512	\$	-	\$	29,455,512
Contributed surplus		1,577,462		-		1,577,462		2,200,911		-		2,200,911
Accumulated other comprehensive income		490,461		(490,461)		-		433,158		(426,878)		6,280
Deficit		(31,369,768)		490,461		(30,879,307)		(31,985,600)		435,841		(31,549,759)
Total equity attributable to equity holders of the Company		(591,950)		-		(591,950)		103,981		8,963		112,944
Non-controlling interest	(d)	-		174,012		174,012		-		288,553		288,553
Total equity	\$	(591,950)	\$	174,012	\$	(417,938)	\$	103,981	\$	297,516	\$	401,497
Total liabilities and equity												
	\$	4,987,354	\$	-	\$	4,987,354	\$	6,847,879	\$	91,767	\$	6,939,646

**China Education Resources Inc.**  
**Notes to the Consolidated Financial Statements**  
**(Expressed in U.S. Dollars)**  
**Year Ended December 31, 2011**

**21. Explanation of transition to IFRSs (cont'd)**

**Reconciliation of statement of comprehensive income (loss) for the year ended December 31, 2010:**

	<b>Canadian GAAP</b>	<b>Effect of transition to IFRSs</b>	<b>IFRS</b>
<b>Continuing operations</b>			
Revenue	\$ 5,436,165	\$ -	\$ 5,436,165
Cost of sales	(2,008,827)	-	(2,008,827)
<b>Gross profit</b>	<b>\$ 3,427,338</b>	<b>\$ -</b>	<b>\$ 3,427,338</b>
Other income	\$ 56,830	\$ -	\$ 56,830
Other expenses	(19,338)	-	(19,338)
Selling and distribution expenses	(1,672,913)	-	(1,672,913)
Administrative expenses	(1,419,914)	5,696	(1,414,218)
Amortization	(237,165)	-	(237,165)
Provision for doubtful accounts and inventory	(15,749)	-	(15,749)
Stock based compensation expenses	(623,449)	-	(623,449)
<b>Results of operating activities</b>	<b>\$ (504,360)</b>	<b>\$ 5,696</b>	<b>\$ (498,664)</b>
Finance income	\$ 1,233	\$ -	\$ 1,233
Finance cost	-	(5,696)	(5,696)
<b>Net finance income (costs)</b>	<b>\$ 1,233</b>	<b>\$ (5,696)</b>	<b>\$ (4,463)</b>
<b>Loss before income tax</b>	<b>\$ (503,127)</b>	<b>\$ -</b>	<b>\$ (503,127)</b>
Income tax expense	(57,975)	-	(57,975)
Non-controlling interest	(d) (54,730)	54,730	-
<b>Loss from continuing operations</b>	<b>\$ (615,832)</b>	<b>\$ 54,730</b>	<b>\$ (561,102)</b>
<b>Other comprehensive loss</b>			
Foreign currency translation differences for foreign operations	(d) \$ (57,303)	\$ 68,774	\$ 11,471
<b>Other comprehensive loss for the period, net of income tax</b>	<b>\$ (57,303)</b>	<b>\$ 68,774</b>	<b>\$ 11,471</b>
<b>Total comprehensive loss for the year</b>	<b>\$ (673,135)</b>	<b>\$ 123,504</b>	<b>\$ (549,631)</b>

**China Education Resources Inc.**  
**Notes to the Consolidated Financial Statements**  
**(Expressed in U.S. Dollars)**  
**Year Ended December 31, 2011**

**21. Explanation of transition to IFRSs (cont'd)**

**Reconciliation of statement of comprehensive income for the year ended December 31, 2010 (cont'd)**

	<b>Canadian GAAP</b>	<b>Effect of transition to IFRSs</b>	<b>IFRS</b>
<b>(Loss) income attributable to:</b>			
Owners of the Company	(d) \$ (615,832)	\$ (54,620)	\$ (670,452)
Non-controlling interest	(d)	109,350	109,350
<b>Loss for the year</b>	<b>\$ (615,832)</b>	<b>\$ 54,730</b>	<b>\$ (561,102)</b>
<b>Total comprehensive (loss) income attributable to:</b>			
Owners of the Company	\$ (673,135)	\$ 8,963	\$ (664,172)
Non-controlling interest		114,541	114,541
<b>Total comprehensive (loss) for the year</b>	<b>\$ (673,135)</b>	<b>\$ 123,504</b>	<b>\$ (549,631)</b>
<b>Earnings per share</b>			
Basic and diluted (loss) per share	\$ (0.013)		\$ (0.014)

**Material adjustments to the statement of cash flows for 2010**

Consistent with the Group's accounting policy choice under IAS 7, *Statement of Cash Flows*, Interest paid and income taxes paid have moved into the body of the *Statement of Cash Flows*, whereas they were previously disclosed as supplementary information. Additionally, borrowing costs capitalized in relation to qualifying assets are presented as interest paid in operating activities. There are no other material differences between the statement of cash flows presented under IFRSs and the statement of cash flows presented under previous Canadian GAAP.

**Notes to the reconciliations**

(a) Impairment of Assets

Under Canadian GAAP, if an indication of impairment is identified, the asset's carrying value is compared to the asset's undiscounted cash flows. If the undiscounted cash flows are less than the carrying value, the asset is impaired by the difference between the discounted cash flows and the carrying value. Under IAS 36, Impairment of Assets, if an indication of impairment is identified, the asset's carrying value is compared to the asset's discounted cash flows. If the discounted cash flows are less than the carrying value, the asset is impaired by the amount equal to the difference between the discounted cash flows and the carrying amount. The Group determined that no adjustment was required at the Transition Date or for the year ended December 31, 2010.

**China Education Resources Inc.**  
**Notes to the Consolidated Financial Statements**  
**(Expressed in U.S. Dollars)**  
**Year Ended December 31, 2011**

**21. Explanation of transition to IFRSs (cont'd)**

**Notes to the reconciliations (cont'd)**

(b) Leases

The Group applied the transitional provision in IFRIC 4, *Determining whether an Arrangement contains a lease*, and assessed all arrangements as at the Transition Date. Consequently the Group assessed its arrangements as at January 1, 2010 instead of the date of the original arrangement. Since the arrangements have been treated similarly under both Canadian GAAP and IFRS, this has had no effect on the consolidated financial statements.

(c) Finance income and finance expenses

Under IFRS, interest income is included as finance income and interest expenses are included as finance expenses. These individual amounts under Canadian GAAP have been reclassified for IFRS.

(d) Non-controlling interest

Under IFRS, non-controlling interests in subsidiaries are presented in the statements of financial position within the equity section. In addition, the net earnings and comprehensive income of the Group are divided between the amounts attributed to the shareholders of the Group and to the non-controlling interests. This differs from Canadian GAAP, where non-controlling interests are shown as a liability in the statement of financial position, and as an expense in the statement of operations and the statement of comprehensive income. The reclassification of non-controlling interests under IFRS resulted in a non-controlling interests component in the Group's equity.

Canada GAAP did not allow allocation of losses to non-controlling interest if such attribution put the non-controlling interest in a deficit position, a debit balance. Beginning January 1, 2010 and applied prospectively under IFRS, a non-controlling interest's share of the changes in net assets of subsidiaries is included in equity and their share of the comprehensive income of subsidiaries is allocated directly in equity regardless of whether such allocation results in the non-controlling interest being in a deficit position.

**22. Subsequent Events**

(a) On March 15, 2012, the Company granted incentive stock options of 1,000,000 shares at C\$0.40 per share expiring on March 15, 2017 which exceeds the market price at the grant date to directors and employees with 20% of the share purchase options vested immediately and the balance in equal installments on every year thereafter.

(b) Subsequent to December 31, 2011, 525,000 stock options were cancelled and unexercised.