

CHINA EDUCATION RESOURCES INC.



**Management's Discussion and Analysis
For the year ended December 31, 2012**

FORM 51-102F1

This Management Discussion and Analysis (“MD&A”) reviews the activities of China Education Resources Inc. (“CER”), its Chinese operating subsidiaries, Today’s Teachers Technology & Culture Ltd. (“TTTC”), CEN Smart (“CEN”) and Zhong Yu Cheng Yuan Education Technology Ltd. (previously known as Zhong Yu Cheng Yuan Curriculum Development Center Ltd.) (“ZYCY”) (and/or collectively the “Group”) and compares the financial results for the year ended December 31, 2012 with the same period of 2011. The MD&A should be read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2012, copy of which is filed on the SEDAR website.

All financial information in this MD&A is prepared in accordance with International Financial Reporting Standards (“IFRSs”), except those exceptions specially mentioned. All dollar amounts presented are expressed in United States dollars unless otherwise noted.

FORWARD LOOKING INFORMATION

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

DATE OF REPORT – April 30, 2013

DESCRIPTION AND OVERVIEW OF BUSINESS

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

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

The Group’s comprehensive Education Services Portal (“ESP”) is a natural extension of CERSP, and helps to organize the wealth of teaching, learning, and administrative resources available through CERSP at the individual school level.

CERSP is the equivalent of a mega-portal. It is designed to be accessible by everyone associated with K-12 education across China and is loaded with robust features and resources that enable the development, delivery, and support of

resources and activities related to the national K-12 education reform initiative. CERSP is a primary venue for teacher training in schools, districts, cities, and provinces. It is also the aggregator for subject matter experts in all K-12 subject areas and a place where they can gather virtually to improve upon the work they have done in response to national mandates.

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

Currently, our ESP provides the following services:

(a) School Platform

The school platform provides a link between a school with its teachers, students and parents. Through the platform, the school can send messages to the teachers, students and parents. The teachers can upload homework and tests to the platform and the students can go to the platform to complete and submit their homework and write the tests. The school can automatically collect the markings received by each student. Each teacher and student has his or her own account number registered with the platform. Currently, the Group is adding mobile learning solutions to the School Platform for both of the students and teachers.

(b) Online tutoring program

Online tutoring program is a platform developed for a teacher to provide online tutoring services through the internet to his or her students. Right now we have around 2,000 online tutoring courses provided from 5,000 teachers. This program still has not started to generate revenue. Students have to prepay for the services to TTTC and TTTC pays the net amount to the teachers after deducting our share of revenue.

(c) Digital education products

Digital education products are the products containing digital textbook tutorial materials, digital supplementary materials such as lesson plans, course modules and tests. CER has had more than 100,000 lesson plans, course modules and continues to develop the materials.

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

The Group, through TTTC, acquired a 60% interest in Zhong Yu Cheng Yuan Education Technology Ltd. (previously known as Zhong Yu Cheng Yuan Curriculum Development Center Ltd.) ("ZYCY"), a distributor of education products in China for RMB6,000,000 (\$878,460) payable in 2,860,000 shares of common stock of the CER at a deemed value of CND0.35 (\$0.30) per share. One-third of the purchase consideration has been paid up front with the balance paid on the first and second anniversary of the closing date, contingent upon ZYCY generating an annual net profit of RMB2,000,000 (\$292,820). No additional shares were released during the year ended December 31, 2012. On top of increasing its book selling business, the Group can also strengthen its sales and distribution of its national CERSP and ESP web portal services in China through the sales team of ZYCY.

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.

OVERALL PERFORMANCE

During the three months ended December 31, 2012, the Company generated revenue of \$312,801 as compared with \$119,189 for the same period of last year. The net loss attributable to the owners of the Company for the period was \$2,237,622 as compared to \$1,449,816 for the same period of last year.

During the year ended December 31, 2012, the Company generated revenue of \$7,391,934 as compared with \$6,553,140 for the same period of last year. The loss attributable to the owners of the Company for the year was \$795,110 as compared to \$34,027 for the last year.

Selected Annual Information

	2012	2011	2010
Total revenue	\$ 7,391,934	\$ 6,553,140	\$ 5,436,165
Net gain (loss)	(1,503,652)	83,481	(561,102)
Net loss per share	(0.03)	(0.01)	(0.01)
Total assets	7,259,378	7,963,826	6,939,646
Long-term liabilities	31,440	252,951	250,893
Cash dividends	-	-	-

The Group's revenue increased significantly in both 2011 and 2010 as compared with 2009 upon the acquisition of the 60% interest in ZYCY in July 2009. There was a net profit generated in the year 2011 as compared with a loss in 2010. The net loss for 2010 was also reduced materially as compared with 2009 as revenue increased along with the control of the operating expenses in a reasonable level for both years. The net loss for 2012 was increased significantly due to the increase in selling expenses to market our new products and services and a goodwill impairment of \$500,000 (non-cash item).

Results of Operations

For the three months ended December 31, 2012:

For the three months ended December 31, 2012, the Group reported aggregate sales revenue of \$312,801 (2011: \$119,189). There was an increase in sales for the current quarter as compared to the sales of the same quarter of previous year. Sales revenue for the same quarter of last year of negative \$296,756 was recognized due to the changes in a term of the contracts in the fourth quarter for teacher training services provided in the third quarter through the internet portal in prior year. .

The Group recognized a net loss attributable to owners of the Company for the three months ended December 31, 2012 of \$2,737,622 as compared to \$1,491,855 for the comparable 2011 period. The net loss per share was \$0.06 for the three months ended December 31, 2012 as compared to \$0.02 for comparable period ended December 31, 2011 which was primarily attributed by the increase of selling expenses to market our new products and services.

The following is a discussion of certain expense categories:

General and administrative expenses

For the three months ended December 31, 2012, general and administrative expenses were \$912,322 compared to \$740,974 recorded in 2011. The increase in general and administrative expenses was a result of the increase in business activities of the Group:

Consulting fees increased to \$169,271 for the three months ended December 31, 2012 from \$122,566 for the comparable 2011 period.

Bad debt expenses increased to \$467,354 for the three months ended December 31, 2012 from 108,819 for the comparable 2011 period. The increase was mainly due to the commissions payable to the other parties, that were initially agreed as separate transactions from our sale revenue, were directly offset by the other parties against the total amount payable to us at the payment stage. As a result, they were regarded as bad debts for accounting purpose, which were in fact of the nature of commission expenses.

Amortization

The amortization decreased to \$12,973 for the three months ended December 31, 2012 as compared to \$15,615 in the same period of 2011 as the website development cost and some of the capital assets were fully amortized.

Selling expenses

The selling expenses of \$1,143,623 for the three months ended December 31, 2012 increased as compared to \$285,111 in the same period of 2011 which was a result of increase in promotion expenses incurred.

Goodwill

During the three months ended December 31, 2012, the Group recognized a goodwill impairment loss of \$500,000 (non-cash item) in the statements of operations and comprehensive loss as a result of goodwill impairment analysis using conservative assumptions.

Stock based compensation

During the three months ended December 31, 2012, the Group recorded a non-cash stock based compensation expense of \$29,831 (2011: \$16,080) for options previously granted.

Accounts payable written off

During the three months ended December 31, 2012, the Group recognized accounts payable written off of \$175,535 (2011: \$540,718). These were the payables in China outstanding for three or more years and the creditors had lost their litigation rights to claim these amounts.

Reversal of benefits accrual

The Group also recognized the reversal of benefits accrual of \$301,782 (2011: \$nil) during the current quarter which were over accrued in previous years.

Finance cost

The Company incurred interest expenses of \$40,754 for the three months ended December 31, 2012 as compared to \$24,338 in the same period of 2011 which was largely the interest payable and payments on the bank loan and other loan payables as of December 31, 2012.

For the year ended December 31, 2012:

For the year ended December 31, 2012, the Group reported aggregate sales revenue of \$7,391,934 (2011: \$6,553,140). There was an increase in sales for current year as compared to the sales of previous year. Sales revenue of \$3,653,759 (2011: \$4,365,308) was attributable to revenue derived from traditional business, book selling, with related cost of sales of \$1,614,812 (2011: \$1,872,019) and \$3,193,149 (2011: \$2,187,832) was from online products selling, with related cost of sales of \$1,334,902 (2011: \$866,218). The Company also recorded revenue of \$545,026 (2011: \$nil) generated through providing on-line platform development service to a third party and the corresponding cost of revenue was \$523,153 (2011: \$nil).

The Group recognized a net loss attributable to owners of the Company for the year ended December 31, 2012 of \$1,295,110 as compared to \$34,027 for the year 2011. The net loss per share was \$0.03 for the year ended December 31, 2012 as compared to \$0.00 for year ended December 31, 2011 which was primarily attributed by the increase of selling expenses during year 2012.

The following is a discussion of certain expense categories:

General and administrative expenses

For the year ended December 31, 2012, general and administrative expenses were \$2,095,877 compared to \$2,176,283 recorded in 2011. The decrease in general and administrative expenses was a result of the better control on the expenditure of the Group.

Included as part of the general and administrative expenses:

Salaries, wages, commission and benefits were \$661,067 for the year ended December 31, 2012 and \$627,356 for the comparable 2011 period.

Consulting fees were \$169,271 for the year ended December 31, 2012 and \$167,200 for the comparable 2011 period.

Accounting, legal and professional fees decreased to \$275,404 for the year ended December 31, 2012 from \$286,152 for the comparable 2011 period.

Bad debts expenses increased to \$473,103 for the year ended December 31, 2012 from \$108,845 for the comparable 2011 period. The increase was mainly due to the commissions payable to the other parties, that were initially agreed as separate transactions from our sale revenue, were directly offset by the other parties against the total amount payable to us at the payment stage. As a result, they were regarded as bad debts for accounting purpose, which were in fact of the nature of commission expenses.

Amortization

The amortization decreased to \$42,848 for the year ended December 31, 2012 as compared to \$107,803 for the year 2011 as the website development cost and some of the capital assets were fully amortized.

Goodwill

For the year ended December 31, 2012, the Group recognized a goodwill impairment loss of \$500,000 (non-cash item) in the statements of operations and comprehensive loss as a result of goodwill impairment analysis using restrictive assumptions.

Selling expenses

The selling expenses of \$2,979,577 for the year ended December 31, 2012 increased as compared to \$1,951,025 for the year 2011 which was a result of increase in marketing and promotion expenses.

Stock based compensation

During the year ended December 31, 2012, the Group recorded a non-cash stock based compensation expense of \$150,067 (2011: \$47,452) for options granted during the year.

Accounts payable written off

During the year ended December 31, 2012, the Group recognized accounts payable written off of \$175,535 (2011: \$540,718). These were the payables in China outstanding for three or more years and the creditors had lost their litigation rights to claim these amounts.

Reversal of benefits accrual

The Group also recognized the reversal of benefits accrual of \$301,782 (2011: \$nil) during the current year, which were over-accrued in previous years.

Finance cost

The Company incurred interest expenses of \$139,711 for the year ended December 31, 2012 as compared to \$50,416 for the year 2011 which was largely the interest payments on the bank loan and other loan payables as of December 31, 2012.

SUMMARY OF QUARTERLY AND ANNUAL RESULTS

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

*CER – Management Discussion and Analysis
For the year ended December 31, 2012*

	For the Quarters Ended			
	31/12/2012	30/09/2012	30/06/2012	31/03/2012
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Revenue	820	2,176	1,825	2,571
Net income (loss) for the period	(2,947)	1,009	(177)	611
Net income (loss) per share	(0.06)	0.02	(0.00)	0.01
Total assets	7,259	10,011	8,726	7,929
Total liabilities	7,897	7,342	7,206	6,410

	For the Quarters Ended			
	12/31/2011	9/30/2011	6/30/2011	3/31/2011
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Revenue	119	3,162	1,104	2,168
Net income (loss) for the period	(1,450)	1,412	(398)	444
Net income (loss) per share	(0.02)	0.01	(0.01)	0.01
Total assets	7,964	9,648	7,645	7,648
Total liabilities	7,157	7,693	6,752	6,290

Due to the seasonal factor, revenue for Q4 usually was less than other quarters. In addition, there were annual adjustments made in Q4 of the year, hence, net loss increased in the same quarter.

Revenue increased materially for Q3 of 2012 and 2011 as revenue generated from teacher training services increased resulting to an increase in net profit for the current quarter. Total assets for the same quarter also increased as an increase in accounts receivable. During the past 2 years, the Q1 and Q3 results were comparatively higher than that of Q2 and Q4 due to the nature of the contracts signed. These contracts were mainly in relation to books delivered to schools and teacher training as part of their continuous education which were completed at the start of the winter (Q1) or summer (Q3) semesters of the schools. As the Group has increased the types of service provided by its education service portal, the seasonal nature of business will change upon completion of new types of services under the new contracts.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

Working capital deficiency increased by \$2,634,595 to an amount of \$3,022,993 from a working capital deficiency of \$388,398 at the beginning of the year, primarily as a result of the increase in selling expenses during the current year.

Cash used in operating activities was \$1,987,294 for the year ended December 31, 2012, compared to \$1,096,279 used in operating activities for the year ended December 31, 2011.

At December 31, 2012, trade receivable increased to \$4,010,885 from \$1,858,527 at December 31, 2011. The increase was mainly due to the increase in sales revenue.

Cash provided from investing activities was \$11,380 for the year ended December 31, 2012, compared to cash used in investing activities of \$19,351 for the year ended December 31, 2011. The cash inflow for investing activities was related to the disposition of equipment for the year 2012.

Cash provided by financing activities was \$34,038 for the year ended December 31, 2012, compared to cash provided by financing activities of \$2,163,293 for the year ended December 31, 2011.

The Group has increased its types of services provided through its education service portal. The revenue of the Group is expected to increase through providing additional services to the customers. The Group also plans to have equity or debt financing to maintain the Group's capacity, meet planned growth and fund development activities.

Equipment and website development costs

At December 31, 2012, the Group's net equipment and website development costs were \$111,321 as compared to \$145,426 as at December 31, 2011. This decrease was mainly attributed to the amortization and depreciation of \$42,848 for the current year. Website development costs and some of the capital assets were fully amortized by the end of 2011.

Liabilities

The Group's total liabilities were \$7,896,685 as at December 31, 2012, which is comparable with \$7,156,738 at December 31, 2011.

Shareholders' Equity

There was a shareholders' deficiency of \$637,307 at December 31, 2012 as compared to the shareholders' equity of \$807,088 at December 31, 2011, which included the net loss of \$1,003,652 for the year ended December 31, 2012.

Outstanding share data

The Group's common shares outstanding as at April 30, 2013 were 47,364,983.

At April 30, 2013, the Group has outstanding stock options of 3,324,000. Details are as follows:

Exercise Prices (CND)	Number	Expiry Date
\$ 0.45	100,000	October 5, 2013
0.60	300,000	July 28, 2013
0.60	100,000	October 5, 2013
0.60	200,000	February 3, 2015
1.00	250,000	July 28, 2013
1.00	100,000	February 3, 2015
1.05	624,000	February 3, 2015
0.40	1,000,000	March 15, 2017
	<u>2,674,000</u>	

At April 30, 2013, there were no outstanding stock purchase warrants.

Dividend

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

OFF-BALANCE SHEET ARRANGEMENTS

The Group does not have any off-balance sheet arrangements.

TRANSACTIONS WITH 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	Year ended December 31,	
		2012	2011
C F Zhou (director and CEO)	Salary and benefits	\$ 13,277	\$ 7,713
C F Zhou (director and CEO)	Consulting fees	169,200	167,200
C F Zhou (director and CEO)	Interest expense	11,162	1,739
Danny Hon (director and CFO)	Accounting fees (ii)	102,395	96,050
Danny Hon (director and CFO)	Interest expense	10,957	-
Mark Scott (director)	Share-based payments	28,910	-
Danny Hon (director and CFO)	Share-based payments	38,661	-
		<u>\$ 374,562</u>	<u>\$ 272,702</u>

*CER – Management Discussion and Analysis
For the year ended December 31, 2012*

Director/ officer	Transaction	Balance outstanding	
		December 31, 2012	December 31, 2011
C F Zhou (director and CEO)	Salary and benefits	\$ 245,415	\$ 223,184
C F Zhou (director and CEO)	Consulting fees	336,400	167,200
C F Zhou (director and CEO)	Loan payable (i)	87,949	42,773
C F Zhou (director and CEO)	Loan interest payable (i)	12,909	1,710
Danny Hon (director and CFO)	Accounting fees payable (ii)	285,758	159,382
Danny Hon (director and CFO)	Loan payable (i)	75,438	63,965
Danny Hon (director and CFO)	Loan interest payable (i)	16,535	5,407
		<u>\$ 1,060,404</u>	<u>\$ 663,621</u>

(i) During the years ended December 31, 2012 and 2011, 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, 2012, there was an interest payable balance of \$29,444 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, 2012				
	RMB	Canadian dollars	U.S. dollars equivalent	Annual interest rate	Due date
Unsecured loans payable					
Qi Li (minority shareholder of ZYCY)	\$ 1,000,000	-	\$ 160,520	15%	due on demand
Interest payable	<u>\$ 18,336</u>	<u>-</u>	<u>\$ 2,943</u>		

	December 31, 2011				
	RMB	Canadian dollars	U.S. dollars equivalent	Annual interest rate	Due date
Unsecured loans payable					
Qi Li (minority shareholder of ZYCY)	1,000,000	-	158,900	15%	due on demand
Weiguo Mu (minority shareholder of ZYCY)	400,000	-	63,560	15%	due on demand
Rongrong Mu (spouse of Weiguo Mu)	300,000	-	47,670	15%	due on demand
Yan Zhang (daughter of Weiguo Mu)	300,000	-	47,670	15%	due on demand
Weiguo Mu (minority shareholder of ZYCY)	500,000	-	79,450	15%	2/11/2012
	<u>2,500,000</u>	<u>-</u>	<u>397,250</u>		

	2012	2011
Amount due from a company related to the non-controlling shareholders of ZYCY [i]	121,853	422,641

[i] It represents the amount collected on behalf of the Group by a company related to the non-controlling shareholders of ZYCY as non-secured and non-interest bearing short-term loan.

RISK AND UNCERTAINTY FACTORS

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

The Group has recognized a net loss of \$1,503,652 (2011: profit \$83,481) for the year ended December 31, 2012 and has incurred a cumulative loss of \$32,878,896 since inception. The Group's future business plan includes the further development and operation of CER's education service portal and sino-foreign co-operation to develop English as a second language training program in China and Chinese Mandarin training program in U.S. The Group's ability to continue as a going concern is depending upon achieving acceptance by the users and profitable level of operations of the education service portal and on the ability to obtain necessary financing to fund our operations. The outcome of these matters cannot be predicted at this time.

Seasonality

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

Reliance on Government Relationships

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

Tax and Legal Systems in China

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

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

Competition

Foreign direct investment in China has increased rapidly and the investment environment has further improved to encourage foreign and local investors to invest in fields, such as education, high-tech, modern agriculture and infrastructure construction. A number of large companies are involved in the publishing and distribution of educational products in the mainstream areas of math, science and language arts. There is no guarantee that other competitors will not become involved in business similar to that of the Group.

Management

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

Funds Remittance

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

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

Financial Instruments

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's financial instruments consist of cash, accounts receivables, trade and other payables, loan payable and due to related parties.

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 cash equivalents 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 accordingly.

(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, 2012, the Group had a working capital deficiency of \$3,022,993 (2011: working capital deficiency of \$1,862,874). 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 and cash equivalents. 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.

(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 other 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 other comprehensive income.

The functional currency of CER is Canadian dollar and the functional currency of its China subsidiaries is RMB. 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.

SIGNIFICANT ACCOUNTING POLICIES

The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of the audited annual financial statements as at December 31, 2012.

New standards and interpretations adopted during the period

The Group adopted the following new standards during the period:

IAS 12 - 'Income Taxes' - Amendments Regarding Deferred Tax: Recovery of Underlying Assets

On January 1, 2012, the Company adopted *IAS 12 - 'Income Taxes' - Amendments Regarding Deferred Tax: Recovery of Underlying Assets*. These amendments are a practical approach for the measurement of deferred tax relating to investment properties measured at fair value, property, plant and equipment and intangible assets measured using the revaluation model. The measurement of deferred tax for these specified assets is based on the presumption that the carrying amount of the underlying asset will be recovered entirely through sale, unless the entity has clear evidence that economic benefits of the underlying asset will be consumed during its economic life. Adoption of the standard did not have a material impact on the financial position of the Company.

New standards and interpretations not yet adopted:

Standards issued but not yet effective up to the date of issuance of the Company's consolidated financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective. The Company does not expect the impact of such changes on the consolidated financial statements to be material.

IFRS 9, Financial Instruments

IFRS 9 Financial Instruments is part of the IASB's wider project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after January 1, 2015.

IFRS 10, Consolidated Financial Statements

IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The standard is effective for annual periods beginning on or after January 1, 2013.

IFRS 11, Joint Arrangements

IFRS 11 establishes the principles that a party to a joint arrangement determines the type of joint arrangement in which it is involved by assessing its rights and obligations and accounts for those rights and obligations in accordance with that type of joint arrangement. The standard is effective for annual periods beginning on or after January 1, 2013. IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC 13 Jointly Controlled Entities — Non-Monetary Contributions by Venturers.

IFRS 12, Disclosure of Interests in Other Entities

IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The standard is effective for annual periods beginning on or after January 1, 2013.

IFRS 13, Fair Value Measurements

In May 2011, the IASB published IFRS 13 as a new comprehensive standard on measuring and disclosing fair value and will supersede all other fair value guidance in IFRS. The standard is effective for annual periods beginning on or after January 1, 2013.

IAS 27, Separate Financial Statements

IAS 27 has the objective of setting standards to be applied in accounting for investments in subsidiaries, joint ventures, and associates when an entity elects, or is required by local regulations, to present separate (non-consolidated) financial statements.

IAS 28, Investments in Associates and Joint Ventures

IAS 28 prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 applies to all entities that are investors with joint control of, or significant influence over, an investee (associate or joint venture).

The amendments to IAS 1 Financial Statement Presentation require entities to separate items presented in OCI into two groups based on whether or not they may be recycled to profit or loss in the future. Items that will not be recycled, such as remeasurements resulting from the amendments to IAS 19, will be presented separately from items that may be recycled in the future, such as deferred gains and losses on cash flow hedges. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately. Amendments to IAS 1 are effective for annual periods beginning on or after January 1, 2013.

The Group anticipates that the application of these standards, amendments and interpretations will have no material impact on the results and financial position of the Group.

OUTLOOK

The Group's objective is to become the leading kindergarten to grade 12 education services platform, content provider and social networking system in China's education sector. The Group provides a range of services to government education authorities, schools, teachers, students and their parents. The Group has implemented a four step growth and revenue strategy which is now being commercialized and expanded nationwide.

The first step of the strategy involves working with various levels of government to deliver government-funded online teacher training programs. The Group has developed more than 400 online teacher training courses for the continuous education of teachers. This means teachers can obtain government certificates upon successful completion of any of these courses through national, provincial and municipal teacher training programs. More than 500,000 teachers were trained in the Group's teacher training programs. CER is the only public company endorsed by China's Ministry of Education ("MOE") for national level online teacher training programs.

The Group has developed digital textbooks and also developed more than 100,000 K-12 online lesson plans and is continuing to develop new educational content and upgrade the technology and functions of its portal. The Group has been engaged by fourteen provinces to provide its online products.

The second step of the strategy involves integrating the Group's products and services into teachers' daily routines. This will allow teachers to interact and communicate with each other while establishing a close relationship with the Group and its products. These products include online teacher training, professional development and sharing of lesson plans. The CERSP portal is one of the largest and most popular K-12 teacher blog systems in China with more than one million registered and active K-12 teachers. The CERSP portal has developed into a strong national brand and it has a reputation for offering best-in-class online learning products and services. The first two steps are well underway and are expanding into more provinces.

The third step involves promoting products directly to teachers through CER's School Platform. Each school pays a subscription fee for these products, and the provinces of Gansu, Liaoning, Shanxi and Guangxi have commenced similar programs based on the Group's School Platform.

The fourth step of the growth strategy is to target students by offering a number of products and services. This includes offering our collection of online tutoring courses, customized education resources, formative assessment tools and education games, which are some of the largest in China. Students and parents pay a subscription fee for this platform. Several provinces have initiated discussions with CER for this program.

CER signed an agreement with Shanxi Provincial education authority to customize the Group's School Platform to provide services and education resources to both teachers and students for Shanxi Province education reform. The education reform emphasizes interaction between teachers and students with digitized education resources and multimedia equipment in classrooms.

CER has started to provide digital textbook to the students in Guizhou Province. This is a significant step for CER to combine the Group's internet portal with traditional textbooks, which also provides significant opportunities for CER's textbook business.

CER has also signed an agreement with the Teaching & Research Division of Gansu Provincial Education Department to add mobile learning solutions to the Company's School Platform for the students in Gansu Province. The Teaching & Research Division will organize academic experts and distinguished teachers in Gansu Province and CER will organize national academic experts to create video and written content for the program. This new digital content will be available on the School Platform and, together with CER's existing content (which includes tests, assessments, over 100,000 lesson plans, and other comprehensive education resources), will provide significant value to teachers and students. These new solutions will provide students and teachers with additional functionality for their mobile devices and will emphasize interaction among teachers and students, and their PC environment. The Company has also signed a memorandum of strategic partnership with China Telecom (Gansu) to provide services to the program.

This program is a keystone to CER's business strategy, the teachers and students interact on our school platform, which is the centerpiece of our online education service business. Not only do teachers and students interact through our platform, they will propagate its use with other teachers, students and parents. Because of its advanced features and complete compliance with government programs, the Company expects that educators, students and parents will gravitate to the system to work, study, interact and develop social networks. We expect the new functions of the school platform will be an example of the high-growth potential of our products and business model in other provinces, particularly for the provinces which have started to use our school platform.

The Group has over a decade of experience operating in China, and has established a formidable position in the K-12 education sector, and is now working with over 200 education authorities in various provinces of China. CER is successfully advancing commercialization of the Group's products and services with many products and across a broad range of education related customers. The Group's four-step growth plan is currently being adopted in fourteen provinces throughout China and represents a unique opportunity for investors to participate in the rapid growth of China's education sector.

The Group has developed an unparalleled and broad portfolio of education products that it believes is unavailable in any other education market. It has been market tested and developed in the world's largest education market. The Group intends to explore the potential to provide these online, networked products and services in other education markets. It may launch these products on its own or in partnership with domestic industry players.