

China Education Resources Inc.

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

Nine Months Ended September 30, 2012

(Unaudited)

Management's Responsibility for Financial Reporting

The accompanying unaudited condensed interim consolidated financial statements of China Education Resources Inc. were prepared by management in accordance with IAS 34 *Interim Financial Reporting* using accounting policies consistent with International Financial Reporting Standards appropriate in the circumstances. Management acknowledges responsibility for the preparation and presentation of the unaudited condensed interim consolidated financial statements, including responsibility for significant accounting judgments and estimates and the choice of accounting principles and methods that are appropriate to the Company's circumstances.

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

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

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

Notice to Reader

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

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

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

CHINA EDUCATION RESOURCES INC.
Condensed Interim Consolidated Statements of Financial Position

(Expressed in U.S. Dollars)

	Note	September 30, 2012 (Unaudited)	December 31, 2011 (Audited)
Assets			
Current assets			
Cash		\$ 174,685	\$ 2,113,732
Accounts and other receivables	7	6,684,386	2,470,309
Inventories	8	46,554	330,865
Prepaid expenses and deposits		209,308	126,007
Total current assets		7,114,933	5,040,913
Non-current assets			
Equipment and website development costs	9	118,672	145,426
Goodwill	10	2,777,487	2,777,487
Total non-current assets		2,896,159	2,922,913
Total assets		\$ 10,011,092	\$ 7,963,826
Liabilities			
Current liabilities			
Trade and other payables	14	\$ 2,479,753	\$ 3,084,722
Deferred revenue		28,068	76,896
Income taxes payable		2,727,504	2,587,547
Bank loan - current portion	16	18,960	-
Loan payables	15	534,542	79,450
Loan payables - related parties	21	262,499	411,551
Due to related parties	21	1,001,268	663,621
Total current liabilities		7,052,594	6,903,787
Non-current liabilities			
Deferred income tax liability		253,253	252,951
Bank loan	16	36,517	-
Total non-current liabilities		289,770	252,951
Total liabilities		7,342,364	7,156,738
Equity			
Share capital	11	29,455,512	29,455,512
Contributed surplus		2,458,808	2,338,572
Accumulated other comprehensive income		40,963	63,580
Deficit		(30,141,274)	(31,583,786)
Total equity attributable to equity holders of the Company		1,814,009	273,878
Non-controlling interest		854,719	533,210
Total equity		2,668,728	807,088
Total liabilities and equity		\$ 10,011,092	\$ 7,963,826

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.
Condensed Interim Consolidated Statements of Comprehensive Income (Loss)
For the three months and nine months ended September 30, 2012 and 2011
(Unaudited)

(Expressed in U.S. Dollars)

	Note	Three months ended September 30,		Nine months ended September 30,	
		2012	2011	2012	2011
Revenue					
Book sales and distribution services		\$ 736,969	\$ 1,407,171	\$ 3,322,757	\$ 3,949,363
Online products		1,979,384	1,755,040	3,756,376	2,484,588
		2,716,353	3,162,211	7,079,133	6,433,951
Cost of sales					
Book sales and distribution services		(169,025)	(513,186)	(1,216,322)	(1,416,589)
Online products		(325,472)	(72,157)	(801,934)	(183,619)
Gross profit		2,221,856	2,576,868	5,060,877	4,833,743
General and administrative		(387,585)	(377,611)	(1,183,555)	(1,421,520)
Amortization		(8,468)	(27,317)	(29,875)	(92,188)
Selling expenses		(611,842)	(1,325,732)	(1,835,954)	(2,236,136)
Stock-based compensation	13	(29,731)	(11,868)	(120,236)	(31,372)
Loss on disposal of capital assets		-	-	(2,833)	-
Recovery of accounts receivable written off		-	-	-	73,615
Result from operating activities		1,184,230	834,340	1,888,424	1,126,142
Finance income		385	(239)	1,545	1,295
Finance costs		(39,900)	(33,874)	(103,009)	(40,322)
Net finance costs		(39,515)	(34,113)	(101,464)	(39,027)
Profit before income tax		1,144,715	800,227	1,786,960	1,087,115
Income tax expenses		(4,356)	(8,119)	(26,209)	-
Profit for the period		1,140,359	792,108	1,760,751	1,087,115
Other comprehensive income (loss) for the period, net of income tax					
Unrealized exchange gain (loss) on translation of self-sustaining foreign operations		(29,173)	71,153	(19,347)	44,297
Other comprehensive income (loss) for the period, net of income tax		(29,173)	71,153	(19,347)	44,297
Total comprehensive income for the period		\$ 1,111,186	\$ 863,261	\$ 1,741,404	\$ 1,131,412
Profit attributable to:					
Owners of the Company		\$ 1,008,994	\$ 670,842	\$ 1,442,512	\$ 716,402
Non-controlling interest		131,365	121,266	318,239	370,713
Net profit for the period		\$ 1,140,359	\$ 792,108	\$ 1,760,751	\$ 1,087,115
Total comprehensive income attributable to:					
Owners of the Company		\$ 985,238	\$ 729,031	\$ 1,419,895	\$ 734,537
Non-controlling interest		125,948	134,230	321,509	396,875
Total comprehensive income for the period		\$ 1,111,186	\$ 863,261	\$ 1,741,404	\$ 1,131,412
Earnings per share					
	12				
Basic earnings per share		\$ 0.02	\$ 0.01	\$ 0.03	\$ 0.02
Diluted earnings per share		\$ 0.02	\$ 0.01	\$ 0.03	\$ 0.02
Weighted average number of common shares used to calculate					
Basic earnings per share		47,364,983	47,364,983	47,364,983	47,364,983
Diluted earnings per share		47,364,983	47,364,983	47,364,983	47,364,983

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

CHINA EDUCATION RESOURCES INC.
Condensed Interim Consolidated Statement of Changes in Equity
For the nine months ended September 30, 2012
(Unaudited)

(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, 2012	47,364,983	\$ 29,455,512	\$ 2,338,572	\$ 63,580	\$ (31,583,786)	\$ 273,878	\$ 533,210	\$ 807,088
Profit for the nine months ended September 30, 2012	-	-	-	-	1,442,512	1,442,512	318,239	1,760,751
Foreign currency translation differences	-	-	-	(22,617)	-	(22,617)	3,270	(19,347)
Stock-based compensation expenses	-	-	120,236	-	-	120,236	-	120,236
Balance September 30, 2012	47,364,983	\$ 29,455,512	\$ 2,458,808	\$ 40,963	\$ (30,141,274)	\$ 1,814,009	\$ 854,719	\$ 2,668,728

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

CHINA EDUCATION RESOURCES INC.
Condensed Interim Consolidated Statement of Changes in Equity
For the year ended December 31, 2011
(Unaudited)

(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	47,364,983	\$ 29,455,512	\$ 2,200,911	\$ 6,280	\$ (31,549,759)	\$ 112,944	\$ 288,553	\$ 401,497
Profit for the nine months ended September 30, 2011	-	-	-	-	716,402	716,402	370,713	1,087,115
Addition paid in capital in ZYCY	-	-	-	-	-	-	185,688	185,688
Foreign currency translation differences	-	-	-	18,135	-	18,135	26,162	44,297
Stock-based compensation expenses	-	-	31,372	-	-	31,372	-	31,372
Balance September 30, 2011	47,364,983	\$ 29,455,512	\$ 2,232,283	\$ 24,415	\$ (30,833,357)	\$ 878,853	\$ 871,116	\$ 1,749,969
Profit for the period from October 1 to December 31, 2011	-	-	-	-	(750,429)	(750,429)	(253,205)	(1,003,634)
Foreign currency translation differences	-	-	-	39,165	-	39,165	5,508	44,673
Non-controlling interest forgiven by a minority owner	-	-	90,209	-	-	90,209	(90,209)	-
Stock-based compensation expenses	-	-	16,080	-	-	16,080	-	16,080
Balance December 31, 2011	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.
Condensed Interim Consolidated Statements of Cash Flows
For the three months and nine months ended September 30, 2012 and 2011
(Unaudited)

(Expressed in U.S. Dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Cash flows from (used in) operating activities				
Income for the period	\$ 1,140,359	\$ 792,108	\$ 1,760,751	\$ 1,087,115
Adjustments for:				
Amortization	8,468	27,317	29,875	92,188
Recovery of accounts receivable written off	-	3,789	-	(69,826)
Gain on disposal of fixed assets	-	-	2,833	-
Rental inducement	-	1,796	-	1,796
Stock based compensation	29,731	11,868	120,236	31,372
Changes in accounts receivable	(1,301,235)	(2,180,002)	(4,180,806)	(4,269,480)
Changes in inventory	277,088	4,282	282,667	1,299
Changes in prepaid expenses and deposits	(60,994)	43,592	(82,343)	(106,265)
Changes in trade and other payables	(174,785)	181,185	(582,586)	215,002
Changes in income tax payable	54,485	214,675	162,774	240,754
Changes in deferred income	(24,495)	(3,988)	(48,570)	(26,011)
Cash used in operating activities	(51,378)	(903,378)	(2,535,169)	(2,802,056)
Interest paid	(13,634)	(1,333)	(36,504)	(1,839)
Taxes paid	(4,362)	(140,958)	(26,209)	(153,657)
Net cash from (used in) operating activities	(69,374)	(1,045,669)	(2,597,882)	(2,957,552)
Cash flows from (used in) investing activities				
Acquisition of equipment	(0)	(978)	(5,978)	(15,657)
Net cash from (used in) investing activities	(0)	(978)	(5,978)	(15,657)
Cash flows from (used in) financing activities				
Loan payables	88,620	343,441	506,816	343,441
Loan payables - related parties	235	292,429	(148,473)	292,429
Repayment from related parties	95,694	115,271	301,347	1,138,867
Net cash from financing activities	184,549	751,141	659,690	1,774,737
Net increase (decrease) in cash and cash equivalents	115,175	(295,506)	(1,944,170)	(1,198,472)
Cash at the beginning of the period	42,663	225,224	2,113,732	1,028,481
Effect of exchange rate fluctuations on cash held	16,847	279,834	5,123	379,543
Cash at the end of the period	\$ 174,685	\$ 209,552	\$ 174,685	\$ 209,552

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

China Education Resources Inc.
Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in U.S. Dollars)
Nine Months Ended September 30, 2012
(Unaudited)

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 period ended September 30, 2012 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

These condensed interim consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. It does not include all of the information required for full annual financial statements, and should be read in conjunction with the Group’s audited consolidated financial statements for the year ended December 31, 2011.

The policies applied in these condensed interim consolidated financial statements are based on IFRS issued as of September 30, 2012. These financial statements were authorized to issue by the audit committee and Board of Directors of the Company on the filing date. Any subsequent changes to IFRS that are given effect in the Company’s annual financial statements for the year ending December 31, 2012 could result in restatement of these condensed interim consolidated financial statements.

(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.

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 \$30,141,274 at September 30, 2012. 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.

China Education Resources Inc.
Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in U.S. Dollars)
Nine Months Ended September 30, 2012
(Unaudited)

2. Basis of Preparation - Continued

(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 Condensed Interim Consolidated Financial Statements
(Expressed in U.S. Dollars)
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(Unaudited)

3. Group entities

Significant subsidiaries

Name of subsidiary	Country of incorporation	Ownership interest	
		September 30, 2012	December 31, 2011
CEN China Education Network Ltd. ("CEN Network")	Canada	100%	100%
China Education International Inc.	BVI	100%	100%
CEN China Education Overseas Corporation	BVI	100%	100%
CEN Smart Networks Ltd. ("CEN Smart")	China	100%	100%
Today's Teachers Technology & Culture Ltd. ("TTTC")	China	100%	100%
The Winning Edge Ltd. ("TWE")	China	100%	100%
Zhong Yu Cheng Yuan Education Technology Ltd. ("ZYCY")	China	60%	60%

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 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, 2011. The accompanying unaudited condensed interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2011.

5. 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.

China Education Resources Inc.
Notes to the Condensed Interim Consolidated Financial Statements
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6. 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. The extent of the impact of adoption of IFRS 9 has not yet been determined.

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.
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6. New standards and interpretations not yet adopted - Continued

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.
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6. New standards and interpretations not yet adopted - Continued

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 Condensed Interim Consolidated Financial Statements
(Expressed in U.S. Dollars)
Nine Months Ended September 30, 2012
(Unaudited)

7. Accounts receivables

	September 30, 2012	December 31, 2011
Trade receivables	\$ 6,385,472	\$ 1,858,527
Other receivables	131,588	189,141
Loans to related parties	167,326	422,641
	<u>6,684,386</u>	<u>2,470,309</u>
Loans and receivables	-	-
	<u>\$ 6,684,386</u>	<u>\$ 2,470,309</u>
Non-current	\$ -	\$ -
Current	6,684,386	2,470,309
	<u>\$ 6,684,386</u>	<u>\$ 2,470,309</u>

8. Inventories

Inventories as of September 30, 2012 and December 31, 2011 consist of textbooks in transit, which represent their net realizable value.

	September 30, 2012	December 31, 2011
Raw materials and consumables	\$ -	\$ -
Work in progress	-	-
Finished goods	46,554	330,865
	<u>\$ 46,554</u>	<u>\$ 330,865</u>
Inventories carried at fair value less cost to sell	<u>\$ 46,554</u>	<u>\$ 330,865</u>

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9. Property, Plant and Equipment

	Computer equipment	Office equipment	Motor vehicles	Leasehold improvement	Website development	Total
Cost or deemed cost						
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
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>
Balance, at January 1, 2012	\$ 521,327	\$ 25,875	\$ 414,283	\$ 57,061	\$ 3,687,783	\$ 4,706,329
Additions	6,011	2,390				8,401
Disposals	-	-	(56,987)	-	-	(56,987)
Effect of movements in exchange rates	(48,611)	31,018	3,028	68	(343,002)	(357,499)
Balance, at September 30, 2012	<u>\$ 478,727</u>	<u>\$ 59,283</u>	<u>\$ 360,324</u>	<u>\$ 57,129</u>	<u>\$ 3,344,781</u>	<u>\$ 4,300,244</u>

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9. Property, Plant and Equipment - Continued

	Computer equipment	Office equipment	Motor vehicles	Leasehold improvement	Website development	Total
Depreciation and impairment losses						
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
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>
Balance, at January 1, 2012	\$ 469,881	\$ 10,591	\$ 349,868	\$ 42,780	\$ 3,687,783	\$ 4,560,903
Depreciation for the period	10,133	2,407	8,981	8,569	-	30,090
Disposals	-	-	(54,138)	-	-	(54,138)
Effect of movements in exchange rates	(27,150)	6,617	8,201	51	(343,002)	(355,283)
Balance, at September 30, 2012	<u>\$ 452,864</u>	<u>\$ 19,615</u>	<u>\$ 312,912</u>	<u>\$ 51,400</u>	<u>\$ 3,344,781</u>	<u>\$ 4,181,572</u>
Carrying amounts						
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>
At January 1, 2012	\$ 51,446	\$ 15,284	\$ 64,415	\$ 14,281	\$ -	\$ 145,426
At September 30, 2012	<u>\$ 25,863</u>	<u>\$ 39,668</u>	<u>\$ 47,412</u>	<u>\$ 5,729</u>	<u>\$ -</u>	<u>\$ 118,672</u>

10. 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.

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10. Goodwill - Continued

	Goodwill
Cost	
Balance, at January 1, 2011	\$ 2,651,985
Movements during the period - foreign exchange effect	125,502
Balance, at December 31, 2011	<u>\$ 2,777,487</u>
Balance, at January 1, 2012	\$ 2,777,487
Movements during the period - foreign exchange effect	-
Balance, at September 30, 2012	<u>\$ 2,777,487</u>
	Goodwill
Carrying amounts	
At December 31, 2011	\$ 2,777,487
At September 30, 2012	\$ 2,777,487

There was no impairment recognized for the period ended September 30, 2012 and year ended December 31, 2011.

11. Share Capital and Reserves

Issuance of common shares

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

Common shares and preferred shares

At September 30, 2012, 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.

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11. Share Capital and Reserves - Continued

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.

12. Earnings (Loss) Per Share

(a) Basic earnings (loss) per share

The calculation of basic earnings (loss) per share for the three-month and nine-month periods ended September 30, 2012 was based on the net income attributable to common shareholders of \$1,008,994 (2011: \$670,842) and \$1,442,512 (2011: \$716,402), and a weighted average number of common shares outstanding of 47,364,983 (2011: 47,364,983) and 47,364,983 (2011: 47,364,983), respectively, calculated as follows:

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Issued common share at beginning of period	47,364,983	47,364,983	47,364,983	47,364,983
Adjustment	-	-	-	-
Weighted average number of common shares at end of period	47,364,983	47,364,983	47,364,983	47,364,983

(b) Diluted earnings per share

For the three-month and nine-month periods ended September 30, 2012, 3,424,000 share options (2011: 3,524,000) and 3,424,000 share options (2011: 3,524,000), respectively, were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

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13. Share Purchase Options and Warrants

(a) Stock options

At September 30, 2012, 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:

On March 15, 2012, the Group granted incentive stock options of 1,000,000 shares at CND\$0.40 per share expiring on March 15, 2017 which exceeds the market price at the grant date to directors and employees with 200,000 share purchase option vested immediately and another 20% will vest every 12 months.

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

	Number of Shares		Weighted Average Exercise Price Per Share (CND)
Balance, January 1, 2011	3,574,000	\$	0.80
Cancelled/expired during the period	(425,000)		0.28
Balance, December 31, 2011	3,149,000		0.80
Granted during the period	1,000,000		0.40
Cancelled/expired during the period	(725,000)		0.79
Balance, September 30, 2012	3,424,000	\$	0.66

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

The options outstanding at September 30, 2012 have an exercise price in the range of CND\$0.40 to CND\$1.05 (December 31, 2011: CND\$0.45 to CND\$1.05) and a weighted average contractual life of 2.22 years (December 31, 2011: \$1.99).

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13. Share Purchase Options and Warrants - Continued

(a) Stock options – Continued

There are 2,544,000 options exercisable at September 30, 2012 (December 31, 2011: 3,029,000), which have an exercise price in the range of CND\$0.40 to CND\$1.05 (December 31, 2011: CND\$0.45 to CND\$1.05) and a weighted average contractual life of 1.51 years (December 31, 2011: \$1.94).

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:

Fair value of share options and assumptions	Period ended September 30, 2012 (CND)
Fair value at grant date (per share)	\$ 0.28
Share price at grant date	\$ 0.30
Exercise price	\$ 0.40
Expected volatility	174.60%
Option life	5 years
Expected dividends	\$ -
Risk-free interest rate	1.67%

(b) Share purchase warrants

During the period ended September 30, 2012, the Company did not issue any warrants.

At September 30, 2012 and December 31, 2011, there were no outstanding warrants.

14. Trade and Other Payables

	September 30, 2012	December 31, 2011
Trade payables	\$ 999,843	\$ 1,543,776
Non-trade payables and accrued expenses	1,479,910	1,540,946
	<u>\$ 2,479,753</u>	<u>\$ 3,084,722</u>

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14. Trade and Other Payables - Continued

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 17.

15. Loans Payable

Terms and conditions of outstanding loans were summarized as follows:

	September 30, 2012			
		U.S. dollars equivalent	Annual interest rate	Due date
	RMB			
Unsecured loan	1,000,000	\$ 159,090	15%	on demand
Unsecured loan	660,000	104,999	15%	10/10/2012
Unsecured loan	500,000	79,545	15%	12/31/2012
Unsecured loan	100,000	15,909	15%	2/28/2013
Unsecured loan	100,000	15,909	15%	2/28/2013
Secured loan (1)	1,000,000	159,090	8.834%	7/8/2013
	3,360,000	\$ 534,542		

(1) The loan is secured by a property owned by an officer of a subsidiary company.

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

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16. Bank Loan

	September 30, 2012		
	RMB	U.S. dollars equivalent	Annual interest rate
Unsecured loan	348,712	\$ 55,477	20.04%
Less: current portion	229,535	36,517	
Unsecured loan - long term portion	119,177	\$ 18,960	

The bank loan has to be repaid by monthly instalments of RMB14,865, including principal and interest, until March 30, 2015.

17. 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	
	September 30, 2012	December 31, 2011
Loans and receivables	\$ 6,684,386	\$ 2,470,309
Cash	174,685	2,113,732
	\$ 6,859,071	\$ 4,584,041

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17. Financial Instruments - Continued

Credit risk - Continued

Exposure to credit risk - Continued

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

	Carrying amount	
	September 30,	December 31,
	2012	2011
China	\$ 6,675,004	\$ 2,468,646
Canada	9,382	1,663
	<u>\$ 6,684,386</u>	<u>\$ 2,470,309</u>

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

	Carrying amount	
	September 30,	December 31,
	2012	2011
End-user customers	\$ 6,385,472	\$ 1,858,527
Others	298,914	611,782
	<u>\$ 6,684,386</u>	<u>\$ 2,470,309</u>

The Group's most significant customer accounted for \$1,801,371 of receivables carrying amount at September 30, 2012 (December 31, 2011: \$485,676).

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17. Financial Instruments – Continued

Credit risk - Continued

Exposure to credit risk - Continued

The aging of receivables at the reporting date was:

	September 30, 2012		December 31, 2011	
	Gross		Gross	
	amount	Impairment	amount	Impairment
Past due within 3 months	\$ 4,894,877	\$ -	\$ 1,782,839	\$ -
Past due 4-6 months	148,871	-	53,907	-
Past due 7-12 months	1,157,723	-	166,065	-
More than 1 year	584,059	(101,144)	569,613	(102,115)
	\$ 6,785,530	\$ (101,144)	\$ 2,572,424	\$(102,115)

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

	2011
Balance at January 1	\$ 63,319
Change during the year	38,796
Balance at December 31	\$ 102,115
	2012
Balance at January 1	\$ 102,115
Change during the year	(971)
Balance at September 30	\$ 101,144

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. The change during the period is contributed from foreign exchange differences.

100% of the Group's revenue for the period ended September 30, 2012 and 2011 were derived from customers located in China. Two (December 31, 2011: Three) customers represent in excess of 10% of accounts receivable at September 30, 2012. Two (2011: Three) customers represent in excess of 10% of total revenue at September 30, 2012.

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17. Financial Instruments – Continued

Credit risk - Continued

Exposure to credit risk - Continued

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 September 30, 2012, the Group has collective impairments on its loans and receivables of \$101,144. (December 31, 2011: \$102,115).

Currency risk

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

September 30, 2012	September 30, 2012		December 31, 2011	
	CND	RMB	CND	RMB
Cash at bank	\$ 9,399	\$ 165,286	\$ 1,018	\$2,112,714
Trade receivables	-	6,385,472	1,663	2,468,646
Other receivables	9,382	122,206	-	-
Due from related parties	-	167,326	-	104,841
Trade and other payables	(254,551)	(2,225,202)	(371,891)	(2,736,085)
Bank loan	-	(55,477)	-	-
Loan payable	-	(534,542)	-	(79,450)
Loan payable - related parties	-	(262,499)	-	(411,551)
Due to related parties	(998,086)	(3,182)	(663,367)	-
Gross statement of financial position exposure	\$ (1,233,856)	\$3,759,388	\$ (1,032,577)	\$1,459,115

Sensitivity analysis

A strengthening of the U.S. dollars, as indicated below, against the Canadian dollars ("CND") and Renmenbi ("RMB") at June 30, 2012 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 2011, albeit that the reasonably possible foreign exchange rate variances were different, as indicated below:

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17. Financial Instruments - Continued

Sensitivity analysis – Continued

U.S. dollars against	Equity	Profit or loss
September 30, 2012		
CND (10% strengthening)	\$ -	\$ 71,109
RMB (10% strengthening)	\$ -	\$ 172,055
December 31, 2011		
CND (10% strengthening)	\$ -	\$ 101,000
RMB (10% strengthening)	\$ -	\$ 135,000

A weakening of the U.S. dollar against the above currencies at September 30, 2012 and December 31, 2011 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.

18. 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.

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18. Determination of fair values - Continued

(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.

19. 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 September 30, 2012, the Group had a working capital of \$62,339 (December 31, 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.

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19. Financial risk management - Continued

(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.

(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.

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19. Financial risk management – Continued

(d) Capital management - Continued

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.

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

	September 30, December 31,	
	2012	2011
Total liabilities	\$ 7,342,364	\$ 7,156,738
Less: cash	(174,685)	(2,113,732)
Net debt	<u>\$ 7,167,679</u>	<u>\$ 5,043,006</u>
Total equity	<u>\$ 2,668,728</u>	<u>\$ 807,088</u>
Debt to capital ratio	3	6

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 period ended September 30, 2012. Neither the Group nor its subsidiaries are subject to externally imposed capital requirements.

20. 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.

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20. Operating segments - Continued

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.

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

Three months ended September 30, 2012	Canada	China	Total
Revenue from external customers	\$ -	\$ 2,716,353	\$ 2,716,353
Equipment and website development costs	-	118,672	118,672
Goodwill	-	2,777,487	2,777,487

Three months ended September 30, 2011	Canada	China	Total
Revenue from external customers	\$ -	\$ 3,162,211	\$ 3,162,211
Equipment and website development costs	-	145,426	145,426
Goodwill	-	2,777,487	2,777,487

Nine months ended September 30, 2012	Canada	China	Total
Revenue from external customers	\$ -	\$ 7,079,133	\$ 7,079,133
Equipment and website development costs	-	118,672	118,672
Goodwill	-	2,777,487	2,777,487

Nine months ended September 30, 2011	Canada	China	Total
Revenue from external customers	\$ -	\$ 6,433,951	\$ 6,433,951
Equipment and website development costs	-	145,426	145,426
Goodwill	-	2,777,487	2,777,487

Major customer

Revenues from one customer represents approximately \$1,974,028 (2011: \$1,088,826) of the Group's total revenues for the period ended September 30, 2012.

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21. 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 Three months ended September 30,		Transaction value Nine months ended September 30,	
		2012	2011	2012	2011
C F Zhou	Salary and benefits	\$ 45,495	\$ 32,513	\$ 136,485	\$ 174,913
Danny Hon (i)	Accounting fees	35,188	18,199	81,975	72,796
		<u>\$ 80,683</u>	<u>\$ 50,712</u>	<u>\$ 218,460</u>	<u>\$ 247,709</u>

Director/ officer	Transaction	Balance outstanding	
		September 30, 2012	December 31, 2011
C F Zhou	Salary and benefits	\$ 542,979	\$ 390,384
C F Zhou	Loan payable (i)	88,950	42,773
C F Zhou	Loan interest payable (i)	9,694	1,710
Danny Hon	Accounting fees payable (ii)	266,328	159,382
Danny Hon	Loan payable (i)	76,297	63,965
Danny Hon	Loan interest payable (i)	13,839	5,407
		<u>\$ 998,086</u>	<u>\$ 663,621</u>

(i) During the period ended September 30, 2012 and year ended December 31, 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 September 30, 2012, there was an interest payable balance of \$23,533 owed to directors of the Group.

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21. Related parties – Continued

Key management personnel and director transactions - Continued

(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:

September 30, 2012					
Unsecured loans payable	RMB	Canadian dollars	U.S. dollars equivalent	Annual interest rate	Due date
Weiguo Mu	400,000	-	\$ 63,636	15%	due on demand
Rongrong Mu	300,000	-	47,727	15%	due on demand
Yan Zhang	300,000	-	47,727	15%	due on demand
Yan Zhang	500,000	-	79,545	15%	due on demand
Yauchen Wang	30,000	-	4,773	15%	7/1/2013
Yauchen Wang	20,000	-	3,182	15%	7/2/2013
Yauchen Wang	100,000	-	15,909	15%	7/8/2013
	1,650,000	-	\$262,499		

December 31, 2011					
Unsecured loans payable	RMB	Canadian dollars	U.S. dollars equivalent	Annual interest rate	Due date
Qi Li	1,000,000	-	158,900	15%	due on demand
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
Weiguo Mu	500,000	-	79,450	15%	11/02/2012 [i]
	2,590,000	-	411,551		

[i] Subsequently repaid in 2012.

At September 30, 2012, interest payable of \$28,858 (December 31, 2011: \$31,328) was accrued and grouped under due to related parties.

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21. Related parties – Continued

Other related party transactions

	September 30,	December 31,
	2012	2011
Amount due from a company related to the non-controlling shareholders of ZYCY [i]	116,018	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.

22. Subsequent events

100,000 stock options at an exercise price of C\$0.70 expired on October 26, 2012 expired unexercised.