China Education Resources Inc.

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

Year Ended December 31, 2008

Chang Lee LLP
Chartered Accountants

505 – 815 Hornby Street
Vancouver, B.C, V6Z 2E6
Tel: 604-687-3776
Fax: 604-688-3373
E-mail: info@changleellp.com

AUDITORS' REPORT

To the Shareholders of

CHINA EDUCATION RESOURCES INC.

We have audited the consolidated balance sheet of China Education Resources Inc. as at December 31, 2008 and the consolidated statements of operations, shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at December 31, 2007 and for the year then ended, prior to restatement of previously reported amounts as described in note 1 (c), were audited by other auditors who expressed an opinion without reservation in their issued report dated March 31, 2008. We have audited the adjustments to the consolidated financial statements as at December 31, 2007 and in our opinion, such adjustments are, in all material respects, appropriate and have been properly applied.

CHANG LEE LLP

Vancouver, Canada
April 9, 2009

Chartered Accountants

CHINA EDUCATION RESOURCES INC.
Consolidated Balance Sheets
As at December 31, 2008 and 2007
(See note 1 - Basis of presentation)

(Expressed in U.S. Dollars)

	2008	2007 Restated (Note 1)
ASSETS		
Current assets		
Cash and cash equivalents	$ 856,627	$ 293,929
Accounts receivable (Note 5)	42,913	269,455
Inventory	99,640	141,543
Prepaid expenses & deposits	24,362	38,250
Other receivable	57,519	79,312
Total current assets	1,081,061	822,489
Due from a related party (Note 8)	80,839	164,316
Long-term other receivable (Note 6)	18,542	583,996
Equipment and website development costs (Note 7)	1,590,321	2,569,780
Goodwill	3,210,218	2,998,875
Total assets	$ 5,980,981	$ 7,139,456
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	$ 2,717,158	$ 2,894,143
Income taxes payable	2,126,716	1,959,471
Total current liabilities	4,843,874	4,853,614
Long-term payable	-	22,248
Total liabilities	4,843,874	4,875,862
Commitments (Note 12)		
SHAREHOLDERS' EQUITY		
Share capital (Note 9)	28,376,584	26,140,551
Contributed surplus	1,557,616	1,250,845
Accumulated other comprehensive income	492,005	626,668
Deficit	(29,289,098)	(25,754,470)
Total shareholders' equity	1,137,107	2,263,594
Total liabilities and shareholders' equity	$ 5,980,981	$ 7,139,456

Approved by the Board:

"CF Zhou"
Director

"Bill Calvin"
Director

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

CHINA EDUCATION RESOURCES INC.
Consolidated Statements of Operations and Comprehensive Loss
for the years ended December 31, 2008 and 2007

(Expressed in U.S. Dollars)

	2008	2007 Restated (Note 1)
Revenue		
Book sales and distribution services	$ 163,858	$ 458,838
Teacher training	312,833	998,810
	476,691	1,457,648
Cost of sales	139,985	240,694
Gross profit	336,706	1,216,954
Expenses		
General and administrative	1,094,548	2,221,512
Amortization	1,162,858	985,006
Bad debts	690,465	75,322
Selling expenses	601,782	756,571
Website operating expenses	42,255	1,820,074
Stock-based compensation (Note 10(b))	306,771	218,068
	3,898,679	6,076,553
Operating loss	(3,561,973)	(4,859,599)
Other income		
Other income	10,985	6,002
Interest income	16,360	24,753
Loss before income taxes	(3,534,628)	(4,828,844)
Current income taxes expenses	-	3,903
Future income tax expenses (recovery)	-	(457,567)
	-	(453,664)
Loss before non-controlling interest	(3,534,628)	(4,375,180)
Non-controlling interest	-	132,659
Net loss for the year	(3,534,628)	(4,242,521)
Unrealized exchange gain on translation of self-sustaining foreign operations	(134,663)	501,484
Comprehensive loss	$ (3,669,291)	$ (3,741,037)
Loss per share - Basic and diluted	$ (0.0826)	$ (0.1116)
Weighted average number of common shares used to calculate basic and diluted loss per share	42,803,890	38,015,825

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

CHINA EDUCATION RESOURCES INC.
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
for the years ended December 31, 2008 and 2007

(Expressed in U.S. Dollars)	Number of Shares	Amount	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total
Balance, December 31, 2006	37,923,483	$ 25,886,237	$ 999,965	$ 125,184	$ (21,159,494)	$ 5,851,892
Prior year adjustment (Note 1)					(352,455)	(352,455)
Issued for cash under private placement in October 2007 (Note 9(a))	481,500	254,314	32,812	-	-	287,126
Stock-based compensation	-	-	218,068	-	-	218,068
Foreign currency translation	-	-	-	501,484	-	501,484
Net loss for the year ended December 31, 2007	-	-	-	-	(4,242,521)	(4,242,521)
Balance, December 31, 2007 Restated (Note 1)	38,404,983	$ 26,140,551	$ 1,250,845	$ 626,668	$ (25,754,470)	$ 2,263,594
Issued for cash under private placement in January 2008 (Note 9(a))	4,600,000	2,236,033	-	-	-	2,236,033
Stock-based compensation	-	-	306,771	-	-	306,771
Foreign currency translation	-	-	-	(134,663)	-	(134,663)
Net loss for the year ended December 31, 2008	-	-	-	-	(3,534,628)	(3,534,628)
Balance, December 31, 2008	43,004,983	$ 28,376,584	$ 1,557,616	$ 492,005	$ (29,289,098)	$ 1,137,107

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

CHINA EDUCATION RESOURCES INC.
Consolidated Statements of Cash Flows
for the years ended December 31, 2008 and 2007

(Expressed in U.S. Dollars)

	2008	2007 Restated (Note 1)
Cash flows from (used in) operating activities		
Net loss from continuing operations	$ (3,534,628)	$ (4,242,521)
Items not affecting cash:		
Amortization	1,162,858	985,006
Bad debts	690,465	75,322
Disposal of assets	(2,529)	(8,041)
Future income tac expense (recovery)	-	(457,567)
Non-controlling interest	-	(132,659)
Stock based compensation	306,771	218,068
Changes in non-cash working capital items		
Accounts and other receivable	262,376	81,295
Inventory	50,936	19,500
Prepaid expenses and deposits	5,085	57,039
Accounts payable & accrued liabilities	(328,745)	736,204
Income taxes payable	-	188,958
	(1,387,410)	(2,479,396)
Cash flows from (used in) investing activities		
Additions to equipment	(25,207)	(220,215)
Proceeds on disposal of equipment	13,135	-
	(12,072)	(220,215)
Cash flows from (used in) financing activities		
Net proceeds on issuance of share capital	2,139,548	287,126
Repayment of automobile loan	-	(14,069)
Repayment of long term payable	-	(27,386)
	2,139,548	245,671
Effect of foreign exchange rate	(177,368)	185,098
Net cash inflow (outflow) during the year	562,698	(2,268,842)
Cash and cash equivalents, beginning of year	293,929	2,562,771
Cash and cash equivalents, end of year	$ 856,627	$ 293,929
Supplemental disclosure of cash flow information		
Interest paid	$ 636	$ 1,080
Taxes paid	$ -	$ 16,557

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

1. Nature of Operations and Going Concern

(a) Nature of Operations

China Education Resources Inc., together with its subsidiaries (individually and collectively referred to as the "Company"), provides an education internet portal with educational content, resources and training programs to users in People's Republic of China ("China"). The Company's principal activity up to late 2006 was distribution of educational textbooks and materials developed by the Company to bookstores and schools in China.

(b) Basis of Presentation and Going Concern

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

The Company has a need for financing for working capital, development and update its education internet education portal. The ability of the Company to continue as a going concern is dependant upon the acceptance of the education internet portal by the users to achieve a profitable level of operations by the Company and on the ability of the Company to obtain necessary financing to fund the Company's future business plan. The outcome of these matters cannot be predicted at this time. Since inception, the Company has incurred cumulative losses of $29,289,098 and for the year ended December 31, 2008, incurred negative operating cash flow from continuing operations of approximately $1.4 million.

China Education Resources Inc.
Notes to the Consolidated Financial Statements
(Expressed in U.S. Dollars)
Year Ended December 31, 2008

1. Nature of Operations and Going Concern - Continued

(c) Prior Period Adjustments

Amounts previously reported for the year ended December 31, 2007 have been restated in these consolidated financial statements to reflect the followings:

1. Distribution service of $18,011 was previously reported as deferred revenue for the year ended December 31, 2007 has been restated as revenue as the service was rendered and payment was received in fiscal year 2007. The impact of the amount restated was to increase distribution revenue by $18,011 and decrease accounts payable and accrued liabilities by $18,755.

2. Rent expense of $18,280 was not recorded for the year ended December 31, 2007 and loss on the disposal of vehicles of $31,300 was incorrectly recorded for the year ended December 31, 2007. The impact of the amounts restated were to decrease the general and administrative expenses by $13,020 and increase the accounts payable and accrued liabilities by 19,029 and increase equipment by $32,602.

3. Amortization of equipment and website development cost was incorrectly calculated which $53,095 was overstated for the year ended December 31, 2007 and years ended prior to December 31, 2007, have been restated. The impact of the amounts restated was to decrease the amortization by $17,551, increase the equipment and website development costs by $53,333 and decrease the beginning deficit by $35,544.

4. Website operating expenses of $178,981 was previously not recorded for the year ended December 31, 2007 has been restated. The impact of the amount restated was to increase website operating expenses by $178,981 and increase accounts payable and accrued liabilities by $186,414.

5. Future income liabilities of $25,548 previously recorded for December 31, 2007 has been restated after taking into account the above noted restatements in fiscal year 2007. The impact of the restatements was to increase income tax recover by $25,548 and decrease the future income tax liabilities by $25,548.

6. Currency translation adjustment of $382,101 previously recorded for the December 31, 2007 has been restated to reflect the loss on the disposition of investments (subsidiaries) occurred prior to December 31, 2007. The impact of the restatement was to decrease the currency translation adjustment by $382,101 and increase the beginning deficit by $387,999.

1. Nature of Operations and Going Concern - Continued

(c) Prior Period Adjustments

The effect on the above noted restatements on the Company's consolidated financial statements for December 31, 2007 was summarized as follows:

	$
Increase in book sales and distribution services	18,011
Decrease in general and administrative	13,020
Decrease in amortization	17,551
(Increase) in website operating expenses	(178,981)
Increase in income tax recovery	25,548
(Decrease) in net income	(104,851)
Increase in equipment and website development costs	85,935
(Increase) in accounts payable and accrued liabilities	(186,688)
Decrease in future income tax liabilities	25,548
(Decrease) in Equity	(75,205)

2. Significant Accounting Policies

These consolidated financial statements are presented in United States dollars and have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The significant accounting policies used in these consolidated financial statements are as follows:

(a) Principles of consolidation

These consolidated financial statements of the Company include the accounts of the Company and its wholly owned subsidiaries, CEN China Education Network Ltd. ("CEN Network"), China Education International Inc. and CEN China Education Overseas Corporation; and its 90% owned subsidiaries CEN Smart Networks Ltd. ("CEN Smart") and Today's Teachers Technology & Culture Ltd. ("TTTC"). All significant inter-company transactions and accounts have been eliminated.

2. Significant Accounting Policies - Continued

(a) Principles of consolidation - Continued

Variable Interest Entities ("VIEs") as defined by the Accounting Standards Board in Accounting Guideline 15, "Consolidation of Variable Interest Entities" are entities in which equity investors do not have the characteristics of a "controlling financial interest" or there is not sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. VIEs are subject to consolidation by the primary beneficiary who will absorb the majority of the entities expected losses and/or expected residual returns. The Company has determined that it has no VIEs.

(b) Use of estimates and measurement uncertainty

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

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

(c) Cash and cash equivalents

Cash equivalents comprise certain highly liquid instruments with a maturity of three months or less when purchased. As of December 31, 2008, cash equivalents consist of $188,627 term deposit (2007: $nil) with a rate of 0.75% at a term of 30 days.

2. Significant Accounting Policies - Continued

(d) Foreign currency translation

The Company's reporting currency is the US dollar. All of the Company's operating subsidiaries are located in China. They are considered to be self sustaining operations and their functional currency is Chinese Renminbi ("RMB"). The parent Company's functional currency is the Canadian dollar. Accordingly, the financial statements are translated to the U.S. dollar using the current rate method. Under the current rate method, amounts are translated using the current rates of exchange for assets and liabilities and using average rates for the year for revenues and expenses. Gains or losses resulting from these translation adjustments are included in accumulated other comprehensive income until there is a realized reduction in the parent's net investment in the foreign operations.

(e) Accounts Receivable

The Company extends unsecured credit to its customers in the ordinary course of business but mitigates the associated risks by performing credit checks and actively pursuing past due accounts. An allowance for doubtful accounts is established and recorded based on management's assessment of the credit history with the customer and current relationships with them.

(f) Inventory

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

The main features of Section 3031 are:

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

2. Significant Accounting Policies - Continued

(g) Equipment

Equipment is recorded at cost. Amortization is provided for over the estimated useful life of the assets commencing when the asset is brought into use, using straight line method with the following annual rates:

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

Website development costs are expensed as incurred unless they meet specific Canadian GAAP criteria for capitalization. Capitalized website development costs are recorded at cost and are amortized over the expected useful life on a straight line basis.

An impairment loss is recognized when the carrying amount of a long-lived asset is not recoverable and exceeds its fair value. An impairment charge is recorded to reduce the carrying value of the asset to its fair value.

(h) Goodwill

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

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

2. Significant Accounting Policies - Continued

(i) Leases

Leases are classified as either capital or operating. Those leases, which transfer substantially all the benefits and risks of ownership of the property to the Company, are accounted for as capital leases. Capital lease obligations reflect the present value of future lease payments, discounted at the appropriate rate. All other leases are accounted for as operating leases wherein rental payments are charged to income as incurred.

(j) Revenue recognition

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

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

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

Interest income is recognized when earned.

(k) Stock-based compensation plans

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

2. Significant Accounting Policies - Continued

(l) Income taxes

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

(m) Loss per share

Basic loss per share is computed by dividing net loss (the numerator) by the weighted average number of outstanding common shares for the period (the denominator). Diluted loss per share has not been presented as the effect on basic loss per share would be anti-dilutive. Potentially dilutive securities include warrants and options are disclosed in Note 9.

(n) Financial Instruments

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

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

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

On January 1, 2008, the Company adopted Handbook Sections 3862 and 3863, which replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

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

2. Significant Accounting Policies - Continued

(o) Accounting changes

As of January 1, 2007, the Company adopted revised CICA Section 1506 "Accounting Changes", which provides expanded disclosures for changes in accounting policies, accounting estimates and corrections of errors. Under the new standard, accounting changes should be applied retrospectively unless otherwise permitted, or where impracticable to determine. As well, voluntary changes in accounting policy are made only when required by a primary source of GAAP, or when the change results in more relevant and reliable information. The impact to the Company's consolidated financial statements has been reflected in the Note 1 (c).

(p) Capital Disclosures

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

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

(q) General Standards of Financial Statement Presentation

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

(r) Comparative Figures

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

2. Significant Accounting Policies - Continued

Future Accounting Pronouncements

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

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

(b) Goodwill and Intangible Assets

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

3. Capital Management

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

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

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

There were no changes in the Company's approach to capital management during the year ended December 31, 2008. Neither the Company nor its subsidiaries are subject to externally imposed capital requirements.

4. Financial Instruments

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

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

(a) Credit risk

Credit risk is the risk of an unexpected loss if a party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to cash and cash equivalents and accounts receivables. The Company has no significant concentration of credit risk arising from operations. Other receivables consist of 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.

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

(b) Liquidity risk

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

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

(ii) Foreign currency exchange rate risk

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

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

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

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

4. Financial Instruments - Continued

(c) Market risk - Continued

(iii) Price risk

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

(d) Sensitivity analysis

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

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

(i) Cash and cash equivalents are subject to floating interest rates. Sensitivity to a plus or minus 1% change in rates would affect net loss by approximately $5,700 for the year ended December 31, 2008.

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

5. Accounts Receivable

	2008	2007
Trade receivables	$ 74,956	$ 304,613
Bad debt provision	(32,043)	(35,158)
	$ 42,913	$ 269,455

(Expressed in U.S. Dollars)

6. Long-Term Other Receivable

		2008		**2007**
Loan due from Shengshi Education Service Company ("Shengshi") [i]	$	632,678	$	623,205
Bad debt provision		(614,136)		(39,209)
	$	18,542	$	583,996

[i] Shengshi is a non-related business partner of one of the Chinese subsidiaries. The total loan due from Shengshi was RMB 7,630,000 ($1,118,405) of which RMB 3,970,000 ($581,923) was non-interest bearing and was due September 2006, RMB 1,320,000 ($193,486) was bearing 10% interest and was due on June 2006 and RMB 2,340,000 ($342,997) was bearing 10% interest and was due on August 2006. Of the total loan, RMB 4,551,269 ($667,125) was collateralized by the shares of the Company owned by Beijing Anli Information and Consulting Company ("Anli") and a shareholder of the Company. In 2006, management determined the collectibility of this loan became uncertain. In light of this uncertainty management set up a provision of RMB3,078,731 ($451,280) for the portion of the loan that is unsecured and did not accrue the interest income. In 2007, management set up additional provision of RMB235,000 ($34,446) . As of December 31, 2008, management decided to adjust the receivable to net realizable amount by recording an additional provision of RMB 4,189,769 ($614,136). As the above noted receivable had been long overdue and the anticipated time of collection is not certain, the Company has classified the receivable as long term other receivable.

China Education Resources Inc.

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Year Ended December 31, 2008

7. Equipment and Website Development Cost

	2008		
	Cost	Accumulated depreciation	Net book value
Computer equipment	$ 499,653	$ 251,683	$ 247,970
Office equipment	55,733	46,675	9,058
Motor vehicles	500,755	329,178	171,577
Leasehold improvement	67,328	8,607	58,721
Website development costs	3,054,447	1,951,452	1,102,995
	$ 4,177,916	$ 2,587,595	$ 1,590,321

	2007 (Restated)		
	Cost	Accumulated depreciation	Net book value
Computer equipment	$ 465,848	$ 208,423	$ 257,425
Office equipment	116,588	25,760	90,828
Motor vehicles	450,400	243,921	206,479
Leasehold improvement	33,548	-	33,548
Website development costs	2,853,360	871,860	1,981,500
	$ 3,919,744	$ 1,349,964	$ 2,569,780

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

(Expressed in U.S. Dollars)

8. Related Party Transactions

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

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

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

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

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

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

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

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

(Expressed in U.S. Dollars)

9. Share Capital, Warrants and Stock Options

(a) Share Capital

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

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

On October 24, 2007, the Company completed a non-brokered private equity placement of $298,636 (C$288,900) for 481,500 Units. Each Unit consists of one restricted common share in capital stock of the Company and one-half of one common share purchase warrant at a price of $0.59 (C$0.60) per Unit. The warrants can be exercised to purchase an additional 240,750 common shares at $0.79 (C$0.80) per share until April 24, 2008 and at $0.99 (C$1.00) per share thereafter until expiry on October 24, 2008. The Company paid $7,222 commission and $4,288 legal fees in relation to the private placement. The fair value of the 240,750 warrants was $33,705 and was estimated using the Black-Scholes option pricing model with assumptions as follows:

Risk free interest rate	4.18%
Expected life of the conversion feature in years	1.0 year
Expected volatility	96%
Dividend per share	$0.00

(b) Options

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

(Expressed in U.S. Dollars)

9. Share Capital, Warrants and Stock Options – Continued

(b) Options - Continued

Changes in outstanding stock options were as follows:

	Number of Shares	Weighted Average Exercise Price Per Share (USD)	Weighted Average Exercise Price Per Share (CND)
Balance, December 31, 2006	3,174,000	0.75	0.92
Options granted	600,000	0.50	0.62
Options cancelled	(150,000)	0.75	0.92
Balance, December 31, 2007	3,624,000	0.71	0.87
Options granted	1,600,000	0.58	0.71
Options cancelled/expired	(1,650,000)	0.77	0.94
Balance, December 31, 2008	3,574,000	0.62	0.76

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

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

On October 26, 2007, the Company granted incentive stock options for 100,000 shares at a price of $0.66 (C$0.70) per share exercisable up to October 26, 2012 to an officer. The options vested immediately.

On August 20, 2007, the Company granted incentive stock options for 400,000 shares at a price of $0.57 (C$0.60) per share exercisable up to August 20, 2012 to directors and employees. All the options vested immediately.

China Education Resources Inc.

Notes to the Consolidated Financial Statements

(Expressed in U.S. Dollars)

Year Ended December 31, 2008

9. Share Capital, Warrants and Stock Options – Continued

(b) Options - Continued

On August 20, 2007, the Company granted incentive stock options for 100,000 shares at a price of $0.57 (C$0.60) per share exercisable up to August 20, 2008 to a consultant. 25% of the options vested on the date of grant and 25% of the options vested every three months thereafter for 9 months.

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The following table summarizes the stock options outstanding at December 31, 2008:

Range of Exercise Prices (USD)	Range of Exercise Prices (CND)	Number Outstanding at December 31, 2008	Weighted Average Remaining Contractual Life (Years)	Number Exercisable at December 31, 2008
$ 0.41	$ 0.50	150,000	1.78	150,000
0.49	0.60	1,470,000	4.15	1,095,000
0.53	0.65	400,000	1.80	400,000
0.57	0.70	100,000	3.82	100,000
0.61	0.75	200,000	1.13	200,000
0.82	1.00	450,000	4.58	450,000
0.86	1.05	804,000	1.72	804,000
$0.41 - $0.86	$0.50 - $1.05	3,574,000	3.12	3,199,000

(Expressed in U.S. Dollars)

9. Share Capital, Warrants and Stock Options – Continued

(b) Options - Continued

The following table summarizes the stock options outstanding at December 31, 2007:

Range of Exercise Prices (USD)	Range of Exercise Prices (CND)	Number Outstanding at December 31, 2007	Weighted Average Remaining Contractual Life (Years)	Number Exercisable at December 31, 2007
$ 0.49	$ 0.50	150,000	2.78	150,000
0.59	0.60	520,000	3.77	470,000
0.64	0.65	600,000	2.81	600,000
0.69	0.70	100,000	4.82	100,000
0.74	0.75	200,000	2.13	200,000
0.89	0.90	100,000	1.28	100,000
1.04	1.05	1,954,000	1.15	1,954,000
$0.49 - $1.04	$0.50 - $1.05	3,624,000	2.03	3,574,000

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

	2008	2007
Risk free interest rate	3.34% - 3.43%	4.2% - 4.3%
Expected life of options in years	5 years	1 to 5 years
Expected volatility	77.00% - 80.58%	91.3% - 139.7%
Dividend per share	$0.00	$0.00

During the year ended December 31, 2008, the weighted average grant date fair value of options granted during the period was $0.19 (C$0.23) (2007: $0.39 (C$0.40)) and compensation expense of $306,771 (2007: $218,068) was recognized for options previously granted and vesting over time using the Black-Scholes option pricing model.

China Education Resources Inc.
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Year Ended December 31, 2008

9. Share Capital, Warrants and Stock Options – Continued

(c) Warrants

The following table summarized the status of the Company's share purchase warrants outstanding:

Number of warrants outstanding as at January 1, 2008	Issued during the period	Number of warrants expired/exercised during the period	Balance of warrants outstanding as at December 31, 2008	Exercised price per warrant (CND)	Exercised price per warrant (USD)	Expiry date
457,496	-	457,496	-	$ 0.72	$ 0.71	January 17, 2008
42,401	-	42,401	-	1.14	1.13	January 17, 2008
240,750	-	240,750	-	0.80	0.79	October 24, 2008
740,647	-	740,647	-			

Number of warrants outstanding as at January 1, 2007	Issued during the period	Number of warrants expired/exercised during the period	Balance of warrants outstanding as at December 31, 2007	Exercised price per warrant (CND)	Exercised price per warrant (USD)	Expiry date
457,496	-	-	457,496	$ 0.72	$ 0.71	January 17, 2008
42,401	-	-	42,401	1.14	1.13	January 17, 2008
-	240,750	-	240,750	0.80	0.79	October 24, 2008
499,897	240,750	-	740,647			

[i] Warrants granted on January 17, 2005 which has an expiry date of January 17, 2007 have been extended for another year to January 17, 2008. These warrants were expired on January 17, 2008.

[ii] The exercise price of the warrants granted on October 24, 2007 will be increased to $0.99 (C$1.00) if they are not exercised on or before April 24, 2008. These warrants were expired on October 24, 2008.

(Expressed in U.S. Dollars)

10. Segmented Information

The Company has two reporting business segments, Book Selling and Internet Portal, with two reportable geographic segments located in Canada and China. The business segments have been segregated based on products offerings, reflecting the way that management organizes the segments within the business for making operating decisions and assessing performance. There were no inter-segment sales or transfers during the reported periods.

(i) Geographic Information

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

Year ended December 31, 2008	Canada	China	Total
Revenue from external customers	$ -	$ 476,691	$ 476,691
Equipment and website development costs	95	1,590,226	1,590,321
Goodwill	-	3,210,218	3,210,218

Year ended December 31, 2007	Canada	China	Total
Revenue from external customers	$ -	$ 1,457,648	$ 1,457,648
Equipment and website development costs	2,338	2,567,442	2,569,780
Goodwill	-	2,998,875	2,998,875

(ii) Business Segments

The Company's operations are classified into two reportable business segments: Book Selling and Internet Portal.

Summarized financial information for the years ended December 31, 2008 and 2007 concerning the Company's business segments is as follows:

China Education Resources Inc.

Notes to the Consolidated Financial Statements

(Expressed in U.S. Dollars)

Year Ended December 31, 2008

10. Segmented Information - Continued

(ii) Business Segments - Continued

Year ended December 31, 2008	Book Selling	Internet Portal	Corporate	Total
Revenue from external customers	$ 163,858	$ 312,833	$ -	$ 476,691
Interest revenue	799	1,525	14,036	16,360
Interest expense	-	-	5,513	5,513
Amortization	51,809	1,098,584	12,465	1,162,858
Segment loss	(719,568)	(1,373,778)	(1,441,282)	(3,534,628)
Segment asssets	392,746	1,852,815	3,735,420	5,980,981
Expenditure for segment capital assets	-	25,207	-	25,207

Year ended December 31, 2007	Book Selling	Internet Portal	Corporate	Total
Revenue from external customers	$ 458,838	$ 998,810	$ -	$ 1,457,648
Interest revenue	1,356	1,891	21,506	24,753
Interest expense	1,475	3,342	479	5,296
Amortization of capital assets	53,900	927,978	3,128	985,006
Segment loss	(998,900)	(1,821,547)	(1,447,622)	(4,268,069)
Segment asssets	841,084	6,228,849	69,523	7,139,456
Expenditure for segment capital assets	-	217,404	2,811	220,215

11. Income Tax

The Company is subject to Canadian federal and provincial income taxes at an approximate rate of 31.50% [2007 - 34.12%]. The Company's Chinese subsidiaries are subject to Chinese taxes.

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

Tax expense (recovery) at Canadian statutory rates	2008 $'000	2007 $'000
		(Restated)
Loss before taxes, non-controlling interest and discontinued operations	(3,534)	(4,828)
Statutory tax rate	31.50%	34.12%
Combined Canadian federal and provincial income taxes at expected rate	(1,113)	(1,647)
Foreign income income tax differential	184	341
Change in valuation allowance	491	17
Non deductible expenses	98	251
Expiration of loss carryforwards	199	332
Rate change and others	141	253
Total	-	(453)

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's future income tax assets and liabilities as of December 31, 2008 and 2007 are as follows:

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11. Income Tax - Continued

	2008 **$'000**	**2007** **$'000**
		(Restated)
Excess of tax base over accounting base for certain current assets and liabilities	850	653
Net operating loss carried forward	2,846	1,716
Net capital loss carried forward	162	483
Other	6	19
Total future tax assets	3,864	2,871
Valuation allowance	(3,546)	(2,376)
Future income tax assets	318	495
Excess of accounting base over tax base relating to website development cost	318	495
Future tax liability	318	495
Net future income tax liabilities	-	-

Income tax expenses consisted of:	**2008** **$'000**	**2007** **$'000**
		(Restated)
Current income tax expense	-	4
Future income tax (recovery) expense	-	(457)
Total	-	(453)

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

As at December 31, 2008, the Company has non-capital loss carry forwards for Canadian purposes aggregating approximately $6,631,000 available to reduce taxable income otherwise calculated in future years. These losses expire from year 2009 to 2028. The Company also has non-capital loss carry forwards for China tax purposes aggregating $3,029,000 available to reduce taxable income otherwise calculated in future years. The related losses expire from year 2009 to 2013.

The Company also has capital losses of $1,027,000 available to offset future capital gains in Canada.

11. Income Tax - Continued

The Company, through its subsidiaries, conducts a significant amount of its business in China. China currently has a number of laws related to various taxes imposed by both federal and regional governmental authorities. Applicable taxes include value added tax, corporate income tax (profits tax), and payroll (social) taxes, together with others. Laws related to these taxes have not been in force for a significant period, in contrast to more developed market economies; therefore, implementing regulations are often unclear or nonexistent. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organizations; thus, creating uncertainties and areas of conflict.

Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, who are enabled by law to impose extremely severe fines, penalties and interest charges. These facts create tax risks in China substantially more significant than typically found in countries with more developed tax systems.

The risk remains that the relevant authorities could take differing positions with regard to interpretive issues and the effect could be significant. The fact that a year has been reviewed does not close that year, or any tax declaration applicable to that year, from further review.

The Company is subject to a late payment surcharge on an amount outstanding to the tax authorities in charge. Depending on the extent and significance of late payment, the Company is also subject to a penalty of up to five times the amount that is overdue. The ultimate amount of penalty may be reduced by negotiation with the local tax authorities in charge. The Company ceased to accrue relevant penalty based on 0.05% a day on outstanding balance for the fiscal year ended December 31, 2008 as the result and likeliness of the tax assessment is not determined.

In 2007, the National People's Congress of China passed "The Law of the People's Republic of China on Enterprise Income Tax" (the "Enterprise Income Tax Law"). The Enterprise Income Tax Law became effective on January 1, 2008. This new law eliminated the existing preferential tax treatment that is available to the foreign invested enterprises ("FIEs") but provides grandfathering of the preferential tax treatment currently enjoyed by the FIEs. Under the new law, both domestic companies and FIEs are subject to a unified income tax rate of 25%. CEN may be able to preserve its tax holiday under the grandfathering provisions in the Enterprise Income Tax Law. Management will continue to monitor the implementation rules of the grandfathering provisions of the new law.

(Expressed in U.S. Dollars)

12. Commitments

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

2009	$	126,822
2010		126,822
2011		127,145
2012		96,167
Total	$	476,956

TTTC entered into an agreement with a Chinese government agency to reference its name in the Company's internet training website, whereby the Company agreed to pay RMB1,200,000 ($175,896) per year until 2009 and RMB500,000 ($73,290) in 2010.

According to the terms of agreement dated September 30, 2006, the aggregate purchase price for acquiring an additional 13% interest in TTTC was RMB 790,000 ($115,798). Cash is payable over four years with RMB 200,000 ($25,263) paid in March 2007, RMB 200,000 ($29,316) is due on or before December 31, 2007 (unpaid as at November 26, 2008), RMB 200,000 ($29,316) due on or before December 31, 2008 and RMB190,000 ($27,850) due on or before December 31, 2009. As at December 31, 2008, $83,950 has been paid and included in the accounts payable in connection with the above noted purchase price.