

# **China Education Resources Inc.**

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

**Three Months Ended March 31, 2011**

**(Unaudited)**

## **Management's Responsibility for Financial Reporting**

The accompanying unaudited condensed consolidated financial statements of China Education Resources Inc. were prepared by management in accordance with IAS 34 *Interim Financial Reporting* and IFRS 1 - First-Time Adoption of International Financial Reporting Standards 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 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 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 consolidated financial statements and (ii) the unaudited condensed 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 condensed consolidated financial statements.

The Board of Directors is responsible for reviewing and approving the unaudited condensed 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 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 consolidated financial statements together with other financial information of the Company for issuance to the shareholders.

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

### **Notice to Reader**

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

The accompanying unaudited condensed 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 consolidated financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

**CHINA EDUCATION RESOURCES INC.**  
**Condensed Consolidated Statements of Financial Position**  
(Unaudited)

(Expressed in U.S. Dollars)

	Note	March 31, 2011	December 31, 2010 (Restated*)	January 1, 2010 (Restated*)
<b>Assets</b>				
<b>Current assets</b>				
Cash		\$ 478,789	\$ 1,028,481	\$ 138,432
Trade receivables	6	2,912,140	1,085,398	1,480,627
Inventories		845	140,195	12,970
Prepaid expenses and deposits		55,170	41,887	37,752
Other receivables	6	686,417	221,389	225,412
Due from related parties	6	734,233	1,780,345	95,425
<b>Total current assets</b>		<b>4,867,594</b>	<b>4,297,695</b>	<b>1,990,618</b>
<b>Non-current assets</b>				
Other receivables	6	26,273	26,085	25,183
Equipment and website development costs	8	193,408	225,592	411,335
Goodwill	9	2,560,218	2,560,218	2,560,218
<b>Total non-current assets</b>		<b>2,779,899</b>	<b>2,811,895</b>	<b>2,996,736</b>
<b>Total assets</b>		<b>\$ 7,647,493</b>	<b>\$ 7,109,590</b>	<b>\$ 4,987,354</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Trade and other payables	14	\$ 3,712,960	\$ 3,913,720	\$ 2,728,126
Advance from customers		57,365	75,048	-
Deferred income tax liability		219,811	218,243	-
Income taxes payable		2,266,796	2,263,852	2,415,455
<b>Total current liabilities</b>		<b>6,256,932</b>	<b>6,470,863</b>	<b>5,143,581</b>
<b>Non-current liabilities</b>				
Deferred income tax liability		32,885	32,650	-
<b>Total non-current liabilities</b>		<b>32,885</b>	<b>32,650</b>	<b>-</b>
<b>Total liabilities</b>		<b>6,289,817</b>	<b>6,503,513</b>	<b>5,143,581</b>
<b>Equity</b>				
Share capital	11	29,455,512	29,455,512	28,709,895
Contributed surplus		2,122,239	2,116,151	1,577,462
Accumulated other comprehensive income		381,914	433,158	490,461
Deficit		(31,456,849)	(31,900,840)	(31,369,768)
<b>Total equity (deficit) attributable to equity holders of the Company</b>		<b>502,816</b>	<b>103,981</b>	<b>(591,950)</b>
<b>Non-controlling interest</b>		<b>854,860</b>	<b>502,096</b>	<b>435,723</b>
<b>Total equity (deficit)</b>		<b>1,357,676</b>	<b>606,077</b>	<b>(156,227)</b>
<b>Total liabilities and equity</b>		<b>\$ 7,647,493</b>	<b>\$ 7,109,590</b>	<b>\$ 4,987,354</b>

Approved by the Board:

"CF Zhou"

Director

"Bill Calvin"

Director

\* See Note 3.

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

**CHINA EDUCATION RESOURCES INC.**  
**Condensed Consolidated Statements of Comprehensive Income**  
For the three months ended March 31, 2011 and 2010  
(Unaudited)

(Expressed in U.S. Dollars)

	Note	2011	2010 (Restated*)
<b>Revenue</b>			
Book sales and distribution services		\$ 1,766,848	\$ 1,419,469
Teacher training		426,110	283,319
		2,192,958	1,702,788
<b>Cost of sales</b>			
Book sales and distribution services		(542,752)	(512,794)
Teacher training		(7,906)	(36,906)
<b>Gross profit</b>		1,642,300	1,153,088
Gain on disposal of equipment		-	2,295
General and administrative		(536,498)	(321,657)
Amortization		(36,195)	(130,756)
Selling expenses		(280,394)	(276,301)
Stock-based compensation	13	(6,088)	(473,243)
<b>Result from operating activities</b>		783,125	(46,574)
Finance income		556	224
Finance costs		(1,319)	(2,830)
<b>Net finance income (costs)</b>		(763)	(2,606)
<b>Profit (loss) before income tax</b>		782,362	(49,180)
Income tax recovery		8,780	-
<b>Profit (loss) for the period</b>		791,142	(49,180)
<b>Other comprehensive income</b>			
Unrealized exchange gain (loss) on translation of self-sustaining foreign operations		(51,244)	21,611
<b>Other comprehensive income (loss) for the period, net of income tax</b>		(51,244)	21,611
<b>Total comprehensive income (loss) for the period</b>		\$ 739,898	\$ (27,569)
<b>Profit (loss) attributable to:</b>			
Owners of the Company		\$ 791,142	\$ (49,180)
Non-controlling interest		(347,151)	(239,587)
<b>Profit (loss) for the period</b>		\$ 443,991	\$ (288,767)
<b>Total comprehensive income attributable to:</b>			
Owners of the Company		\$ 739,898	\$ (27,569)
Non-controlling interest		(347,151)	(239,587)
<b>Total comprehensive income (loss) for the period</b>		\$ 392,747	\$ (267,156)
<b>Earnings per share</b>			
Basic earnings per share		\$ 0.009	\$ (0.007)
Diluted earnings per share		\$ 0.009	\$ (0.007)

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

**CHINA EDUCATION RESOURCES INC.**  
**Condensed Consolidated Statement of Changes in Equity**  
For the Year ended December 31, 2010  
(Unaudited)

(Expressed in U.S. Dollars)	Attributable to equity holders of the Company					Non- controlling interest	Total equity
	Share Capital	Contributed Surplus	Cumulative translation account	Deficit	Total		
Balance January 1, 2010	\$ 28,709,895	\$ 1,577,462	\$ 490,461	\$ (31,369,768)	\$ (591,950)	\$ 435,723	\$ (156,227)
Impact of change in accounting policy	-	-	-	-	-	-	-
Restated balance at January 1, 2010	28,709,895	1,577,462	490,461	(31,369,768)	(591,950)	435,723	(156,227)
<b>Total comprehensive income for the period</b>							
Loss for the period	-	-	-	(531,072)	(531,072)	54,730	(476,342)
<b>Other comprehensive income</b>							
Foreign currency translation differences	-	-	(57,303)	-	(57,303)	11,643	(45,660)
Total other comprehensive income	-	-	(57,303)	(531,072)	(588,375)	66,373	(522,002)
<b>Transactions with owners, recorded directly in equity</b>							
Issue of common shares	745,617	-	-	-	745,617	-	745,617
Stock-based compensation expenses	-	538,689	-	-	538,689	-	538,689
Total contributions by and distribution to owners	745,617	538,689	-	-	1,284,306	-	1,284,306
Balance December 31, 2010	\$ 29,455,512	\$ 2,116,151	\$ 433,158	\$ (31,900,840)	\$ 103,981	\$ 502,096	\$ 606,077

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

**CHINA EDUCATION RESOURCES INC.**  
**Condensed Consolidated Statement of Changes in Equity**  
**Three months ended March 31, 2011**  
**(Unaudited)**

(Expressed in U.S. Dollars)	Attributable to equity holders of the Company					Non- controlling interest	Total equity
	Share Capital	Contributed Surplus	Cumulative translation account	Deficit	Total		
Balance January 1, 2011	\$ 29,455,512	\$ 2,116,151	\$ 433,158	\$ (31,900,840)	\$ 103,981	\$ 502,096	\$ 606,077
Impact of change in accounting policy	-	-	-	-	-	-	-
Restated balance at January 1, 2011	29,455,512	2,116,151	433,158	(31,900,840)	103,981	502,096	606,077
<b>Total comprehensive income for the period</b>							
Profit for the period	-	-	-	443,991	443,991	347,151	791,142
<b>Other comprehensive income</b>							
Foreign currency translation differences	-	-	(51,244)	-	(51,244)	5,613	(45,631)
Total other comprehensive income	-	-	(51,244)	443,991	392,747	352,764	745,511
<b>Transactions with owners, recorded directly in equity</b>							
Issue of common shares	-	-	-	-	-	-	-
Stock-based compensation expenses	-	6,088	-	-	6,088	-	6,088
Total contributions by and distribution to owners	-	6,088	-	-	6,088	-	6,088
Balance March 31, 2011	\$ 29,455,512	\$ 2,122,239	\$ 381,914	\$ (31,456,849)	\$ 502,816	\$ 854,860	\$ 1,357,676

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

# CHINA EDUCATION RESOURCES INC.

## Consolidated Statements of Cash Flows

For three months ended March 31, 2011 and 2010

(Unaudited)

(Expressed in U.S. Dollars)

	2011	2010
<b>Cash flows used in operating activities</b>		
Income (Loss) for the period	\$ 443,991	\$ (288,767)
Adjustments for:		
Amortization	36,195	130,756
Gain on disposal of equipment	-	(2,295)
Stock based compensation	6,088	473,243
Non-controlling interest	347,151	239,587
Changes in trade and other receivable	(2,269,919)	(1,180,154)
Changes in inventory	139,604	(35,353)
Changes in prepaid expenses and deposits	(12,397)	(117,425)
Changes in trade and other payables	(280,275)	515,958
Changes in income tax payable	(9,466)	143,490
Changes in deferred income	(18,124)	-
Cash used in operating activities	(1,617,152)	(120,960)
Interest paid	(29)	(2)
Taxes refund	22,029	-
<b>Net cash used in operating activities</b>	(1,595,152)	(120,962)
<b>Cash flows from (used in) investing activities</b>		
Acquisition of equipment	(2,572)	-
Proceeds from sale of equipment	-	13,915
<b>Net cash from (used in) investing activities</b>	(2,572)	13,915
<b>Cash flows from financing activities</b>		
Proceeds from issue of share capital	-	745,617
Repayment from (advance to) related parties	1,097,617	(426,951)
<b>Net cash from financing activities</b>	1,097,617	318,666
<b>Net increase (decrease) in cash and cash equivalents</b>	(500,107)	211,619
Cash at January 1,	1,028,481	138,432
Effect of exchange rate fluctuations on cash held	(49,585)	3,546
<b>Cash at March 31,</b>	\$ 478,789	\$ 353,597

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

**China Education Resources Inc.**  
**Notes to the Condensed Consolidated Financial Statements**  
**(Expressed in U.S. Dollars)**  
**Three Months Ended March 31, 2011**  
**(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 condensed consolidated financial statements of the Company as at and for the three months ended March 31, 2011 comprise the Company and its subsidiaries (together referred to as the “Group”). The Group provides an education internet portal with educational content, resources and training programs to users in People’s Republic of China (“China”) and distributes educational textbooks and materials developed by the Group to bookstores and schools in China.

**2. Basis of Preparation**

**(a) Statement of compliance**

The Company previously prepared its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants (“CICA Handbook”). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards (“IFRS”), and requires publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, these condensed consolidated financial statements are based on IFRS, as issued by the International Accounting Standard Board (“IASB”). In these financial statements, the term “Canadian GAAP” refers to Canadian generally accepted accounting principles previously adopted by the Company before the Company’s adoption of IFRS.

These condensed consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. These are the Company’s first IFRS interim financial statements for part of the period covered by the first IFRS annual financial statements. IFRS 1 First-time Adoption of IFRS has been applied.

The preparation of these condensed consolidated financial statements resulted in changes to the accounting policies as compared to the most recent annual financial statements prepared under Canadian GAAP. An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Group is provided in note 21. The condensed consolidated financial statements should be read in conjunction with the Company’s Canadian GAAP annual financial statements for the year ended December 31, 2010.

The policies applied in these condensed interim financial statements are based on IFRS issued and current as of June 29, 2011, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in the Company’s annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these condensed interim financial statements, including the transition adjustments recognized on the change-over to IFRS.



**China Education Resources Inc.**  
**Notes to the Condensed Consolidated Financial Statements**  
**(Expressed in U.S. Dollars)**  
**Three Months Ended March 31, 2011**  
**(Unaudited)**

**2. Basis of Preparation - Continued**

**(b) Basis of measurement**

The condensed 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 condensed 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 \$31,456,849 and for the three months ended March 31, 2011 and a negative working capital of \$1,389,338 at March 31, 2011.. The ability of the Group to continue as a going concern is dependent upon the acceptance of the education internet portal by the users to achieve a profitable level of operations by the Group and on the ability of the Group to obtain necessary financing to fund the Group's future business plan. The outcome of these matters cannot be predicted at this time.

**(c) Functional and presentation currency**

These consolidated financial statements are presented in U.S. dollars, which is the Company'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. 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.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

Note 5 – utilization of tax losses

**China Education Resources Inc.**  
**Notes to the Condensed Consolidated Financial Statements**  
**(Expressed in U.S. Dollars)**  
**Three Months Ended March 31, 2011**  
**(Unaudited)**

**3. Significant Accounting Policies**

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

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

**(a) Basis of consolidation**

**(i) Business combinations**

*Acquisitions on or after January 1, 2009*

For acquisitions on or after January 1, 2009, the Group measures goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

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

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

*Acquisitions prior to January 1, 2009*

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

**(ii) Acquisitions of non-controlling interests**

Acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders; therefore no goodwill is recognized as a result of such transactions.

**(iii) Subsidiaries**

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

**China Education Resources Inc.**  
**Notes to the Condensed Consolidated Financial Statements**  
**(Expressed in U.S. Dollars)**  
**Three Months Ended March 31, 2011**  
**(Unaudited)**

**3. Significant Accounting Policies - Continued**

**(a) Basis of consolidation**

**(iv) Transactions eliminated on consolidation**

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

**(b) Foreign currency**

**(i) Foreign currency transactions**

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are re-translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are re-translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on re-translation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognized in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

**(ii) Foreign operations**

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

Foreign currency differences are recognized in other comprehensive income in the cumulative translation account.

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

**China Education Resources Inc.**  
**Notes to the Condensed Consolidated Financial Statements**  
**(Expressed in U.S. Dollars)**  
**Three Months Ended March 31, 2011**  
**(Unaudited)**

**3. Significant Accounting Policies - Continued**

**(b) Foreign currency – Continued**

**(ii) Foreign operations - Continued**

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

**(c) Financial instruments**

**(i) Non-derivative financial assets**

The Group initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

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

The Group has the following non-derivative financial assets: financial assets at fair value through profit or loss, loans and receivables.

*Financial assets at fair value through profit or loss*

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

**China Education Resources Inc.**  
**Notes to the Condensed Consolidated Financial Statements**  
**(Expressed in U.S. Dollars)**  
**Three Months Ended March 31, 2011**  
**(Unaudited)**

**3. Significant Accounting Policies - Continued**

**(c) Financial instruments**

**(i) Non-derivative financial assets**

*Loans and receivables*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables comprise trade and other receivables.

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

**(ii) Non-derivative financial liabilities**

The Group initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

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

The Group has the following non-derivative financial liabilities: loans and borrowings, bank overdrafts, and trade and other payables.

Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

**China Education Resources Inc.**  
**Notes to the Condensed Consolidated Financial Statements**  
**(Expressed in U.S. Dollars)**  
**Three Months Ended March 31, 2011**  
**(Unaudited)**

**3. Significant Accounting Policies - Continued**

**(c) Financial instruments**

**(iii) Share capital**

*Common shares*

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

*Repurchase of share capital (treasury shares)*

When share capital recognized as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognized as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to/from retained earnings.

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

**(i) Recognition and measurement**

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets for which the commencement date for capitalization is on or after January 1, 2010.

Cost also may include transfers from other comprehensive income of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net within other income in profit or loss.

**China Education Resources Inc.**  
**Notes to the Condensed Consolidated Financial Statements**  
**(Expressed in U.S. Dollars)**  
**Three Months Ended March 31, 2011**  
**(Unaudited)**

**3. Significant Accounting Policies - Continued**

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

**(ii) Subsequent costs**

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

**(iii) Depreciation**

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

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

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

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

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

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**3. Significant Accounting Policies - Continued**

**(e) Intangible assets**

**(i) Goodwill**

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets.

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

*Subsequent measurement*

Goodwill is measured at cost less accumulated impairment losses.

**(ii) Other intangible assets**

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

**(iii) Subsequent expenditure**

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

**(iv) Amortization**

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

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



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**3. Significant Accounting Policies - Continued**

**(f) Inventories**

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

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

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

**(g) Impairment**

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

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

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

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

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**3. Significant Accounting Policies - Continued**

**(g) Impairment - Continued**

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

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

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

Impairment losses on available-for-sale investment securities are recognized by transferring the cumulative loss that has been recognized in other comprehensive income, and presented in unrealized gains/losses on available-for-sale financial assets in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognized in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

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**3. Significant Accounting Policies - Continued**

**(g) Impairment - Continued**

**(ii) Non-financial assets**

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

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

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

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

Goodwill that forms part of the carrying amount of an investment in an associate is not recognized separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

**(h) Employee benefits**

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

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

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

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**3. Significant Accounting Policies - Continued**

**(h) Employee benefits - Continued**

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

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

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognized as an expense with a corresponding increase in liabilities, over the period that the employees unconditionally become entitled to payment. The liability is re-measured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognized as personnel expense in profit or loss.

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

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

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**3. Significant Accounting Policies - Continued**

**(i) Revenue**

**(i) Goods sold**

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

The timing of the transfers of risks and rewards varies depending on the individual terms of the contract of sale. Sales from product sales are recognized when title and risk are transferred and payments are received or rights to receive consideration are obtained, evidence of an arrangement exists, and collection of consideration is reasonably assured. Revenues received in advance of these criteria are deferred until future periods.

**(ii) Services**

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

Teacher training services provided through the internet portal are recognized when services are rendered and payments are received or rights to receive consideration are obtained and collection of consideration is reasonably assured. Revenues received in advance of these criteria are deferred until future periods.

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**3. Significant Accounting Policies - Continued**

**(j) Lease payments**

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for in the period in which they are incurred.

**Determining whether an arrangement contains a lease**

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfillment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Group the right to control the use of the underlying asset.

At inception or upon reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, an asset and a liability are recognized at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognized using the Group's incremental borrowing rate.

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

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and gains on hedging instruments that are recognized in profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, dividends on preference shares classified as liabilities, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognized on financial assets, and losses on hedging instruments that are recognized in profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

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

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**3. Significant Accounting Policies - Continued**

**(l) Income tax**

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

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

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

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

**(m) Earnings per share**

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

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**3. Significant Accounting Policies - Continued**

**(n) 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.

**(o) 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”*

As of January 1, 2013, the Group will be required to adopt IFRS 9, “Financial Instruments”, which is the result of the first phase of the IASB’s project to replace IAS 39, “Financial Instruments: Recognition and Measurement”. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. The adoption of this standard is not expected to have a material impact on the Group’s consolidated financial statements.

*IFRS 10 “Consolidated Financial Statements”*

On May 12, 2011, IFRS 10 – “Consolidated Financial Statements” was released and will be effective January 1, 2013 for the Group. The Group is currently evaluating the impact of adopting this pronouncement will have on the financial statements.

*IFRS 11 “Joint Arrangements”*

On May 12, 2011, IFRS 11 – “Joint Arrangements” was released and will be effective January 1, 2013 for the Group. The Group is currently evaluating the impact of adopting this pronouncement will have on the financial statements.

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

On May 12, 2011, IFRS 12 – “Disclosure of Interests in Other Entities” was released and will be effective January 1, 2013 for the Group. The Group is currently evaluating the impact of adopting this pronouncement will have on the financial statements.

*IFRS 13 “Fair Value Measurement”*

On May 12, 2011, IFRS 13 - “Fair Value Measurement” was released and will be effective January 1, 2013 for the Group. The Group is currently evaluating the impact of adopting this pronouncement will have on the financial statements.



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**4. Finance Income and Finance Costs**

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2011</b>	<b>2010</b>
Recognized in profit and loss		
Interest income on bank deposits	\$ 556	\$ 224
Finance income	\$ 556	\$ 224
Bank charges	\$ (782)	\$ (752)
Interest expenses on financial liabilities measured at amortized cost	(422)	(6)
Net foreign exchange loss	(115)	(2,072)
Finance costs	\$ (1,319)	\$ (2,830)
Net finance costs recognized in profit or loss	\$ (763)	\$ (2,606)
Recognized in other comprehensive income		
Foreign currency translation differences for foreign operations	\$ (51,244)	\$ 21,611
Finance income recognized in other comprehensive income, net of tax	\$ (51,244)	\$ 21,611
Attributable to:		
Equity holders of the Company	\$ (45,630)	\$ 21,611
Non-controlling interest	(5,614)	-
	\$ (51,244)	\$ 21,611

**5. Income Tax**

At March 31, 2011, the Company has non-capital loss carry forwards for Canadian purposes aggregating approximately \$5,925,000 available to reduce taxable income otherwise calculated in future years. The Company also has non-capital loss carry forwards for China tax purposes aggregating approximately \$3,858,000 available to reduce taxable income otherwise calculated in future years.

The Company also has capital losses of approximately \$1,265,000 available to offset future capital gains in Canada. The capital loss is carried forward indefinitely.

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**6. Trade and other receivables**

	<b>March 31, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
Trade receivables	\$ 2,912,140	\$ 1,085,398	\$ 1,480,627
Other receivables	686,417	221,389	225,412
Due from related parties	734,233	1,780,345	95,425
	<u>4,332,790</u>	<u>3,087,132</u>	<u>1,801,464</u>
Loans and receivables	26,273	26,085	25,183
	<u>\$ 4,359,063</u>	<u>\$ 3,113,217</u>	<u>\$ 1,826,647</u>
Non-current	\$ 26,273	\$ 26,085	\$ 25,183
Current	<u>4,332,790</u>	<u>3,087,132</u>	<u>1,801,464</u>
	<u>\$ 4,359,063</u>	<u>\$ 3,113,217</u>	<u>\$ 1,826,647</u>

**7. Inventories**

	<b>March 31, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
Finished goods	\$ 845	\$ 140,195	\$ 12,970
	<u>\$ 845</u>	<u>\$ 140,195</u>	<u>\$ 12,970</u>
Inventories carried at fair value less cost to sell	<u>\$ 845</u>	<u>\$ 140,195</u>	<u>\$ 12,970</u>

During the three months ended March 31, 2011, changes in finished goods recognized as cost of sales amounted to \$550,658 (2010: \$549,700). During the three months ended March 31, 2011, the write-down of inventories to net realizable value amounted to \$nil (2010: \$nil) and the reversal of write-downs amounted to \$nil (2010: \$nil). The write-down and reversal are included in cost of sales.

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**8. Property, Plant and Equipment**

	Computer equipment	Office equipment	Motor vehicles	Leasehold improvement	Website development	Total
<b>Cost or deemed cost</b>						
Balance, at January 1, 2010	\$ 408,466	\$ 38,999	\$ 416,629	\$ 52,597	\$ 3,051,894	\$ 3,968,585
Additions	34,988	2,534	34,553	-	-	72,075
Disposals	(16,095)	-	(67,256)	-	-	(83,351)
Effect of movements in exchange rates	17,116	1,466	14,054	1,886	121,843	156,365
Balance, at December 31, 2010	<u>\$ 444,475</u>	<u>\$ 42,999</u>	<u>\$ 397,980</u>	<u>\$ 54,483</u>	<u>\$ 3,173,737</u>	<u>\$ 4,113,674</u>
Balance, at January 1, 2011	\$ 444,475	\$ 42,999	\$ 397,980	\$ 54,483	\$ 3,173,737	\$ 4,113,674
Additions	2,572	-	-	-	-	2,572
Disposals	-	-	-	-	-	-
Effect of movements in exchange rates	3,864	310	2,859	391	25,297	32,721
Balance, at March 31, 2011	<u>\$ 450,911</u>	<u>\$ 43,309</u>	<u>\$ 400,839</u>	<u>\$ 54,874</u>	<u>\$ 3,199,034</u>	<u>\$ 4,148,967</u>

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**8. Property, Plant and Equipment - Continued**

	Computer equipment	Office equipment	Motor vehicles	Leasehold improvement	Website development	Total
<b>Depreciation and impairment losses</b>						
Balance, at January 1, 2010	\$ 261,022	\$ 8,120	\$ 301,083	\$ 19,906	\$ 2,967,119	\$ 3,557,250
Depreciation for the period	80,498	3,273	67,800	-	85,594	237,165
Impairment loss	-	-	-	-	-	-
Disposals	(11,485)	-	(53,147)	-	-	(64,632)
Effect of movements in exchange rates	12,488	832	11,187	12,768	121,024	158,299
Balance, at December 31, 2010	<u>\$ 342,523</u>	<u>\$ 12,225</u>	<u>\$ 326,923</u>	<u>\$ 32,674</u>	<u>\$ 3,173,737</u>	<u>\$ 3,888,082</u>
Balance, at January 1, 2011	\$ 342,523	\$ 12,225	\$ 326,923	\$ 32,674	\$ 3,173,737	\$ 3,888,082
Depreciation for the period	20,756	789	11,921	2,729	-	36,195
Impairment loss	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Effect of movements in exchange rates	3,139	184	2,412	250	25,297	31,282
Balance, at March 31, 2011	<u>\$ 366,418</u>	<u>\$ 13,198</u>	<u>\$ 341,256</u>	<u>\$ 35,653</u>	<u>\$ 3,199,034</u>	<u>\$ 3,955,559</u>
<b>Carrying amounts</b>						
At January 1, 2010	\$ 147,444	\$ 30,879	\$ 115,546	\$ 32,691	\$ 84,775	\$ 411,335
At December 31, 2010	<u>\$ 101,952</u>	<u>\$ 30,774</u>	<u>\$ 71,057</u>	<u>\$ 21,809</u>	<u>\$ -</u>	<u>\$ 225,592</u>
At January 1, 2011	\$ 101,952	\$ 30,774	\$ 71,057	\$ 21,809	\$ -	\$ 225,592
At March 31, 2011	<u>\$ 84,493</u>	<u>\$ 30,111</u>	<u>\$ 59,583</u>	<u>\$ 19,221</u>	<u>\$ -</u>	<u>\$ 193,408</u>

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**9. Intangible assets**

	<b>Goodwill</b>
<b>Cost</b>	
Balance, at January 1, 2010	\$ 2,560,218
Movements during the period	-
Balance, at December 31, 2010	<u>\$ 2,560,218</u>
Balance, at January 1, 2011	\$ 2,560,218
Movements during the period	-
Balance, at March 31, 2011	<u>\$ 2,560,218</u>
<b>Goodwill</b>	
<b>Amortization and impairment losses</b>	
Balance, at January 1, 2010	\$ 2,560,218
Impairment loss	-
Balance, at December 31, 2010	<u>\$ 2,560,218</u>
Balance, at January 1, 2011	\$ 2,560,218
Impairment loss	-
Balance, at March 31, 2011	<u>\$ 2,560,218</u>
<b>Carrying amounts</b>	
At January 1, 2010	\$ 2,560,218
At December 31, 2010	<u>\$ 2,560,218</u>
At January 1, 2011	\$ 2,560,218
At March 31, 2011	<u>\$ 2,560,218</u>

The impairment loss is recognized in cost of sales in the statement of comprehensive income.

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**10. Long-Term Other Receivable**

	<u>March 31,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>	<u>January 1,</u> <u>2010</u>
Loan due from Shengshi Education Service Company ("Shengshi") [i]	\$ 644,821	\$ 640,221	\$ 638,859
Bad debt provision	(618,547)	(614,136)	(613,676)
	<u>\$ 26,273</u>	<u>\$ 26,085</u>	<u>\$ 25,183</u>

[i] Shengshi is a non-related business partner of one of the Chinese subsidiaries. The total loan due from Shengshi was RMB7,630,000 (\$1,118,405) of which RMB 3,970,000 (\$581,923) was non-interest bearing and was due September 2006, RMB1,320,000 (\$193,486) was bearing 10% interest and was due on June 2006 and RMB2,340,000 (\$342,997) was bearing 10% interest and was due on August 2006. Of the total loan, RMB4,551,269 (\$667,125) was collateralized by the shares of the Company owned by Beijing Anli Information and Consulting Company ("Anli") and a shareholder of the Company. In 2006, management determined the collectability of this loan became uncertain. In light of this uncertainty, management set up a provision of RMB3,078,731 (\$451,280) for the portion of the loan that is unsecured and did not accrue the interest income. In 2007, management set up additional provision of RMB235,000 (\$34,446). As of December 31, 2008, management decided to adjust the receivable to net realizable amount by recording an additional provision of RMB4,189,769 (\$614,136). No additional provision was recorded as of March 31, 2011 and December 31, 2010. 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.

**11. Share Capital**

	<b>2011</b>
On issue at January 1	47,364,983
Issued for cash	-
Exercise of share options	-
On issue at March 31	<u>47,364,983</u>
	<b>2010</b>
On issue at January 1	45,864,983
Issued for cash	1,500,000
On issue at December 31	<u>47,364,983</u>

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**11. Share Capital - Continued**

**Issuance of common shares**

On February 3, 2010, 1,500,000 common shares were issued at C\$0.53 (\$0.50) per share upon completion of a non-brokered private placement for gross proceeds of C\$795,000 (\$749,364).

**Common shares and preferred shares**

At March 31, 2011, the authorized share capital comprised of unlimited voting common shares without par value and 20,000,000 preferred shares. No preferred shares have been issued to date.

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

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

AOCI is comprised of the following separate components of equity:

Cumulative translation account

The cumulative translation account 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 period ended March 31, 2011 was based on the profit (loss) attributable to common shareholders of \$443,911 (2010: net loss of \$288,767), and a weighted average number of common shares outstanding of 47,364,983 (2010: 46,131,650), calculated as follows:

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

	<b>2011</b>	<b>2010</b>
Issued common share at January 1	47,364,983	43,608,325
Effect of shares issued in February 2010	-	2,523,325
Weighted average number of common shares at March 31	47,364,983	46,131,650

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**12. Earnings (Loss) Per Share - Continued**

(b) Diluted earnings per share

The calculation of diluted earnings per share for the period ended March 31, 2011 was based on profit attributable to common shareholders of \$443,911, and a weighted average number of common shares outstanding after adjustment for the effects of all dilutive potential common shares of 100,000.

Weighted average number of common shares for diluted earnings per share calculations:

	<b>2011</b>
Issued common share at January 1	47,364,983
Effect of share options on issue	<u>6,250</u>
Weighted average number of common shares at March 31	<u><u>47,371,233</u></u>

At March 31, 2011, 3,474,000 share options were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

No diluted loss per share was calculated for the period ended March 31, 2010 as the effect would have been anti-dilutive.

**13. Share-based payment**

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

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.



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**13. Share-based payment - Continued**

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

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

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

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

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

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

	<b>Number of Shares</b>		<b>Weighted Average Exercise Price Per Share (USD)</b>		<b>Weighted Average Exercise Price Per Share (CND)</b>
Balance, January 1, 2010	3,474,000	\$	0.75	\$	0.77
Granted during the period	820,000		0.71		0.73
Cancelled/expired during the period	(720,000)		0.82		0.84
Balance, December 31, 2010	3,574,000		0.78		0.80
Cancelled/expired during the period	(50,000)		0.58		0.60
Balance, March 31, 2011	3,524,000	\$	0.78	\$	0.80

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**13. Share-based payment - Continued**

The options outstanding at March 31, 2011 have an exercise price in the range of \$0.44 to \$1.02 (December 31, 2010: \$0.45 to \$1.04) and a weighted average contractual life of 2.77 years (December 31, 2010: \$2.98).

There were no stock options granted during the three months ended March 31, 2011.

Inputs for measurement of grant date fair values

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

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

**14. Trade and other payables**

	<b>March 31, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
Trade payables	\$ 1,415,026	\$ 1,731,299	\$ 496,194
Due to related parties	274,028	221,899	392,922
Non-trade payables and accrued expenses	2,023,906	1,960,522	1,839,010
	<u>\$ 3,712,960</u>	<u>\$ 3,913,720</u>	<u>\$ 2,728,126</u>

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

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**15. Financial Instruments**

**Credit risk**

Exposure to credit risk

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

	<b>Carrying amount</b>		
	<b>March 31, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
Loans and receivables	\$ 4,359,063	\$ 3,113,217	\$ 1,826,647
Cash	478,789	1,028,481	138,432
	<u>\$ 4,837,852</u>	<u>\$ 4,141,698</u>	<u>\$ 1,965,079</u>

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

	<b>Carrying amount</b>		
	<b>March 31, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
China	\$ 4,339,822	\$ 3,106,494	\$ 1,823,838
Canada	19,241	6,723	2,809
	<u>\$ 4,359,063</u>	<u>\$ 3,113,217</u>	<u>\$ 1,826,647</u>

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

	<b>Carrying amount</b>		
	<b>March 31, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
End-user customers	\$ 2,912,140	\$ 1,085,398	\$ 1,480,627
Others	1,446,923	2,027,819	346,020
	<u>\$ 4,359,063</u>	<u>\$ 3,113,217</u>	<u>\$ 1,826,647</u>

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**15. Financial Instruments - Continued**

**Credit risk - Continued**

Exposure to credit risk - Continued

The Group's most significant customer, accounts for \$239,290 of receivables carrying amount at March 31, 2011 (December 31, 2010: \$73,360; January 1, 2010: \$nil).

The aging of loans and receivables at the reporting date was:

	March 31, 2011		December 31, 2010		January 1, 2010	
	Gross amount	Impairment	Gross amount	Impairment	Gross amount	Impairment
Outstanding 0 - 30 days	\$ 829,006	\$ -	\$ 359,914	\$ -	\$ 366,525	\$ -
Outstanding 31 - 120 days	2,291,845	-	679,493	-	1,261,273	-
Outstanding 121 - 365 days	644,981	-	1,064,087	-	46,094	-
Outstanding for more than 1 year	1,302,327	(709,096)	1,718,819	(709,096)	861,851	(709,096)
	\$ 5,068,159	\$ (709,096)	\$ 3,822,313	\$ (709,096)	\$ 2,535,743	\$ (709,096)

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

	2011
Balance at January 1	\$ 709,096
Impairment loss recognized	-
Balance at March 31	\$ 709,096
	2010
Balance at January 1	\$ 709,096
Impairment loss recognized	-
Balance at December 31	\$ 709,096

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**15. Financial Instruments - Continued**

**Credit risk - Continued**

Exposure to credit risk - Continued

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

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

The allowance accounts in respect of loans and 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 March 31, 2011 the Group has collective impairments on its loans and receivables of \$709,096. (December 31, 2010: \$709,096).

**Currency risk**

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

<b>Foreign currency in U.S. dollar equivalent</b>	<b>March 31, 2011</b>		<b>December 31, 2010</b>		<b>January 1, 2010</b>	
	<b>CAD</b>	<b>RMB</b>	<b>CAD</b>	<b>RMB</b>	<b>CAD</b>	<b>RMB</b>
Cash at bank	\$ 22,511	\$ 456,278	\$ 12,830	\$ 1,015,651	\$ 29,800	\$ 108,632
Trade receivables	-	2,912,140	-	1,085,398	-	1,480,627
Other receivables	19,241	667,176	6,723	214,666	2,809	222,603
Due from related parties	-	734,233	-	1,780,345	-	95,425
Other receivables (non-current)	-	26,273	-	26,085	-	25,183
Trade and other payables	637,941	3,075,019	502,957	3,410,763	292,651	2,435,475
Gross statement of financial position exposure	\$ 679,693	\$ 7,871,119	\$ 522,510	\$ 7,532,908	\$ 325,260	\$ 4,367,945

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**15. Financial Instruments - Continued**

**Sensitivity analysis**

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

<b>U.S. dollars against</b>	<b>Equity</b>	<b>Profit or loss</b>
<b>March 31, 2011</b>		
CAD (10% strengthening)	\$ -	\$ 16,992
RMB (10% strengthening)	\$ -	\$ 196,778
<b>December 31, 2010</b>		
CAD (10% strengthening)	\$ -	\$ 52,251
RMB (10% strengthening)	\$ -	\$ 753,291

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

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**15. Financial Instruments - Continued**

**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 financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

	<b>March 31, 2011</b>		<b>December 31, 2010</b>	
	<b>Carrying amount</b>	<b>Fair value</b>	<b>Carrying amount</b>	<b>Fair value</b>
Assets carried at amortized cost	\$ 193,408	\$ 193,408	\$ 225,592	\$ 225,592
Loans and receivables	4,359,063	4,359,063	3,113,217	3,113,217
Cash and cash equivalents	478,789	478,789	1,028,481	1,028,481
	<u>\$ 5,031,260</u>	<u>\$ 5,031,260</u>	<u>\$ 4,367,290</u>	<u>\$ 4,367,290</u>
Liabilities carried at amortized cost				
Trade and other payables	\$ 3,712,960	\$ 3,712,960	\$ 3,913,720	\$ 3,913,720
	<u>\$ 3,712,960</u>	<u>\$ 3,712,960</u>	<u>\$ 3,913,720</u>	<u>\$ 3,913,720</u>

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**16. Determination of fair values**

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

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

The fair value of property, plant and equipment recognized as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The fair value of items of plant, equipment, fixtures and fittings is based on the market approach and cost approaches using quoted market prices for similar items when available and replacement cost when appropriate.

**(ii) Intangible assets**

The fair value of patents and trademarks acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the patent or trademark being owned. The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows.

The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

**(iii) Inventories**

The fair value of inventories acquired in a business combination is determined based on the estimated selling price in the common course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

**(iv) Investments in equity and debt securities**

The fair value of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted closing bid price at the reporting date. The fair value of available-for-sale investments not traded in an active market is determined using a valuation technique that considers earnings multiples of public companies in the same industry, recent transactions in the industry, as well as the original value allocated. The fair value of held-to-maturity investments is determined for disclosure purposes only.



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**16. Determination of fair values - Continued**

**(v) Trade and other receivables**

The fair value of trade and other receivables, excluding construction work in progress 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.

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

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

**17. Financial risk management**

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

The 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 Group's credit risk is primarily attributable to cash and cash equivalents and accounts receivables. The Group has no significant concentration of credit risk arising from operations. Other receivables mainly consist of an advance to a third party for project development, as well as goods and services tax due from the Federal Government of Canada, interest receivable and amounts advanced to employees and others. Management assesses the credit risk concentration with respect to accounts receivable and other receivables annually and adjusts them accordingly.

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**17. Financial risk management - Continued**

(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 March 31, 2011, the Group had a negative working capital of \$1,389,338 (December 31, 2010: \$2,173,168). The Group is focused on generating sales revenue and is actively pursuing additional sources of financing to ensure that it can meet its ongoing operating requirements and planned capital expenditures.

(c) Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates and equity prices.

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. From time to time, the Group is exposed to short term interest rates through the interest earned on cash and cash equivalents. The Group has no interest-bearing debt. 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.

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**17. Financial risk management - Continued**

(c) Market risk – Continued

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

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

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

	<b>March 31,</b>	<b>December 31,</b>
	<b>2011</b>	<b>2010</b>
Total liabilities	\$ 6,289,817	\$ 6,503,513
Less: cash	(478,789)	(1,028,481)
Net debt	<u>\$ 5,811,028</u>	<u>\$ 5,475,032</u>
Total equity	<u>\$ 502,816</u>	<u>\$ 103,981</u>
Debt to capital ratio	12	53

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**17. Financial risk management - Continued**

(d) Capital management - Continued

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 three months ended March 31, 2011. Neither the Company nor its subsidiaries are subject to externally imposed capital requirements.

**18. Operating segments**

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

Due to the size of the Group, the provision of education internal portal services and distribution of educational textbooks and materials were considered in one segment based on the organizational structure, strategies, decision making and the availability of financial information. The Group's CEO reviews internal management reports on at least a quarterly basis.

**Geographical segments**

The 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. 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 Company's revenue was generated in China. All goodwill and majority of all of the capital assets were located in China.

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

<b>Three months ended March 31, 2011</b>	<b>Canada</b>	<b>China</b>	<b>Total</b>
Revenue from external customers	\$ -	\$ 2,192,958	\$ 2,192,958
Equipment and website development costs	-	193,408	193,408
Goodwill	-	2,560,218	2,560,218

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**18. Operating segments - Continued**

<b>Year ended December 31, 2010</b>	<b>Canada</b>	<b>China</b>	<b>Total</b>
Revenue from external customers	\$ -	\$ 5,436,165	\$ 5,436,165
Equipment and website development costs	-	225,592	225,592
Goodwill	-	2,560,218	2,560,218

**Major customer**

Revenues from one customer represents approximately \$334,639 (2010: \$386,795) of the Group's total revenues for the three months ended March 31, 2011.

**19. Related parties**

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

**Key management personnel and director transactions**

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

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		Balance outstanding		
		Three months ended		March 31,	December 31,	January 1,
		March 31,	2010	2011	2010	2010
C F Zhou	Salary and benefits	\$ 47,742	\$ 43,843	\$ 274,028	\$ 221,899	\$ 116,516
Danny Hon (i)	Accounting fees	18,264	18,829	86,894	33,624	10,269
		<u>\$ 66,006</u>	<u>\$ 62,672</u>	<u>\$ 360,922</u>	<u>\$ 255,523</u>	<u>\$ 126,785</u>

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

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**19. Related parties - Continued**

**Other related party transactions**

	<b>March 31, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
Amount due from Beijing Anli Information and Consulting Company ("Anli"), net of bad debt provision of \$94,960 [i]	\$ -	\$ 48,434	\$ 80,778
Amount due from a shareholder of the subsidiary company [ii]	734,233	1,731,911	14,647
	<b>\$734,233</b>	<b>\$ 1,780,345</b>	<b>\$ 95,425</b>

[i] Anli and its major shareholder are shareholders of the Company. In 2003, the Company advanced funds of RMB 1,200,000 (\$175,896) to Anli. A loan agreement was signed on October 28, 2003 for a one-year term, non-interest bearing. The loan was extended to October 31, 2008. At December 31, 2009, the loan was not yet been repaid and collateralized by the shares of the Company owned by Anli. The Company made a bad debt provision of RMB648,500 (\$95,057) in total based on the market value of the shares of the Company that held by the Company as the guarantee at December 31, 2008. No additional provision was recorded as of December 31, 2009 and 2010. The remaining balance was repaid in full during the period ended March 31, 2011.

[ii] It represents an advance to a shareholder of ZYCY as non-secured and non-interest bearing short-term loan. Subsequently, \$910,320 was received.

**20. Group entities**

Significant subsidiaries

<b>Name of subsidiary</b>	<b>Country of incorporation</b>	<b>Ownership interest</b>		
		<b>March 31, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
CEN China Education Network Ltd. ("CEN Network")	Canada	100%	100%	100%
China Education International Inc.	BVI	100%	100%	100%
CEN China Education Overseas Corporation	BVI	100%	100%	100%
CEN Smart Networks Ltd. ("CEN Smart")	China	90%	90%	90%
Today's Teachers Technology & Culture Ltd. ("TTTC")	China	90%	90%	90%
Zhong Yu Cheng Yuan Curriculum Development Center Ltd. ("ZYCY")	China	54%	54%	54%

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**21. Explanation of transition to IFRSs**

As stated in note 2(a), these are the Group's first consolidated financial statements prepared in accordance with IAS 34 *Interim Financial Reporting*.

The accounting policies set out in note 3 have been applied in preparing the financial statements for the three months ended March 31, 2011, the comparative information presented in these financial statements for the three months ended March 31, 2010 and in the preparation of an opening IFRS statement of financial position at January 1, 2010 (the Group's date of transition).

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

	Previous Canadian GAAP	Effect of transition to IFRSs	IFRSs	Previous Canadian GAAP	Effect of transition to IFRSs	IFRSs
	January 1, 2010			December 31, 2010		
Assets						
Current assets						
Cash and cash equivalents	\$ 138,432	\$ -	\$ 138,432	\$ 1,028,481	\$ -	\$ 1,028,481
Trade and other receivables	1,801,464	-	1,801,464	3,087,132	-	3,087,132
Prepaid expenses	37,752	-	37,752	41,887	-	41,887
Inventories	12,970	-	12,970	140,195	-	140,195
Total current assets	<u>\$1,990,618</u>	<u>\$ -</u>	<u>\$1,990,618</u>	<u>\$4,297,695</u>	<u>\$ -</u>	<u>\$4,297,695</u>
Long-term other receivable	\$ 25,183	\$ -	\$ 25,183	\$ 26,085	\$ -	\$ 26,085
Property, plant and equipment	411,335	-	411,335	225,592	-	225,592
Intangible assets	2,560,218	-	2,560,218	2,560,218	-	2,560,218
Total non-current assets	<u>\$2,996,736</u>		<u>\$2,996,736</u>	<u>\$2,811,895</u>		<u>\$2,811,895</u>
Total assets	<u>\$4,987,354</u>	<u>\$ -</u>	<u>\$4,987,354</u>	<u>\$7,109,590</u>	<u>\$ -</u>	<u>\$7,109,590</u>

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**21. Explanation of transition to IFRSs - Continued**

	Previous	Effect of	IFRSs	Previous	Effect of	IFRSs
	Canadian	transition		Canadian	transition	
	GAAP	to IFRSs		GAAP	to IFRSs	
	January 1, 2010			December 31, 2010		
<b>Liabilities</b>						
<b>Current liabilities</b>						
Trade and other payables	\$ 5,143,581	\$ -	\$ 5,143,581	\$ 6,177,572	\$ -	\$ 6,177,572
Deferred income	-	-	-	75,048	-	75,048
Deferred tax liabilities	-	-	-	218,243	-	218,243
<b>Total current liabilities</b>	<b>\$ 5,143,581</b>	<b>\$ -</b>	<b>\$ 5,143,581</b>	<b>\$ 6,470,863</b>	<b>\$ -</b>	<b>\$ 6,470,863</b>
Deferred tax liabilities	\$ -	\$ -	\$ -	\$ 32,650	\$ -	\$ 32,650
<b>Total non-current liabilities</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 32,650</b>	<b>\$ -</b>	<b>\$ 32,650</b>
<b>Total liabilities</b>	<b>\$ 5,143,581</b>	<b>\$ -</b>	<b>\$ 5,143,581</b>	<b>\$ 6,503,513</b>	<b>\$ -</b>	<b>\$ 6,503,513</b>
Non-controlling interest	\$ 435,723	\$(435,723)	\$ -	\$ 502,096	\$(502,096)	\$ -
<b>Equity</b>						
Share capital	\$ 28,709,895	\$ -	\$ 28,709,895	\$ 29,455,512	\$ -	\$ 29,455,512
Contributed surplus	1,577,462	-	1,577,462	2,200,911	(84,760)	2,116,151
Accumulated other comprehensive income	490,461	-	490,461	433,158	-	433,158
Deficit	(31,369,768)	-	(31,369,768)	(31,985,600)	84,760	(31,900,840)
<b>Total equity attributable to equity holders of the Company</b>	<b>(591,950)</b>	<b>-</b>	<b>(591,950)</b>	<b>103,981</b>	<b>-</b>	<b>103,981</b>
Non-controlling interest	-	435,723	435,723	-	502,096	502,096
<b>Total equity</b>	<b>\$ (591,950)</b>	<b>\$ 435,723</b>	<b>\$ (156,227)</b>	<b>\$ 103,981</b>	<b>\$ 502,096</b>	<b>\$ 606,077</b>
<b>Total liabilities and equity</b>	<b>\$ 4,987,354</b>	<b>\$ 435,723</b>	<b>\$ 4,987,354</b>	<b>\$ 7,109,590</b>	<b>\$ 502,096</b>	<b>\$ 7,109,590</b>



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**21. Explanation of transition to IFRSs - Continued**

**Reconciliation of comprehensive income for the three months ended March 31, 2010:**

	<b>Canadian GAAP</b>	<b>Effect of transition to IFRSs</b>	<b>IFRS</b>
<b>Continuing operations</b>			
Revenue	\$ 1,702,788	\$ -	\$ 1,702,788
Cost of sales	(549,700)	-	(549,700)
<b>Gross profit</b>	<u>\$ 1,153,088</u>	<u>\$ -</u>	<u>\$ 1,153,088</u>
Other income	\$ 2,295	\$ -	\$ 2,295
Selling and distribution expenses	(276,301)	-	(276,301)
Administrative expenses	(324,487)	2,830	(321,657)
Amortization	(130,756)	-	(130,756)
Stock based compensation expenses	(498,495)	25,252	(473,243)
<b>Results of operating activities</b>	<u>\$ (74,656)</u>	<u>\$ 28,082</u>	<u>\$ (46,574)</u>
Finance income	\$ 224	\$ -	\$ 224
Finance cost	-	(2,830)	(2,830)
<b>Net finance costs</b>	<u>\$ 224</u>	<u>\$ (2,830)</u>	<u>\$ (2,606)</u>
<b>Profit before income tax</b>	<u>\$ (74,432)</u>	<u>\$ 25,252</u>	<u>\$ (49,180)</u>
Income tax expense	-	-	-
Non-controlling interest	(239,587)	239,587	-
<b>Profit from continuing operations</b>	<u>\$ (314,019)</u>	<u>\$ 264,839</u>	<u>\$ (49,180)</u>
<b>Other comprehensive income</b>			
Foreign currency translation differences for foreign operations	\$ 21,611	\$ -	\$ 21,611
<b>Other comprehensive income for the period, net of income tax</b>	<u>\$ 21,611</u>	<u>\$ -</u>	<u>\$ 21,611</u>
<b>Total comprehensive income for the period</b>	<u>\$ (292,408)</u>	<u>\$ 264,839</u>	<u>\$ (27,569)</u>

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**21. Explanation of transition to IFRSs - Continued**

**Reconciliation of comprehensive income for the three months ended March 31, 2010:**

	<b>Canadian GAAP</b>	<b>Effect of transition to IFRSs</b>	<b>IFRS</b>
<b>Loss attributable to:</b>			
Owners of the Company	\$ (74,432)	\$ 25,252	\$ (49,180)
Non-controlling interest	(239,587)	-	(239,587)
<b>Loss for the period</b>	<b>\$ (314,019)</b>	<b>\$ 25,252</b>	<b>\$ (288,767)</b>
<b>Total comprehensive income attributable to:</b>			
Owners of the Company	\$ (52,821)	\$ 25,252	\$ (27,569)
Non-controlling interest	(239,587)	-	(239,587)
<b>Total comprehensive income for the period</b>	<b>\$ (292,408)</b>	<b>\$ 25,252</b>	<b>\$ (267,156)</b>
<b>Earnings per share</b>			
Basic and diluted loss per share	\$ (0.007)		\$ (0.007)

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

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

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**21. Explanation of transition to IFRSs - Continued**

**Notes to the reconciliations**

(a) Business Combinations

IFRS 1 allows the Company to apply IFRS 3 (revised), *Business Combinations*, on a prospective or retrospective basis. The Company elected to apply this standard on a prospective basis for all business combinations completed subsequent to January 1, 2010 (“the Transition Date”).

(b) Property, plant and equipment

IFRS 1 allows the Group to measure certain assets of property, plant and equipment and intangible assets at fair value at the Transition Date or revalue amounts previously determined under GAAP. The Company elected to use the carrying value as determined under IFRS as the deemed cost as at January 1, 2010.

(c) Share-based payments

IFRS 2 permits the application of that standard only to equity instruments granted after November 7, 2002 that had not vested by January 1, 2010. As permitted the Group has applied IFRS 2 for all equity instruments granted after November 7, 2002 that had not vested by January 1, 2010.

Under Canadian GAAP, each grant was treated as a single arrangement and compensation expense was determined at the time of grant and amortized over the vesting period on a straight-line basis. IFRS requires a separate calculation of compensation expense for awards that vest in installments. Under IFRS, compensation expense differs from Canadian GAAP based on the changing fair values used for each installment and the timing of recognizing compensation expense. Generally, this results in accelerated expense recognition under IFRS. Also, Forfeiture estimates are recognized in the period they are estimated, and are revised for actual forfeitures in subsequent periods. On the Transition Date and December 31, 2010, the Group determined that there was no change in compensation expense in the first quarter because of applying IFRS.

However, for options granted to non-employees, IFRS requires that share-based compensation be measured at the fair value of the services received unless the fair value cannot be reliably measured. Consequently, the share based compensation for options granted to non-employees during the three months ended March 31, 2010 was reduced by \$25,252 and the deficit for the year ended December 31, 2010 was reduced by \$84,760 to reflect the change on conversion from Canadian GAAP to IFRS.

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**21. Explanation of transition to IFRSs - Continued**

**Notes to the reconciliations - Continued**

(d) Impairment of Assets

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

(e) Leases

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

(f) Estimates

In accordance with IFRS 1, an entity's estimates at the date of transition to IFRS must be consistent with estimates made for the same date under Canadian GAAP, unless there is objective evidence that those estimates were made in error. Hindsight was not used to create or revise estimates and accordingly the estimates made by the Company under Canadian GAAP are consistent with their application under IFRS.

(g) Finance income and finance expenses

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