CHINA EDUCATION RESOURCES INC.

Management's Discussion and Analysis
For the six months ended June 30, 2009

FORM 51-102F1

August 28, 2009

This Management Discussion and Analysis ("MD&A") reviews the activities of China Education Resources Inc., its Chinese operating subsidiaries, Today's Teachers Technology & Culture Ltd. ("TTTC") and CEN Smart ("CEN") (and/or collectively "CER" or the "Company") and compares the financial results for the six months ended June 30, 2009 with the same period of 2008. The MD&A should be read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2008, copy of which is filed on the SEDAR website.

The Company prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles, and these statements are filed with the relevant regulatory authorities in Canada. All dollar amounts presented are expressed in United States dollars unless otherwise noted.

FORWARD LOOKING INFORMATION

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

DESCRIPTION AND OVERVIEW OF BUSINESS

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

The Company has worked in all areas of education resources development, marketing and sales. Working with the Curriculum Development Center ("CDC") of China's Ministry of Education ("MOE"), CER has developed a unique national education portal (www.CERSP.com) to help the Central Government implement policy reform. This reform effort is designed to bring China's education system into the twenty first century by changing teaching methods from rote memory learning to a more individualized and creative approach. In collaboration with China's various education authorities and experts, the CERSP portal is designed to support all stakeholders and participants in the K-12 education domain; teachers, students, administrators, subject matter experts, and parents.

In late 2008, the Company launched its comprehensive Education Services Portal ("ESP"). ESP is a natural extension of CERSP, and helps to organize the wealth of teaching, learning, and administrative resources available through CERSP at the individual school level.

CERSP is the equivalent of a mega-portal. It is designed to be accessible by everyone associated with K-12 education across China and is loaded with robust features and resources that enable the development, delivery, and support of resources and activities related to the national K-12 education reform initiative. CERSP is a primary venue for teacher training in schools, districts, cities, and provinces. It is also the aggregator for subject matter experts in all K-12 subject areas and a place where they can gather virtually to improve upon the work they have done in response to national mandates.

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

Currently, our ESP provides the following services:

(a) School Platform

The school platform provides a link between a school with its teachers, students and parents. Through the platform, the school can send messages to the teachers, students and parents. The teachers can upload homework and tests to the platform and the students can go to the platform to complete and submit their homework and write the tests. The school can automatically collect the markings received by each student. Each teacher and student has his own account number registered with the platform. Currently, approximately 1,500 schools have applied to join the platform. We have already opened accounts for approximately 500 schools with around 500,000 students and teachers.

(b) Online tutoring program

Online tutoring program is a platform developed for a teacher to provide online tutoring services through the internet to his students. Currently, we are the only company providing such comprehensive education resources, services and technology in China. Right now we have around 2,000 online tutoring courses provided from 5,000 teachers. Students have to prepay for the services to TTTC and TTTC pays the net amount to the teachers after deducting our share of revenue.

(c) CD products

CD products are packages with CDs containing tutorial materials that are sold at retail stores. We sell them at a discount price to the wholesalers. The CDs only contain some tutorial materials and if a student has further interest, he / she can go to our website for further pay services and attend our online tutoring. There are many competitors in this area. However, we have the advantage of linking our CD products to other services provided by our ESP.

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

The Company, through TTTC, entered into a definitive agreement to purchase a 60% interest in Yu Cheng Yuan Consulting and Service Ltd. ("YCY"), a distributor of education products in China for RMB6,000,000 ($878,460) payable in 2,860,000 shares of common stock of the Company at a deemed value of CND0.35 ($0.30) per share. One-third of the purchase consideration will be paid up front with the balance paid on the first and second anniversary of the closing date, contingent upon YCY generating an annual net profit of RMB2,000,000 ($292,820). On top of increasing its book selling business, the Company can also strengthen its sales and distribution of its national CERSP and ESP web portal services in China through the sales team of YCY.

OVERALL PERFORMANCE

Comparative Figures

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

Selected Annual Information

	2008	2007	2006
Total revenue	$ 476,691	$ 1,457,648	$ 1,435,581
Loss before disontinued operations	(3,534,628)	(4,242,521)	(2,812,775)
Loss before disontinued operations per share	(0.08260)	(0.11160)	(0.0763)
Net loss	(3,534,628)	(4,242,521)	(2,568,387)
Net loss per share	(0.0826)	(0.1116)	(0.0696)
Long-term liabilities	-	22,248	477,914
Cash dividends	-	-	-

Revenue decreased when comparing 2008 with 2006 and 2007. This was due to the change of government policy with engagement of teacher training services being delegated from the central government level to the province, municipal and school levels. The Company has to contact different level of governments to re-establish the revenue from teacher training program. On top of that , there were also more competitors come into the teacher training market.

The increase in net loss in 2007 as compared with 2006 was mainly due to the amortization of the previously capitalized web-site development cost of $871,860 after the commercialization of the portal in February 2007 and the recording of website operating expenses of $1,641,093 in 2007.

Results of Operations

For the three months ended June 30, 2009:

For the three months ended June 30, 2009, the Company reported aggregate sales of $53,319 (2008: $187,793). Sales revenue of $40,195 (2008: $177,621) was attributable to revenue derived from teacher training service through the internet portal and $13,124 (2008: $10,172) was from

the Company's traditional business, book selling, with related cost of sales of $8,986 (2008: $4,183).

The Company recognized a net loss for the three months ended June 30, 2009 of $323,224 as compared to a net loss of $720,975 for the comparable 2008 period. The net loss per share was $0.0075 for the three months ended June 30, 2009 as compared to a net loss per share of $0.0168 for comparable period ended June 30, 2008.

The following is a discussion of certain expense categories:

General and administrative expenses

For the three months ended June 30, 2009, selling and general and administrative expenses were $355,009 compared to $608,290 recorded in 2008. The decrease in expenses was due to a decrease in development expenditures for the portal and the cessation of work on the registration statement for a US listing.

Included as part of the general and administrative expenses:

Accounting and audit fees decreased to $38,314 for the three months ended June 30, 2009 from $72,507 for the comparable 2008 period. The decrease was mainly due to the change of auditors.

Travel decreased to $866 for the three months ended June 30, 2009 from $11,037 for the comparable 2008 period due to reduction in travel by management to China and the United States.

Amortization

The amortization decreased to $296,542 for the three months ended June 30, 2009 as compared to $300,613 in the same period of 2008.

Selling expenses

The selling expenses of $39,250 for the three months ended June 30, 2009 is reduced as compared to $172,815 in the same period of 2008 as a result of decrease in revenue.

Stock based compensation

During the three months ended June 30, 2009, the Company recorded stock based compensation expenses of $11,760 (2008: $414) for options previously granted and vesting over time.

Accounts payable written off

During the three months ended June 30, 2009, the Company reached an agreement with the Chinese government agency to cancel the agreement of referring to its name in the Company's internet training website. The Company will pay RMB280,000 ($40,995) to the other party before the end of 2009 as the final settlement of any outstanding balance payable. The Company thus wrote off RMB2,020,000 ($295,627) payable previously accrued.

For the six months ended June 30, 2009:

For the six months ended June 30, 2009, the Company reported aggregate sales of $64,791 (2008: $300,408). Sales revenue of $44,185 (2008: $197,779) was attributable to revenue derived from teacher training service through the internet portal and $20,606 (2008: $102,629) was from the Company's traditional business, book selling, with related cost of sales of $13,621 (2008: $38,630).

The Company recognized a net loss for the six months ended June 30, 2009 of $970,946 as compared to a net loss of $1,609,037 for the comparable 2008 period. The net loss per share was $0.0226 for the six months ended June 30, 2009 as compared to a net loss per share of $0.0378 for comparable period ended June 30, 2008.

The following is a discussion of certain expense categories:

General and administrative expenses

For the six months ended June 30, 2009, selling and general and administrative expenses were $702,508 compared to $1,058,914 recorded in 2008. The decrease in expenses was due to a decrease in development expenditures for the portal and the cessation of work on the registration statement for a US listing.

Included as part of the general and administrative expenses:

Accounting and audit fees decreased to $76,714 for the six months ended June 30, 2009 from $125,858 for the comparable 2008 period. The decrease was mainly due to the change of auditors.

Travel decreased to $10,455 for the six months ended June 30, 2009 from $28,375 for the comparable 2008 period due to reduction in travel by management to China and the United States.

Amortization

The amortization increased to $593,024 for the six months ended June 30, 2009 as compared to $588,884 in the same period of 2008.

Selling expenses

The selling expenses of $90,973 for the six months ended June 30, 2009 is reduced as compared to $194,310 in the same period of 2008 as a result of decrease in revenue.

Stock based compensation

During the six months ended June 30, 2009, the Company recorded stock based compensation expenses of $22,799 (2008: $234,612) for options previously granted and vesting over time.

Accounts payable written off

During the six months ended June 30, 2009, the Company reached an agreement with the Chinese government agency to cancel the agreement of referring to its name in the Company's internet

training website. The Company will pay RMB280,000 ($40,995) to the other party before the end of 2009 as the final settlement of any outstanding balance payable. The Company thus wrote off RMB2,020,000 ($295,627) payable previously accrued.

SUMMARY OF QUARTERLY AND ANNUAL RESULTS

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

	For the Quarters Ended			
	6/30/2009 ($'000)	3/31/2009 ($'000)	12/31/2008 ($'000)	9/30/2008 ($'000)
Revenue	53.3	11.5	27.5	148.8
Loss before non-controlling interest	(323.2)	(647.7)	(1,211.6)	(714.0)
Net loss for the period	(323.2)	(647.7)	(1,211.6)	(714.0)
Net loss per share	(0.0075)	(0.0826)	(0.0282)	(0.0166)
Total assets	4,652.4	5,292.2	5,981.0	7,084.4
Total liabilities including non-controlling interest	4,385.3	4,796.0	4,843.9	4,486.3

	For the Quarters Ended			
	6/30/2008 ($'000)	3/31/2008 ($'000)	12/31/2007 ($'000)	9/30/2007 ($'000)
Revenue	187.8	112.6	451.9	605.7
Loss before non-controlling interest	(721.0)	(888.1)	(2,638.7)	(634.1)
Net loss for the period	(721.0)	(888.1)	(2,565.9)	(608.0)
Net loss per share	(0.0168)	(0.0210)	(0.0671)	(0.0161)
Total assets	7,974.2	8,561.3	7,139.5	8,747.1
Total liabilities including non-controlling interest	4,720.4	4,612.7	4,875.9	4,187.9

The increase in loss before non-controlling interest in Q4 of 2008 was due to the recording of bad debt provision of $690,465.

The increase in loss before non-controlling interest in Q4 of 2007 was due to the recording of website operating expenses of $1,641,093 after the web-site development stage was completed.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

Working capital

Working capital decreased by $219,120 to a negative working capital of $3,981,933 from a negative working capital of $3,762,813 at the beginning of the year, primarily as a result of the cash used in operating activities of $769,097.

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

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

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

Equipment and website development costs

At June 30, 2009, the Company's net equipment and website development costs were $939,496 as compared to $1,590,321 as at December 31, 2008. This decrease was primarily due to the amortization of $508,185 in website development costs.

Liabilities

The Company's total liabilities were $4,385,318 as at June 30, 2009, which is comparable with $4,843,874 at December 31, 2008.

Shareholders' Equity

The shareholders' equity was $267,047 at June 30, 2009 as compared to $1,137,107 at December 31, 2008. The decrease was primarily due to net loss of $970,946 for the six months ended June 30, 2009.

Outstanding share data

The Company's common shares outstanding as at August 28, 2009 were 43,004,983.

At August 28, 2009, the Company has outstanding stock options of 3,574,000. Details are as follows:

Exercise Prices (CND)	Number	Expiry Date
$ 0.50	150,000	October 11, 2010
0.60	20,000	February 15, 2010
0.60	300,000	August 20, 2012
0.60	650,000	February 21, 2013
0.60	500,000	July 28, 2013
0.65	400,000	October 20, 2010
0.70	100,000	October 26, 2012
0.75	200,000	February 15, 2010
1.00	450,000	July 28, 2013
1.05	200,000	October 20, 2010
1.05	604,000	September 11, 2010
	3,574,000	

At August 28, 2009, there is no outstanding stock purchase warrants.

Dividend

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

TRANSACTIONS WITH RELATED PARTIES

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

	June 30, 2009	**December 31, 2008**
Amount due from Beijing Anli Information and Consulting Company ("Anli"), net of bad debt provision of $94,947 [i]	$ 80,745	$ 80,839

[i] Anli and its major shareholder are shareholders of the Company. In 2003, the Company advanced funds of RMB 1,200,000 ($175,692) to Anli. A loan agreement was signed on October 28, 2003 for a one-year term, non-interest bearing. The loan was extended to October 31, 2008. At December 31, 2008, the loan was not yet been repaid and collateralized by the shares of the Company owned by Anli. The Company made a bad debt provision of RMB648,500 ($94,947) in total based on the market value of the shares of the Company that held by the Company as the guarantee at December 31, 2008. As the amount due from Anli has been long overdue, the anticipated time of collection is not certain, the Company has classified the amount as non-current item.

During the three months and six months ended June 30, 2009, the Company incurred 15,388 (2008: $15,514) and $32,170 (2008: $34,358) accounting fees for accounting services provided by a company controlled by an officer of the Company. Included in accounts payable, is an amount of $3,602 due to the Company controlled by an officer as at June 30, 2009 (December 31, 2008: $4,371).

The Company rent office space from a company controlled by a director/officer of the Company. The Company paid rent of $4,477 (2008: $4,410) and $8,954 (2008: $8,819) for the three months and six months ended June 30, 2009.

The Company paid wage of $37,805 (2008: $37,237) and $78,215 (2008: $78,766) to a director of the Company for the three months and six months ended June 30, 2009.

Included in accounts payable, $26,217 (December 31, 2008: $1,699) was payable to the director of the Company relating to the travel expenses reimbursement at June 30, 2009.

RISK AND UNCERTAINTY FACTORS

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

The Company has incurred a net loss of $970,946 for the six months ended June 30, 2009 compared to a loss of $1,609,037 for the same period of 2008. The Company has incurred a cumulative loss of $30,260,044 since inception. The Company’s future business plan includes the further development and operation of CER’s education service portal and sino-foreign co-operation to develop English as a second language training program in China and Chinese Mandarin training program in U.S. The Company’s ability to continue as a going concern is depending upon achieving acceptance by the users and profitable level of operations of the education service portal and on the ability to obtain necessary financing to fund our operations. The outcome of these matters cannot be predicted at this time.

Seasonality

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

Reliance on Government Relationships

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

Tax and Legal Systems in China

The Company, through its subsidiaries, conducts a significant amount of its business in China. China currently has a number of laws related to various taxes imposed by both federal and

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

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

Subsequent to the year-end, the National People's Congress of China passed "The Law of the People's Republic of China on Enterprise Income Tax" (the "Enterprise Income Tax Law"). The Enterprise Income Tax Law became effective on January 1, 2008. This new law eliminated the existing preferential tax treatment that is available to the foreign invested enterprises ("FIEs") but provides grandfathering of the preferential tax treatment currently enjoyed by the FIEs' Under the new law, both domestic companies and FIEs are subject to a unified income tax rate of 25%.

Competition

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

Management

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

Funds Remittance

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

According to the 1999 Circular on Relevant Questions Concerning the Remittance of Profits, Dividends and Bonuses out of China Through Designated Foreign Exchange Banks, effective

from 1 October 1999, an FIE is permitted to remit profits, dividends and bonuses out of China in proportion to the amount of registered capital that has been paid up, notwithstanding that its registered capital has not been paid up pursuant to its constitutional documents.

Financial Instruments

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

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

(a) Credit risk

Credit risk is the risk of an unexpected loss if a party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to cash and cash equivalents and accounts receivables. The Company has no significant concentration of credit risk arising from operations. Other receivables consist of goods and services tax due from the Federal Government of Canada, interest receivable and amounts advanced to employees and others. Management assesses the credit risk concentration with respect to accounts receivable and other receivables annually and adjusts them accordingly.

One (2008: Two) customer represent in excess of 10% of trade accounts receivable at June 30, 2009. Three (2008: Two) customers represent in excess of 10% of total revenue at June 30, 2009.

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. At June 30, 2009, the Company had a negative working capital of $3,981,933 (December 31, 2008 - $3,762,813). The Company is focused on generating sales revenue and is actively pursuing additional sources of financing to ensure that it can meet its ongoing operating requirements and planned capital expenditures.

(c) Market risk

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

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to short term interest rates through the interest earned on cash and cash equivalents. The Company has significant cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in short-term deposits with its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

(ii) Foreign currency exchange rate risk

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

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

The Company's functional currency is the Canadian dollar and major transactions are transacted in Canadian dollars and RMB. The Company maintains Chinese RMB bank accounts in China to support monthly forecasted cash outflows. Management believes the foreign exchange risk derived from currency conversions is minimal and therefore does not hedge its foreign exchange risk. At June 30, 2009, approximately $124,854 of the cash was held in RMB.

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

(iii) Price risk

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

(d) Sensitivity analysis

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

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

(i) Cash and cash equivalents are subject to floating interest rates. Sensitivity to a plus or minus 1% change in rates would affect net loss by approximately $2,700 for the six months ended June 30, 2009.

(ii) The Company is exposed to foreign currency risk on fluctuations of financial instruments related to cash and cash equivalents, accounts receivables, other receivables, due from a related party, long term other receivables and accounts payable and accrued liabilities that are denominated in Chinese RMB. Sensitivity to a plus or minus 5% change in the

foreign exchange rates would affect net loss by approximately $110,000 for the six months ended June 30, 2009.

SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates and Measurement Uncertainty

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

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

Stock-Based Compensation

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

Stock-based compensation is accrued and charged to operations, with an offsetting credit to contributed surplus, on a straight-line basis over the vesting periods. Option pricing models require the input of highly subjective assumptions regarding the expected volatility. Changes in assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Company's stock options at the date of the grant or thereafter.

Future Income Taxes

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

expense or benefit is the sum of the Company's provision for current income taxes and the difference between the opening and ending balances of the future income tax assets and liabilities.

Goodwill

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

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

Revenue Recognition

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

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

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

Interest income is recognized when earned.

Change in Accounting Policies including Initial Adoption

The Company adopted the following new accounting policies as from January 1, 2009:

(i) Goodwill and Intangible Assets

In February 2008, the CICA issued Section 3064, *Goodwill and Intangible Assets* (Section 3064). Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. The new Section is applicable to interim and annual financial statements relating to

fiscal years beginning on or after October 1, 2008. Upon adoption of Section 3064, EIC 27, *Revenue and Expenditures During the Pre-Operating Period*, will no longer be applicable. The adoption of Section 3064 did not have a material impact on the Company's consolidated financial statements.

(ii) Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

On January 20, 2009, the Emerging Issues Committee of the Accounting Standards Board issued EIC-173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*. Under EIC-173, an entity is required to take into account its own credit risk as well as the credit risk of the counterparty in determining the fair value of financial assets and financial liabilities. EIC-173 is applicable to interim and annual financial statements for periods ending after January 20, 2009. The adoption of EIC-173 did not have a material impact on the Company's consolidated financial statements.

Recent Accounting Pronouncements

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

In February 2008, the Accounting Standards Board (AcSB) confirmed that the use of IFRS will be required in 2011 for publicly accountable enterprises in Canada. In April 2008, the AcSB issued an IFRS Omnibus Exposure Draft proposing the publicly accountable enterprises be required to apply IFRS, in full and without modification, on January 1, 2011. The adoption date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by the Corporation for its year ended December 31, 2010, and of the opening balance sheet as of January 1, 2010. The AcSB proposed that CICA Handbook Section, Accounting Changes, paragraph 1506.30, which would require an entity to disclose information relating to a new primary source of GAAP that has been issued but is not yet effective and that the entity has not applied, not be applied with respect to the IFRS Omnibus Exposure Draft. The corporation is continuing to assess the financial reporting impacts of the adoption of IFRS and, at this time, the impact on future financial position and results of operations is not reasonably determinable or estimable. The Corporation does anticipate a significant increase in disclosure resulting from the adoption of IFRS and is continuing to assess the level of disclosure required, as well as system changes that may be necessary to gather and process the required information.

(ii) Business combinations

In January 2009, the CICA issued the new handbook Section 1582, "Business Combinations" effective for fiscal years beginning on or after January 1, 2011. Earlier adoption of Section 1582 is permitted. This pronouncement further aligns Canadian GAAP with US GAAP and IFRS and changes the accounting for business combinations in a number of areas. It establishes principles and requirements governing how an acquiring company recognizes and measures in its financial statements identifiable assets acquired, liabilities assumed, any non-controlling interest in the acquire, and goodwill acquired. The section also establishes disclosure requirements that will enable users of the acquiring company's financial statements to evaluate the nature and financial effects of its business combinations. Although the Company is considering the impact of adopting this pronouncement on the consolidated financial statements, it will be limited to any future acquisitions beginning in 2010.

(iii) Consolidated financial statements and non-controlling interests

In January 2009, the CICA issued the new handbook Section 1601, “Consolidated Financial Statements”, and Section 1602, “Non-controlling Interests”, effective for fiscal years beginning on or after January 1, 2011. Earlier adoption of these recommendations is permitted. These pronouncements further align Canadian GAAP with US GAAP and IFRS. Sections 1601 and 1602 change the accounting and reporting for ownership interest in subsidiaries held by parties other than the parent. Non-controlling interests are to be presented in the consolidated statement of financial position within equity but separate from the parent’s equity. The amount of consolidated net income attributable to the parent and to the non-controlling interest is to be clearly identified and presented on the face of the consolidated statement of income. In addition, these pronouncements establish standards for a change in the parent’s ownership interest in a subsidiary and the valuation of retained non-controlling equity investments when a subsidiary is deconsolidated. They also establish reporting requirements for providing sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. The Company is currently considering the impact of adopting these pronouncements on its consolidated financial statements in 2010 in connection with the conversion to IFRS.

(iv) Financial instruments disclosure

In June 2009, the CICA amended Handbook Section 3862, *Financial Instruments—Disclosures*, to include additional disclosure requirements about fair value measurements of financial instruments and to enhance liquidity risk disclosure requirements for publicly accountable enterprises. The amendments apply to annual financial statements for years ending after September 30, 2009. The Company does not expect that adoption of these amendments will have a significant impact on the consolidated financial statements.

(v) Accounting changes

In July 2009, the CICA amended Handbook Section 1506, *Accounting Changes*, to exclude from its scope changes in accounting policies upon the complete replacement of an entity’s primary basis of accounting. The amendments apply to interim and annual financial statements relating to years beginning on or after July 1, 2009. The Company does not expect that adoption of these amendments will have a significant impact on the consolidated financial statements.

IFRS Implementation Plan

The AcSB has confirmed that IFRS will replace current Canadian GAAP for publicly accountable enterprises, effective for fiscal years beginning on or after January 1, 2011. Accordingly, the Company will report interim and annual financial statements (with comparatives) in accordance with IFRS beginning with the quarter ended March 31, 2011. The Company has commenced the development of an IFRS implementation plan to prepare for this transition, and is currently in the process of analyzing the key areas where changes to current accounting policies may be required. While an analysis will be required for all current accounting policies, the initial key areas of assessment will include:

a) Inventories;
b) Property, plant and equipment (measurement and valuation);
c) Intangible assets;

d) Stock-based compensation;
e) Accounting for income taxes; and
f) First-time adoption of International Financial Reporting Standards (IFRS 1).

As the analysis of each of the key areas progresses, other elements of the Company's IFRS implementation plan will also be addressed, including: the implication of changes to accounting policies and processes; financial statement note disclosures; information technology; internal controls; contractual arrangements; and employee training. The table below summarizes the expected timing of activities related to the Company's transition to IFRS:

Initial analysis of key areas for which changes to accounting policies may be required.	In progress, expected to be completed during Q3 2009
Detailed analysis of all relevant IFRS requirements and identification of areas requiring accounting policy changes or those with accounting policy alternatives.	Throughout 2009
Assessement of first-time adoption (IFRS 1) requirements and alternatives.	Throughout 2009
Final determination of changes to accounting policies and choices to be made with respect to first-time adoption and alternatives.	Q4 2009 - Q1 2010
Resolution of the accounting policy change implications on information technology, internal controls and contractual arrangements.	Q4 2009 - Q1 2010
Management and employee education and training	Throughout the process
Qualification of the financial statement impact of changes in accounting policies	Throughout 2010

OUTLOOK

CER believes that while the commercialization of its business has been slow in terms of revenue generation, the business strategy is fundamentally sound. The Company has completed the development of certain ESP products which is an important step in the Company's commercialization strategy. The overall feedback to ESP has been positive.

CER has developed 25 teacher training courses and more than 2,000 online tutoring courses with minimal capital expenditure. More than 150,000 teachers have already been trained in CER's teacher training programs. The CERSP portal has built up the largest K-12 teacher blog system in China with more than one million K-12 teacher registered and is the most popular education portal visited by teachers and education administrators. The YCY acquisition is an important step in CER's business plan which is to become a leading on-line provider of educational resources and services to China's 230 million K-12 students and 12 million teachers. After several years of development, our CERSP portal has developed into a national brand and has a reputation for offering best in-class learning products and services. YCY, already a profitable venture, will be able to extend its market reach by using the CERSP portal. All these factors are significant advantages for CER to promote its online education services and will accelerate the generation of revenue commencing in the second half year of 2009.