China Education Resources Inc.

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

Years Ended December 31, 2010 and 2009

Chang Lee LLP
Chartered Accountants

606– 815 Hornby Street
Vancouver, B.C, V6Z 2E6
Tel: 604-687-3776
Fax: 604-688-3373
E-mail: info@changleellp.com

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
China Education Resources Inc.

We have audited the accompanying consolidated financial statements of China Education Resources Inc. ("the Company"), which comprise the consolidated balance sheets as at December 31, 2010 and 2009 and the consolidated statements of operations and comprehensive loss, shareholders' equity and cash flows for the years then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statement.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinions.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter
Without qualifying our opinion, we draw attention to note 1 in the consolidated financial statements, which indicates that the Company incurred a loss of $615,832 during the year ended December 31, 2010 and had a accumulated loss of $31,985,600 since inception. This condition, along with other matters as set forth in note 1, indicates the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Vancouver, Canada
April 29, 2011

CHANG LEE LLP
Chartered Accountants

CHINA EDUCATION RESOURCES INC.
Consolidated Balance Sheets
As at December 31, 2010 and 2009

(See Note 1 - Basis of Presentation)

(Expressed in U.S. Dollars)

		2010		2009
ASSETS				
Current assets				
Cash and cash equivalents	$	1,028,481	$	138,432
Accounts receivable (Note 5)		1,085,398		1,480,627
Inventory		140,195		12,970
Prepaid expenses & deposits		41,887		37,752
Other receivable (Note 12)		221,389		225,412
Due from related parties (Note 12)		1,780,345		95,425
Total current assets		4,297,695		1,990,618
Long-term other receivable (Note 6)		26,085		25,183
Equipment and website development costs (Note 7)		225,592		411,335
Goodwill (Note 8)		2,560,218		2,560,218
Total assets	$	7,109,590	$	4,987,354
LIABILITIES AND SHAREHOLDERS' EQUITY				
Liabilities				
Accounts payable and accrued liabilities (Note 10, 11)	$	3,913,720	$	2,728,126
Deferred revenue		75,048		-
Future income tax liabliity		218,243		-
Income taxes payable		2,263,852		2,415,455
		6,470,863		5,143,581
Future income tax liability		32,650		-
		6,503,513		5,143,581
Non-controlling interest		502,096		435,723
SHAREHOLDERS' EQUITY (DEFICIENCY)				
Share capital (Note 13)		29,455,512		28,709,895
Contributed surplus		2,200,911		1,577,462
Accumulated other comprehensive income		433,158		490,461
Deficit		(31,985,600)		(31,369,768)
Total shareholders' equity (Deficiency)		103,981		(591,950)
Total liabilities and shareholders' equity	$	7,109,590	$	4,987,354

Approved by the Board:

"CF Zhou"
Director

"Bill Calvin"
Director

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

CHINA EDUCATION RESOURCES INC.

Consolidated Statements of Operations and Comprehensive Loss

For the years December 31, 2010 and 2009

(Expressed in U.S. Dollars)

	2010	2009
Revenue		
Book sales and distribution services	$ 3,684,951	$ 2,315,307
Teacher training	1,751,214	474,830
	5,436,165	2,790,137
Cost of sales	1,819,302	1,141,382
Gross profit	3,616,863	1,648,755
Expenses		
General and administrative	1,419,914	1,276,370
Amortization	237,165	1,169,631
Provision for doubtful accounts and inventory	15,749	118,781
Selling expenses	1,862,438	718,511
Stock-based compensation (Note 13(b))	623,449	19,846
	4,158,715	3,303,139
Operating loss	(541,852)	(1,654,384)
Other income and expenses		
Goodwill impairment	-	(650,000)
Settlement of accounts payable	-	295,708
Accounts payable written off	44,322	320,608
Gain on disposal of equipment	12,508	1,639
Equipment written off	(19,338)	-
Other income	-	3,465
Interest income	1,233	1,049
	38,725	(27,531)
Loss before non-controlling interest and income tax	(503,127)	(1,681,915)
Income tax espenses	57,975	185,239
Loss before non-controlling interest	(561,102)	(1,867,154)
Non-controlling interest	54,730	213,516
Net loss for the year	(615,832)	(2,080,670)
Unrealized exchange loss on translation of self-sustaining foreign operations	57,303	1,544
Comprehensive loss	$ (673,135)	$ (2,082,214)
Loss per share - Basic and diluted (1)	$ (0.013)	$ (0.048)
Weighted average number of common shares used to calculate basic and diluted loss per share	47,060,873	43,608,325

(1) Basic and diluted loss per share was the same as the inclusion of potential dilutive 3,994,000 (2009: 3,474,000) stock options in the calculation of diluted loss per share would be anti-dilutive.

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CHINA EDUCATION RESOURCES INC.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

For the years ended December 31, 2010 and 2009

(Expressed in U.S. Dollars)	Number of Shares	Amount	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total
Balance, December 31, 2008	43,004,983	$ 28,376,584	$ 1,557,616	$ 492,005	$ (29,289,098)	$ 1,137,107
Issued for acquisition of ZYCY (Note 9)	2,860,000	333,311	-	-	-	333,311
Stock-based compensation	-	-	19,846	-	-	19,846
Foreign currency translation	-	-	-	(1,544)	-	(1,544)
Net loss for the year ended December 31, 2009	-	-	-	-	(2,080,670)	(2,080,670)
Balance December 31, 2009	45,864,983	$ 28,709,895	$ 1,577,462	$ 490,461	$ (31,369,768)	$ (591,950)
Issued common shares, net	1,500,000	745,617	-	-	-	745,617
Stock-based compensation	-	-	623,449	-	-	623,449
Foreign currency translation	-	-	-	(57,303)	-	(57,303)
Net loss for the year ended December 31, 2010	-	-	-	-	(615,832)	(615,832)
Balance December 31, 2010	47,364,983	$ 29,455,512	$ 2,200,911	$ 433,158	$ (31,985,600)	$ 103,981

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

CHINA EDUCATION RESOURCES INC.
Consolidated Statements of Cash Flows
For the years ended December 31, 2010 and 2009

(Expressed in U.S. Dollars)

	2010	2009
Cash flows from (used in) operating activities		
Net income (loss) from continuing operations	$ (615,832)	$ (2,080,670)
Items not affecting cash:		
Amortization	237,165	1,169,631
Provision	15,749	118,781
Settlement of accounts payable	(44,322)	(295,708)
Accounts payable written off	-	(320,608)
Gain on disposal of equipment	(12,508)	(1,639)
Equipment Written-off	19,338	20,679
Goodwill impairment	-	650,000
Non-controlling interest	54,730	213,516
Stock based compensation	623,449	19,846
Rent inducement	10,611	-
Changes in non-cash working capital items		
Accounts and other receivable	439,693	(1,401,204)
Inventory	(130,477)	86,549
Prepaid expenses and deposits	(2,596)	(12,254)
Accounts payable & accrued liabilities	1,368,582	826,326
Income taxes payable	(213,456)	289,478
Future income tax liability	244,312	-
	1,994,437	(717,277)
Cash flows from (used in) investing activities		
Additions to equipment	(72,075)	(1,679)
Proceeds on disposal of equipment	12,781	19,353
Cash transferred in from acquisition of ZYCY	-	20,558
	(59,294)	38,232
Cash flows used in financing activities		
Net proceeds on issuance of share capital	745,617	-
Advances to related parties	(1,841,630)	-
	(1,096,013)	-
Effect of foreign exchange rate on cash	50,919	(39,150)
Net cash inflow (outflow) during the year	890,049	(718,195)
Cash and cash equivalents, beginning of year	138,432	856,627
Cash and cash equivalents, end of year	$ 1,028,481	$ 138,432
Supplemental disclosure of cash flow information		
Interest paid	$ -	$ -
Taxes paid	$ 6,609	$ -

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

China Education Resources Inc.
Consolidated Financial Statements
(Expressed in U.S. Dollars)
Years Ended December 31, 2010 and 2009

1. Nature of Operations and Going Concern

(a) Nature of Operations

China Education Resources Inc., together with its subsidiaries (individually and collectively referred to as the “Company”), provides an education internet portal with educational content, resources and training programs to users in People’s Republic of China (“China”) and distributes educational textbooks and materials developed by the Company to bookstores and schools in China. Due to the size of the Company, 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.

(b) Going Concern

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

The Company has a need for financing for working capital, development and updating its education internet education portal. Since inception, the Company has incurred cumulative losses of $31,985,600 and for the year ended December 31, 2010, the Company incurred a loss of $615,832. The ability of the Company to continue as a going concern is dependant upon the acceptance of the education internet portal by the users to achieve a profitable level of operations by the Company and on the ability of the Company to obtain necessary financing to fund the Company’s future business plan. The outcome of these matters cannot be predicted at this time.

2. Significant Accounting Policies

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

2. Significant Accounting Policies - Continued

(a) Principles of consolidation

These consolidated financial statements of the Company include the accounts of the Company and its wholly owned subsidiaries, CEN China Education Network Ltd. ("CEN Network"), China Education International Inc. and CEN China Education Overseas Corporation, its 90% owned subsidiaries, CEN Smart Networks Ltd. ("CEN Smart") and Today's Teachers Technology & Culture Ltd. ("TTTC") and its 54% owned subsidiary, Zhong Yu Cheng Yuan Curriculum Development Center Ltd. (previously known as Yu Cheng Yuan Consulting and Service Ltd.) ("ZYCY") as from July 1, 2009 (see Note 9). All significant inter-company transactions and accounts have been eliminated.

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

(b) Use of estimates and measurement uncertainty

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

(c) Cash and cash equivalents

Cash equivalents comprise certain highly liquid instruments with a maturity of three months or less when purchased. There were no cash equivalents at December 31, 2010 and 2009.

2. Significant Accounting Policies - Continued

(d) Foreign currency translation

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

(e) Accounts Receivable

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

(f) Inventory

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) Equipment

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

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

2. Significant Accounting Policies - Continued

(g) Equipment - *Continued*

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

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

(h) Goodwill

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

Goodwill is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount of the reporting unit to which the goodwill is assigned may exceed the fair value of the reporting unit. 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.

(i) Leases

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

2. Significant Accounting Policies - Continued

(j) Revenue recognition

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

Sales from 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 consulting services are not material.

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

Interest income is recognized when earned.

(k) Stock-based compensation plans

The Company accounts for all stock-based payments, including stock options granted, using the fair value based method. Under the fair value based method, stock-based compensation is measured at fair value of the instrument on the grant date and recognized over the vesting period as a charge to stock-based compensation with a corresponding increase in contributed surplus. Upon exercise of share purchase options, the consideration paid by the option holder, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital.

The Company 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.

(l) Income taxes

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

2. Significant Accounting Policies - Continued

(m) Loss per share

Basic loss per share is computed by dividing net loss available to common shareholders (the numerator) by the weighted average number of outstanding common shares for the period (the denominator). Diluted loss per share has not been presented as the effect on basic loss per share would be anti-dilutive. Potentially dilutive securities include warrants and options that are disclosed in Note 13.

(n) Financial Instruments

The Company classifies its financial instruments into one of the following categories: held-for-trading (assets and liabilities), assets available-for-sale, loans and receivables, assets held-to-maturity and other financial liabilities. Held-for-trading financial assets and financial liabilities are financial assets and financial liabilities which are acquired for resale prior to maturity or are financial assets and liabilities designated as such by the Company. Held-to-maturity assets are non-derivative financial assets with a fixed maturity which the Company intends to hold until maturity. Available-for-sale financial assets are those non-derivative financial assets which are so designated by the Company or that do not fall into another category. All financial instruments are normally measured at fair value on initial recognition. Transaction costs are included in the initial carrying amount of financial instruments except for held-for-trading items in which case they are expensed as incurred. Measurement in subsequent periods depends on the classification of the financial instrument.

Financial assets and liabilities “held-for-trading” are subsequently measured at fair value with changes in fair value recognized in net income. Financial assets “available-for-sale” are subsequently measured at fair value with changes in fair value recognized in other comprehensive income, net of tax.

Financial assets “held-to-maturity”, “loans and receivables”, and “other financial liabilities” are subsequently amortized using the effective interest rate method.

The Company classified its financial instruments as follows:

- Cash and cash equivalents as held for trading.
- Accounts receivable, other receivable, due from related parties, and long-term other receivable as loans and receivables.
- Accounts payable and accrued liabilities as other financial liabilities.

As at December 31, 2010, the fair value amounts of the Company’s financial instruments related to cash and cash equivalents, accounts receivable, other receivable, due from related parties and accounts payable and accrued liabilities approximate their carrying value due to their short terms to maturity.

2. Significant Accounting Policies - Continued

(n) Financial Instruments – Continued

The three levels of the fair value hierarchy are:

• Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities in active markets;

• Level 2 - Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data

• Level 3 - Significant unobservable inputs which are supported by little or no market activity.

Cash and cash equivalents has been valued based on level one of the fair value hierarchy.

(o) Accounting changes

The Company adopted revised CICA Section 1506 “Accounting Changes”, which provides expanded disclosures for changes in accounting policies, accounting estimates and corrections of errors. Under the new standard, accounting changes should be applied retrospectively unless otherwise permitted, or where impracticable to determine. As well, voluntary changes in accounting policy are made only when required by a primary source of GAAP, or when the change results in more relevant and reliable information.

(p) Capital Disclosures

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

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

(q) General Standards of Financial Statement Presentation

The Company adopted Handbook Section 1400 “General Standards of Financial Statement Presentation”, which includes requirements to assess and disclose an entity’s ability to continue as a going concern. This new standard will not have any significant impact on the consolidated financial statements of the Company.

(r) Comparative Figures

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

2. Basis of Presentation and Accounting Policies - Continued

Recent Accounting Pronouncements

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

In February 2008, Canada's Accounting Standards Board ("AcSB") confirmed that GAAP, as used by publicly accountable enterprises, will be fully converged to International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). Publicly accountable enterprises must adopt IFRS for their interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011 and must be accompanied by IFRS comparative information for the 2010 financial year. IFRS uses a conceptual framework similar to GAAP, but there are significant differences on recognition, measurement and disclosures.

To transition to IFRS, the Company must apply IFRS 1 – First Time Adoption of IFRS ("IFRS 1") that sets out the rules for first time adoption. In general, IFRS 1 requires an entity to comply with each IFRS effective at the reporting date for the entity's first IFRS financial statements. This requires that an entity applies IFRS to its opening IFRS balance sheet as at January 1, 2010 (i.e. the balance sheet prepared at the beginning of the earliest comparative period presented in the entity's first IFRS financial statements). In the period leading up to the transition to IFRS, the AcSB has issued accounting standards that are converged with IFRS thus mitigating the impact of adopting IFRS at the mandatory transition date.

The adoption of IFRS will make it possible for the Company to re-assess the fair values of assets and liabilities on its balance sheet under IFRS 1, which could impact the balance sheet significantly. Within IFRS 1 there are exemptions, some of which are mandatory and some of which are elective. The exemptions provide relief for companies from certain requirements in specific areas when the cost of complying with the requirements is likely to exceed the resulting benefit to users of financial statements. IFRS 1 generally requires retrospective application of IFRSs on first-time adoption, but prohibits such application in some areas, particularly when retrospective application would require judgments by management about past conditions after the outcome of a particular transaction is already known.

The Company has completed a detailed review of the impact of IFRS on the Company's consolidated financial statements. The Company has identified the following as key accounting policy differences. The Company has not yet quantified the impact of these differences on its consolidated financial statements:

Plant and Equipment – IFRS requires that the Company identify the different components of its fixed assets and record amortization based on the useful lives of each component. The Company has reviewed the amortization of its existing plant and equipment and does not expect any material differences between IFRS and the Company's current amortization policies.

Business Combinations – IFRS 1 provides an exemption that allows companies transitioning to IFRS not to restate business combinations entered into prior to the date of transition. The Company expects that it will use this exemption and accordingly will not be restating the accounting for any of its previous acquisitions.

2. Basis of Presentation and Accounting Policies - Continued

Recent Accounting Pronouncements - *Continued*

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

Impairment - International Accounting Standard (IAS) 36, *Impairment of Assets*, uses a one step approach for both testing for and measurement of impairment, with asset carrying values compared directly with the higher of fair value less costs to sell and value in use (which uses discounted future cash flows). This may potentially result in more write-downs where carrying values of assets were previously supported under Canadian GAAP on an undiscounted cash flow basis, but could not be supported on a discounted cash flow basis. IFRS also has the requirement under IAS 36 to reverse any previous impairment losses where circumstances have changed such that the impairments have been reduced. Canadian GAAP prohibits reversal of impairment losses.

Share-Based Payment Transactions – IFRS 2 – Share-based Payment ("IFRS 2") The Company has identified differences relating to the measurement of share-based payments under IFRS 2 relating to the Company's stock compensation plans. The differences between Canadian GAAP and IFRS primarily relate to the attribution of fair value to each graded vesting period and the use of estimated forfeiture rates at the time of grant. The Company's election under IFRS 1 relating to share-based payments will restrict the adjustments relating to the measurement of such equity instruments to only those instruments granted after November 7, 2002 and which have not vested at the date of transition of January 1, 2011.

(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 2011.

2. Basis of Presentation and Accounting Policies - Continued

Recent Accounting Pronouncements - *Continued*

(iii) Consolidated financial statements and non-controlling interests

The CICA concurrently 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) Multiple Deliverable Revenue Arrangements

CICA Emerging Issues Committee 175, “Multiple Deliverable Revenue Arrangements” was released and requires a vendor to allocate arrangement consideration at the inception of an arrangement to all deliverables using the relative selling price method. The new requirements are effective for fiscal years beginning on or after January 1, 2011 with early adoption permitted. The Company is currently evaluating the impact of the adoption of this standard.

3. Capital Management

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

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

3. 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 year ended December 31, 2010. Neither the Company nor its subsidiaries are subject to externally imposed capital requirements.

4. Financial Instruments

The Board of Directors has overall responsibility for the establishment and oversight of the Company’s risk management framework. The Company’s financial instruments consist of cash and cash equivalents, accounts receivable, other receivables, due from related parties, 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 mainly consist of an advance to a third party for project development which accounts for 59% of the other receivable as of December 31, 2010, 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.

100% of the Company’s revenue for the year ended December 31, 2010 and 2009 were derived from customers located in China. Three (2009: Three) customers represent in excess of 10% of trade accounts receivable at December 31, 2010. Two (2009: Three) customers represent in excess of 10% of total revenue at December 31, 2010.

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. At December 31, 2010, the Company had a negative working capital of $2,173,168 (2009: $3,248,388). The Company is focused on generating sales revenue and is actively pursuing additional sources of financing to ensure that it can meet its ongoing operating requirements and planned capital expenditures.

4. Financial Instruments – Continued

(c) Market risk

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

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. From time to time, the Company is exposed to short term interest rates through the interest earned on cash and cash equivalents. The Company has 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 RMB, respectively, and major transactions are transacted in Canadian dollars and RMB. The Company maintains Chinese RMB bank accounts in China to support monthly forecasted cash outflows. Management believes the foreign exchange risk derived from currency conversions is minimal and therefore does not hedge its foreign exchange risk. At December 31, 2010, approximately $1,015,651 (2009 – $741,663) of cash was held in RMB.

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

4. Financial Instruments – Continued

(d) Sensitivity analysis

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 $10,100 (2009: $1,100) for the year ended December 31, 2010.

(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 $270,000 (2009: $111,000) for the year ended December 31, 2010.

5. Accounts Receivable

	2010	2009
Trade receivables	$ 1,148,717	$ 1,533,123
Bad debt provision	(63,319)	(52,496)
	$ 1,085,398	$ 1,480,627

(Expressed in U.S. Dollars)

6. Long-Term Other Receivable

		2010		2009
Loan due from Shengshi Education Service Company ("Shengshi") [i]	$	640,221	$	638,859
Bad debt provision		(614,136)		(613,676)
	$	26,085	$	25,183

[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 collectibility of this loan became uncertain. In light of this uncertainty management set up a provision of RMB3,078,731 ($451,280) for the portion of the loan that is unsecured and did not accrue the interest income. In 2007, management set up additional provision of RMB235,000 ($34,446). As of December 31, 2008, management decided to adjust the receivable to net realizable amount by recording an additional provision of RMB4,189,769 ($614,136). No additional provision was recorded as of December 31, 2010 and December 31, 2009. 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.

7. Equipment and Website Development Cost

	December 31, 2010					
		Cost		Accumulated depreciation		Net book value
Computer equipment	$	492,064	$	370,984	$	121,080
Office equipment		12,048		5,643		6,405
Motor vehicles		395,448		319,150		76,298
Leasehold improvement		54,483		32,674		21,809
Website development costs		3,521,148		3,521,148		-
	$	4,475,191	$	4,249,599	$	225,592

(Expressed in U.S. Dollars)

7. Equipment and Website Development Cost - Continued

	December 31, 2009		
	Cost	Accumulated depreciation	Net book value
Computer equipment	$ 408,466	$ 261,022	$ 147,444
Office equipment	38,999	8,120	30,879
Motor vehicles	416,629	301,083	115,546
Leasehold improvement	52,597	19,906	32,691
Website development costs	3,051,894	2,967,119	84,775
	$ 3,968,585	$ 3,557,250	$ 411,335

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

8. Goodwill

	2010	2009
Goodwill	$ 2,560,218	$ 2,560,218

During the year ended December 31, 2009, due to changes in economic circumstances and the performance of the Company, the Company assessed the fair value of TTTC to which underlying goodwill is attributed. As a result of this assessment, the Company determined that there had been impairment in the carrying value of TTTC's goodwill and, accordingly, recorded a write-down in the amount of $650,000 as at December 31, 2009. There was no impairment of goodwill in the year ended December 31, 2010.

(Expressed in U.S. Dollars)

9. Acquisition of Zhong Yu Cheng Yuan Curriculum Development Center Ltd. (previously known as Yu Cheng Yuan Consulting and Service Ltd.) (“ZYCY”)

On July 18, 2009, the Company, through TTTC (a 90% owned subsidiary), acquired a 60% interest in Zhong Yu Cheng Yuan Curriculum Development Center Ltd. (“ZYCY”), a distributor of education products in China for RMB6,000,000 ($878,460) payable in 2,860,000 shares of common stock of the Company at a deemed value of C$0.35 ($0.30) per share. The 2,860,000 shares of common stock were issued on October 15, 2009 (Note 13). One-third of the shares were released to the other party according to the agreement and the balance of the shares of common stock are held in escrow and half of them will be released on the first and second anniversary of the closing date, respectively, contingent upon ZYCY generating an annual net profit of RMB2,000,000 ($292,820). No additional shares were released in the year ended December 31, 2010. At December 31, 2010, the Company’s effective ownership in ZYCY was 54%.

As a part of the purchase agreement, the Company was entitled to the earnings of ZYCY effective from July 1, 2009. Since virtually most of the assets and liabilities acquired were either cash or monetary in nature, the non-monetary exchange of securities has been recorded at the more reliably measurable fair value of the net assets received. The consideration and acquisition allocation is summarized in the following table:

Assets acquired	
Current assets	$ 315,775
Equipment	29,140
	344,915
Liabilities assumed	
Current liabilities	11,423
Income tax liabilities	181
Fair value of net assets acquired	$ 333,311
Consideration payable by shares (1)	$ 333,311

(1) The total consideration of the acquisition was $333,311. Costs related to this acquisition were minimal and have been expensed accordingly.

(Expressed in U.S. Dollars)

10. Settlement of Accounts Payable

TTTC entered into an agreement with a Chinese government agency to reference its name in the Company's internet training website, whereby the Company agreed to pay RMB1,200,000 ($175,896) per year until 2009 and RMB500,000 ($73,290) in 2010. As of December 31, 2008, the Company's accrued amount was RMB2,300,000. On April 23, 2009, both parties agreed to cancel the agreement and TTTC has to pay RMB280,000 ($40,995) to the other party as the final settlement of any outstanding balance payable. The Company thus wrote off RMB2,020,000 ($295,708) payable previously accrued and included it in other income. As of the date of this report, the Company had not made the payment of RMB280,000.

11. Accounts Payable Written Off

At December 31, 2009, accounts payable of RMB2,190,095 ($320,608) in relation to the website development expenses that were over 2 years old with no attempt at collection by the vendors are considered statute barred and have been written off and included in other income.

At December 31, 2010, the management negotiated with the vendor to forgive RMB 300,000 ($44,322) of payable resulting in other income.

12. Related Party Transactions

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

		December 31, 2010		**December 31, 2009**
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]		1,731,911		14,647
	$	1,780,345	$	95,425

[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.
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.

12. Related Party Transactions - Continued

During the year ended December 31, 2010, the Company incurred $64,173 (2009: $62,087) accounting fees for accounting services provided by a company controlled by an officer of the Company. Included in accounts payable was an amount of $33,624 (2009: $10,269) due to a Company controlled by an officer as at December 31, 2010.

The Company rents office space from a company controlled by a director of the Company. The Company accrued / paid rent of $20,972 (2009: $18,911) for the year ended December 31, 2010.

The Company paid/accrued wages of $177,097 (2009: $162,449) to a director of the Company for the year ended December 31, 2010.

Included in accounts payable, $221,890 (2009: $165,109) was payable to four directors of the Company relating to the salary payable, director fee payable and travel expenses reimbursement at December 31, 2010.

Included in Due to related parties, $1,731,911 (2009: $nil) was receivable from a company controlled by the minority shareholders of ZYCY which is non-secured, non-interest bearing and due on demand. Subsequently, $910,320 has been received.

Included in other payable, $nil (2009: $276,406) was payable to a company controlled by the minority shareholders of ZYCY for the normal operations of the Company at December 31, 2010.

13. Share Capital, Warrants and Stock Options

(a) Share Capital

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

On October 15, 2009, the Company issued 2,860,000 shares for completion of the acquisition of ZYCY (Note 9). One-third of the shares were released to the other party according to the agreement and the balance of the shares of common stock are held in escrow and half of them will be released on the first and second anniversary of the closing date, respectively, contingent upon ZYCY generating an annual net profit of RMB2,000,000 ($292,820). No additional shares were released in the year ended December 31, 2010.

On February 3, 2010, the Company completed a non-brokered private placement of CAD$795,000 ($749,364) consisting of 1,500,000 common shares at C$0.53 ($0.50) per share.

(Expressed in U.S. Dollars)

13. Share Capital, Warrants and Stock Options - Continued

(b) Options

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

	Number of Shares	Weighted Average Exercise Price Per Share (USD)	Weighted Average Exercise Price Per Share (CND)
Balance, December 31, 2008	3,574,000	0.71	0.76
Options cancelled/expired	(100,000)	0.57	0.60
Balance, December 31, 2009	3,474,000	0.74	0.77
Options granted	820,000	0.71	0.73
Options cancelled/expired	(720,000)	0.82	0.84
Balance, December 31, 2010	3,574,000	0.78	0.80

Changes in outstanding stock options were 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.

(Expressed in U.S. Dollars)

13. Share Capital, Warrants and Stock Options - Continued

(b) Options - Continued

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

	2010
Risk free interest rate	1.59% - 2.45%
Expected life of options in years	1 year - 5 years
Expected volatility	179.76% - 331.15%
Dividend per share	$0.00

The Company also extended the expiry date of 924,000 incentive stock options from October 20, 2010 to February 3, 2015. The exercise price of the options was C$1.05 per share. The modified options were valued at the current value and an adjustment made for the incremental value from the original option valuation. The adjustment in the amount of $330,562 has been recorded as stock-based compensation in the consolidated statement of operations. The additional fair value of these stock options was estimated on the date of granting the extension of expiry date using the Black-Scholes option pricing model with weighted average assumptions for grants as follows:

Risk free interest rate	2.54%
Expected life of options in years	5 years
Expected volatility	179.76%
Dividend per share	$0.00

(Expressed in U.S. Dollars)

13. Share Capital, Warrants and Stock Options - Continued

(b) Options - Continued

The following table summarized the stock options outstanding at December 31, 2010:

Range of Exercise Prices (USD)	Range of Exercise Prices (CND)	Number Outstanding at December 31, 2010	Weighted Average Remaining Contractual Life (Years)	Number Exercisable at December 31, 2010
$ 0.45	$ 0.45	100,000	2.76	25,000
0.60	0.60	1,700,000	2.36	1,365,000
0.70	0.70	100,000	1.82	100,000
0.99	1.00	750,000	3.18	750,000
1.04	1.05	924,000	4.10	924,000
$0.45 - $1.04	$0.45 - $1.05	3,574,000	2.98	3,164,000

The following table summarized the stock options outstanding at December 31, 2009:

Range of Exercise Prices (USD)	Range of Exercise Prices (CND)	Number Outstanding at December 31, 2009	Weighted Average Remaining Contractual Life (Years)	Number Exercisable at December 31, 2009
$ 0.43	$ 0.50	150,000	0.78	150,000
0.52	0.60	1,370,000	3.12	1,170,000
0.56	0.65	400,000	0.80	400,000
0.60	0.70	100,000	2.82	100,000
0.65	0.75	200,000	0.13	200,000
0.86	1.00	450,000	3.58	450,000
0.90	1.05	804,000	0.72	804,000
$0.43 - $0.90	$0.50 - $1.05	3,474,000	2.08	3,274,000

(Expressed in U.S. Dollars)

13. Share Capital, Warrants and Stock Options - Continued

(b) Options - Continued

During the year ended December 31, 2010, the weighted average fair value of options granted was $0.49 per share. The Company recognized a total stock based compensation expense of $623,449 for options previously and currently granted and vesting over time using the Black-Scholes option pricing model.

(c) Warrants

During the years ended December 31, 2010 and 2009, the Company did not issue any warrants.

At December 31, 2010 and 2009, there were no outstanding warrants.

14. Segmented Information

Geographic Information

The Company's head office is located in Vancouver, British Columbia, Canada. The operations of the Company are primarily in two geographic areas: Canada and China. All of the Company's revenue 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 years were as follows:

Year ended December 31, 2010	**Canada**	**China**	**Total**
Revenue from external customers	$ -	$ 5,431,619	$ 5,431,619
Equipment and website development costs	-	219,613	219,613
Goodwill	-	2,560,218	2,560,218

Year ended December 31, 2009	**Canada**	**China**	**Total**
Revenue from external customers	$ -	$ 2,790,137	$ 2,790,137
Equipment and website development costs	-	411,335	411,335
Goodwill	-	2,560,218	2,560,218

(Expressed in U.S. Dollars)

15. Commitments

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

Years ended December 31,		
2011		118,580
2012		112,678
Total	$	231,258

According to the terms of agreement dated September 30, 2006, the aggregate purchase price for acquiring an additional 10% interest in TTTC was RMB 790,000 ($115,798). Cash is payable over four years with RMB 200,000 ($25,263) paid in March 2007, RMB 200,000 ($29,316) is due on or before December 31, 2007, RMB 200,000 ($29,316) due on or before December 31, 2008 and RMB190,000 ($27,850) due on or before December 31, 2009. As at December 31, 2010, RMB 590,000 ($83,950) was not paid and included in the accounts payable in connection with the above noted purchase price.

16. Income Tax

The Company is subject to Canadian federal and provincial income taxes at an approximate rate of 30% [2009 - 30%]. The Company's Chinese subsidiaries are subject to Chinese taxes.

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

16. Income Tax (continued)

Tax expense (recovery) in Canadian statutory rate	2010 $'000	2009 $'000
Loss before tax, non-controlling interest	(503)	(1,682)
Statutory tax rate	30%	30%
Combined Canadian federal and provincial income		
Taxes at expected rate	(151)	(505)
Foreign income tax differential	(33)	4
Non-deductible expense	185	195
Deductible expense	(10)	-
Other	(161)	179
Change in valluation allowance	228	312
Total	58	185

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's future income tax assets and liabilities as of December 31, 2010 and 2009 are as follows:

	2010 $'000	2009 $'000
Current assets and liabilities	(188)	642
Net operating loss carried forward	2,702	2,761
Net capital loss carried forward	335	171
Other	252	4
Valuation allowance	(3,352)	(3,578)
Future income tax assets	(251)	-

16. Income Tax (continued)

Income tax consisted of	2010 $'000	2009 $'000
Current income tax expense	-	-
Future income tax (recovery) expense	58	-
	58	-

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

As at December 31, 2010, the Company has non-capital loss carry forwards for Canadian purposes aggregating approximately $5,925,083 available to reduce taxable income otherwise calculated in future years. The Company also has non-capital loss carry forwards for China tax purposes aggregating $4,525,639 available to reduce taxable income otherwise calculated in future years.

The non-capital losses expire as follows:

('000)	Canada	China	Consolidated
2011	-	668	668
2012	-	1,263	1,263
2013	-	1,796	1,796
2014	1,058	783	1,841
2015	769	16	785
2026	1,121	-	1,121
2027	1,342	-	1,342
2028	447	-	447
2029	614	-	614
2030	574	-	574
	5,925	4,526	10,451

The Company also has capital losses of $1,264,770 available to offset future capital gains in Canada. The capital loss is carried forward indefinitely.

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.

16. Income Tax - Continued

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

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

The Company is subject to a late payment surcharge on an amount outstanding to the tax authorities in charge. Depending on the extent and significance of late payment, the Company is also subject to a penalty of up to five times the amount that is overdue. The ultimate amount of penalty may be reduced by negotiation with the local tax authorities in charge. The Company ceased to accrue relevant penalty based on 0.05% a day on outstanding balance for the fiscal year ended December 31, 2010 as the result and likeliness of the tax assessment is not determined.