CHINA EDUCATION RESOURCES INC.

Management's Discussion and Analysis
For the period ended June 30, 2012

FORM 51-102F1

This Management Discussion and Analysis ("MD&A") reviews the activities of China Education Resources Inc. ("CER"), its Chinese operating subsidiaries, Today's Teachers Technology & Culture Ltd. ("TTTC"), CEN Smart ("CEN") and Zhong Yu Cheng Yuan Eucation Technology Ltd. (previously known as Zhong Yu Cheng Yuan Curriculum Development Center Ltd.) ("ZYCY"**)** (and/or collectively the "Group") and compares the financial results for the period ended June 30, 2012 with the same period of 2011. The MD&A should be read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2011, copy of which is filed on the SEDAR website.

All financial information in this MD&A is prepared in accordance with International Financial Reporting Standards ("IFRSs), except those exceptions specially mentioned. 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.

DATE OF REPORT – August 29, 2012

DESCRIPTION AND OVERVIEW OF BUSINESS

CER 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 Group, 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 Group 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") and Chinese Society of Education ("CSE") the largest academic association in China, 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. Teachers completed the national or provincial online training programs on CERSP.com will receive teacher's continuing education credit from either MOE or provincial education authorities. 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.

The Group's comprehensive Education Services Portal ("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 or her own account number registered with the platform. Currently, the Group is using the School Platform for teacher training programs in certain provinces.

(b) Online tutoring program

Online tutoring program is a platform developed for a teacher to provide online tutoring services through the internet to his or her students. 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) Digital education products

Digital education products are the products containing digital textbook tutorial materials, digital supplementary materials such as lesson plans, course modules and tests. CER has had more than 100,000 lesson plans, course modules and continues to develop the materials.

Currently, the Group'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 Group, through TTTC, acquired a 60% interest in Zhong Yu Cheng Yuan Education Technology Ltd. (previously known as 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 CER at a deemed value of CND0.35 ($0.30) per share. One-third of the purchase consideration has been paid up front with the balance paid on the first and second anniversary of the closing date, contingent upon ZYCY generating an annual net profit of RMB2,000,000 ($292,820). No additional shares were released during the period ended June 30, 2012. On top of increasing its book selling business, the Group can also strengthen its sales and distribution of its national CERSP and ESP web portal services in China through the sales team of ZYCY.

Due to the size of the Group, the provision of education internal portal services and distribution of educational textbooks and materials were considered in one segment based on the organizational structure, strategies, decision making and the availability of financial information.

OVERALL PERFORMANCE

During the three months ended June 30, 2012, the Company generated revenue of $1,824,968 as compared with $1,103,954 for the same period of last year. The loss attributable to the owners of the Company for the period was $177,321 as compared to $398,431 for the same period of last year.

During the six months ended June 30, 2012, the Company generated revenue of $4,362,780 as compared with $3,271,740 for the same period of last year. The profit attributable to the owners of the Company for the period was $433,518 as compared to $45,560 for the same period of last year.

Selected Annual Information

	2011 (prepared under IFRS)	**2010 (prepared under IFRS)**	**2009 (prepared under Canadian GAAP)**
Total revenue	$ 6,553,140	$ 5,436,165	$ 2,790,137
Net gain (loss)	83,481	(561,102)	(2,080,670)
Net loss per share	(0.01)	(0.01)	(0.05)
Total assets	7,963,826	6,939,646	4,987,354
Long-term liabilities	252,951	250,893	-
Cash dividends	-	-	-

The Group's revenue increased significantly in both 2011 and 2010 as compared with 2009 upon the acquisition of the 60% interest in ZYCY in July 2009. There was a net profit generated in the year 2011 as compared with a loss in 2010. The net loss for 2010 was also reduced materially as compared with 2009 as revenue increased along with the control of the operating expenses in a reasonable level for both years.

Results of Operations

For the three months ended June 30, 2012:

For the three months ended June 30, 2012, the Group reported aggregate sales revenue of $1,824,968 (2011: $1,103,954). There was an increase in sales for the current quarter as compared to the sales of the same quarter of previous year.

The Group recognized a net loss attributable to owners of the Company for the three months ended June 30, 2012 of $177,321 as compared to $398,431 for the comparable 2011 period. The net loss per share was $nil for the three months ended June 30, 2012 as compared to $0.01 for comparable period ended June 30, 2011 which was primarily attributed by the increase of revenue from digital textbook sales which is a new online product launched during the current quarter.

The following is a discussion of certain expense categories:

General and administrative expenses

For the three months ended June 30, 2012, general and administrative expenses were $301,854 compared to $507,411 recorded in 2011. The decrease in general and administrative expenses was a result of the better control on the expenditure of the Group.

Included as part of the general and administrative expenses:

Consulting fees decreased to $nil for the three months ended June 30, 2012 from $46,339 for the comparable 2011 period. The decrease was attributable to the better control on the expenditure of the Group.

Office and administrative expenses decreased to $33,882 for the three months ended June 30, 2012 from $71,193 for the comparable 2011 period. The decrease was again attributable to the better control on the expenditure of the Group.

Amortization

The amortization decreased to $10,699 for the three months ended June 30, 2012 as compared to $28,676 in the same period of 2011 as the website development cost and some of the capital assets were fully amortized.

Selling expenses

The selling expenses of $399,856 for the three months ended June 30, 2012 decreased as compared to $630,010 in the same period of 2011 which was a result of increase in sales of online products and decrease in expenses associated with traditional book sales.

Stock based compensation

During the three months ended June 30, 2012, the Group recorded a non-cash stock based compensation expense of $29,038 (2011: $13,416) for options previously granted.

Finance cost

The Company incurred interest expenses of $35,396 for the three months ended June 30, 2012 as compared to $5,129 in the same period of 2011 which was largely the interest payments on the bank loan and other loan payables as of June 30, 2012.

For the six months ended June 30, 2012:

For the six months ended June 30, 2012, the Group reported aggregate sales revenue of $4,362,780 (2011: $3,271,740). There was an increase in sales for the current quarter as compared to the sales of the same period of previous year.

The Group recognized a net income attributable to owners of the Company for the six months ended June 30, 2012 of $433,518 as compared to $45,560 for the comparable 2011 period. The net income per share was $0.01 for the six months ended June 30, 2012 as compared to $nil for comparable period ended June 30, 2011 which was primarily attributed by the increase of revenue from teacher training services and digital book sales which is a new online product launched during the period.

The following is a discussion of certain expense categories:

General and administrative expenses

For the six months ended June 30, 2012, general and administrative expenses were $795,970 compared to $1,043,909 recorded in 2011. The decrease in general and administrative expenses was a result of the better control on the expenditure of the Group.

Included as part of the general and administrative expenses:

Salaries, wages, commission and benefits decreased to $398,202 for the six months ended June 30, 2012 from $434,194 for the comparable 2011 period.

Consulting fees decreased to $nil for the six months ended June 30, 2012 from $44,353 for the comparable 2011 period. The decrease was attributable to the better control on the expenditure of the Group.

Office and administrative expenses decreased to $82,036 for the six months ended June 30, 2012 from $201,183 for the comparable 2011 period. The decrease was again attributable to the better control on the expenditure of the Group.

Amortization

The amortization decreased to $21,407 for the six months ended June 30, 2012 as compared to $64,871 in the same period of 2011 as the website development cost and some of the capital assets were fully amortized.

Selling expenses

The selling expenses of $1,224,112 for the six months ended June 30, 2012 increased as compared to $910,404 in the same period of 2011 which was a result of increase in marketing and promotion expenses incurred.

Stock based compensation

During the six months ended June 30, 2012, the Group recorded a non-cash stock based compensation expense of $90,505 (2011: $19,504) for options granted during the period.

Finance cost

The Company incurred interest expenses of $63,109 for the six months ended June 30, 2012 as compared to $6,448 in the same period of 2011 which was largely the interest payments on the bank loan and other loan payables as of June 30, 2012.

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			
	6/30/2012	**3/31/2012**	**12/31/2011**	**9/30/2011**
	($'000)	($'000)	($'000)	($'000)
Revenue	1,825	2,571	119	3,162
Net income (loss) for the period	(177)	611	(1,450)	1,412
Net income (loss) per share	(0.00)	0.01	(0.02)	0.01
Total assets	8,726	7,929	7,964	9,648
Total liabilities	7,206	6,410	7,157	7,693

	For the Quarters Ended			
	6/30/2011	**3/31/2011**	**12/31/2010**	**9/30/2010**
	($'000)	($'000)	($'000)	($'000)
Revenue	1,104	2,168	727	2,113
Net income (loss) for the period	(398)	444	(748)	49
Net income (loss) per share	(0.01)	0.01	(0.02)	0.01
Total assets	7,645	7,648	6,940	7,894
Total liabilities	6,752	6,290	6,538	6,863

Due to the seasonal factor, revenue for Q4 usually was less than other quarters. In addition, there were annual adjustments made in Q4 of the year, hence, net loss increased in the same quarter.

Revenue increased materially for Q3 of 2012 and 2011 as revenue generated from teacher training services increased resulting to an increase in net profit for the current quarter. Total assets for the same quarter also increased as an increase in accounts receivable. During the past 2 years, the Q1 and Q3 results were comparatively higher than that of Q2 and Q4 due to the nature of the contracts signed. These contracts were mainly in relation to books delivered to schools and teacher training as part of their continuous education which were completed at the start of the winter (Q1) or summer (Q3) semesters of the schools. As the Group has increased the types of service provided by its education service portal, the seasonal nature of business will change upon completion of new types of services under the new contracts.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

Working capital improved by $770,353 to a working capital deficiency of $1,092,521 from a working capital deficiency of $1,862,874 at the beginning of the year, primarily as a result of repayments from related party accounts during the current period.

Cash used in operating activities was $2,528,508 for the period ended June 30, 2012, compared to $1,911,883 used in operating activities for the period ended June 30, 2011.

At June 30, 2012, trade receivable increased to $5,311,407 from $2,470,309 at December 31, 2011. The increase was mainly due to the increase in sales revenue and also a delay in receiving settlement of the trade receivable.

Cash used in investing activities was $5,978 for the period ended June 30, 2012, compared to cash used in investing activities of $14,679 for the period ended June 30, 2011. The cash outflow and inflow for investing activities were related to the purchase and sales of equipment for the respective periods.

Cash provided by financing activities was $475,141 for the period ended June 30, 2012, compared to cash provided by financing activities of $1,203,596 for the period ended June 30, 2011.

The Group has increased its types of services provided through its education service portal. The revenue of the Group is expected to increase through providing additional services to the customers. The Group also plans to have equity or debt financing to maintain the Group's capacity, meet planned growth and fund development activities.

Equipment and website development costs

At June 30, 2012, the Group's net equipment and website development costs were $125,875 as compared to $145,426 as at December 31, 2011. This decrease was mainly attributed to the amortization and depreciation of $21,407 for the current period. Website development costs and some of the capital assets were fully amortized by the end of 2011.

Liabilities

The Group's total liabilities were $7,206,471 as at June 30, 2012, which is comparable with $7,156,738 at December 31, 2011.

Shareholders' Equity

There was a shareholders' equity of $1,519,124 at June 30, 2012 as compared to $807,088 at December 31, 2011, which included the net profit of $433,518 for the period ended June 30, 2012.

Outstanding share data

The Group's common shares outstanding as at August 29, 2012 were 47,364,983.

At August 29, 2012, the Group has outstanding stock options of 3,424,000. Details are as follows:

Exercise Prices (CND)		Number	Expiry Date
$	0.45	100,000	October 5, 2013
	0.60	650,000	February 21, 2013
	0.60	300,000	July 28, 2013
	0.60	100,000	October 5, 2013
	0.60	200,000	February 3, 2015
	0.70	100,000	October 26, 2012
	1.00	250,000	July 28, 2013
	1.00	100,000	February 3, 2015
	1.05	624,000	February 3, 2015
	0.40	1,000,000	March 15, 2017
		3,424,000	

At August 29, 2012, there were 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 Group 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.

OFF-BALANCE SHEET ARRANGEMENTS

The Group does not have any off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

All related party transactions are recorded in the normal course of operations on normal commercial terms and conditions and at market rates, which is the amount of consideration established and agreed to by the related parties.

Key management personnel and director transactions

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

A number of key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities.

The aggregate value of transactions and outstanding balances relating to key management personnel and entities over which they have control or significant influence were as follows:

		Transaction value Three months ended June 30,		Transaction value Six months ended June 30,	
Director/ officer	Transaction	2012	2011	2012	2011
C F Zhou	Salary and benefits	$ 45,340	$ 46,685	$ 90,679	$ 95,148
Danny Hon (i)	Accounting fees	22,764	18,428	46,627	36,857
		$ 68,104	$ 65,113	$ 137,306	$ 132,005

		Balance outstanding	
Director/ officer	Transaction	June 30, 2012	December 31, 2011
C F Zhou	Salary and benefits	$ 479,372	$ 390,384
C F Zhou	Loan payable (i)	79,973	42,773
C F Zhou	Loan interest payable (i)	6,185	1,710
Danny Hon	Accounting fees payable (ii)	215,489	159,382
Danny Hon	Loan payable (i)	73,646	63,965
Danny Hon	Loan interest payable (i)	10,573	5,407
		$ 865,238	$ 663,621

(i) During the period ended June 30, 2012 and year ended December 31, 2011, the Group has received short term loans from two directors. The short-term loans were unsecured and due on demand with an annual interest rate of 15%. At June 30, 2012, there was an interest payable balance of $16,758 owed to directors of the Group.

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

Unsecured loan payable

The Group had the following loan payables to the key management personnel of the Group with the terms and conditions summarized as follows:

	June 30, 2012				
Unsecured loans payable	RMB	Canadian dollars	U.S. dollars equivalent	Annual interest rate	Due date
Weiguo Mu	400,000	-	62,956	15%	due on demand
Weiguo Mu	150,000	-	23,609	15%	8/28/2012
Rongrong Mu	300,000	-	47,217	15%	due on demand
Yan Zhang	300,000	-	47,217	15%	due on demand
Yan Zhang	500,000	-	78,695	15%	9/26/2012
	1,650,000	-	259,694		

	December 31, 2011				
Unsecured loans payable	RMB	Canadian dollars	U.S. dollars equivalent	Annual interest rate	Due date
Qi Li	1,000,000	-	158,900	15%	due on demand
Weiguo Mu	500,000	-	79,450	15%	11/02/2012 [i]
Weiguo Mu	400,000	-	63,560	15%	due on demand
Pu Chen	90,000	-	14,301	15%	due on demand
Rongrong Mu	300,000		47,670	15%	due on demand
Yan Zhang	300,000		47,670	15%	due on demand
	2,590,000	-	411,551		

[i] Subsequently repaid in 2012.

At June 30, 2012, interest payable of $18,489 (December 31, 2011: $31,328) was accrued and grouped under due to related parties.

Other related party transactions

	June 30, 2012	December 31, 2011
Amount due from a company related to the non-controlling shareholders of ZYCY [i]	107,696	422,641

[i] It represents the amount collected on behalf of the Group by a company related to the non-controlling shareholders of ZYCY as non-secured and non-interest bearing short-term loan.

BOARD AND MANAGEMENT CHANGES

There was no change in the board of directors and management team during the period.

RISK AND UNCERTAINTY FACTORS

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

The Group has recognized a net profit of $433,518 (2011: $45,560) for the period ended June 30, 2012 and has incurred a cumulative loss of $31,150,268 since inception. The Group'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 Group'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 Group 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 Group 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 Group 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 Group, 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 Group 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.

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 Group.

Management

The Group currently has a small executive management group, which is sufficient for its present stage of development. Although the Group’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 Group.

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 October 1, 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 Group's risk management framework. The Group's financial instruments consist of cash, accounts receivables, trade and other payables, loan payable and due to related parties.

The Group's financial instruments are exposed to the risks described below:

(a) Credit risk

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

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. At June 30, 2012, the Group had a working capital deficiency of $1,092,521 (2011: $1,862,874). The Group is focused on generating sales revenue and is actively pursuing additional sources of financing to ensure that it can meet its ongoing operating requirements and planned capital expenditures.

(c) Market risk

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

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. From time to time, the Group is exposed to short term interest rates through the interest earned on cash and cash equivalents. The Group only has debt with fixed interest rates. The Group's current policy is to invest excess cash in short-term deposits with its banking institutions. The Group periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

(ii) Foreign currency exchange rate risk

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

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

The functional currency of CER is Canadian dollar and the functional currency of its China subsidiaries is RMB. Major transactions are transacted in Canadian dollars and RMB. The Group maintains Chinese RMB bank accounts in China to support monthly forecasted cash outflows. Management believes the foreign exchange risk derived from currency conversions is minimal and therefore does not hedge its foreign exchange risk.

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

SIGNIFICANT ACCOUNTING POLICIES

The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of the audited annual financial statements as at December 31, 2011. The unaudited condensed interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2011.

New standards and interpretations adopted during the period

The Group adopted the following new standards during the period:

IAS 12 **-** *'Income Taxes'* **-** *Amendments Regarding Deferred Tax: Recovery of Underlying Assets*

On January 1, 2012, the Company adopted *IAS 12* **-** *'Income Taxes'* **-** *Amendments Regarding Deferred Tax: Recovery of Underlying Assets*. These amendments are a practical approach for the measurement of deferred tax relating to investment properties measured at fair value, property, plant and equipment and intangible assets measured using the revaluation model. The measurement of deferred tax for these specified assets is based on the presumption that the carrying amount of the underlying asset will be recovered entirely through sale, unless the entity has clear evidence that economic benefits of the underlying asset will be consumed during its economic life. Adoption of the standard did not have a material impact on the financial position of the Company.

New standards and interpretations not yet adopted

The Group has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Group:

IFRS 9 "Financial Instruments – Classification and Measurement"

IFRS 9, *Financial Instruments,* was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39, *Financial Instruments – Recognition and Measurement,* for debt instruments with a new mixed measurement model having only two categories: amortized costs and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely. Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, *Financial Instruments – Recognition and Measurement*, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income. In January 2012, the effective date was revised to January 1, 2015 with earlier application permitted.

IFRS 10 "Consolidated Financial Statements"

In May 2011, the IASB issued IFRS 10 *Consolidated Financial Statements*, which is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. IFRS 10 replaces the guidance in IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities*. IAS 27 (2008) survives as IAS 27 (2011) *Separate Financial Statements*, only to carry forward the existing accounting requirements for separate financial statements. IFRS 10 provides a single model to be applied in the control analysis for all investees, including entities that currently are SPEs in the scope of SIC-12. In addition, the consolidation procedures are carried forward substantially unmodified from IAS 27 (2008). The Group intends to adopt IFRS 10 in its consolidated financial statements for the annual period beginning on January 1, 2013. The extent of the impact of adoption of IFRS 10 has not yet been determined.

IFRS 11 "Joint Arrangements"

In May 2011, the IASB issued IFRS 11 *Joint Arrangements*, which is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. If an entity applies this Standard earlier, it shall also apply IFRS 10, IFRS 12, IAS 27 (2011) and IAS 28 (2011) at the same time. IFRS 11 replaces the guidance in IAS 31 *Interests in Joint Ventures*. Under IFRS 11, joint arrangements are classified as either joint operations or joint ventures. IFRS 11 essentially carves out of previous jointly controlled entities, those arrangements which although structured through a separate vehicle, such separation is ineffective and the parties to the arrangement have rights to the assets and obligations for the liabilities and are accounted for as joint operations in a fashion consistent with jointly controlled assets/operations under IAS 31. In addition, under IFRS 11, there is no longer a free choice of equity accounting or proportionate consolidation for joint ventures; the equity method is now required. Upon application of IFRS 11, entities which had previously accounted for joint ventures using proportionate consolidation shall collapse the proportionately consolidated net asset value (including any allocation of goodwill) into a single investment balance at the beginning of the earliest period presented. The investment's opening balance is tested for impairment in accordance with IAS 28 (2011) and IAS 36 *Impairment of Assets*. Any impairment losses are recognized as an adjustment to opening retained earnings at the beginning of the earliest period presented. The Group intends to adopt IFRS 11 in its consolidated financial statements for the annual period beginning on January 1, 2013. The extent of the impact of adoption of IFRS 11 has not yet been determined.

IFRS 12 "Disclosure of Interests in Other Entities"

In May 2011, the IASB issued IFRS 12 *Disclosure of Interests in Other Entities*, which is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. If an entity applies this Standard earlier, it need not apply IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011) at the same time. IFRS 12 contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The required disclosures aim to provide information in order to enable users to evaluate the nature of, and the risks associated with, an entity's interest in other entities, and the effects of those interests on the entity's financial position, financial performance and cash flows. The Group intends to adopt IFRS 12 in its consolidated financial statements for the annual period beginning on January 1, 2013. The Group does not expect IFRS 12 to have a material impact on the consolidated financial statements.

IFRS 13 "Fair Value Measurement"

In May 2011, the IASB published IFRS 13 *Fair Value Measurement*, which is effective prospectively for annual periods beginning on or after January 1, 2013. The disclosure requirements of IFRS 13 need not be applied in comparative information for periods before initial application. IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income. IFRS 13 explains 'how' to measure fair value when it is required or permitted by other IFRSs. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. The Group intends to adopt IFRS 13 prospectively in its consolidated financial statements for the annual period beginning on January 1, 2013. The Group does not expect IFRS 13 to have a material impact on the consolidated financial statements.

IAS 1 "Presentation of Financial Statements"

As of January 1, 2013, the Group will be required to adopt the amendments to IAS 1 "*Presentation of Financial Statements"* as it relates to the presentation of other comprehensive income (OCI). The amendments to this standard do not change the nature of the items that are currently recognized in OCI, but requires presentational changes. The adoption of this standard is not expected to have a material impact on the Group's consolidated financial statements.

IFRS 7 "Financial Instruments: Disclosures"

As of January 1, 2013, the Group will be required to adopt the amendments to IFRS 7, *Financial Instruments: Disclosures*. The amendment requires new disclosures relating to the offset of financial assets and financial liabilities that will enable the users of financial statements better compare financial statements prepared in accordance with IFRS and US Generally Accepted Accounting Principles. The adoption of the amended standard is not expected to have a material impact on the Group's consolidated financial statements.

OUTLOOK

The Group's objective is to become the leading kindergarten to grade 12 education services platform, content provider and social networking system in China's education sector. The Group provides a range of services to government education authorities, schools, teachers, students and their parents. The Group has implemented a four step growth and revenue strategy which is now being commercialized and expanded nationwide.

The first step of the strategy involves working with various levels of government to deliver government-funded online teacher training programs. The Group has developed more than 100 online teacher training courses for the continuous education of teachers. This means teachers can obtain government certificates upon successful completion of any of these courses through national, provincial and municipal teacher training programs. The Group also obtained the rights to use 97 teacher training courses developed by others for provincial teacher training programs and pays a royalty to the course developers for the use of these courses. The Group also developed 100,000 K-12 online lesson plans and is continuing to develop new educational content and upgrade the technology and functions of its portal. More than 300,000 teachers were trained in the Group's teacher training programs. CER is the only public company endorsed by China's Ministry of Education ("MOE") for national level online teacher training programs. The Group has been engaged by fourteen provinces and the municipality of Chongqing to deliver province-wide teacher training.

The second step of the strategy involves integrating the Group's products and services into teachers' daily routines. This will allow teachers to interact and communicate with each other while establishing a close relationship with the Group and its products. These products include online teacher training, professional development and sharing of lesson plans. The CERSP portal is one of the largest and most popular K-12 teacher blog systems in China with more than one million registered and active K-12 teachers. The CERSP portal has developed into a strong national brand and it has a reputation for offering best-in-class online learning products and services. The first two steps are well underway and are expanding into more provinces.

The third step involves promoting products directly to teachers. Each school pays a subscription fee for this base product, and provinces, such as Liaoning, have endorsed this as a way to provide teacher training and services programs through CER's School Platform. These programs require teachers to obtain continuing training credits during their careers and specifically the first and second stage courses for each school. The provinces of Shanxi and Guangxi have commenced similar programs based on the Group's School Platform and several other provinces are planning to launch similar programs in 2012.

The fourth step of the ESP is to target students by offering a number of products and services. This includes offering our collection of online tutoring courses, customized education resources, formative assessment tools and education games, which are some of the largest in China. Students and parents pay a subscription fee for this platform. Several provinces have initiated discussions with CER for this program.

CER has signed an agreement with Shanxi Provincial education authority to customize the Group's School Platform to provide services and education resources to both teachers and students for Shanxi Province education reform. The education reform emphasizes interaction between teachers and students with digitized education resources and multimedia equipment in classrooms.

CER has started to provide digital textbook to the students in Guizhou Province. This is a significant step for CER to combine the Group's internet portal with traditional textbooks, which also provides significant opportunities for CER's textbook business.

The Group has over a decade of experience operating in China, and has established a formidable position in the K-12 education sector, and is now working with over 200 education authorities in various provinces of China. CER is successfully advancing commercialization of the Group's products and services with many products and across a broad range of education related customers. The Group's four-step growth plan is currently being adopted in fourteen provinces throughout China and represents a unique opportunity for investors to participate in the rapid growth of China's education sector.

The Group has developed an unparalleled and broad portfolio of education products that it believes in unavailable in any other education market. It has been market tested and developed in the world's largest education market. The Group intends to explore the potential to provide these online, networked products and services in other education markets. It may launch these products on its own or in partnership with domestic industry players.