AMENDED

CHINA EDUCATION RESOURCES INC.

Management's Discussion and Analysis
For the year ended December 31, 2007

FORM 51-102F1

May 5, 2008

This Management Discussion and Analysis ("MD&A") reviews the activities of China Education Resources Inc., its Chinese operating subsidiaries, Today's Teachers Technology & Culture Ltd.("TTTC") and CEN Smart ("CEN") (and/or collectively "CER" or the "Company") and compares the financial results for the year ended December 31, 2007 with the same period of 2006. The MD&A should be read in conjunction with the audited consolidated financial statements and accompanying notes for all relevant periods copies of which are filed on the SEDAR website.

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

FORWARD LOOKING INFORMATION

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

DESCRIPTION AND OVERVIEW OF BUSINESS

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

The Company has worked in all areas of education resources development, marketing and sales. Working with the Curriculum Development Center ("CDC") of China's Ministry of Education ("MOE"), CER has developed a unique national education portal (www.CERSP.com) to help the Central Government implement policy reform. This reform effort is designed to bring China's education system into the twenty first century by changing teaching methods from rote memory learning to a more individualized and creative approach. CERSP.com has full support of and is the only portal endorsed by the CDC, which is China's highest-ranking authority in the area of curriculum development. Teachers completed the CERSP.com training program will receive a national level certificate from CDC which is the nationally recognized. Importantly, the CERSP portal is designed to support all stakeholders and participants in the K-12 education domain; teachers, students, administrators, subject matter experts, and parents.

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

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

ESP, on the other hand, is a commercial service for the K-12 education marketplace that extends the reach and relevance of the CERSP portal at the school and individual level. Its primary function is to support the administrative, teaching, learning, testing, and assessment needs of an individual school, and it does so in a way that is standardized, allowing for combined results to the district, city, province, or national level. CERSP can be regarded as an incredibly 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, the Company's revenues are derived from our interests in TTTC which develops and maintains the CERSP and ESP. Our cash flow and financial condition is dependent on TTTC.

CER is focused on commercializing its national CERSP and ESP web portals in China, which are designed to provide educational content, training, and resources to education users. The target user population for the CERSP portal is the K - 12 system; including schools, administrators, teachers, students and parents.

In 2000, the Chinese government began implementing a policy of education reform to change, from its traditional rote memory learning methodology to a more individualized creative approach. The Company's founders realized this reform would create a new, long term business opportunity to meet the expected demand for new curriculum, updated materials, and online delivery systems of educational tools.

The Company continued to sell its established titles in its traditional textbook distribution business during 2006, however, due to new regulations in China and significantly increased costs in developing new textbook titles and updating the Company's current titles, CER has focused its attention and all of its resources to developing the portal. The Company still maintains the distribution of third party textbooks and supplementary materials.

OVERALL PERFORMANCE

Comparative Figures

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

Selected Annual Information

	2007	2006	2005
Total revenue	$ 1,439,637	$ 1,435,581	$ 6,016,587
Loss before disontinued operations	(4,137,670)	(2,812,775)	(334,396)
Loss before disontinued operations per share	(0.01088)	(0.0763)	(0.0104)
Net loss	(4,137,670)	(2,568,387)	(710,423)
Net loss per share	(0.1088)	(0.0696)	(0.0220)
Long-term liabilities	47,796	477,914	778,120
Cash dividends	-	-	-

Revenue decreased when comparing 2005 with 2006 and 2007. This was due to the downsizing of the textbook business in 2006 as significant increased costs had to be incurred if the Company continued on developing new textbook titles and updating the Company's current titles. The Company shifted the focus of education textbooks distribution business to the development of an education internet portal with educational content, resources and training programs to users in China.

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

Results of Operations

During the year under review, sales and subsequent revenues in the Company's traditional textbook business continue to decline compared to the prior comparative period. The Company has redirected all of its efforts and resources to the development and deployment of its online education offerings; CERSP.com and ESP.

For the year ended December 31, 2007, the Company reported aggregate sales of $1,439,637 (2006: $1,435,581). Sales revenue of $998,810 (2006: $nil) was attributable to revenue derived from teacher training service through the internet portal and $440,827 (2006: $1,435,581) was from the Company's traditional business, book selling, with related cost of sales of $240,694 (2006: $752,619).

The Company recognized a net loss from continuing operations for the three months ended December 31, 2007 of $2,461,040 as compared to a net loss from continuing operations of $546,214 for the comparable 2006 period. The net loss from continuing operations per share increased to $0.0646 for the three months ended December 31, 2007 as compared to a net loss from continuing operations per share of $0.0145 for comparable period ended December 31, 2006.

There was a gain from discontinued operations of $244,388 in the three months ended December 31, 2006.

Net loss from continuing operations for the year ended December 31, 2007 was $4,137,670 as compared to a net loss from continuing operations of $2,812,775 for the comparable 2006 period. The net loss from continuing operations per share increased to $0.1088 for the year ended

December 31, 2007 as compared to a net loss from continuing operations per share of $0.0763 for the same period of 2006.

There was a gain from discontinued operations of $244,388 in the year ended December 31, 2006.

The following is a discussion of certain expense categories:

Selling and general and administrative expenses

For the year ended December 31, 2007 selling and general and administrative expenses were $2,991,103 compared to $2,295,767 recorded in 2006 and reflect an increase in activities related to the internet portal and working to complete a registration statement in the US.

Included as part of the selling and general and administrative expenses:

Accounting and audit fees increased from $272,301 for the year ended December 31, 2006 to $454,166 for the comparable 2007 period. The increase was mainly due to the expenses associated with the preparation of a US registration statement and under-provision of the 2006 audit.

Travel increased to $90,584 for the year ended December 31, 2007 from $54,812 for the comparable 2006 period due to increased travel by management to China and the United States.

Stock based compensation

During the year ended December 31, 2007, the Company recorded stock based compensation expenses of $218,068 (2006: $585,304) for options previously granted and vesting over time.

Web-site operating costs

The Company recorded web-site operating costs of $1,641,093 (2006: $nil) in relation to the maintenance and update of the portal and web-site.

Amortization

The amortization increased to $1,002,557 in 2007 as compared to $115,227 in 2006 was mainly due to the amortization of web-site development cost of $871,860 starting from February 2007.

Bad debt

The Company made an additional provision of doubtful debt receivable of $39,209 in 2007 for the amount receivable from Shengshi Education Service Company. As of December 31, 2007, the Company has totally made a provision for doubtful debt of $433,034 for the amount of $976,015 receivable from Shengshi Education Service Company.

Income Tax

The income tax expenses for 2007 was lower than the corresponding period for 2006 as the Company incurred more loss after shifting its focus from book selling in 2006 to the start of providing internet portal service in 2007.

Products - Operations

The Company has historically developed and distributed educational products in China through its traditional textbook distribution business. The Company now only maintains the distribution of those textbooks which do not require their content to be reviewed and approved by the relevant regulatory authorities.

The goal of CER is to position CERSP.com as China's central on-line location for the K-12 education sector (students, teachers, parents, schools, government and administrators). These education users can access, discover, learn, socialize, create and share new curriculum materials. CERSP is an advanced learning, working and sharing platform that offers China's teachers, students, administrators, and parents a wide range of services and products.

CER's vision is to take the world's largest education system into the twenty-first century and make CERSP.com the world's largest on-line community.

The Company currently is focused on the marketing, sales and continuing development of its educational internet portal. The portal features online teacher training programs, a student social network (which will include online tutoring and training programs), and supplemental materials and textbooks.

Teacher Training

To gain rapid adoption of China's new curriculum and the internet portal system, CER and the CDC initially focused on the development and on-line training of the new curriculum for teachers. The portal now contains hundreds of thousands of pages of new curriculum covering all key subjects. In collaboration with the CDC, CER completed 25 online government certificate courses aimed at the primary, middle school, and high school teachers.

Teacher training beta tests were completed in January 2007 and in August 2007 the CDC again adopted the CERSP portal in training 47,000 teachers for the new curriculum certificate program, which was the largest on-line training program ever done in China.

The program consists of 25 courses, 14 of them were newly developed, and is divided into two modules. One module covers teachers from kindergarten to grade 9 and the second module covers the high school level teachers from grades 10-12.

The teacher-training program is one of the sources of revenue of the portal and CER believes that it will be able to capture a sizeable percentage of this $1.3 billion annual training market. China's 12,000,000 teachers not only have to be trained to teach the new curriculum but must participate in continuing education to maintain their teaching certification.

Currently the portal's capacity is 500,000 simultaneous participants and CER is now working towards a capacity of over one million simultaneous users.

Education Service Portal

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

The school administrators, teachers, students and parents can use ESP to upload and download education resources according to specific learning objectives. It enables teachers to communicate and work collaboratively with each other by providing them with the ability to share and exchange lesson plans, support materials, experiences, and even entire course modules. Students can use the Student Activity Center ("the Center"), to collaborate, work jointly on school projects, share learning experiences and even play educational games.

The ESP Testing and Assessment Center ("TAC"), enables schools to create and administer tests and assessments that align with learning objectives and automatically reports raw data results and various analyses that can be used to identify areas in which the student may need extra help and recommend learning strategies. The TAC provides a repository for education E-portfolios, which are complete records of each student's learning and achievements.

The Student Activity Center provides an informal environment where students can gather online to visit with each other, find relaxing, education-related activities, and to play learning games using points they earn from their educational achievements. The Center also features a customized, unique education resource search function.

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.

December 31, 2007	Q1 ($'000)	Q2 ($'000)	Q3 ($'000)	Q4 ($'000)	2007 ($'000)
Revenue	286.2	113.8	605.7	433.9	1,439.6
Loss before non-controlling interest	(444.3)	(658.0)	(634.1)	(2,533.9)	(4,270.3)
Net loss for the period	(435.5)	(633.1)	(608.0)	(2,461.0)	(4,137.6)
Net loss per share	(0.0115)	(0.0167)	(0.0160)	(0.0646)	(0.1088)
Total assets	9,633.2	8,921.5	8,747.1	7,053.5	7,053.5
Total liabilities including non-controlling interest	4,113.4	3,938.8	4,187.9	4,713.3	4,714.7

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

December 31, 2006	Q1 ($'000)	Q2 ($'000)	Q3 ($'000)	Q4 ($'000)	2006 ($'000)
Revenue	321.6	24.5	1,038.7	50.8	1,435.6
Loss before non-controlling interest and discontinued operations	(256.4)	(1,355.4)	(702.5)	(787.0)	(3,101.3)
Net income (loss) from sale of discontinued operations	(26.4)	270.8	-	-	244.4
Net loss for the period	(282.8)	(1,010.2)	(702.7)	(572.6)	(2,568.3)
Earnings (loss) per share:					
- Continuing operations	(0.0072)	(0.0287)	(0.0191)	(0.0213)	(0.0763)
- Discontinued operations	(0.0007)	0.0007	0.0000	0.0066	0.0066
Net loss per share	(0.0079)	(0.0280)	(0.0191)	(0.0147)	(0.0696)
Total assets	10,697.2	10,993.6	11,713.0	9,890.6	9,890.6
Total liabilities including non-controlling interest	4,944.6	3,846.5	4,698.6	4,038.7	4,038.7

The significant increase in revenue in Q3 of 2006 was due to the seasonal effects on selling of textbook for the next academic year starting from September 2006.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

Working capital

Working capital decreased by $3,623,718 to a deficit of $3,844,437 from a negative balance of $220,719 at the beginning of the year, primarily as a result of the cash used in operating activities of $2,479,397 and investing activities of $155,486, which were partially offset by the cash inflow of $245,671 from the financing activities.

On August 20, 2007, the Company granted incentive stock options for 400,000 shares at a price of $0.59 (C$0.60) per share exercisable up to August 20, 2012 to directors and employees. All the options vested immediately.

On August 20, 2007, the Company granted incentive stock options for 100,000 shares at a price of $0.59 (C$0.60) per share exercisable up to August 20, 2008 to a consultant. 25% of the options vested on the date of grant and 25% of the options vest every three months thereafter for 9 months.

On October 24, 2007, the Company completed a non-brokered private equity placement of $298,636 (C$288,900) for 481,500 Units. Each Unit consists of one restricted common share in capital stock of the Company and one-half of one common share purchase warrant at a price of $0.59 (C$0.60) per Unit. The shares issued are subject to a hold period trading restriction that expired on February 28, 2008. The warrants can be exercised to purchase an additional 240,750 common shares at $0.79 (C$0.80) per share until April 24, 2008 and at $0.99 (C$1.00) per share thereafter until expiry on October 24, 2008.

On October 26, 2007, the Company granted incentive stock options for 100,000 shares at a price of $0.69 (C$0.70) per share exercisable up to October 26, 2012 to an officer. The options vested immediately.

Subsequent to the year end, on January 17, 2008, the Company completed a $2,300,000 private placement consisting of 4.6 million common shares at $0.49 (C$$0.50) each. The shares are subject to a four-month hold period until May 18, 2008.

On February 21, 2008, the Company granted 650,000 common share purchase options to directors and employees. These options vested immediately and are exercisable at a price of $0.60 per common share expiring February 21, 2013. The Company also cancelled 250,000 common share purchase options held by three ex-employees.

Equipment and website development costs

As at December 31, 2007, the Company's net equipment and web-site development costs were $2,483,845 as compared to $3,145,365 as at December 31, 2006. This decrease was primarily due to the amortization of $871,860 in website development costs.

Liabilities

The Company's total liabilities were $4,714,722 as at December 31, 2007 compared to $3,906,025 as at December 31, 2006. The increase was primarily due to an increase of $880,823 in accounts payable and accrued liabilities and $370,293 in income tax payable in China.

Shareholders' Equity

The shareholders' equity was $2,338,799 as at December 31, 2007 as compared to $5,851,892 as at December 31, 2006. The reduction was primarily due to a loss of $4,018,287 in the year ended December 31, 2007, offset by an increase in the share capital of $254,314 and contributed surplus of $250,880.

Outstanding share data

The Company's common shares outstanding as at April 29, 2008 were 43,004,983.

At April 29, 2008, the Company has outstanding stock options of 3,024,000. Details are as follows:

Exercise Prices (CND)	Number	Expiry Date
$ 0.50	150,000	October 11, 2010
0.60	100,000	August 20, 2008
0.60	20,000	February 15, 2010
0.60	300,000	August 20, 2012
0.60	650,000	February 21, 2013
0.65	600,000	October 20, 2010
0.70	100,000	October 26, 2012
0.75	200,000	February 15, 2010
0.90	100,000	April 13, 2009
1.05	200,000	October 20, 2010
1.05	604,000	September 11, 2010
	3,024,000	

At April 29, 2008, the Company has outstanding stock purchase warrants of 245,750. Details are as follows:

Exercise Prices (CND)	Number	Expiry Date
$0.80 - $1.00	240,750	October 24, 2008

Dividend

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

TRANSACTIONS WITH RELATED PARTIES

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

	2007	2006
Amount due from Beijing Anli Information and Consulting Company ("Anli"), net of bad debt provision of $33,259 [i]	$ 164,316	$ 153,501

[i] Anli and its major shareholder are shareholders of the Company. In 2003, the Company advanced funds of $164,316 (RMB 1,200,000) to Anli. A loan agreement was signed on October 28, 2003 for a one-year term, non-interest bearing. The loan was subsequently

extended to October 31, 2008. At December 31, 2007, the loan was collateralized by the shares of the Company owned by Anli.

The Company's subsidiary, CEN Smart rents its office space from Anli. The Company accrued rent of $22,018 for the year ended December 31, 2007 and paid rent of $20,354 for the year ended December 31, 2006.

In 2007, the Company incurred $10,820 (2006: $nil) accounting fees for accounting services provided by a company controlled by an officer of the Company. This amount is included in accounts payable as at December 31, 2007 (2006: $nil).

The Company rents office space from a company controlled by a director/officer of the Company. Included in accounts payable, is an amount due to this company of $2,130 (2006 - $nil) as at December 31, 2007. The Company paid rent of $21,600 (2006: 19,423) for the year ended December 31, 2007.

The Company paid management fees of $84,162 (2006: $52,795) to a corporation controlled by a former officer of the Company.

RISK AND UNCERTAINTY FACTORS

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

The Company has incurred a net loss of $4,137,670 for the year ended December 31, 2007 compared to a loss of $2,421,706 for the same period of 2006. The Company has incurred a cumulative loss of $25,297,164 since inception. The Company's future business plan includes the further development and operation of CER's education service portal and sino-foreign co-operation to develop English as a second language training program in China and Chinese Mandarin training program in U.S. The Company's ability to continue as a going concern is dependant 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, with over 90% of operating income in China recognized in the second half of the fiscal year. This is primarily because textbook purchases by students are generally made just prior to the start of the school year in the autumn. The Company is attempting to lessen the seasonality of the business by expanding its business into other related areas in the education sector through its internet education service portals.

Reliance on Government Relationships

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

Exchange Rate

The reporting currency of the Company is the United States Dollar ("USD"). However, the majority of the Company's assets, liabilities, revenues and expenses are denominated in RMB, which was tied to the US Dollar and is now tied to a basket of currencies of China's largest trading partners, and 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 rate fluctuation may have a material impact on CER's consolidated financial reporting.

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

Tax and Legal Systems in China

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

Management believes that the Company is in substantial compliance with the tax laws affecting its operations; however, the risk remains that the relevant authorities could take 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.

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

Competition

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

Management

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

Funds Remittance

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

According to the 1999 Circular on Relevant Questions Concerning the Remittance of Profits, Dividends and Bonuses out of China Through Designated Foreign Exchange Banks, effective from 1 October 1999, an FIE is permitted to remit profits, dividends and bonuses out of China in proportion to the amount of registered capital that has been paid up, notwithstanding that its registered capital has not been paid up pursuant to its constitutional documents.

SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles 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.

Stock-Based Compensation

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

Future Income Taxes

Future income tax assets and liabilities are computed based on differences between the carrying amounts of assets and liabilities on the balance sheet and their corresponding tax values, using the enacted or substantively enacted, as applicable, income tax rates at each balance sheet date. Future income tax assets also result from unused loss carryforwards and other deductions. The valuation of future income tax assets is reviewed yearly and adjusted, if necessary, by use of a valuation allowance to reflect the estimated realizable amount.

Goodwill

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

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

Revenue Recognition

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

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

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

Interest income is recognized when earned.

<u>Change in Accounting Policies including Initial Adoption</u>

(a) Financial Instruments

Effective January 1, 2007 the Company adopted the new recommendation of the Canadian Institute of Chartered Accountants ("CICA") under CICA Handbook Section 1530 "*Comprehensive Income*", Section 1651 "*Foreign Currency Translation*", Section 3251 "*Equity*", Section 3855 "*Financial Instruments – Recognition and Measurement*", Section 3861 "*Financial Instruments- Disclosure and Presentation*" and Section 3865 "*Hedges*". These new Handbook sections, which apply to fiscal years beginning on or after October 1, 2006, provide requirements for the recognition and measurement of financial instruments.

Section 1530 "*Comprehensive Income*" establishes standards for reporting and presenting comprehensive income which is defined as the change in shareholders' equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income but are excluded from net income calculated in accordance with GAAP. The Company had no items impacting comprehensive income except for cumulative translation adjustments during the year ended December 31, 2007.

Section 3251 "*Equity*" establishes standards for the presentation of equity and changes in equity during the period. It requires separate presentation of changes in equity that arise from net income, OCI, contributed surplus, retained earnings and share capital

Section 1651 "*Foreign Currency Translation*" requires companies to include, as a component of other comprehensive income, the exchange gains and losses arising from the translation of the financial statements of the company's self-sustaining foreign operations. The effect on the company's financial position is the reclassification of the cumulative translation adjustment from the balance sheet to comprehensive income.

Upon adoption of these sections, the Company has classified all financial instruments into one of the following five categories: 1) held for trading, 2) available for sale, 3) held to maturity, 4) loans and receivables, and 5) other financial liabilities. All financial instruments are measured in the balance sheet at fair value except for loans and receivables, held to maturity and other financial liabilities which are measured at amortized costs. Transaction costs are included in the carrying value 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.

The Company has made the following classifications:

Cash is classified as financial assets held for trading and measured at fair value. Gains and losses related to periodical evaluations are recorded in net income.

Accounts receivable, other receivable, due from related party and long term receivable are classified as loans and receivables and initially measured at fair value and subsequently measured at amortized cost using the effective interest rate method.

Accounts payable and accrued liabilities and long-term payables are classified as other liabilities and are initially measured at fair value and subsequently measured at amortized cost using the effective interest rate method.

The adoption of these new standards has not had a material impact on the Company's financial position as at January 1, 2007.

The Company currently does not utilize hedges or other derivative financial instruments in its operations, and as a result, the adoption of Section 3865 currently has no material impact on the financial statements of the Company.

(b) Accounting changes

As of January 1, 2007, the Company adopted revised CICA Section 1506 "Accounting Changes", which provides expanded disclosures for changes in accounting policies, accounting estimates and corrections of errors. Under the new standard, accounting changes should be applied retrospectively unless otherwise permitted, or where impracticable to determine. As well, voluntary changes in accounting policy are made only when required by a primary source of GAAP, or when the change results in more relevant and reliable information. There is no impact to the Company's financial statements as a result of implementing this new standard.

(c) New Canadian Accounting Pronouncements

a) Inventories

In June 2007, CICA issued Section 3031, "Inventories", which replaces Section 3030, "Inventories". Under the new section, inventories are required to be measured at the "lower of cost and net realizable value", which is different from the existing guidance of "lower of cost and market". The new section contains guidance on the determination of cost and also requires the reversal of any write-downs previously recognized. Certain minimum disclosures are required, including the accounting policies used, carrying amounts, amounts recognized as an expense, write-downs, and the amount of any reversal of any write-downs recognized as a reduction in expenses. The new standard will be effective for the Company's financial year beginning on January 1, 2008. Management is currently assessing the impact of this new accounting standard on its consolidated financial statements.

b) Capital Disclosures

In December 2006, the Canadian Accounting Standard ("AcSB") issued Section 1535, Capital Disclosures. This standard requires disclosure regarding what the Company defines as capital and its objectives, policy and processes for managing capital. In addition, disclosures are to include whether companies have compiled with externally imposed capital requirements. This standard will be effective for the Company's financial year beginning on January 1, 2008. Management is currently assessing the impact of these new accounting standards on its consolidated financial statements.

c) Financial Instruments

In December 2006, the AcSB issued two new Sections in relation to financial instruments: Section 3862, Financial Instruments – Disclosures, and Section 3863, Financial Instruments – Presentation. These two sections require an increased emphasis on disclosures about the nature and extent of risk arising from financial instruments and how a company manages these risks. Both sections will be effective for the Company's financial year beginning on January 1, 2008. The Company does not expect the adoption of these new standards to have an impact on its consolidated financial statements.

d) Going Concern

CICA Handbook Section 1400, General Standards on Financial Statement Presentation, has been amended to include requirements to assess and disclose an entity's ability to continue as a going concern. The changes are effective for interim and annual financial statements beginning on or after January 1, 2008. The Company does not expect the adoption of these changes to have an impact on its consolidated financial statements.

e) Goodwill and Intangible Assets

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", which replaces Section 3062, "Goodwill and Other Intangible Assets", and Section 3450, "Research and Development Costs". The purpose of these sections is to provide more specific guidance on the recognition of internally developed intangible assets and requires that research and development expenditures be evaluated against the same criteria as expenditures for intangible assets. The section harmonizes Canadian standards with International Financial Reporting Standards and applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. The Company is in the process of assessing the impact of this new section on its financial statements.

OUTLOOK

The Company is preparing its online based teacher training program via CERSP and commercialization of its new ESP. In addition, CER is cooperating with California State University Monterey Bay ("CSUMB") Extended Education and International Programs ("EEIP") to implement a Chinese Mandarin web training program, which targets students in the United States and a commercial online English-as-a-second-language ("ESL") program available in China. The Company is also looking into the commercialization opportunities for on-line advertisement on its education portals and the provision of on-line student tutorial services.

The Company expects that it can achieve a breakeven bottom line for the current financial year if the progress of the above matters is in accordance with the plan of management.