

# **China Education Resources Inc.**

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

**Period Ended September 30, 2016  
(Unaudited)**

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

The accompanying unaudited condensed interim consolidated financial statements of China Education Resources Inc. were prepared by management in accordance with IAS 34 *Interim Financial Reporting* using accounting policies consistent with International Financial Reporting Standards appropriate in the circumstances. Management acknowledges responsibility for the preparation and presentation of the unaudited condensed interim consolidated financial statements, including responsibility for significant accounting judgments and estimates and the choice of accounting principles and methods that are appropriate to the Company's circumstances.

Management has established processes, which are in place to provide them sufficient knowledge to support management representations that they have exercised reasonable diligence that (i) the unaudited condensed interim consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the unaudited condensed interim consolidated financial statements and (ii) the unaudited condensed interim consolidated financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented by the unaudited interim condensed consolidated financial statements.

The Board of Directors is responsible for reviewing and approving the unaudited condensed interim consolidated financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the unaudited condensed interim consolidated financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the unaudited condensed interim consolidated financial statements together with other financial information of the Company for issuance to the shareholders.

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

### **Notice to Reader**

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

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these unaudited condensed interim consolidated financial statements.

**CHINA EDUCATION RESOURCES INC.**  
**Condensed Interim Consolidated Statements of Financial Position**  
September 30, 2016 and December 31, 2015

(Expressed in U.S. Dollars)

AS AT	Note	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		\$ 2,453,075	\$ 1,594,835
Restricted cash	7	157,933	380,643
Marketable securities	8	243,888	83,241
Accounts and other receivables	9	6,589,102	5,438,113
Loan receivable	10	-	153,970
Due from related parties	24	-	44,295
Prepaid expenses and deposits		7,878	90,089
<b>Total current assets</b>		<b>9,451,876</b>	<b>7,785,186</b>
<b>Non-current assets</b>			
Right to use of vehicle	11	36,670	-
Property, plant and equipment	12	72,070	77,727
<b>Total non-current assets</b>		<b>108,740</b>	<b>77,727</b>
<b>Total assets</b>		<b>\$ 9,560,616</b>	<b>\$ 7,862,913</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	16	\$ 4,343,488	\$ 5,187,956
Deferred revenue		29,262	585,251
Taxes payable		2,755,488	2,970,758
Advance from a third party	17	376,400	209,398
Bank loan	19	450,587	-
Loan payables	18	1,327,360	802,336
Loan payables - related parties	24	291,592	365,201
Due to related parties	24	1,398,865	1,208,443
<b>Total current liabilities</b>		<b>10,973,042</b>	<b>11,329,343</b>
<b>Shareholders' Equity</b>			
Share capital	13	29,455,512	29,455,512
Contributed surplus		2,624,114	2,619,455
Accumulated other comprehensive income		627,883	709,961
Deficit		(35,230,717)	(36,784,171)
<b>Total shareholders' deficiency attributable to shareholders' of the Company</b>		<b>(2,523,208)</b>	<b>(3,999,243)</b>
<b>Non-controlling interest</b>		<b>1,110,782</b>	<b>532,813</b>
<b>Total deficiency</b>		<b>(1,412,426)</b>	<b>(3,466,430)</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 9,560,616</b>	<b>\$ 7,862,913</b>

Approved by the Board:

"Chengfeng Zhou"  
Director

"Danny Hon"  
Director

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

**CHINA EDUCATION RESOURCES INC.**  
**Condensed Interim Consolidated Statements of Income and Comprehensive Income**  
For the three months and nine months ended September 30, 2016 and 2015  
(Unaudited)

(Expressed in U.S. Dollars)

	Note	Three months ended September 30,		Nine months ended September 30,	
		2016	2015	2016	2015
<b>Revenue</b>					
Book sales and distribution services		\$ 844,982	\$ 1,565,384	\$ 4,750,357	\$ 5,247,174
Online products		1,069,874	849,487	5,105,677	4,564,291
		1,914,856	2,414,871	9,856,034	9,811,465
<b>Cost of sales</b>					
Book sales and distribution services		(309,364)	(772,748)	(2,216,095)	(2,241,548)
Online products		(281,610)	(215,625)	(1,502,765)	(1,543,116)
<b>Gross profit</b>		1,323,882	1,426,498	6,137,174	6,026,801
Amortization		(4,859)	(3,803)	(14,512)	(13,004)
General and administrative	24	(370,932)	(290,138)	(1,093,940)	(847,492)
Selling expenses		(336,272)	(649,047)	(2,748,909)	(3,612,354)
Other expense		(755)	(15,164)	(1,672)	(35,058)
Other income		-	4,544	11,158	9,273
Gain on sale of marketable securities		16,554	-	16,554	-
<b>Operating profit</b>		627,618	472,890	2,305,853	1,528,166
Finance income		17,663	969	41,916	12,855
Finance costs		(41,175)	(55,345)	(140,962)	(143,915)
<b>Net finance costs</b>		(23,512)	(54,376)	(99,046)	(131,060)
<b>Net income before income taxes</b>		604,106	418,514	2,206,807	1,397,106
Income taxes		(10,591)	(35,109)	(43,288)	(67,087)
<b>Net income for the period</b>		\$ 593,515	\$ 383,405	\$ 2,163,519	\$ 1,330,019
<b>Other comprehensive income for the year, net of income taxes</b>					
Change in fair value of marketable securities		5,590	-	(12,505)	-
Unrealized exchange gain on translation of foreign operations		15,197	97,234	(101,669)	223,022
<b>Other comprehensive income (loss) for the period, net of income tax</b>		20,787	97,234	(114,174)	223,022
<b>Comprehensive income for the period</b>		\$ 614,302	\$ 480,639	\$ 2,049,345	\$ 1,553,041
<b>Net income attributable to:</b>					
Shareholders of the Company		\$ 511,406	\$ 369,437	\$ 1,553,454	\$ 924,083
Non-controlling interest		82,109	13,968	610,065	405,936
<b>Net income for the period</b>		\$ 593,515	\$ 383,405	\$ 2,163,519	\$ 1,330,019
<b>Comprehensive income attributable to:</b>					
Shareholders of the Company		\$ 531,619	503,376	\$ 1,471,376	\$ 1,181,797
Non-controlling interest		82,683	(22,737)	577,969	371,244
<b>Comprehensive income for the period</b>		\$ 614,302	\$ 480,639	\$ 2,049,345	\$ 1,553,041
<b>Earnings per share</b>					
Basic and diluted earnings per share	14	\$ 0.01	\$ 0.01	\$ 0.03	\$ 0.02
Weighted average number of common shares used to calculate basic and diluted earnings per share					
		47,364,983	47,364,983	47,364,983	47,364,983

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

**CHINA EDUCATION RESOURCES INC.**  
**Condensed Interim Consolidated Statements of Changes in Equity**  
For the nine months ended September 30, 2016 and the year ended December 31, 2015  
(Unaudited)

(Expressed in U.S. Dollars)	Attributable to equity holders of the Company						Non- Controlling Interest	Total Deficiency
	Number of Shares	Share Capital	Contributed Surplus	Accumulative Other Comprehensive Income Account	Deficit	Total		
<b>Balance January 1, 2015</b>	47,364,983	\$ 29,455,512	\$ 2,559,649	\$ 323,484	\$ (36,388,652)	\$ (4,050,007)	\$ 745,899	\$ (3,304,108)
Net income for the nine months ended September 30, 2015	-	-	-	-	924,083	924,083	405,936	1,330,019
Foreign currency translation differences	-	-	-	257,714	-	257,714	(34,692)	223,022
<b>Balance September 30, 2015</b>	47,364,983	29,455,512	2,559,649	581,198	(35,464,569)	(2,868,210)	1,117,143	(1,751,067)
Net loss for the period from October 1, 2015 to December 31, 2015	-	-	-	-	(1,319,602)	(1,319,602)	(592,178)	(1,911,780)
Changes in fair market value of marketable securities	-	-	-	13,333	-	13,333	8,890	22,223
Foreign currency translation differences	-	-	-	115,430	-	115,430	(1,042)	114,388
Stock-based compensation	-	-	59,806	-	-	59,806	-	59,806
<b>Balance December 31, 2015</b>	47,364,983	29,455,512	2,619,455	709,961	(36,784,171)	(3,999,243)	532,813	(3,466,430)
Net income for the nine months ended September 30, 2016	-	-	-	-	1,553,454	1,553,454	610,065	2,163,519
Changes in fair market value of marketable securities	-	-	-	(7,503)	-	(7,503)	(5,002)	(12,505)
Foreign currency translation differences	-	-	-	(74,575)	-	(74,575)	(27,094)	(101,669)
Stock-based compensation	-	-	4,659	-	-	4,659	-	4,659
<b>Balance September 30, 2016</b>	47,364,983	\$ 29,455,512	\$ 2,624,114	\$ 627,883	\$ (35,230,717)	\$ (2,523,208)	\$ 1,110,782	\$ (1,412,426)

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

**CHINA EDUCATION RESOURCES INC.**  
**Condensed Interim Consolidated Statements of Cash Flows**  
For the three months and nine months ended September 30, 2016 and 2015  
(Unaudited)

(Expressed in U.S. Dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
<b>Cash flows from operating activities</b>				
Income for the period	\$ 593,515	\$ 383,405	\$ 2,163,519	\$ 1,330,019
Adjustments for:				
Amortization	4,859	3,803	14,512	13,004
Gain on sale of marketable securities	(16,554)	-	(16,554)	-
Share-based payment	834	-	4,659	-
Non-cash general and administrative expenses	2,158	-	6,558	-
Changes in accounts and other receivable	1,711,950	1,410,902	(1,157,630)	(608,253)
Changes in prepaid expenses and deposits	6,195	39,748	81,942	(313,395)
Changes in trade and other payables	(1,724,784)	(991,373)	(752,305)	(738,013)
Changes in taxes payable	48,617	24,972	9,038	(107,285)
Changes in deferred revenue	3,305	2,268	(548,030)	(497,313)
	630,092	873,725	(194,292)	(921,236)
Interest paid	(28,712)	(12,719)	(33,840)	(25,373)
Taxes paid	(6,962)	-	(162,769)	-
<b>Net cash provided by (used in) operating activities</b>	594,418	861,006	(390,901)	(946,609)
<b>Cash flows used in investing activities</b>				
Acquisition to Equipment	(1,570)	(5,728)	(10,830)	(9,713)
Proceeds of Marketable securities	455,043	-	455,043	-
Purchases of Marketable Securities	(523,266)	-	(676,226)	-
<b>Net cash used in investing activities</b>	(69,793)	(5,728)	(232,013)	(9,713)
<b>Cash flows from financing activities</b>				
Change in restricted cash	(68,425)	174,688	215,664	637,303
Bank loan	456,656	31	456,656	(6,879)
Loan payables from third parties	(353,849)	(85,837)	587,114	170,392
Loan payables from related parties	11,185	420,383	(86,558)	1,093,572
Advance from third parties	151,833	-	174,777	-
Advance from related parties	55,058	20,666	122,868	160,368
<b>Net cash provided by financing activities</b>	252,459	529,931	1,470,521	2,054,756
<b>Net increase(decrease) in cash</b>	777,085	1,385,209	847,608	1,098,434
Cash, beginning of the period	1,630,350	297,607	1,594,835	586,156
Effect of exchange rate fluctuations on cash held	45,640	(18,268)	10,632	(20,042)
<b>Cash, end of the period</b>	\$ 2,453,075	\$ 1,664,548	\$ 2,453,075	\$ 1,664,548

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

**China Education Resources Inc.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**(Expressed in U.S. Dollars)**  
**Period Ended September 30, 2016**  
**(Unaudited)**

**1. Reporting Entity**

China Education Resources Inc. (“the Company”) is a company domiciled in Canada. The address of the Company’s registered office is Suite 300, 515 West Pender Street, Vancouver, B.C., V6B 6H5. The condensed interim consolidated financial statements of the Company as at and for the period ended September 30, 2016 comprise the Company and its subsidiaries (together referred to as the “Group”). The Group provides an education internet portal with educational content, resources and training programs to users in People’s Republic of China (“China”) and distributes educational textbooks and materials developed by the Group to bookstores and schools in China.

**2. Going Concern**

As at September 30, 2016, the Group has working capital deficiency of \$1,521,166 (December 31, 2015: \$3,544,157). In addition, the Group has trade and other payables, advance from a third party, bank loan, loan payables, loan payables - related parties, and due to related parties to be matured within the next twelve months in the amount of \$8,188,292 (December 31, 2015: \$7,773,334). As at September 30, 2016, the Group has cash and cash equivalents balance of \$2,453,075 (December 31, 2015: \$1,594,835). The appropriateness of using the going concern basis is dependent upon, among other things, the acceptance of the education internet portal by the users to achieve a profitable level of operations by the Group. The outcome of these matters cannot be predicted at this time. Specifically, it is dependent upon the ability of the Group to obtain necessary financing.

The application of the going concern basis of presentation assumes that the Group will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. There is, primarily as a result of the conditions described above, significant doubt as to the appropriateness of the use of the going concern assumption. The accompanying consolidated financial statements have been prepared on a going concern basis notwithstanding these conditions.

These condensed interim consolidated financial statements do not include any adjustments to the amounts and classifications of assets and liabilities that might be necessary should the Group be unable to continue as a going concern. Management of the Group is of the opinion that it will be in position to raise ongoing financing; however, there is no certainty that these and other strategies will be sufficient to permit the Group to continue as a going concern.

**3. Basis of Preparation**

**(a) Statement of compliance**

These condensed interim consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. It does not include all of the information required for full annual financial statements, and should be read in conjunction with the Group’s audited consolidated financial statements for the year ended December 31, 2015.



**China Education Resources Inc.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**(Expressed in U.S. Dollars)**  
**Period Ended September 30, 2016**  
**(Unaudited)**

**3. Basis of Preparation – Continued**

**(a) Statement of compliance – Continued**

The policies applied in these condensed interim consolidated financial statements are based on IFRS issued as of September 30, 2016. These financial statements were authorized to issue by the audit committee and Board of Directors of the Company on November 29, 2016. Any subsequent changes to IFRS that are given effect in the Company's annual financial statements for the year ending December 31, 2016 could result in restatement of these condensed interim consolidated financial statements.

**(b) Basis of preparation**

These condensed interim consolidated financial statements are presented in U.S. dollars, which is the Group's reporting currency. The Company's functional currency is Canadian dollars in Canada and the functional currency of the Company's subsidiaries in China is Chinese Renminbi ("RMB").

These condensed interim consolidated financial statements have been prepared on a historical cost basis except for financial instruments classified as at fair value through profit or loss and available-for-sale that have been measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

These condensed interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries (collectively, the "Group").

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control and continue to be consolidated until the date when such control ceases. Changes in ownership interest in a subsidiary without loss of control are accounted for as transactions with equity holders in their capacity as equity holders; therefore, no goodwill is recognized as a result of such transactions. A summary of the Company's subsidiaries are as follows:

Name of subsidiary	Country of incorporation	Ownership interest	
		September 30, 2016	December 31, 2015
CEN China Education Network Ltd. ("CEN Network")	Canada	100%	100%
China Education International Inc. (inactive)	BVI	100%	100%
CEN China Education Overseas Corporation (inactive)	BVI	100%	100%
CEN Smart Networks Ltd. ("CEN Smart")	China	100%	100%
Today's Teachers Technology & Culture Ltd. ("TTTC")	China	100%	100%
The Winning Edge Ltd. ("TWE") (inactive)	China	100%	100%
Zhong Yu Cheng Yuan Education Technology Ltd. ("ZYCY")	China	60%	60%

Inter-company balances and transactions and any unrealized gains or losses arising from inter-company transactions, are eliminated in preparing the consolidated financial statements.

**China Education Resources Inc.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**(Expressed in U.S. Dollars)**  
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**(Unaudited)**

**3. Basis of Preparation - Continued**

**(c) Use of estimates and judgments**

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenues and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

*Areas of assumptions and estimates*

**(i) Allowance for doubtful accounts**

The Group extends unsecured credit to its customers in the ordinary course of business but mitigates the associated risks by actively pursuing past due accounts. As at September 30, 2016, allowance for doubtful accounts is \$22,907 (December 31, 2015: \$23,519) based on management's assessment of credit history with the customers and current relationships with them.

**(ii) Deferred taxes**

The Group recognizes the deferred tax benefit related to deferred tax assets to the extent recovery is probable. Assessing the recoverability of deferred tax assets requires management to make significant estimates of future taxable profit. In addition, future changes in tax laws could limit the ability of the Group to obtain tax deductions in the future periods. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realize the net deferred tax assets recorded at the reporting date could be impacted.

**(iii) Share-based payments**

Share-based payments are valued using the Black-Scholes Option Pricing Model at the date of grant and expensed in profit or loss over vesting period of each award. The Black-Scholes Option Pricing Model utilizes subjective assumptions such as expected price volatility and expected life of the option. Changes in these input assumptions can significantly affect the fair value estimate.

**China Education Resources Inc.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
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**3. Basis of Preparation - Continued**

**(c) Use of estimates and judgments - Continued**

*Areas of judgment*

**(i) Going concern**

Management has applied judgments in the assessment of the Group's ability to continue as a going concern when preparing its financial statements for the period ended September 30, 2016 and year ended December 31, 2015. Management prepares the financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. 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 considered a wide range of factors relating to current and expected profitability, debt repayment schedules and potential sources of replacement financing. As a result of the assessment, management concluded there are significant doubt as to the ability of the Group to meet its obligations as they fall due and, accordingly, the ultimate appropriateness of the use of accounting principles applicable to a going concern.

**(ii) Joint Arrangement**

Management has applied judgments in assessing whether the strategic cooperation agreement that the Company's subsidiary TTTC entered into with an arm's length party ("Teacher.com.cn") during the year ended December 31, 2014 should be accounted as a joint arrangement. During the assessment, management considered whether the agreement establishes a contractual arrangement that establishes joint control, which requires both parties to reach unanimous consent over decisions about relevant business activities pertaining to this agreement. As a result of the assessment, management concluded that TTTC has sole controls over the relevant activity in its capacity as the operator of this arrangement during the early stage of the cooperation and there is no joint arrangement exists between TTTC and Teacher.com.cn as at September 30, 2016 and December 31, 2015.

**4. 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, 2015. The accompanying 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, 2015.

**China Education Resources Inc.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
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**5. New standards and interpretations adopted during the period**

*IAS 1 Presentation of Financial Statements (“IAS 1”)*

On January 1, 2016, the Company adopted the amendments to IAS 1, which clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The implementation of amendments to IAS 1 had no impact to the Company’s September 30, 2016 interim consolidated financial statements.

*IAS 16 Property Plant and Equipment (“IAS 16”) and IAS 38 Intangible Assets (“IAS 38”)*

On January 1, 2016, the Company adopted amendments to IAS 16 & IAS 38, which clarify that the use of a revenue-based depreciation and amortization method is not appropriate, and provide a rebuttable presumption for intangible assets. The implementation of amendments to IAS 16 and IAS 38 had no impact to the Company’s September 30, 2016 interim consolidated financial statements.

**6. New standards and interpretations not yet adopted during the period**

Standards issued but not yet effective up to the date of issuance of the Company’s consolidated financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective. The Company does not expect the impact of such changes on the consolidated financial statements to be material.

*IFRS 9 Financial instruments (“IFRS 9”)*

This is a finalized version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 Financial Instruments: Recognition and Measurement. The standard contains requirements in the following areas:

- Classification and measurement. Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a ‘fair value through other comprehensive income’ category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity’s own credit risk.
- Impairment. The 2014 version of IFRS 9 introduces an ‘expected credit loss’ model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognized
- Hedge accounting. Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures
- De-recognition. The requirements for the de-recognition of financial assets and liabilities are carried forward from IAS 39.

**China Education Resources Inc.**  
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**(Unaudited)**

**6. New standards and interpretations not yet adopted during the period - Continued**

*IFRS 9 Financial instruments (“IFRS 9”) - Continued*

The effective date of this new standards has recently been deferred by the IASB to annual periods beginning on or after January 1, 2018. The Group has not yet assessed the impact of this standard or determined whether it will adopt the standard early.

*IFRS 15 Revenue from Contracts with Customers (“IFRS 15”)*

IFRS 15 deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. Under IFRS 15, revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18, Revenue, and IAS 11, Construction Contracts, and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. The IASB has issued an exposure draft that would, if approved defer the effective date to January 1, 2018. The Group has not yet assessed the impact of this standard or determined whether it will adopt the standard early.

*IFRS 16 Leases (“IFRS 16”)*

In January 2016, the IASB issued IFRS 16, replacing IAS17, “Leases”. IFRS 16 provides a single lessee accounting model and requires the lessee to recognize assets and liabilities for all leases on its balance sheet providing the reader with greater transparency of an entity’s lease obligations. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 with early adoption provided. The Company is currently evaluating the impact of this standard.

*IAS 7 Statement of Cash Flows (“IAS 7”)*

In January 2016, the IASB issued amendments to IAS 7 pursuant to which entities will be required to provide enhanced information about changes in their financial liabilities, including changes from cash flows and non-cash changes. The IAS 7 amendments are effective for annual periods beginning on or after January 1, 2017. The Company is currently evaluating the impact of this standard.

*IAS 12 Income Taxes (“IAS 12”)*

In January 2016, the IASB issued amendments to IAS 12, which clarifies guidance on the recognition of deferred tax assets related to unrealized losses resulting from debt instruments that are measured at fair value. The IAS 12 amendments are effecting for annual periods beginning on or after January 1, 2017. The Company does not currently measure any of its debt instruments at fair value. Therefore, the implementation of this standard is not expected to have any material impact to the Company’s financial statements.

**China Education Resources Inc.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
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**(Unaudited)**

**7. Restricted cash**

On May 6, 2014, the Group's subsidiary TTTC entered into a strategic cooperation agreement with an arm's length party ("Teacher.com.cn"). Pursuant to the terms of the agreement, a bank account and an independent team have been set up under TTTC to develop online training projects. The funds held in the bank account as at September 30, 2016 and December 31, 2015 are presented as restricted cash on the Group's statements of financial position and can only be used to fund the activities related to developing online training projects.

**8. Marketable Securities**

The Group's subsidiary ZYCY holds common shares of certain companies that are listed on public stock exchanges, all of which have been classified as available-for-sale and are measured at fair value, based on quoted market prices. Temporary changes in fair value are reported in other comprehensive income, while realized fair value gains or losses, or changes in fair value that are considered other than temporary are recorded in profit or loss.

	<b>September 30, 2016</b>	
	Cost	Fair value
Publicly-traded marketable securities	\$ 235,288	\$ 243,888
	<b>December 31, 2015</b>	
	Cost	Fair value
Publicly-traded marketable securities	\$ 61,018	\$ 83,241

**9. Accounts and Other Receivable**

	<b>September 30, 2016</b>	<b>December 31, 2015</b>
Trade receivables	\$ 6,500,983	\$ 5,369,215
Other receivables	88,119	68,898
	\$ 6,589,102	\$ 5,438,113

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**9. Accounts and Other Receivable - Continued**

The aging of accounts and other receivables at the reporting date was:

	September 30, 2016	December 31, 2015
Past due within 3 months	\$ 4,503,682	\$ 2,576,782
Past due 4-6 months	1,809,274	2,585,341
Past due 7-12 months	74,548	48,932
More than 1 year	201,598	227,059
	<u>\$ 6,589,102</u>	<u>\$ 5,438,113</u>

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

	<b>2015</b>
Balance at January 1	\$ 17,082
Charge for the year	23,519
Utilized	<u>(17,082)</u>
Balance at December 31	<u>\$ 23,519</u>
	<b>2016</b>
Balance at January 1	\$ 23,519
Charge for the period	22,907
Utilized	<u>(23,519)</u>
Balance at September 30	<u>\$ 22,907</u>

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

**10. Loan Receivable**

On December 31, 2015, TTTC and an arm's length party entered into a loan agreement pursuant to which TTTC advanced \$153,970 (RMB 1,000,000) to the arm-length party to substantiate its operation. The loan receivable bears interest of 20% per annum and is secured by same amount of common shares owned by the arm-length party. The loan was fully repaid by the arm's length party plus an interest of \$6,454 (RMB 40,548) in March 2016.

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**11. Right to use of vehicle**

The Company placed a security deposit of RMB287,686 (\$43,141) with a company related to the non-controlling shareholders of ZYCY for the control and use of their vehicle. The vehicle can be returned to the other party at any time and the security deposit will be refunded after deduction of an amount equal to 1/60 of the security deposit times the number of months of usage. The Company thus amortize the security deposit over 60 months on a straight line basis until the vehicle is returned to the other party and the balance of the security deposit refunded.

	2016	
	RMB	USD
Balance at January 1, 2016	287,686	\$ 43,141
Amortization for the period	(43,153)	(6,471)
Balance at September 30, 2016	244,533	\$ 36,670

During the period ended September 30, 2016, the amount of security deposit amortized was \$6,558 and was recorded as part of the general and administrative expenses in the Statement of Income.

**12. Property, Plant and Equipment**

	Computer equipment	Office equipment	Motor vehicles	Leasehold improvement	Website development	Total
<b>Cost</b>						
Balance, at January 1, 2015	\$ 158,109	\$ 19,705	\$ 364,577	\$ 57,855	\$ 3,391,662	\$ 3,991,908
Additions	21,897	461	-	-	-	22,358
Disposals	-	-	-	-	-	-
Effect of movements in exchange rates	(8,167)	(887)	(16,157)	(2,564)	(165,707)	(193,482)
Balance, at December 31, 2015	\$ 171,839	\$ 19,279	\$ 348,420	\$ 55,291	\$ 3,225,955	\$ 3,820,784
Balance, at January 1, 2016	\$ 171,839	\$ 19,279	\$ 348,420	\$ 55,291	\$ 3,225,955	\$ 3,820,784
Additions	9,005	1,825	-	-	-	10,830
Disposals	-	-	-	-	-	-
Effect of movements in exchange rates	(5,089)	(527)	(9,074)	(1,440)	(93,065)	(109,194)
Balance, at September 30, 2016	\$ 175,755	\$ 20,577	\$ 339,346	\$ 53,851	\$ 3,132,890	\$ 3,722,420



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

**Accumulated depreciation**

Balance, at January 1, 2015	\$ 128,406	\$ 14,404	\$ 323,139	\$ 57,855	\$ 3,391,662	\$ 3,915,466
Depreciation for the year	10,537	3,238	3,536	-	-	17,311
Disposals	-	-	-	-	-	-
Effect of movements in exchange rates	(6,277)	(722)	(14,450)	(2,564)	(165,707)	(189,720)
Balance, at December 31, 2015	<u>\$ 132,666</u>	<u>\$ 16,920</u>	<u>\$ 312,225</u>	<u>\$ 55,291</u>	<u>\$ 3,225,955</u>	<u>\$ 3,743,057</u>

Balance, at January 1, 2016	\$ 132,666	\$ 16,920	\$ 312,225	\$ 55,291	\$ 3,225,955	\$ 3,743,057
Depreciation for the period	10,529	1,478	2,533	-	-	14,539
Disposals	-	-	-	-	-	-
Effect of movements in exchange rates	(4,096)	(466)	(8,180)	(1,440)	(93,065)	(107,246)
Balance, at September 30, 2016	<u>\$ 139,099</u>	<u>\$ 17,932</u>	<u>\$ 306,578</u>	<u>\$ 53,851</u>	<u>\$ 3,132,890</u>	<u>\$ 3,650,350</u>

**Carrying amounts**

At December 31, 2015	\$ 39,173	\$ 2,359	\$ 36,195	\$ -	\$ -	\$ 77,727
At September 30, 2016	<u>\$ 36,656</u>	<u>\$ 2,645</u>	<u>\$ 32,768</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 72,070</u>

**13. Share Capital and Reserves**

**Issuance of common shares**

There was no common share issued during the period ended September 30, 2016 and year ended December 31, 2015.

**Common shares and preferred shares**

At September 30, 2016, the authorized share capital comprised of unlimited voting common shares without par value and 20,000,000 preferred shares. No preferred shares have been issued to date.

The holders of common shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Group. The preferred shares rank equally on winding up. The directors shall by resolution determine the rights and restrictions attaching to the preferred shares prior to their issuance.

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

AOCI is the cumulative translation account, which comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

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**14. Earnings (Loss) Per Share**

(a) Basic earnings (loss) per share

The calculation of basic earnings per share for the period ended September 30, 2016 was based on the net income attributable to shareholders of the Group in the amount of \$1,553,454 (2015: \$924,083), and a weighted average number of common shares outstanding of 47,364,983 (2015: 47,364,983).

(b) Diluted earnings per share

For the period ended September 30, 2016, 3,700,000 share options (December 31, 2015: 3,700,000), were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

**15. Share Purchase Options and Warrants**

(a) Stock options

At September 30, 2016, the Group has the following share-based payment arrangements:

The Group 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.

On November 25, 2015, the Group granted incentive stock options of 2,700,000 shares at CND\$0.10 per share expiring on November 25, 2020 which exceeds the market price at the grant date to directors and employees. The stock options are vested at different periods. The total fair value of the stock options granted was \$59,806. The grant date fair value of share-based payment plans was measured based on the Black-Scholes formula. Expected volatility is estimated by considering historic average share price volatility. The inputs used in the measurement of the fair values at grant date of the share-based payment plan were interest rate: 0.92% per annum, expected volatility: 154.52% and dividend yield: \$nil.

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**15. Share Purchase Options and Warrants - Continued**

(a) Stock options - Continued

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

	<b>Number of Shares</b>	<b>Weighted Average Exercise Price Per Share (CND)</b>
Balance, December 31, 2014	1,924,000	0.66
Expired during the year	(924,000)	0.95
Granted during the year	2,700,000	0.10
Balance, December 31, 2015 and September 30, 2016	3,700,000	0.18

The options outstanding at September 30, 2016 have an exercise price in the range of CND\$0.10 to CND\$0.40 (December 31, 2015: CND\$0.40 to CND\$1.05) and a weighted average contractual life of 3.16 years (December 31, 2015: 3.91 years).

There are 3,380,000 options exercisable at September 30, 2016 (December 31, 2015: 3,180,000), which have an exercise price in the range of CND\$0.10 to CND\$0.40 (December 31, 2015: CND\$0.10 to CND\$0.40) and a weighted average contractual life of 3.06 years (December 31, 2015: 3.98 years).

(b) Share purchase warrants

During the period ended September 30, 2016 and year ended December 31, 2015, the Company did not issue or cancel any warrants.

At September 30, 2016 and December 31, 2015, there was no outstanding warrant.

**16. Trade and Other Payables**

	<b>September 30, 2016</b>	<b>December 31, 2015</b>
Trade payables	\$ 3,785,330	\$ 4,634,225
Other payables	48,117	44,302
Non-trade payables and accrued expenses	510,041	509,429
	<u>\$ 4,343,488</u>	<u>\$ 5,187,956</u>

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**16. Trade and Other Payables - Continued**

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 21.

**17. Advance from a third party**

On May 4, 2014, the Group's subsidiary TTTC entered into a strategic cooperation agreement with Teacher.com.cn to develop online training projects. During the year ended December 31, 2014, Teacher.com.cn advanced RMB1,360,000 to TTTC as the start-up funds to substantiate operations under TTTC. The amount is unsecured, due on demand, and bears nil interest rate.

During the year ended December 31, 2015, the Company received an additional advance of RMB150,000. As at December 31, 2015, Teacher.com.cn advanced a total of RMB1,510,000 (\$209,398) to TTTC.

During the period ended September 30, 2016, the Company received an additional advance of RMB1,000,000. As at September 30, 2016, Teacher.com.cn advanced a total of RMB2,510,000 (\$376,400) to TTTC.

**18. Loans Payable**

Terms and conditions of outstanding loans as at September 30, 2016 and December 31, 2015 from unrelated individuals were summarized as follows:

	<b>September 30, 2016</b>			
	RMB	U.S. dollars equivalent	Annual interest rate	Due date
Unsecured loan (2)	¥ 2,000,000	\$ 299,920	12%	Due on demand
Unsecured loan (4)	3,000,000	449,880	10%	12/31/2016
Unsecured loan (5)	1,000,000	149,960	10%	12/31/2016
Unsecured loan (6)	1,000,000	149,960	15%	12/31/2016
Unsecured loan (7)	1,000,000	149,960	10%	12/31/2016
Sub-total	<u>¥ 8,000,000</u>	<u>\$ 1,199,680</u>		
Interest payable	851,425	127,680		
Total	<u>¥ 8,851,425</u>	<u>\$ 1,327,360</u>		

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**18. Loans Payable - Continued**

	<b>December 31, 2015</b>			
	RMB	U.S. dollars equivalent	Annual interest rate	Due date
Secured loan (1)	¥ 250,000	\$ 38,493	20%	11/12/2016
Unsecured loan (2)	2,000,000	307,940	12%	Due on demand
Unsecured loan (3)	2,500,000	384,925	10%	08/09/2016
Sub-total	¥ 4,750,000	\$ 731,358		
Interest payable	460,986	70,978		
Total	¥ 5,210,986	\$ 802,336		

- (1) The loan will mature on December 11, 2016 and secured by same amount of common stocks owned by officers of TTTC. The loan was repaid on March 14, 2016.
- (2) On May 4, 2014, the Group's subsidiary TTTC entered into a strategic cooperation agreement with Teacher.com.cn. Pursuant to the agreement, Teacher.com.cn agrees to lend a loan of RMB2,000,000 (\$299,920) to TTTC to support the operation of new online training project. The loan was unsecured and due on demand with annual interest rate of 12%. As at September 30, 2016, there was interest payable balance of RMB 410,877 (\$61,615) in relation to this loan.
- (3) The loan was matured and fully repaid on September 8, 2016.
- (4) The loan will mature on December 31, 2016 and as at September 30, 2016, there was interest payable balance of RMB 203,836 (\$30,567) in relation to this loan.
- (5) The loan will mature on December 31, 2016 and as at September 30, 2016, there was interest payable balance of RMB 67,945 (\$10,189) in relation to this loan.
- (6) The loan will mature on December 31, 2016 and as at September 30, 2016, there was interest payable balance of RMB 101,096 (\$15,160) in relation to this loan.
- (7) The loan will mature on December 31, 2016 and as at September 30, 2016, there was interest payable balance of RMB 67,671 (\$10,148) in relation to this loan.

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**19. Bank Loan**

In August 2016, the Company, through its subsidiary TTTC, arranged a bank loan of RMB3,000,000 (\$449,880). The bank loan bears an annual interest rate of 5.655% and will be repayable by 3 equal instalments, i.e. RMB1,000,000 (\$149,960) each time, on December 21, 2016, July 21, 2017 and August 16, 2017. Personal guarantee by one of the directors of TTTC has been provided to the bank.

As of September 30, 2016, the outstanding loan amount was RMB3,000,000 (\$449,880), there was interest payable balance of RMB4,713 (\$707) in relation to this bank loan and interest expenses of RMB14,137 (\$2,149) was paid.

**20. Financial Instruments**

**Credit risk**

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

	<u>Carrying amount</u>	
	<u>September 30,</u>	<u>December 31,</u>
	2016	2015
Accounts and other receivable	\$ 6,589,102	\$ 5,438,113
Loan receivable	-	153,970
Marketable securities	243,888	83,241
Restricted Cash	157,933	380,643
Cash	2,453,075	1,594,835
	<u>\$ 9,443,998</u>	<u>\$ 7,650,802</u>

The maximum exposure to credit risk for accounts and other receivable at the reporting date by geographic region was:

	<u>Carrying amount</u>	
	<u>September 30,</u>	<u>December 31,</u>
	2016	2015
China	\$ 6,587,182	\$ 5,431,537
Canada	1,920	6,576
	<u>\$ 6,589,102</u>	<u>\$ 5,438,113</u>

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**20. Financial Instruments - Continued**

**Credit risk - Continued**

100% of the Group's revenue for the periods ended September 30, 2016 and 2015 was derived from customers located in China. Two (December 31, 2015: two) customers represent in excess of 10% of accounts receivable at September 30, 2016. Two (2015: two) customers represent in excess of 10% of total revenue for the period ended September 30, 2016. The Group's most significant customers accounted for \$1,601,454 of receivables carrying amount at September 30, 2016 (December 31, 2015: \$1,994,268).

**Currency risk**

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

(in US Dollars)	September 30, 2016			December 31, 2015		
	CND	RMB	TOTAL	CND	RMB	TOTAL
Cash	\$ 9,402	\$ 2,443,673	2,453,075	\$ 12,871	\$ 1,581,964	1,594,835
Restricted cash	-	157,933	157,933	-	380,643	380,643
Marketable securities	-	243,888	243,888	-	83,241	83,241
Accounts and other receivables	1,920	6,587,182	6,589,102	6,576	5,431,537	5,438,113
Loan receivable	-	-	-	-	153,970	153,970
Due from related parties	-	-	-	-	44,295	44,295
Trade and other payables	(264,487)	(4,079,001)	(4,343,488)	(271,439)	(4,916,517)	(5,187,956)
Advance from a third party	-	(376,400)	(376,400)	-	(209,398)	(209,398)
Bank loan	-	(450,587)	(450,587)	-	-	-
Loan payables	-	(1,327,360)	(1,327,360)	-	(802,336)	(802,336)
Loan payables - related parties	(291,592)	-	(291,592)	(257,422)	(107,779)	(365,201)
Due to related parties	(1,398,865)	-	(1,398,865)	(1,208,443)	-	(1,208,443)
Gross statements of financial position exposure	\$ (1,943,622)	\$ 3,199,328	\$ 1,255,706	\$ (1,717,857)	\$ 1,639,620	\$ (78,237)

**Sensitivity analysis**

The Company is exposed to the financial risk related to the fluctuations of foreign exchange rates. A significant change in the currency exchange rates between the Renminbi ("RMB") relative to the U.S. dollars, and between the Canadian dollars ("CND") relative to the U.S. dollars could have an effect on the Company's results of operations, financial position and cash flows. The Company has not entered into any derivative financial instruments to manage exposures to currency fluctuations.

An increase (decrease) of 10% in the exchange rate between the RMB and the U.S. dollars would have increased (decreased) other comprehensive income by \$80,857 (December 31, 2015 - \$53,870). An increase (decrease) of 10% in the exchange rate between the CND and the U.S. dollars would have decreased (increased) other comprehensive income by \$163,545 (December 31, 2015 - \$125,954).

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**20. Financial Instruments - Continued**

**Interest rate risk**

The fluctuation of interest rate has minimal impact on the Group as most of the financial instruments are not interest bearing.

**Fair values**

Financial instruments that are measured subsequent to initial recognition at fair value are group into hierarchy based on the degree to which the fair value is observable.

Level 1 - fair value measurements are derived from unadjusted, quoted prices in active markets for identical assets or liabilities. The fair value of cash is based on level 1 inputs of the fair value hierarchy.

Level 2 - fair value measurements are derived from inputs other than quoted prices included in Level 1 that are observable for the asset or liability directly or indirectly.

Level 3 - fair value measurements are derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

As at September 30, 2016, the Group recognizes marketable securities at fair value which is considered a level 1 fair value measurement.

The fair values of cash and cash equivalents and restricted cash, accounts and other receivables, trade and other payables, bank loan – current portion, advance from a third party, due to related parties, loan payables-related parties, and loan payables approximate their carrying value due to their short-term nature.

**21. Determination of Fair Values**

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

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



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**22. Financial Risk Management**

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

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, restricted cash and accounts and other 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 according.

(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 September 30, 2016, the Group had a working capital deficiency of \$1,521,166 (December 31, 2015: \$3,544,157). 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. 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.

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**22. Financial Risk Management - Continued**

(c) Market risk - Continued

(ii) Foreign currency exchange rate risk

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

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

The Group's functional currency is the Canadian dollar and the functional currencies of its subsidiaries are 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.

(d) Capital management

The Group manages its capital structure and makes adjustments to it, based on the funds available to the Group, 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 Group's management to sustain future development of the business.

Although the Group has commercialized its teaching training portal in February 2007 and launched its education internet portal in late 2008, the Group is still dependent on external financing to fund its future business plan until it achieves a profitable level of operations. The Group will spend its existing working capital and raise additional amounts as needed. The Group 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 Group.

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**22. Financial Risk Management - Continued**

(d) Capital management – Continued

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

	<u>September 30,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>
Total liabilities	\$ 10,973,042	\$ 11,329,343
Less: cash in the bank	(2,611,008)	(1,975,478)
Net debt	<u>\$ 8,362,034</u>	<u>\$ 9,353,865</u>
Total equity (deficiency)	<u>\$ (1,412,426)</u>	<u>\$ (3,466,430)</u>
Debt to capital ratio	(5.92)	(2.70)

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Group, is reasonable.

There were no changes in the Group's approach to capital management during the period ended September 30, 2016 and year ended December 31, 2015. Neither the Group nor its subsidiaries are subject to externally imposed capital requirements.

**23. Operating Segments**

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

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

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**23. Operating Segments - Continued**

**Geographical segments**

The Group's head office is located in Vancouver, British Columbia, Canada. The operations of the Group are primarily in two geographic areas: Canada and China. In presenting information on the basis of geographical information, segment revenue is based on the geographical location of the customers. Segment assets are based on the geographical location of the assets. All of the Group's revenue was generated in China. Majority of the capital assets were located in China.

A summary of geographical information for the Group's assets and revenue for the period were as follows:

<b>Three-month period ended September 30, 2016</b>	<b>Canada</b>	<b>China</b>	<b>Total</b>
Revenue from external customers	\$ -	\$ 1,914,856	\$ 1,914,856
Right to use of vehicle	-	36,670	36,670
Property, plant and equipment	-	72,070	72,070

<b>Three-month period ended September 30, 2015</b>	<b>Canada</b>	<b>China</b>	<b>Total</b>
Revenue from external customers	\$ -	\$ 2,414,871	\$ 2,414,871
Property, plant and equipment	-	71,768	71,768

<b>Nine-month period ended September 30, 2016</b>	<b>Canada</b>	<b>China</b>	<b>Total</b>
Revenue from external customers	\$ -	\$ 9,856,034	\$ 9,856,034
Right to use of vehicle	-	36,670	36,670
Property, plant and equipment	-	72,070	72,070

<b>Nine-month period ended September 30, 2015</b>	<b>Canada</b>	<b>China</b>	<b>Total</b>
Revenue from external customers	\$ -	\$ 9,811,465	\$ 9,811,465
Property, plant and equipment	-	71,768	71,768

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**24. Related Parties Transactions**

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 approximately 13.7% 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:

Director/Officer	Transaction	Three-month period ended		Nine-month period ended	
		September 30,		September 30,	
		2016	2015	2016	2015
C F Zhou (director and CEO)	Consulting fees (i)	\$ 34,498	\$ 35,661	\$ 103,495	\$ 106,983
C F Zhou (director and CEO)	Interest expense (ii)	4,654	4,731	13,860	14,039
Danny Hon (director and CFO)	Accounting fees (iii)	18,310	23,461	48,572	60,999
Danny Hon (director and CFO)	Interest expense (iv)	2,004	2,072	5,968	6,147
		<u>\$ 59,466</u>	<u>\$ 65,925</u>	<u>\$ 171,895</u>	<u>\$ 188,168</u>

Director/Officer	Transaction	September 30, 2016	December 31, 2015
C F Zhou (director and CEO)	Consulting fees (i)	\$ 983,326	\$ 837,448
C F Zhou (director and CEO)	Loan payable (ii)	124,038	117,558
C F Zhou (director and CEO)	Loan interest payable (ii)	73,567	56,487
Danny Hon (director and CFO)	Accounting fees payable (iii)	415,539	370,994
Danny Hon (director and CFO)	Loan payable (iv)	53,406	50,616
Danny Hon (director and CFO)	Loan interest payable (iv)	40,581	32,762
		<u>\$ 1,690,458</u>	<u>\$ 1,465,865</u>

(i) The consulting fees owing to C F Zhou as at September 30, 2016 is unsecured, due on demand with no interest.

(ii) During the year ended December 31, 2015, the Group has received short term loan of CND \$2,700 from C F Zhou, director and CEO of the Group. The short-term loans were unsecured and due on demand with an annual interest rate of 15%. As at September 30, 2016, there was an interest payable balance of \$73,567 (December 31, 2015: \$56,487) owed to C F Zhou.

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**24. Related Parties Transactions - Continued**

**Key management personnel and director transactions - Continued**

- (iii) The Group engaged a company, which is controlled by Danny Hon, to provide accounting services. The balance owing to Danny Hon as at September 30, 2016 is unsecured, due on demand with no interest.
- (iv) During the year ended December 31, 2015, the Group has repaid short term loan of CND \$nil to Danny Hon, director and CFO of the Group. The short-term loans were unsecured and due on demand with an annual interest rate of 15%. As at September 30, 2016, there was an interest payable balance of \$40,581 (December 31, 2015: \$32,762) owed to Danny Hon.

**Unsecured loan payables**

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

	September 30, 2016				
	RMB	Canadian dollars	U.S. dollars equivalent	Annual interest rate	Due date
Unsecured loan payables					
Chengguang Zhou (director of TTTC) (i)	¥	-	-	\$ -	-

  

	December 31, 2015				
	RMB	Canadian dollars	U.S. dollars equivalent	Annual interest rate	Due date
Unsecured loan payables					
Chengguang Zhou (director of TTTC) (i)	¥ 700,000	-	\$ 107,779	9.7%	4/20/2016

**Other related party transactions**

	September 30, 2016	December 31, 2015
Amount due from a company related to the non-controlling shareholders of ZYCY (ii)	\$ -	\$ 44,295

- (i) During the year ended December 31, 2015, Chenggang Zhou, director of TTTC, borrowed the loan with annual rate of 9.7% (2014: 12%) from Bank of Merchant under his name to finance TTTC's daily activities. The loan is secured by his personal assets. The loan was fully repaid on April 20, 2016.

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**24. Related Parties Transactions – Continued**

**Other related party transactions - Continued**

- (ii) 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 due on demand loan.

**Right to use of vehicle** - see Note 11.