

China Education Resources Inc.

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

Nine Months Ended September 30, 2013

(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 in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of condensed interim consolidated financial statements by an entity's auditor.

CHINA EDUCATION RESOURCES INC.
Consolidated Statements of Financial Position

(Expressed in U.S. Dollars)

As AT	Note	September 30, 2013 (Unaudited)	December 31, 2012 (Audited)
Assets			
Current assets			
Cash		\$ 62,279	\$ 580,377
Accounts and other receivables	7	8,833,137	4,202,448
Prepaid expenses and deposits		636,327	59,427
Total current assets		9,531,743	4,842,252
Non-current assets			
Property, plant and equipment	8	100,724	111,321
Goodwill	9	2,305,805	2,305,805
Total non-current assets		2,406,529	2,417,126
Total assets		\$ 11,938,272	\$ 7,259,378
Liabilities			
Current liabilities			
Trade and other payables	13	\$ 5,212,426	\$ 3,457,867
Deferred revenue		85,164	95,444
Income taxes payable		3,077,441	2,797,904
Bank loan - current portion	15	23,737	20,102
Loan payables	14	886,965	270,061
Loan payables - related parties	21	834,881	356,295
Due to related parties	21	1,166,492	867,572
Total current liabilities		11,287,106	7,865,245
Non-current liabilities			
Bank loan	15	13,755	31,440
Total non-current liabilities		13,755	31,440
Total liabilities		11,300,861	7,896,685
Shareholders' Equity			
Share capital	10	29,455,512	29,455,512
Contributed surplus		2,545,112	2,488,639
Accumulated other comprehensive income (loss)		12,932	(21,749)
Deficit		(32,260,827)	(32,878,896)
Total shareholders' equity (deficiency) attributable to shareholders' of the Company		(247,271)	(956,494)
Non-controlling interest		884,682	319,187
Total equity (deficiency)		637,411	(637,307)
Total liabilities and shareholders' equity		\$ 11,938,272	\$ 7,259,378

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.
Consolidated Statements of Comprehensive Income (Loss)
For the three months and nine months ended September 30, 2013 and 2012
(Unaudited)

(Expressed in U.S. Dollars)

	Note	Three months ended September 30,		Nine months ended September 30,	
		2013	2012	2013	2012
Revenue					
Book sales and distribution services		\$ 1,718,140	\$ 736,969	\$ 4,465,744	\$ 3,322,757
Online products		1,757,026	1,979,384	5,465,405	3,756,376
		3,475,166	2,716,353	9,931,149	7,079,133
Cost of sales					
Book sales and distribution services		(902,015)	(169,025)	(2,016,582)	(1,216,322)
Online products		(771,896)	(325,472)	(2,316,299)	(801,934)
Gross profit		1,801,255	2,221,856	5,598,268	5,060,877
General and administrative		(317,383)	(387,585)	(1,092,816)	(1,183,555)
Amortization		(8,357)	(8,468)	(17,080)	(29,875)
Selling expenses		(505,895)	(611,842)	(3,079,271)	(1,835,954)
Share-based payment	12	(14,672)	(29,731)	(56,473)	(120,236)
Loss on disposal of capital assets		-	-	-	(2,833)
Operating profit		954,948	1,184,230	1,352,628	1,888,424
Finance income		161	385	2,580	1,545
Finance costs		(54,074)	(39,900)	(157,341)	(103,009)
Net finance costs		(53,913)	(39,515)	(154,761)	(101,464)
Income before income taxes		901,035	1,144,715	1,197,867	1,786,960
Income taxes		(4,280)	(4,356)	(28,874)	(26,209)
Income for the period		896,755	1,140,359	1,168,993	\$ 1,760,751
Other comprehensive income for the period, net of income taxes					
Unrealized exchange gain (loss) on translation of self-sustaining foreign operations		(29,973)	(29,173)	49,251	(19,347)
Other comprehensive income for the period, net of income tax		(29,973)	(29,173)	49,251	(19,347)
Comprehensive income for the period		\$ 866,782	\$ 1,111,186	\$ 1,218,244	\$ 1,741,404
Net income attributable to:					
Shareholders of the Company		\$ 741,010	\$ 1,008,994	\$ 618,069	\$ 1,442,512
Non-controlling interest		155,745	131,365	550,924	318,239
Net income for the period		\$ 896,755	\$ 1,140,359	\$ 1,168,993	\$ 1,760,751
Comprehensive income attributable to:					
Shareholders of the Company		\$ 708,902	\$ 985,238	\$ 652,751	\$ 1,419,895
Non-controlling interest		157,880	125,948	565,493	321,509
Comprehensive income for the period		\$ 866,782	\$ 1,111,186	\$ 1,218,244	\$ 1,741,404
Earnings per share					
Basic and diluted earnings per share	11	\$ 0.02	\$ 0.02	\$ 0.01	\$ 0.03
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.
Consolidated Statement of Changes in Equity
For the nine months ended September 30, 2013 and 2012
(Unaudited)

(Expressed in U.S. Dollars)	Attributable to equity holders of the Company						Non- controlling interest	Total equity
	Number of Shares	Share Capital	Contributed Surplus	Cumulative translation account	Deficit	Total		
Balance January 1, 2012	47,364,983	\$ 29,455,512	\$ 2,338,572	\$ 63,580	\$ (31,583,786)	\$ 273,878	\$ 533,210	\$ 807,088
Net income for the nine months ended September 30, 2012	-	-	-	-	1,442,512	1,442,512	318,239	1,760,751
Foreign currency translation differences	-	-	-	(22,617)	-	(22,617)	3,270	(19,347)
Share-based payment	-	-	120,236	-	-	120,236	-	120,236
Balance September 30, 2012	47,364,983	\$ 29,455,512	\$ 2,458,808	\$ 40,963	\$ (30,141,274)	\$ 1,814,009	\$ 854,719	\$ 2,668,728
Net loss for the period ended December 31, 2012	-	-	-	-	(2,737,622)	(2,737,622)	(526,781)	(3,264,403)
Foreign currency translation differences	-	-	-	(62,712)	-	(62,712)	(8,751)	(71,463)
Share-based payment	-	-	29,831	-	-	29,831	-	29,831
Balance December 31, 2012	47,364,983	\$ 29,455,512	\$ 2,488,639	\$ (21,749)	\$ (32,878,896)	\$ (956,494)	\$ 319,187	\$ (637,307)
Net income for the nine months ended September 30, 2013	-	-	-	-	618,069	618,069	550,924	1,168,993
Foreign currency translation differences	-	-	-	34,681	-	34,681	14,571	49,252
Share-based payment	-	-	56,473	-	-	56,473	-	56,473
Balance September 30, 2013	47,364,983	\$ 29,455,512	\$ 2,545,112	\$ 12,932	\$ (32,260,827)	\$ (247,271)	\$ 884,682	\$ 637,411

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

CHINA EDUCATION RESOURCES INC.
Consolidated Statements of Cash Flows
For the three months and nine months ended September 30, 2013 and 2012
(Unaudited)

(Expressed in U.S. Dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Cash flows used in operating activities				
Income for the period	\$ 896,755	\$ 1,140,359	\$ 1,168,993	\$ 1,760,751
Adjustments for:				
Amortization	8,357	8,468	17,080	29,875
Gain on disposal of fixed assets	-	-	-	2,833
Share-based payment	14,672	29,731	56,473	120,236
Changes in accounts and other receivable	(2,122,157)	(1,301,235)	(4,524,221)	(4,180,806)
Changes in inventories	-	277,088	-	282,667
Changes in prepaid expenses and deposits	(33,656)	(60,994)	(571,722)	(82,343)
Changes in trade and other payables	446,309	(174,785)	1,739,611	(582,586)
Changes in income tax payable	8,008	54,485	264,285	162,774
Changes in deferred income	(40)	(24,495)	(11,870)	(48,570)
Cash used in operating activities	(781,752)	(51,378)	(1,861,371)	(2,535,169)
Interest paid	(29,887)	(13,634)	(34,012)	(36,504)
Taxes paid (refund)	(84)	(4,362)	(24,678)	(26,209)
Net cash used in operating activities	(811,723)	(69,374)	(1,920,061)	(2,597,882)
Cash flows used in investing activities				
Acquisition of equipment	(745)	-	(4,619)	(5,978)
Net cash from used in investing activities	(745)	-	(4,619)	(5,978)
Cash flows from financing activities				
Loan payables	175,898	88,620	589,879	506,816
Loan payables - related parties	322,941	235	481,257	(148,473)
Repayment from related parties	184,816	95,694	323,426	301,347
Net cash from financing activities	683,655	184,549	1,394,562	659,690
Net decrease in cash	(128,813)	115,175	(530,118)	(1,944,170)
Cash, beginning of the period	193,184	42,663	580,377	2,113,732
Effect of exchange rate fluctuations on cash held	(2,092)	16,847	12,020	5,123
Cash, end of the period	\$ 62,279	\$ 174,685	\$ 62,279	\$ 174,685

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

China Education Resources Inc.
Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in U.S. Dollars)
Nine Months Ended September 30, 2013
(Unaudited)

1. Reporting Entity and Going Concern

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 consolidated financial statements of the Company as at and for the periods ended September 30, 2013 and September 30, 2012 and year ended December 31, 2012 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, 2013, the Group has working capital deficiency of \$2,637,859 (December 31, 2012: \$3,022,993). In addition, the Group has trade and other payables, bank loan, loan payables, loan payables - related parties, and due to related parties due to mature within the next twelve months in the amount of \$6,972,069 (December 31, 2012: \$4,971,897). As at September 30, 2013, the Group has cash balance of \$193,184 (December 31, 2012: \$508,377). 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, substantial doubt as to the appropriateness of the use of the going concern assumption. The accompanying condensed interim 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, 2012.

The policies applied in these condensed interim consolidated financial statements are based on IFRS issued as of September 30, 2013. These financial statements were authorized to issue by the audit committee and Board of Directors of the Company on November 29, 2013. Any subsequent changes to IFRS that are given effect in the Company’s annual financial statements for the year ending December 31, 2013 could result in restatement of these condensed interim consolidated financial statements.

China Education Resources Inc.
Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in U.S. Dollars)
Nine Months Ended September 30, 2013
(Unaudited)

3. Basis of Preparation - Continued

(b) Basis of preparation

These 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 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 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, 2013	December 31, 2012
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%

The Company, through its China subsidiary, TWE, acquired the remaining 10% equity ownership of its China subsidiary, CEN Smart Networks Ltd. ("CEN Smart") for a nominal value on September 26, 2011 resulting in a 100% equity ownership of CEN Smart. Through CEN Smart, the Company now has an effective ownership of 100% and 60% equity interests in its China subsidiaries, TTTC and ZYCY, respectively. The transaction was accounted for as an equity transaction and the non-controlling interest was adjusted to reflect the changes in the interest in CEN Smart.

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 the Condensed Interim Consolidated Financial Statements
(Expressed in U.S. Dollars)
Nine Months Ended September 30, 2013
(Unaudited)

3. Basis of Preparation - Continued

(d) Use of estimates and judgments - Continued

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) Impairment of goodwill

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in arm's length transactions of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next three years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the CGU, are further explained in Note 9.

(ii) 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, 2013 and December 31, 2012, allowance for doubtful accounts is \$nil based on management's assessment of credit history with the customers and current relationships with them.

(iii) 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.

China Education Resources Inc.
Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in U.S. Dollars)
Nine Months Ended September 30, 2013
(Unaudited)

3. Basis of Preparation - Continued

(d) Use of estimates and judgments - Continued

Areas of assumptions and estimates - Continued

(iv) 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.

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, 2012. 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, 2012.

5. New standards and interpretations adopted during the period

The Group adopted the following new standards during the period:

IFRS 10, Consolidated Financial Statements

On January 1, 2013, the Company adopted IFRS 10 which requires an entity to consolidate an investee when it is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under previous IFRS, consolidation was required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, Consolidation - Special Purpose Entities, and parts of IAS 27, Consolidated and Separate Financial Statements. Adoption of the new standard did not have any impact on the financial statements.

IFRS 11, Joint Arrangements

On January 1, 2013, the Company adopted IFRS 11 which establishes the principles that a party to a joint arrangement determines the type of joint arrangement in which it is involved by assessing its rights and obligations and accounts for those rights and obligations in accordance with that type of joint arrangement. IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC 13 Jointly Controlled Entities - Non-Monetary Contributions by Venturers. Adoption of the new standard did not have any impact on the financial statements.

China Education Resources Inc.
Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in U.S. Dollars)
Nine Months Ended September 30, 2013
(Unaudited)

5. New standards and interpretations adopted during the period - Continued

IFRS 12, Disclosure of Interests in Other Entities

On January 1, 2013, the Company adopted IFRS 12 which includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. Adoption of the new standard did not have any impact on the financial statements.

IFRS 13, Fair Value Measurements

On January 1, 2013, the Company adopted IASB IFRS 13, a new comprehensive standard on measuring and disclosing fair value and will supersede all other fair value guidance in IFRS. The standard is effective for annual periods beginning on or after January 1, 2013.

IAS 1, Presentation of Financial Statements

On January 1, 2013, the Company adopted the amendments to IAS 1 “*Presentation of Financial Statements*” as it relates to the presentation of other comprehensive income (OCI). The amendments to this standard do not change the nature of the items that are currently recognized in OCI, but requires presentational changes. It requires entities to separate items presented in OCI into two groups based on whether or not they may be recycled to profit or loss in the future. Items that will not be recycled, such as re-measurements resulting from the amendments to IAS 19, will be presented separately from items that may be recycled in the future, such as deferred gains and losses on cash flow hedges. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately. The adoption of this standard did not have a material impact on the Company’s financial statements.

6. New standards and interpretations not yet adopted

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.

China Education Resources Inc.
Notes to the Condensed Interim Consolidated Financial Statements
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Nine Months Ended September 30, 2013
(Unaudited)

6. New standards and interpretations not yet adopted - Continued

IFRS 9, Financial Instruments

On November 12, 2009, the IASB issued IFRS 9 Financial Instruments as the first step in its project to replace International Accounting Standard (“IAS”) 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification is made at the time the financial asset is initially recognized, namely when the entity becomes a party to the contractual provisions of the instrument. IFRS 9 amends some of the requirements of IFRS 7 *Financial Instruments: Disclosures* including additional disclosures about investments in equity instruments measured at fair value in other comprehensive income, and guidance on financial liabilities and de-recognition of financial instruments. Although early adoption is permitted, in December 2011, the IASB issued an amendment that adjusted the mandatory effective date of IFRS 9 from January 1, 2013 to January 1, 2015. The Company is currently determining the impact of adopting IFRS 9.

IAS 32, Financial Instruments: Presentation

These amendments address inconsistencies when applying the offsetting requirements, and are effective for annual periods beginning on or after January 1, 2014.

7. Accounts and other receivable

	September 30, 2013	December 31, 2012
Trade receivables	\$ 8,574,010	\$ 4,010,885
Other receivables	135,133	69,710
Due from related parties (Note 21)	123,994	121,853
	<u>8,833,137</u>	<u>4,202,448</u>
Loans and receivables	-	-
	<u>\$ 8,833,137</u>	<u>\$ 4,202,448</u>
Non-current	\$ -	\$ -
Current	8,833,137	4,202,448
	<u>\$ 8,833,137</u>	<u>\$ 4,202,448</u>

China Education Resources Inc.
Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in U.S. Dollars)
Nine Months Ended September 30, 2013
(Unaudited)

8. Property, Plant and Equipment

	Computer equipment	Office equipment	Motor vehicles	Leasehold improvement	Website development	Total
Cost						
Balance, at January 1, 2012	\$ 521,327	\$ 25,875	\$ 414,283	\$ 57,061	\$ 3,687,783	\$ 4,706,329
Additions	8,677	2,703	-	-	-	11,380
Disposals	(16,671)	-	(56,775)	-	-	(73,446)
Effect of movements in exchange rates	(17,600)	6,887	6,135	582	(309,814)	(313,810)
Balance, at December 31, 2012	<u>\$ 495,733</u>	<u>\$ 35,465</u>	<u>\$ 363,643</u>	<u>\$ 57,643</u>	<u>\$ 3,377,969</u>	<u>\$ 4,330,453</u>
Balance, at January 1, 2013	\$ 495,733	\$ 35,465	\$ 363,643	\$ 57,643	\$ 3,377,969	\$ 4,330,453
Additions	3,865	754	-	-	-	4,619
Disposals	-	-	-	-	-	-
Effect of movements in exchange rates	45,998	628	6,389	1,012	65,447	119,474
Balance, at September 30, 2013	<u>\$ 545,596</u>	<u>\$ 36,847</u>	<u>\$ 370,032</u>	<u>\$ 58,655</u>	<u>\$ 3,443,416</u>	<u>\$ 4,454,546</u>
Accumulated depreciation						
Balance, at January 1, 2012	\$ 469,881	\$ 10,591	\$ 349,868	\$ 42,780	\$ 3,687,783	\$ 4,560,903
Depreciation for the period	18,241	3,625	10,014	11,383	-	43,263
Disposals	(15,837)	-	(53,937)	-	-	(69,774)
Effect of movements in exchange rates	(13,161)	(3,512)	10,629	598	(309,814)	315(260)
Balance, at December 31, 2012	<u>\$ 459,124</u>	<u>\$ 10,704</u>	<u>\$ 316,574</u>	<u>\$ 54,761</u>	<u>\$ 3,377,969</u>	<u>\$ 4,219,132</u>
Balance, at January 1, 2013	\$ 459,124	\$ 10,704	\$ 316,574	\$ 54,761	\$ 3,377,969	\$ 4,219,132
Depreciation for the period	10,943	2,570	2,844	2,911	-	19,268
Disposals	-	-	-	-	-	-
Effect of movements in exchange rates	30,705	13,026	5,261	983	65,447	115,422
Balance, at September 30, 2013	<u>\$ 500,772</u>	<u>\$ 26,300</u>	<u>\$ 324,679</u>	<u>\$ 58,655</u>	<u>\$ 3,443,416</u>	<u>\$ 4,353,822</u>
Carrying amounts						
At December 31, 2012	<u>\$ 36,609</u>	<u>\$ 24,761</u>	<u>\$ 47,069</u>	<u>\$ 2,882</u>	<u>\$ -</u>	<u>\$ 111,321</u>
At September 30, 2013	<u>\$ 44,824</u>	<u>\$ 10,547</u>	<u>\$ 45,353</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 100,724</u>

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9. Goodwill

Goodwill represents the amount recognized on the acquisition of 90% equity interest in TTTC in previous year.

On September 1, 2011, the Group acquired the remaining 10% equity interest in TTTC for a nominal amount. This transaction is accounted for within equity, whereas no goodwill is recognized.

Goodwill acquired through business acquisition of 90% equity interest in TTTC has been allocated to TTTC, which is a cash generating unit (“CGU”) not a separate operating and reportable segment. The recoverable amount of the TTTC CGU has been determined based on a value in use calculation using cash flow projections covering a three year period. The pre-tax discount rate applied to cash flow projection is 13% for the year ended December 31, 2012 and cash flows beyond the three year period are extrapolated using a 3.5% growth rate for the year ended December 31, 2012.

The calculations of value in use for TTTC CGU are most sensitive to the following assumptions:

- Gross margin - based on the historical gross margin achieved by TTTC
- Discount rates - represent the current market assessment of the risks specific to the CGU, taking into consideration of the time value.
- Growth rate used to extrapolate cash flows beyond the budget period - rates are based on published industry research

As a result of goodwill impairment analysis, management has recognized an impairment charge of \$500,000 against goodwill previously carried at \$2,805,805, which is recorded in the consolidated statements of operations and comprehensive income (loss) of the last quarter of 2012.

10. Share Capital and Reserves

Issuance of common shares

There was no common share issued during the period ended September 30, 2013 and year ended December 31, 2012.

Common shares and preferred shares

At September 30, 2013, 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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11. Earnings (Loss) Per Share

(a) Basic earnings (loss) per share

The calculation of basic earnings (loss) per share for the three-months and nine-months periods ended September 30, 2013 was based on the net income attributable to shareholders of the Company of \$741,010 (2012: \$1,008,994) and \$618,069 (2012: \$1,442,512), and a weighted average number of common shares outstanding of 47,364,983 (2012: 47,364,983) and 47,364,983 (2012: 47,364,983), respectively, calculated as follows:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Issued common share at beginning of period	47,364,983	47,364,983	47,364,983	47,364,983
Adjustment	-	-	-	-
Weighted average number of common shares at end of period	47,364,983	47,364,983	47,364,983	47,364,983

(b) Diluted earnings per share

For the three-month and nine-month periods ended September 30, 2013, 2,124,000 share options (2012: 3,424,000) and 2,124,000 stock options (2012: 3,424,000), respectively, were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

12. Share Purchase Options

(a) Stock options

At September 30, 2013, 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.

The terms and conditions relating to the grants of the share options are as follows:

On March 15, 2012, the Group granted incentive stock options of 1,000,000 shares at \$0.40 (CND\$0.40) per share expiring on March 15, 2017 which exceeds the market price at the grant date to directors and employees with 200,000 share purchase option vested immediately and another 20% will vest every 12 months.

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12. Share Purchase Options - Continued

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

	Number of Shares	Weighted Average Exercise Price Per Share (CND)
Balance, December 31, 2011	3,149,000	\$ 0.78
Granted during the period	1,000,000	0.40
Cancelled/expired during the period	(825,000)	0.78
Balance, December 31, 2012	3,324,000	0.68
Expired during the period	(1,200,000)	0.68
Balance, September 30, 2013	2,124,000	0.65

The options outstanding at September 30, 2013 have an exercise price in the range of \$0.40 to \$1.04 (December 31, 2012: \$0.40 to \$1.04) and a weighted average contractual life of 2.21 years (December 31, 2012: 1.96 years).

There are 2,134,000 options exercisable at September 30, 2013 (December 31, 2012: 2,544,000), which have an exercise price in the range of \$0.40 to \$1.04 (December 31, 2012: \$0.40 to \$1.04) and a weighted average contractual life of 1.74 years (December 31, 2012: 1.25 years).

Inputs for measurement of grant date fair values

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 are the following:

Fair value of share options and assumptions	2012
Fair value at grant date (per share)	\$ 0.27
Share price at grant date	\$ 0.30
Exercise price	\$ 0.40
Expected volatility	159.40%
Option life	5 years
Expected dividends	\$ -
Risk-free interest rate	1.67%

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12. Share Purchase Options - Continued

(b) Share purchase warrants

During the period ended September 30, 2013 and year ended December 31, 2012, the Company did not issue any warrants.

At September 30, 2013 and December 31, 2012, there were no outstanding warrants.

13. Trade and Other Payables

	September 30, 2013	December 31, 2012
Trade payables	\$ 4,696,543	\$ 1,202,525
Non-trade payables and accrued expenses	515,883	2,255,342
	\$ 5,212,426	\$ 3,457,867

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 16.

14. Loans Payable

Terms and conditions of outstanding loans as at September 30, 2013 and December 31, 2012 from unrelated individuals and one company were summarized as follows:

	September 30, 2013			
	RMB	U.S. dollars equivalent	Annual interest rate	Due date
Unsecured loan	1,000,000	\$ 163,340	15%	12/31/2013
Unsecured loan	660,000	107,804	15%	12/31/2013
Unsecured loan	1,000,000	163,340	15%	12/26/2013
Unsecured loan	980,000	160,073	20%	on demand
Secured loan (1)	700,000	114,338	10%	6/27/2014
Secured loan (1)	300,000	49,002	20%	10/7/2013
Secured loan (1)	100,000	16,334	20%	12/31/2013
Secured loan (1)	300,000	49,002	20%	12/31/2013
Sub-total	5,040,000	\$ 823,234		
Interest payable	390,176	63,731		
Total	5,430,176	\$ 886,965		

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14. Loans Payable - Continued

	December 31, 2012			
	RMB	U.S. dollars equivalent	Annual interest rate	Due date
Unsecured loan	1,000,000	\$ 160,520	15%	2013-12-31
Unsecured loan	100,000	16,052	15%	2013-05-17
Unsecured loan	100,000	16,052	15%	2013-02-28 (3)
Secured loan (1)	100,000	16,052	15%	2013-07-09
Secured loan (1)	20,000	3,210	15%	2013-07-03
Secured loan (1)	30,000	4,816	15%	2013-07-02
Secured loan (1)	300,000	48,156	15%	2012-12-31 (2)
Sub-total	1,650,000	\$ 264,858		
Interest payable	32,413	5,203		
Total	1,682,413	\$ 270,061		

- (1) The loans are secured by same amount of common stocks owned by officers of TTTC.
(2) Subsequent to year end, the loan was renewed to December 31, 2013.
(3) Subsequent to year end, the loan was renewed to August 31, 2013.

15. Bank Loan

	September 30, 2013		
	RMB	U.S. dollars equivalent	Annual interest rate
Unsecured loan - Standard Chartered Bank	229,535	\$ 37,492	20.04%
Less: current portion	145,322	\$ 23,737	
Unsecured loan - long term portion	84,213	\$ 13,755	

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15. Bank Loan - Continued

	<u>December 31, 2012</u>		
	RMB	U.S. dollars equivalent	Annual interest rate
Unsecured loan - Standard Chartered Bank	321,096	\$ 51,542	20.04%
Less: current portion	125,235	20,102	
Unsecured loan - long term portion	<u>195,861</u>	<u>\$ 31,440</u>	

TTTC entered into bank loan on April 30, 2012 with principal amount of \$64,208 (RMB400,000), and is repaid by monthly installments of RMB14,865, including principal and interest, until March 30, 2015.

16. 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, 2013</u>	<u>December 31, 2012</u>
Accounts and other receivable	\$ 8,833,136	\$ 4,202,448
Cash	62,279	580,377
	<u>\$ 8,895,415</u>	<u>\$ 4,782,825</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, 2013</u>	<u>December 31, 2012</u>
China	\$ 8,829,085	\$ 4,189,043
Canada	4,051	13,405
	<u>\$ 8,833,136</u>	<u>\$ 4,202,448</u>

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16. Financial Instruments – Continued

Credit risk - Continued

100% of the Group's revenue for the periods ended September 30, 2013 and 2012 were derived from customers located in China. Two (December 31, 2012: one) customer(s) represent in excess of 10% of accounts receivable at September 30, 2013. Two (December 31, 2012: one) customer(s) represent in excess of 10% of total revenue for the period September 30, 2013. The Group's most significant customer accounted for \$3,434,114 of receivables carrying amount at September 30, 2013 (December 31, 2012: \$1,819,082).

The aging of receivables at the reporting date was:

	September 30, 2013		December 31, 2012	
	Gross amount	Impairment	Gross amount	Impairment
Past due within 3 months	\$ 3,722,263	\$ -	\$ 1,392,220	\$ (306,415)
Past due 4-6 months	3,327,192	-	-	-
Past due 7-12 months	1,597,645	-	2,717,005	-
More than 1 year	497,834	(311,798)	399,638	-
	\$ 9,144,934	\$ (311,798)	\$ 4,508,863	\$ (306,415)

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

	2012
Balance at January 1	\$ 102,115
Charge for the year	473,103
Utilized	(268,803)
Balance at December 31	\$ 306,415
	2013
Balance at January 1	\$ 306,415
Charge for the year	5,383
Utilized	-
Balance at September 30	\$ 311,798

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.

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16. Financial Instruments – Continued

Credit risk - Continued

Currency risk

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

	September 30, 2013			December 31, 2012		
	CND	RMB	TOTAL	CND	RMB	TOTAL
Cash at bank	\$ 671	\$ 61,608	\$ 62,279	\$ 3,175	\$ 577,202	\$ 580,377
Trade receivables	-	8,574,009	8,574,009	-	4,010,885	4,010,885
Other receivables	4,051	131,082	135,133	13,405	56,305	69,710
Due from related parties	-	123,994	123,994	-	121,853	121,853
Trade and other payables	(314,972)	(4,897,454)	(5,212,426)	(289,476)	(3,454,149)	(3,743,625)
Bank loan	-	(37,492)	(37,492)	-	(51,542)	(51,542)
Loan payable	-	(847,763)	(847,763)	-	(232,754)	(232,754)
Loan payable - related parties	(240,923)	(633,160)	(874,083)	(191,848)	(201,754)	(393,602)
Due to related parties	(1,045,816)	(120,676)	(1,166,492)	(867,572)	-	(867,572)
Gross statement of financial position exposure	\$ (1,596,989)	\$ 2,354,148	\$ 757,159	\$ (1,332,316)	\$ 826,046	\$ (506,270)

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 Renmenbi ("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 other comprehensive income by \$107,882 (December 31, 2012 - \$1,081). An increase (decrease) of 10% in the exchange rate between the CND and the U.S. dollars would have increased other comprehensive income by \$46,075 (December 31, 2012 - \$68,434).

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.

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16. Financial Instruments – Continued

Fair values - Continued

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, 2013 and December 31, 2012, cash is assessed to be level 1 instrument.

The fair values of accounts and other receivable, trade and other payables, bank loan – current portion, due to related parties and loan payables approximate their carrying value due to their short-term nature.

The fair values of bank loan – long term are determined using discounted cash flows at prevailing market rates and the fair values are considered to approximate carrying value.

17. 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.

18. 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, 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:

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18. Financial risk management – Continued

(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 accounts receivables. The Group has no significant concentration of credit risk arising from operations. Other receivables mainly consist of an advance to a third party for project development, as well as goods and services tax due from the Federal Government of Canada, interest receivable and amounts advanced to employees and others. Management assesses the credit risk concentration with respect to accounts receivable and other receivables annually and adjusts them 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, 2013, the Group had a working capital deficiency of \$1,755,363 (December 31, 2012: \$3,022,993). 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.

(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.

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18. Financial risk management – Continued

(c) Market risk - Continued

(ii) Foreign currency exchange rate risk - Continued

The Company'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.

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

	September 30, 2013	December 31, 2012
Total liabilities	\$ 11,300,861	\$ 7,896,685
Less: cash	(62,279)	(580,377)
Net debt	<u>\$ 11,238,582</u>	<u>\$ 7,316,308</u>
Total equity (deficiency)	<u>\$ 637,411</u>	<u>\$ (637,307)</u>
Debt to capital ratio	18	(11)

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

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18. Financial risk management – Continued

(d) Capital management – Continued

There were no changes in the Group's approach to capital management during the period ended September 30, 2013 and year ended December 31, 2012. Neither the Group nor its subsidiaries are subject to externally imposed capital requirements.

19. Accounts payable written off and reverse of benefits accrual

For the last quarter of 2012, amount of \$176,535 accounts payable written off were recorded in statements of operations. Such amount represents the stale accounts payable recorded for which the Group has no legal commitment to make the payment as of December 31, 2012.

For the last quarter of 2012, amount of \$301,782 accrued benefits reversal were recorded in statements of operations. Such amount represents the remaining balance of employee benefits accrual made by the management of TTTC prior to 2008, based on certain percentage of employee payroll amount in accordance with Chinese law. The reversal is the result of management's changed estimation of its employee plan and the termination of the related Chinese law.

20. 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.

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. All goodwill and majority of all 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:

Three-month period ended September 30, 2013	Canada	China	Total
Revenue from external customers	\$ -	\$ 3,475,166	\$ 3,475,166
Property, plant and equipment	-	100,724	100,724
Goodwill	-	2,305,805	2,305,805

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20. Operating segments – Continued

Geographical segments - Continued

Three-month period ended September 30, 2012	Canada	China	Total
Revenue from external customers	\$ -	\$ 2,716,353	\$ 2,716,353
Property, plant and equipment	-	118,672	118,672
Goodwill	-	2,777,487	2,777,487

Nine-month period ended September 30, 2013	Canada	China	Total
Revenue from external customers	\$ -	\$ 9,931,149	\$ 9,931,149
Property, plant and equipment	-	100,724	100,724
Goodwill	-	2,305,805	2,305,805

Nine-month period ended September 30, 2012	Canada	China	Total
Revenue from external customers	\$ -	\$ 7,079,133	\$ 7,079,133
Property, plant and equipment	-	118,672	118,672
Goodwill	-	2,777,487	2,777,487

21. 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 16.9% percent of the voting shares of the Group.

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

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

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21. Related parties transactions - Continued

Key management personnel and director transactions - Continued

Director/Officer	Transaction	Three months ended		Nine months ended	
		September 30,		September 30,	
		2013	2012	2013	2012
C F Zhou (director and CEO)	Salary and benefits	\$ -	\$ -	\$ 2,074	\$ -
C F Zhou (director and CEO)	Consulting fees	44,553	42,300	131,706	126,900
C F Zhou (director and CEO)	Interest expense	4,465	3,233	12,235	7,799
Danny Hon (director and CFO)	Accounting fees (ii)	21,495	35,284	64,485	82,199
Danny Hon (director and CFO)	Interest expense	2,773	2,808	8,209	8,118
		<u>\$ 73,286</u>	<u>\$ 83,626</u>	<u>\$ 210,500</u>	<u>\$ 216,898</u>

Director/Officer	Transaction	Balance outstanding	
		September 30, 2013	December 31, 2012
C F Zhou (director and CEO)	Salary and benefits	\$ 237,757	\$ 245,415
C F Zhou (director and CEO)	Consulting fees	467,465	336,400
C F Zhou (director and CEO)	Loan payable (i)	119,105	87,949
C F Zhou (director and CEO)	Loan interest payable (i)	24,662	12,909
Danny Hon (director and CFO)	Accounting fees payable (ii)	340,594	285,758
Danny Hon (director and CFO)	Loan payable (i)	72,973	75,438
Danny Hon (director and CFO)	Loan interest payable (i)	24,181	16,535
		<u>\$ 1,286,738</u>	<u>\$ 1,060,404</u>

(i) During the period ended September 30, 2013 and year ended December 31, 2012, the Group has received short term loans from two directors. The short-term loans were unsecured and due on demand with an annual interest rate of 15%. At September 30, 2013, there was an interest payable balance of \$48,843 (December 31, 2012: \$29,444) owed to directors of the Group.

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

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:

China Education Resources Inc.
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(Expressed in U.S. Dollars)
Nine Months Ended September 30, 2013
(Unaudited)

21. Related parties transactions - Continued

Unsecured loan payables - Continued

	September 30, 2013				
	RMB	Canadian dollars	U.S. dollars equivalent	Annual interest rate	Due date
Unsecured loan payables					
Weiguo Mu (minority shareholder of ZYCY)	500,000		81,670	15%	1/9/2014
Weiguo Mu (minority shareholder of ZYCY)	640,000		104,538	20%	on demand
Rongrong Mu (daughter of Weiguo Mu)	300,000		49,002	15%	1/9/2014
Yan Zhang (spouse of Weiguo Mu)	800,000		130,672	15%	1/9/2014
Yan Zhang (spouse of Weiguo Mu)	960,000		156,806	20%	on demand
Chen Pu (senior manager of ZYCY)	200,000		32,668	20%	on demand
	3,400,000		\$ 555,356		
Interest payable	\$ 236,329		\$ 38,602		

	December 31, 2012				
	RMB	Canadian dollars	U.S. dollars equivalent	Annual interest rate	Due date
Unsecured loans payable					
Qi Li (minority shareholder of ZYCY)	\$ 1,000,000	-	\$ 160,520	15%	due on demand
Interest payable	\$ 18,336	-	\$ 2,943		

Other related party transactions

	September 30, 2013	December 31, 2012
Amount due from a company related to the non-controlling shareholders of ZYCY [i]	123,994	121,853

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