

China Education Resources Inc.

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

**Period Ended March 31, 2018
(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
March 31, 2018 and December 31, 2017

(Expressed in U.S. Dollars)

AS AT	Note	March 31, 2018 (Unaudited)	December 31, 2017 (Audited)
Assets			
Current assets			
Cash and cash equivalents		\$ 2,075,848	\$ 2,864,633
Short-term investment	7	320,499	-
Accounts and other receivables (net of allowance for doubtful accounts of \$150,020, December 31, 2017: \$145,019)	8	6,503,481	6,031,319
Prepaid expenses and deposits		332,743	87,250
Total current assets		9,232,571	8,983,202
Non-current assets			
Equipment	9	118,943	118,441
Total non-current assets		118,943	118,441
Total assets		\$ 9,351,514	\$ 9,101,643
Liabilities			
Current liabilities			
Trade and other payables	13	\$ 3,775,718	\$ 4,512,268
Deferred revenue		85,674	184,284
Taxes payable	14	942,775	926,926
Loans payable	15	1,339,785	504,872
Bank loan	16	476,970	461,070
Loans payable - related parties	21	333,336	335,747
Due to related parties	21	1,699,538	1,726,411
Total current liabilities		8,653,796	8,651,578
Shareholders' Deficiency			
Share capital	10	29,455,512	29,455,512
Contributed surplus		2,715,154	2,714,918
Accumulated other comprehensive income		992,538	858,323
Deficit		(33,231,022)	(33,392,184)
Total shareholders' deficiency attributable to shareholders' of the Company		(67,818)	(363,431)
Non-controlling interest		765,536	813,496
Total Equity		697,718	450,065
Total liabilities and shareholders' deficiency		\$ 9,351,514	\$ 9,101,643

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 ended March 31, 2018 and 2017
(Unaudited)

(Expressed in U.S. Dollars)

	Note	2018	2017
Revenue			
Book sales and distribution services	\$	968,191	\$ 1,142,756
Online products		1,782,958	1,644,695
		2,751,149	2,787,451
Cost of sales			
Book sales and distribution services		(499,234)	(495,071)
Online products		(644,162)	(546,635)
Gross profit		1,607,753	1,745,745
Depreciation		(9,622)	(7,332)
General and administrative	17	(461,359)	(309,845)
Selling commission, marketing and copyrights		(975,117)	(1,063,856)
Other expense		(56,195)	(155)
Other income		-	5,576
Operating profit		105,460	370,133
Finance income		12,975	7,967
Finance costs		(37,767)	(25,222)
Net finance costs		(24,792)	(17,255)
Net income before income taxes		80,668	352,878
Income taxes		-	-
Net income for the period	\$	80,668	\$ 352,878
Other comprehensive income (loss) for the period, net of income taxes			
Change in fair value of marketable securities		-	(60,388)
Unrealized exchange gain on translation of foreign operations		166,749	908
Other comprehensive income (loss) for the period, net of income tax		166,749	(59,480)
Comprehensive income for the period	\$	247,417	\$ 293,398
Net income attributable to:			
Shareholders of the Company	\$	161,162	\$ 338,954
Non-controlling interest	22	(80,494)	13,924
Net income for the period	\$	80,668	\$ 352,878
Comprehensive income attributable to:			
Shareholders of the Company	\$	295,377	\$ 294,717
Non-controlling interest		(47,960)	(1,319)
Comprehensive income for the period	\$	247,417	\$ 293,398
Earnings per share			
Basic earnings per share	11	\$ 0.00	\$ 0.01
Diluted earnings per share	11	\$ 0.00	\$ 0.01
Weighted average number of common shares used to calculate basic earnings per share		47,364,983	47,364,983
Weighted average number of common shares used to calculate diluted earnings per share		47,505,350	48,343,323

(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 three months ended March 31, 2018 and the year ended December 31, 2017
(Unaudited)

(Expressed in U.S. Dollars)	Attributable to equity holders of the Company						Total	Non- Controlling Interest	Total Equity (Deficiency)
	Number of Shares	Share Capital	Contributed Surplus	Accumulative Other Comprehensive Income Account	Deficit	Total			
Balance December 31, 2016	47,364,983	\$ 29,455,512	\$ 2,624,782	\$ 875,723	\$ (34,749,941)	\$ (1,793,924)	\$ 728,637	\$ (1,065,287)	
Net income for the three months ended March 31, 2017	-	-	-	-	338,954	338,954	13,924	352,878	
Changes in fair market value of marketable securities	-	-	-	(36,233)	-	(36,233)	(24,155)	(60,388)	
Foreign currency translation differences	-	-	-	(8,004)	-	(8,004)	8,912	908	
Balance March 31, 2017	47,364,983	29,455,512	2,624,782	831,486	(34,410,987)	(1,499,207)	727,318	(771,889)	
Net income for the nine months ended December 31, 2017	-	-	-	-	1,018,803	1,018,803	31,328	1,050,131	
Changes in fair market value of marketable securities	-	-	-	36,233	-	36,233	24,155	60,388	
Foreign currency translation differences	-	-	-	(9,396)	-	(9,396)	30,695	21,299	
Stock-based compensation	-	-	90,136	-	-	90,136	-	90,136	
Balance December 31, 2017	47,364,983	29,455,512	2,714,918	858,323	(33,392,184)	(363,431)	813,496	450,065	
Net income for the three months ended March 31, 2018	-	-	-	-	161,162	161,162	(80,494)	80,668	
Foreign currency translation differences	-	-	-	134,215	-	134,215	32,534	166,749	
Stock-based compensation	-	-	236	-	-	236	-	236	
Balance March 31, 2018	47,364,983	\$ 29,455,512	\$ 2,715,154	\$ 992,538	\$ (33,231,022)	\$ (67,818)	\$ 765,536	\$ 697,718	

(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 ended March 31, 2018 and 2017
(Unaudited)

(Expressed in U.S. Dollars)

	2018	2017
Cash flows from operating activities		
Income for the period	\$ 80,668	\$ 352,878
Adjustments for:		
Depreciation	9,622	7,332
Share-based payment	236	-
Changes in accounts and other receivable	(261,414)	(2,063,858)
Changes in prepaid expenses and deposits	(240,792)	23,027
Changes in trade and other payables	(855,463)	(843,985)
Changes in taxes payable	3,972	(24,417)
Changes in deferred revenue	(103,825)	(278,594)
	(1,366,997)	(2,827,617)
Interest paid	(6,596)	(4,105)
Taxes paid	(19,913)	(95,444)
Net cash used in operating activities	(1,393,505)	(2,927,166)
Cash flows from investing activities		
Acquisition to Equipment	(6,079)	(22,952)
Short-term investment	(317,011)	-
Net cash used in investing activities	(323,090)	(22,952)
Cash flows from financing activities		
Loan (paid to) received from third parties	815,203	453,367
Loan (paid to) received from related parties	6,807	(1,051)
Advance from related parties	20,243	34,455
Net cash provided by financing activities	842,253	486,771
Net decrease in cash	(874,343)	(2,463,347)
Cash, beginning of the period	2,864,633	3,844,356
Effect of exchange rate fluctuations on cash held	85,558	20,317
Cash, end of the period	\$ 2,075,848	\$ 1,401,326

(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 March 31, 2018
(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 March 31, 2018 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 March 31, 2018, the Group had net working capital of \$578,775 (December 31, 2017: \$331,624), negative cash flow from operating activities of \$1,393,505 (December 31, 2017: \$1,434,163) and an accumulated deficit of \$33,231,022 since inception. The appropriateness of using the going concern basis is dependent upon, among other things, the continuing growth of the Company’s revenue 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 condensed interim consolidated financial statements have been prepared on a going concern basis, which 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. However, primarily as a result of the conditions described above, there is material uncertainty that may cast significant doubt upon the Group’s ability to continue as a going concern.

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 consolidated financial statements and should be read in conjunction with the Group’s audited consolidated financial statements for the year ended December 31, 2017.

China Education Resources Inc.
Notes to Consolidated Financial Statements
(Expressed in U.S. Dollars)
Period Ended March 31, 2018
(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 March 31, 2018. These financial statements were authorized to issue by the audit committee and Board of Directors of the Company on May 30, 2018. Any subsequent changes to IFRS that are given effect in the Company's annual financial statements for the year ending December 31, 2018 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 subsidiaries.

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. A summary of the Company's subsidiaries are as follows:

Name of subsidiary	Country of incorporation	Ownership interest	
		March 31, 2018	December 31, 2017
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 Consolidated Financial Statements
(Expressed in U.S. Dollars)
Period Ended March 31, 2018
(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 March 31, 2018, allowance for doubtful accounts is \$150,020 (December 31, 2017 - \$145,019) 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
(Expressed in U.S. Dollars)
Period Ended March 31, 2018
(Unaudited)

3. Basis of Preparation - Continued

(c) Use of estimates and judgments

(iv) Income Tax

Tax regulations are very complex and changing regularly. As a result, the Company is required to make judgments about the tax applications and probability of certain tax exposure. Also, all tax returns are subject to further government's reviews, with the potential reassessments. All those facts can impact income tax provisions and operation results. For the year ended December 31, 2017, the Company reassessed the tax provision and penalty accrued 10 years ago due to the uncertainty of deductibility of certain expenses. Based on the laws and regulations in China and management's best estimates, it is not probable that the deductibility of the expenses would be challenged by the tax authority in the future. Therefore, the tax provision of \$635,088 and accrued penalty of \$270,289 have been reversed during the year ended December 31, 2017.

(v) Going concern

Management has applied judgments in the assessment of the Group's ability to continue as a going concern when preparing its condensed interim consolidated financial statements for the period ended March 31, 2018. 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 is a 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.

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, 2017. 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, 2017.

China Education Resources Inc.
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in U.S. Dollars)
Period Ended March 31, 2018
(Unaudited)

5. New standards and interpretations adopted during the period

IFRS 9 Financial instruments (“IFRS 9”)

On January 1, 2018, the Company adopted IFRS 9, *Financial Instruments*, which introduces new classification and measurement models for financial assets, using a single approach to determine whether a financial asset is measured at amortized cost or fair value. To be classified and measured at amortized cost, assets must satisfy the business model test for managing the financial assets and have certain contractual cash flow characteristics. All other financial instrument assets are to be classified and measured at fair value. This standard allows an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income, with dividends as a return on these investments being recognized in profit or loss. In addition, those equity instruments measured at fair value through other comprehensive income would no longer have to apply any impairment requirements nor would there be any ‘recycling’ of gains or losses through profit or loss on disposal. The accounting for financial liabilities continues to be classified and measured in accordance with IAS 39, with one exception, being that the portion of a change of fair value relating to the entity’s own credit risk is to be presented in other comprehensive income unless it would create an accounting mismatch. The application of IFRS 9 did not impact the Company’s classification and measurement of financial assets and liabilities, and there was also no impact to the carrying value of any of the Company’s financial assets or liabilities on the date of transition.

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

On January 1, 2018, the Company adopted IFRS 15, which 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. Adoption of the standard did not have any material impact on the financial statements of the Company.

China Education Resources Inc.
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in U.S. Dollars)
Period Ended March 31, 2018
(Unaudited)

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

The Company has not early adopted any amendment, standard or interpretation that has been issued by the IASB but is not yet effective. Changes in accounting standards not yet effective:

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 has not yet assessed the impact of this standard or determined whether it will adopt the standard early.

7. Short-term investment

As at March 31, 2018, the company, through its subsidiary TTTC, arranged a short-term investment from a local bank in China of RMB2,000,000 (\$317,980) and interest receivable of RMB15,841 (\$2,519). The investment bearing variable interest rates at a range from 3.2% to 4.9% per annum, depending on the duration of the investment.

8. Accounts and Other Receivable

	March 31, 2018	December 31, 2017
Trade receivables	\$ 5,914,043	\$ 5,877,287
Other receivables	589,438	154,032
	<u>\$ 6,503,481</u>	<u>\$ 6,031,319</u>

As at March 31, 2018, the Group’s aging analysis of trade receivables is as follows:

Total	Neither past due nor impaired	Past due but not impaired			
		< 30 days	30 - 90 days	91 - 120 days	> 120 days
\$ 5,914,043	\$ 5,348,106	\$ 1,614	\$ 73,978	\$ 445,086	\$ 45,259

China Education Resources Inc.
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in U.S. Dollars)
Period Ended March 31, 2018
(Unaudited)

9. Plant and Equipment

	Computer equipment		Office equipment		Motor vehicles		Total
Cost							
Balance, at January 1, 2017	\$ 169,809	\$	19,724	\$	366,623	\$	556,156
Additions	5,594		6,082		40,560		52,236
Disposals	(23,900)		-		(15,420)		(39,320)
Effect of movements in exchange rates	11,047		1,600		26,347		38,994
Balance, at December 31, 2017	<u>\$ 162,550</u>	<u>\$</u>	<u>27,406</u>	<u>\$</u>	<u>418,110</u>	<u>\$</u>	<u>608,066</u>
Balance, at January 1, 2018	\$ 162,550	\$	27,406	\$	418,110	\$	608,066
Additions	4,987		1,092		-		6,079
Disposals	-		-		-		-
Effect of movements in exchange rates	5,661		958		14,419		21,038
Balance, at March 31, 2018	<u>\$ 173,198</u>	<u>\$</u>	<u>29,456</u>	<u>\$</u>	<u>432,529</u>	<u>\$</u>	<u>635,183</u>
Accumulated depreciation							
Balance, at January 1, 2017	\$ 136,105	\$	18,924	\$	303,422	\$	458,451
Depreciation for the year	14,060		990		19,830		34,880
Disposals	(19,795)		-		(15,420)		(35,215)
Effect of movements in exchange rates	1,532		(609)		30,586		31,509
Balance, at December 31, 2017	<u>\$ 131,902</u>	<u>\$</u>	<u>19,305</u>	<u>\$</u>	<u>338,418</u>	<u>\$</u>	<u>489,625</u>
Balance, at January 1, 2018	\$ 131,902	\$	19,305	\$	338,418	\$	489,625
Depreciation for the period	3,387		540		5,695		9,622
Disposals	-		-		-		-
Effect of movements in exchange rates	10,923		1,279		4,791		16,993
Balance, at March 31, 2018	<u>\$ 146,212</u>	<u>\$</u>	<u>21,124</u>	<u>\$</u>	<u>348,904</u>	<u>\$</u>	<u>516,240</u>
Carrying amounts							
At December 31, 2017	<u>\$ 30,648</u>	<u>\$</u>	<u>8,101</u>	<u>\$</u>	<u>79,692</u>	<u>\$</u>	<u>118,441</u>
At March 31, 2018	<u>\$ 26,986</u>	<u>\$</u>	<u>8,332</u>	<u>\$</u>	<u>83,625</u>	<u>\$</u>	<u>118,943</u>

China Education Resources Inc.
Notes to Consolidated Financial Statements
(Expressed in U.S. Dollars)
Period Ended March 31, 2018
(Unaudited)

10. Share Capital and Reserves

Issuance of common shares

There was no common share issued during the period ended March 31, 2018 and year ended December 31, 2017.

Common shares and preferred shares

At March 31, 2018, 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.

11. Earnings (Loss) Per Share

(a) Basic earnings per share

The calculation of basic earnings per share for the three-month period ended March 31, 2018 was based on the net income attributable to shareholders of the Group in the amount of \$161,162 (2017: \$338,954), and a weighted average number of common shares outstanding of 47,364,983 (2017: 47,364,983).

(b) Diluted earnings per share

The calculation of diluted earnings per share for the three-month period ended March 31, 2018 was based on the net income attributable to shareholders of the Group in the amount of \$161,162 (2017: \$338,954), and a weighted average number of common shares outstanding of 47,505,350 (2017: 48,343,323).

China Education Resources Inc.
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in U.S. Dollars)
Period Ended March 31, 2018
(Unaudited)

12. Share Purchase Options and Warrants

(a) Stock options

At March 31, 2018, 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 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, 2016	3,700,000	0.18
Expired during the year	(1,000,000)	0.40
Granted during the year	1,000,000	0.14
Balance, December 31, 2017 and March 31, 2018	3,700,000	0.11

On March 15, 2017, 1,000,000 stock options at an exercise price of CAN\$0.40 were expired and unexercised.

On May 29, 2017, the Group granted incentive stock options of 1,000,000 shares at CND\$0.14 per share expiring on May 29, 2022 which exceeds the market price at the grant date to directors and consultant. The stock options are vested immediately. The total fair value of the stock options granted was CND\$114,913 (\$86,115). The grant date fair value of share-based payment plans was measured based on the Black-Scholes pricing model. 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: 0.95% per annum, expected volatility: 141.16%, dividend yield: \$nil and forfeiture rate: 7%. Total share-based payment for the year ended December 31, 2017 was \$90,136, including \$1,525 related to the options granted in 2015 but not vested until 2017. The amount has been included in general and administrative expenses.

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12. Share Purchase Options and Warrants - Continued

(a) Stock options - Continued

The options outstanding at March 31, 2018 have an exercise price in the range of CND\$0.10 to CND\$0.14 (December 31, 2017: in the range of CND\$0.10 to CND\$0.14) and a weighted average contractual life of 3.06 years (December 31, 2017: 3.31 years).

There are 3,540,000 options exercisable at March 31, 2018 (December 31, 2017: 3,540,000), which have an exercise price of in the range of CND\$0.10 to CND\$0.14 (December 31, 2017: in the range of CND\$0.10 to CND\$0.14) and a weighted average contractual life of 3.09 years (December 31, 2017: 3.34 years).

(b) Share purchase warrants

At March 31, 2018 and December 31, 2017, there was no outstanding warrant.

13. Trade and Other Payables

	March 31, 2018	December 31, 2017
Trade payables	\$ 1,745,298	\$ 2,317,491
Other payables	1,480,324	1,661,170
Non-trade payables and accrued expenses	550,096	533,607
	<u>\$ 3,775,718</u>	<u>\$ 4,512,268</u>

14. Taxes payable

	March 31, 2018	December 31, 2017
Income tax payable	\$ 521,680	\$ 546,428
Other tax payable	421,095	380,498
	<u>\$ 942,775</u>	<u>\$ 926,926</u>

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15. Loans Payable

Terms and conditions of outstanding loans as at March 31, 2018 and December 31, 2017 from unrelated individuals are summarized as follows:

	March 31, 2018					
	Principal			Due date	Interest payable	
	RMB	U.S. dollars equivalent	Annual interest rate		RMB	U.S. dollars equivalent
Unsecured loan (1)	3,360,000	534,206	0%	June 24, 2018	-	-
Unsecured loan (2)	1,000,000	158,990	10%	December 31, 2018	15,068	2,396
Unsecured loan (3)	1,000,000	158,990	10%	December 31, 2018	18,904	3,006
Unsecured loan (4)	1,000,000	158,990	10%	December 31, 2018	14,795	2,352
Unsecured loan (5)	1,000,000	158,990	10%	December 31, 2018	18,082	2,875
Unsecured loan (6)	1,000,000	158,990	0%	December 31, 2018	-	-
	8,360,000	1,329,156			66,849	10,629
Loan payable		1,329,156				
Interest payable		10,629				
Total		\$ 1,339,785				

	December 31, 2017			
	RMB	U.S. dollars equivalent	Annual interest rate	Due date
Unsecured loan (1)	3,285,000	504,872	0%	June 24, 2018

- (1) The loan will mature on June 24, 2018 and as at March 31, 2018, there was no interest accrued in relation to this loan.
- (2) The loan will mature on December 31, 2018 and as at March 31, 2018, there was interest accrued of \$2,396 in relation to this loan.

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15. Loans Payable – Continued

- (3) The loan will mature on December 31, 2018 and as at March 31, 2018, there was interest accrued of \$3,006 in relation to this loan.
- (4) The loan will mature on December 31, 2018 and as at March 31, 2018, there was interest accrued of \$2,352 in relation to this loan.
- (5) The loan will mature on December 31, 2018 and as at March 31, 2018, there was interest accrued of \$2,875 in relation to this loan.
- (6) The loan will mature on December 31, 2018 and as at March 31, 2018, there was no interest accrued in relation to this loan.

16. Bank Loan

In December 2017, the Company, through its subsidiary TTTC, arranged a bank loan of RMB3,000,000 (\$461,070). The bank loan bears an annual interest rate of 5.655% and will be repayable by 3 equal instalments, i.e. RMB1,000,000 (\$153,690) each time, on June 21, 2018, November 21, 2018 and December 22, 2018. Personal guarantee by one of the directors of TTTC has been provided to the bank.

As of March 31, 2018, the outstanding loan amount was RMB3,000,000 (\$476,970) with interest paid of RMB41,941 (\$6,596) during the period ended March 31, 2018.

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17. General and Administrative Expenses

The breakdown of Group's general and administrative expenses for the three-month period ended March 31, 2018 and 2017 was as follows:

	Three months ended	
	March 31,	
	2018	2017
Accounting and audit	\$ 39,535	\$ 34,001
Accounts payable written off	-	(3,180)
Administrative and office	18,650	7,515
Consulting	36,056	34,454
Filing and listing	3,577	6,150
Investor relations	6,263	-
Legal and professional	7,216	1,449
Meals and entertainment	7,277	2,501
Miscellaneous	7,777	(54,525)
Registrar & transfer agent fees	906	1,461
Rent	46,189	40,652
Salaries, wages, commission & benefits	181,378	211,897
Stock based compensation	236	-
Technology development	82,948	-
Travel	23,351	27,470
	\$ 461,359	\$ 309,845

18. 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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19. 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, trade and other receivables, due from related parties, trade and other payables, advance from a third party and due to related parties.

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

(a) Credit risk

Credit risk is the risk of an unexpected loss if a party to a financial instrument fails to meet its contractual obligations. The Group's credit risk is primarily attributable to cash and cash equivalents and accounts and other receivables. The Group has no significant concentration of credit risk arising from operations. Management assesses the credit risk concentration with respect to accounts and other receivables annually and adjusts them accordingly.

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>March 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
Accounts and other receivables	\$ 6,503,481	\$ 6,031,319
Cash and cash equivalents	2,075,848	2,864,633
Short-term investment	320,499	-
	<u>\$ 8,899,828</u>	<u>\$ 8,895,952</u>

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

	<u>Carrying amount</u>	
	<u>March 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
China	<u>\$ 5,914,043</u>	<u>\$ 5,877,287</u>

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19. Financial Risk Management - Continued

(a) Credit risk - continued

100% of the Group's revenue for the period ended March 31, 2018 and 2017 was derived from customers located in China. Two (December 31, 2017: two) customers represent in excess of 10% of accounts receivable at March 31, 2018. Three (2017: two) customers represent in excess of 10% of total revenue for the period ended March 31, 2018. The Group's most significant customers accounted for \$860,766 of receivables carrying amount at March 31, 2018 (December 31, 2017: \$2,453,687).

(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 March 31, 2018, the Group had a net working capital of \$578,775 (December 31, 2017: \$331,624). 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

The Group is exposed to foreign exchange rate when the Group undertakes transactions and hold assets and liabilities in currencies other than its functional currencies. The Group currently does not use derivative instruments to hedge its exposure to those risks. As at March 31, 2018, the Group is subject to immaterial currency risk as it did not have material assets or liabilities held in currencies other than its functional currencies.

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19. Financial Risk Management - Continued

(d) 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 March 31, 2018, the Group recognizes cash and cash equivalents at fair value which is considered a level 1 fair value measurement.

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

(e) 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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19. Financial Risk Management - Continued

(e) Capital management - continued

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

	March 31, 2018	December 31, 2017
Total liabilities	\$ 8,653,796	\$ 8,651,578
Less: cash in the bank	(2,075,848)	(2,864,633)
Less: short-term investment	(320,499)	-
Net debt	<u>\$ 6,257,449</u>	<u>\$ 5,786,945</u>
Total equity	<u>\$ 697,718</u>	<u>\$ 450,065</u>
Debt to capital ratio	8.97	12.86

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 March 31, 2018 and year ended December 31, 2017. Neither the Group nor its subsidiaries are subject to externally imposed capital requirements.

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.

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20. 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 were as follows:

Period ended March 31, 2018	Canada	China	Total
Revenue from external customers	\$ -	\$ 2,751,149	\$ 2,751,149
Plant and equipment	-	118,943	118,943

Period ended March 31, 2017	Canada	China	Total
Revenue from external customers	\$ -	\$ 2,787,451	\$ 2,787,451
Plant and equipment	-	132,774	132,774

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 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 those entities.

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21. Related Parties Transactions - Continued

Key management personnel and director transactions - Continued

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	Period ended	
		March 31,	
		2018	2017
C F Zhou (director and CEO)	Consulting fees (i)	\$ 36,056	\$ 35,114
C F Zhou (director and CEO)	Interest expense (ii)	4,758	4,634
Danny Hon (director and CFO)	Accounting fees (iii)	15,814	15,401
Danny Hon (director and CFO)	Interest expense (iv)	2,049	1,995
		<u>\$ 58,677</u>	<u>\$ 57,144</u>

Director/Officer	Balance	March 31,	December 31,
		2018	2017
C F Zhou (director and CEO)	Consulting fees payable (i)	\$ 1,203,448	\$ 1,208,549
C F Zhou (director and CEO)	Loan payable (ii)	126,183	129,693
C F Zhou (director and CEO)	Loan interest payable (ii)	99,327	97,294
Danny Hon (director and CFO)	Accounting fees payable (iii)	496,090	517,862
Danny Hon (director and CFO)	Loan payable (iv)	54,330	55,841
Danny Hon (director and CFO)	Loan interest payable (iv)	53,496	52,919
		<u>\$ 2,032,874</u>	<u>\$ 2,062,158</u>

- (i) The consulting fees owing to C F Zhou as at March 31, 2018 is unsecured, due on demand with no interest.
- (ii) The short-term loans were unsecured and due on demand with an annual interest rate of 15%. As at March 31, 2018, there was an interest payable balance of \$99,327 (December 31, 2017: \$97,294) owed to C F Zhou.
- (iii) The Company engaged a company, which is controlled by Danny Hon, to provide accounting services. The balance owing to this company controlled by Danny Hon as at March 31, 2018 is unsecured, due on demand and bears no interest.
- (iv) The short-term loans were unsecured and due on demand with an annual interest rate of 15%. As at March 31, 2018, there was an interest payable balance of \$53,496 (December 31, 2017: \$52,919) owed to Danny Hon.

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22. Non-controlling interests

The following subsidiary has material non-controlling interests (“NCI”):

Name	Principal place of business/Country of incorporation	Operating segment	Ownership interests held by NCI	
			March 31, 2018	December 31, 2017
ZYCY	China	Textbook sales	40%	40%

The following is summarized financial information for ZYCY, prepared in accordance with IFRS.

The information is before inter-company eliminations with other companies in the Group.

Amount in USD	Three-month period ended March 31,	
	2018	2017
Revenue	\$ 1,706,702	\$ 1,859,782
Net income (loss)	(201,235)	34,810
Net income (loss) attributable to NCI	(80,494)	13,924
Other comprehensive income (loss)	81,337	(38,108)
Total comprehensive loss	(119,898)	(3,298)
Total comprehensive loss attributable to NCI	\$ (47,959)	\$ (1,319)

Amount in USD	March 31,	December 31,
	2018	2017
Current assets	\$ 6,062,717	\$ 5,948,702
Non-current assets	40,549	42,265
Current liabilities	(4,130,408)	(3,476,453)
Non-current liabilities	-	-
Net assets	\$ 1,972,858	\$ 2,514,514

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22. Non-controlling interests – Continued

Amount in USD	Three-month period ended March 31,	
	2018	2017
Cash flow used in operating activities	\$ (450,903)	\$ (2,239,166)
Cash flow from (used in) investing activities	(417)	-
Cash flow from financing activities	796,813	440,671
<u>Net increase (decrease) in cash and cash equivalents</u>	<u>\$ 345,493</u>	<u>\$ (1,798,495)</u>
Dividend paid to NCI during the period	\$ -	\$ -