

China Education Resources Inc.

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

**Period Ended June 30, 2019
(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
June 30, 2019 and December 31, 2018

(Expressed in U.S. Dollars)

| AS AT | Note | June 30, 2019 (Unaudited) | December 31, 2018 (Audited) |
|---|------|---------------------------------|-----------------------------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | | \$ 1,265,689 | \$ 3,382,267 |
| Accounts and other receivables (net of allowance for doubtful accounts of \$131,067, December 31, 2018: \$130,836) | 6 | 8,121,054 | 4,146,847 |
| Prepaid expenses and deposits | | 387,580 | 172,290 |
| Total current assets | | 9,774,323 | 7,701,404 |
| Non-current assets | | | |
| Equipment | 7 | 71,677 | 86,823 |
| Total non-current assets | | 71,677 | 86,823 |
| Total assets | | \$ 9,846,000 | \$ 7,788,227 |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | 10 | \$ 4,347,213 | \$ 3,931,256 |
| Deferred revenue | | 8,529 | 34,733 |
| Taxes payable | 11 | 663,750 | 691,326 |
| Loans payable | 12 | 1,380,575 | 779,258 |
| Bank loan | 13 | 218,737 | - |
| Loans payable - related parties | 18 | 361,748 | 334,340 |
| Due to related parties | 18 | 1,930,808 | 1,755,716 |
| Total current liabilities | | 8,911,360 | 7,526,629 |
| Shareholders' Deficiency | | | |
| Share capital | 8 | 29,455,512 | 29,455,512 |
| Contributed surplus | | 2,715,992 | 2,715,799 |
| Accumulated other comprehensive income | | 829,518 | 929,454 |
| Deficit | | (33,034,165) | (33,543,882) |
| Total shareholders' deficiency attributable to shareholders' of the Company | | (33,143) | (443,117) |
| Non-controlling interest | 19 | 967,783 | 704,715 |
| Total Equity | | 934,640 | 261,598 |
| Total liabilities and shareholders' deficiency | | \$ 9,846,000 | \$ 7,788,227 |

Approved by the Board:

"Chengfeng Zhou"
Director

"Danny Hon"
Director

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

CHINA EDUCATION RESOURCES INC.
Condensed Interim Consolidated Statements of Income and Comprehensive Income
For the three months and six months ended June 30, 2019 and 2018
(Unaudited)

(Expressed in U.S. Dollars)

| | Note | Three months ended June 30, | | Six months ended June 30, | |
|---|------|-----------------------------|--------------|---------------------------|--------------|
| | | 2019 | 2018 | 2019 | 2018 |
| Revenue | | | | | |
| Book sales and distribution services | | \$ 3,048,435 | \$ 3,471,840 | \$ 4,029,876 | \$ 4,440,031 |
| Online products | | 1,202,182 | 1,889,118 | 2,107,120 | 3,672,076 |
| | | 4,250,617 | 5,360,958 | 6,136,996 | 8,112,107 |
| Cost of sales | | | | | |
| Book sales and distribution services | | (1,842,531) | (2,058,267) | (2,245,004) | (2,557,501) |
| Online products | | (208,164) | (565,634) | (520,284) | (1,209,796) |
| Gross profit | | 2,199,922 | 2,737,057 | 3,371,708 | 4,344,810 |
| Depreciation | 7 | (7,241) | (9,738) | (15,598) | (19,360) |
| General and administrative | 14 | (367,082) | (357,477) | (692,562) | (818,836) |
| Selling commission, marketing and copyrights | 15 | (1,158,887) | (870,150) | (1,797,577) | (1,845,267) |
| Other expense | | - | - | (5,084) | (56,106) |
| Other income | | - | - | 548 | - |
| Operating profit | | 666,712 | 1,499,692 | 861,435 | 1,605,241 |
| Finance income | | 8,819 | 9,886 | 23,609 | 22,861 |
| Finance costs | | (20,985) | (30,530) | (32,293) | (68,386) |
| Net finance costs | | (12,166) | (20,644) | (8,684) | (45,525) |
| Net income before income taxes | | 654,546 | 1,479,048 | 852,751 | 1,559,716 |
| Income taxes expenses | | (43,355) | (344) | (78,282) | (344) |
| Net income for the period | | \$ 611,191 | \$ 1,478,704 | \$ 774,469 | \$ 1,559,372 |
| Other comprehensive income (loss) for the period, net of income taxes | | | | | |
| Unrealized exchange gain (loss) on translation of foreign operations | | (128,733) | (177,731) | (101,620) | (10,982) |
| Other comprehensive income (loss) for the period, net of income tax | | (128,733) | (177,731) | (101,620) | (10,982) |
| Comprehensive income for the period | | \$ 482,458 | \$ 1,300,973 | \$ 672,849 | \$ 1,548,390 |
| Net income attributable to: | | | | | |
| Shareholders of the Company | | \$ 423,482 | \$ 1,084,786 | \$ 509,717 | \$ 1,245,948 |
| Non-controlling interest | 19 | 187,709 | 393,918 | 264,752 | 313,424 |
| Net income for the period | | \$ 611,191 | \$ 1,478,704 | \$ 774,469 | \$ 1,559,372 |
| Comprehensive income attributable to: | | | | | |
| Shareholders of the Company | | \$ 317,637 | \$ 968,133 | \$ 409,781 | \$ 1,263,510 |
| Non-controlling interest | 19 | 164,821 | 332,840 | 263,068 | 284,880 |
| Comprehensive income for the period | | \$ 482,458 | \$ 1,300,973 | \$ 672,849 | \$ 1,548,390 |
| Earnings per share | | | | | |
| Basic earnings per share | | \$ 0.01 | \$ 0.02 | \$ 0.01 | \$ 0.03 |
| Diluted earnings per share | | \$ 0.01 | \$ 0.02 | \$ 0.01 | \$ 0.03 |
| Weighted average number of common shares used to calculate basic earnings per share | | | | | |
| | | 47,364,983 | 47,364,983 | 47,364,983 | 47,364,983 |
| Weighted average number of common shares used to calculate diluted earnings per share | | | | | |
| | | 47,364,983 | 47,364,983 | 47,364,983 | 47,364,983 |

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

CHINA EDUCATION RESOURCES INC.
Condensed Interim Consolidated Statements of Changes in Equity
For the six months ended June 30, 2019 and the year ended December 31, 2018
(Unaudited)

| (Expressed in U.S. Dollars) | Attributable to equity holders of the Company | | | | | | Non- Controlling Interest | Total Equity (Deficiency) |
|---|---|------------------|------------------------|---|-----------------|--------------|---------------------------------|---------------------------------|
| | Number of Shares | Share Capital | Contributed Surplus | Accumulative Other Comprehensive Income Account | Deficit | Total | | |
| 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 six months ended June 30, 2018 | - | - | - | - | 1,245,948 | 1,245,948 | 313,424 | 1,559,372 |
| Foreign currency translation differences | - | - | - | 17,562 | - | 17,562 | (28,544) | (10,982) |
| Stock-based compensation | - | - | 469 | - | - | 469 | - | 469 |
| Balance June 30, 2018 | 47,364,983 | 29,455,512 | 2,715,387 | 875,885 | (32,146,236) | 900,548 | 1,098,376 | 1,998,924 |
| Net loss for the six months ended December 31, 2018 | - | - | - | - | (1,397,646) | (1,397,646) | (372,093) | (1,769,739) |
| Foreign currency translation differences | - | - | - | 53,569 | - | 53,569 | (21,568) | 32,001 |
| Stock-based compensation | - | - | 412 | - | - | 412 | - | 412 |
| Balance December 31, 2018 | 47,364,983 | 29,455,512 | 2,715,799 | 929,454 | (33,543,882) | (443,117) | 704,715 | 261,598 |
| Net income for the six months ended June 30, 2019 | - | - | - | - | 509,717 | 509,717 | 264,752 | 774,469 |
| Foreign currency translation differences | - | - | - | (99,936) | - | (99,936) | (1,684) | (101,620) |
| Stock-based compensation | - | - | 193 | - | - | 193 | - | 193 |
| Balance June 30, 2019 | 47,364,983 | \$ 29,455,512 | \$ 2,715,992 | \$ 829,518 | \$ (33,034,165) | \$ (33,143) | \$ 967,783 | \$ 934,640 |

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

CHINA EDUCATION RESOURCES INC.
Condensed Interim Consolidated Statements of Cash Flows
For the three months and six months ended June 30, 2019 and 2018
(Unaudited)

(Expressed in U.S. Dollars)

| | Three months ended June 30, | | Six months ended June 30, | |
|--|-----------------------------|---------------------|---------------------------|---------------------|
| | 2019 | 2018 | 2019 | 2018 |
| Cash flows from operating activities | | | | |
| Income for the period | \$ 611,191 | \$ 1,478,704 | \$ 774,469 | \$ 1,559,372 |
| Adjustments for: | | | | |
| Depreciation | 7,241 | 9,738 | 15,598 | 19,360 |
| Interest accrued | 20,074 | 21,271 | 30,858 | 38,707 |
| Share-based payment | 97 | 233 | 193 | 469 |
| Changes in accounts and other receivable | (2,713,847) | (3,583,583) | (4,017,712) | (3,844,997) |
| Changes in prepaid expenses and deposits | 1,397 | (701,521) | (217,231) | (942,312) |
| Changes in trade and other payables | 1,522,721 | 1,919,772 | 408,793 | 1,064,308 |
| Changes in taxes payable | 2,033 | (82,312) | (29,141) | (98,253) |
| Changes in deferred revenue | 146 | (69,508) | (26,584) | (173,334) |
| Net cash used in operating activities | (548,947) | (1,007,206) | (3,060,757) | (2,376,680) |
| Cash flows from investing activities | | | | |
| Acquisition to Equipment | - | (1,450) | (114) | (7,529) |
| Short-term investment | - | 156,839 | - | (160,172) |
| Net cash provided by (used in) investing activities | - | 155,389 | (114) | (167,701) |
| Cash flows from financing activities | | | | |
| Bank loan | 221,100 | (157,010) | 221,100 | (157,010) |
| Loan (paid to) received from third parties | 293,180 | (159) | 589,600 | 797,819 |
| Advance from related parties | 50,538 | 70,674 | 98,753 | 90,917 |
| Net cash provided by (used to) financing activities | 564,818 | (86,495) | 909,453 | 731,726 |
| Net increase (decrease) in cash | 15,871 | (938,312) | (2,151,418) | (1,812,655) |
| Cash, beginning of the period | 1,290,081 | 2,075,848 | 3,382,267 | 2,864,633 |
| Effect of exchange rate fluctuations on cash held | (40,263) | (110,365) | 34,840 | (24,807) |
| Cash, end of the period | \$ 1,265,689 | \$ 1,027,171 | \$ 1,265,689 | \$ 1,027,171 |
| Supplementary disclosure of cash flow information: | | | | |
| Interest paid | \$ - | \$ (6,797) | \$ - | \$ (13,392) |
| Taxes paid | \$ (43,268) | \$ (71,404) | \$ (94,260) | \$ (91,317) |

(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 June 30, 2019
(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 June 30, 2019 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

For the period ended June 30, 2019, the Group had an operating profit of \$774,469 (June 30, 2018: \$1,559,372), and cash flow used in operating activities of \$3,060,757 (June 30, 2018: \$2,376,680). In addition, as at June 30, 2019, the Group had an accumulated deficit of \$33,034,165 since inception. The Group’s ability to continue as a going concern is dependent upon, among other things, the continuing growth of the Group’s revenue to sustain profitability and attain positive cashflow from operations by the Group or its ability to obtain necessary financing. The outcome of these matters cannot be predicted at this time.

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, 2018.

The policies applied in these condensed interim consolidated financial statements are based on IFRS issued as of June 30, 2019. These financial statements were authorized to issue by the audit committee and Board of Directors of the Company on August 27, 2019. Any subsequent changes to IFRS that are given effect in the Company’s annual financial statements for the year ending December 31, 2019 could result in restatement of these condensed interim consolidated financial statements.

China Education Resources Inc.
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in U.S. Dollars)
Period Ended June 30, 2019
(Unaudited)

3. Basis of Preparation - Continued

(b) Basis of preparation

These condensed interim consolidated financial statements are presented in U.S. dollars, which is the Group's reporting currency. The functional currency of the Company and its subsidiary in Canada is Canadian dollars ("CAD") 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 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 | |
|--|--------------------------|--------------------|-------------------|
| | | June 30, 2019 | December 31, 2018 |
| 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 condensed interim consolidated financial statements.

China Education Resources Inc.
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in U.S. Dollars)
Period Ended June 30, 2019
(Unaudited)

3. Basis of Preparation - Continued

(c) Use of estimates and judgments

The preparation of the condensed interim consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions about future events 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 based on historical experience and other factors that are considered to be relevant. 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 estimates and judgements

(i) Expected credit loss

Trade and other receivables are assessed for impairment at each reporting date by applying the “expected credit loss” impairment model under IFRS 9 – *Financial Instruments*. Expected credit loss represents management’s best estimate and assumptions based on actual credit loss experience and informed credit assessment, and also taking into consideration of forward-looking information. If actual credit losses differ from estimates, future earnings would be affected. As at June 30, 2019, impairment allowance is \$131,067 (December 31, 2018 - \$130,836) 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.

China Education Resources Inc.
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in U.S. Dollars)
Period Ended June 30, 2019
(Unaudited)

3. Basis of Preparation - Continued

(c) Use of estimates and judgments- Continued

(iii) 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 June 30, 2019 and 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, 2018. 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, 2018.

5. New standards and interpretations adopted during the period

IFRS 16 Leases ("IFRS 16")

Effective January 1, 2019, the Corporation adopted IFRS 16, which replaces IAS 17, Leases (IAS 17) and related interpretations. The standard prescribes new guidance for identifying a lease as well as the recognition, measurement, presentation and disclosure of leases. IFRS 16 requires a lessee to recognize a right-of-use asset representing its right to use the leased asset and a corresponding lease liability representing its obligation to make lease payments for all leases. The distinction between operating and financing leases no longer applies, however an optional exemption exists for short-term and low-value leases.

China Education Resources Inc.
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in U.S. Dollars)
Period Ended June 30, 2019
(Unaudited)

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

IFRS 16 Leases (“IFRS 16”) - Continued

Accounting policy

At inception of a contract, the Group assesses whether a contract is or contains a lease. The Company and its subsidiaries recognize a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentive received. The right-of-use asset is depreciated to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term using the straight-line method and is included within owner-occupied properties and capital assets. Depreciation expense on right-of-use assets is included within general and administrative expenses. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group’s incremental borrowing rate. Generally, the incremental borrowing rate is used. The lease liability is measured at amortized cost using the effective interest method and is included within other liabilities. Interest expense on lease liabilities is included within finance costs.

The Group does not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are recognized as an expense on a straight-line basis over the term within general and administrative expenses.

Impact of transition to IFRS 16

The Group has elected to adopt IFRS 16 using a modified retrospective approach and accordingly the information presented for 2018 remains as previously reported under IAS 17 and related interpretations.

Adoption of the new standard did not have an impact on the financial statements as the Group currently only has short-term lease agreements on office rental in China with lease terms less than 12 months.

Future Accounting Changes

The Group continuously monitors the potential changes proposed by the International Accounting Standards Board (“IASB”) and analyze the effect that changes in the standards may have on the consolidated financial statements when they become effective. There have been no significant changes to future accounting policies that could impact the Group from what was disclosed in the December 31, 2018 consolidated annual financial statements.

China Education Resources Inc.
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in U.S. Dollars)
Period Ended June 30, 2019
(Unaudited)

6. Accounts and Other Receivables

| | June 30, 2019 | December 31, 2018 |
|-------------------|---------------------|----------------------|
| Trade receivables | \$ 7,990,107 | \$ 3,978,356 |
| Other receivables | 130,947 | 168,491 |
| | <u>\$ 8,121,054</u> | <u>\$ 4,146,847</u> |

As at June 30, 2019, the Group's aging analysis of trade receivables is as follows:

| | Trade receivables - days past due | | | | | Total |
|--|-----------------------------------|--------------|-----------------|------------------|---------------|-----------|
| | Current | < 30 days | 30 - 90 days | 91 - 120 days | > 120 days | |
| Expected credit loss rate | 1% | 0% | 0% | 0% | 8% | |
| Estimated total gross carrying amount at default | 7,124,756 | 584,376.45 | - | - | 412,042 | 8,121,174 |
| Expected credit loss | (97,594) | - | - | - | (33,473) | (131,067) |

7. Equipment

| | Computer equipment | Office equipment | Motor vehicles | Total |
|--|-----------------------|---------------------|-------------------|-------------------|
| Cost | | | | |
| Balance, at January 1, 2018 | \$ 162,550 | \$ 27,406 | \$ 418,110 | \$ 608,066 |
| Additions | 9,658 | 2,455 | - | 12,113 |
| Disposals | - | - | - | - |
| Effect of movements in exchange rates | (9,184) | (1,580) | (22,661) | (33,425) |
| Balance, at December 31, 2018 | <u>\$ 163,024</u> | <u>\$ 28,281</u> | <u>\$ 395,449</u> | <u>\$ 586,754</u> |
| Balance, at January 1, 2019 | \$ 163,024 | \$ 28,281 | \$ 395,449 | \$ 586,754 |
| Additions | - | 114 | - | 114 |
| Disposals | - | - | - | - |
| Effect of movements in exchange rates | 314 | 53 | 762 | 1,129 |
| Balance, at June 30, 2019 | <u>\$ 163,338</u> | <u>\$ 28,448</u> | <u>\$ 396,211</u> | <u>\$ 587,997</u> |

China Education Resources Inc.
Notes to Condensed Interim Consolidated Financial Statements
(Expressed in U.S. Dollars)
Period Ended June 30, 2019
(Unaudited)

7. Equipment - Continued

| | Computer equipment | | Office equipment | | Motor vehicles | | Total |
|--|-------------------------------|-----------|-----------------------------|-----------|---------------------------|-----------|----------------|
| Accumulated depreciation | | | | | | | |
| Balance, at January 1, 2018 | \$ 131,902 | \$ | 19,305 | \$ | 338,418 | \$ | 489,625 |
| Depreciation for the year | 13,813 | | 2,641 | | 21,427 | | 37,881 |
| Disposals | - | | - | | - | | - |
| Effect of movements in exchange rates | (2,606) | | (819) | | (24,150) | | (27,575) |
| Balance, at December 31, 2018 | <u>\$ 143,109</u> | <u>\$</u> | <u>21,127</u> | <u>\$</u> | <u>335,695</u> | <u>\$</u> | <u>499,931</u> |
| Balance, at January 1, 2019 | \$ 143,109 | \$ | 21,127 | \$ | 335,695 | \$ | 499,931 |
| Depreciation for the period | 3,823 | | 1,099 | | 10,676 | | 15,598 |
| Effect of movements in exchange rates | (4,388) | | (1,696) | | 6,875 | | 791 |
| Balance, at June 30, 2019 | <u>\$ 142,544</u> | <u>\$</u> | <u>20,530</u> | <u>\$</u> | <u>353,246</u> | <u>\$</u> | <u>516,320</u> |
| Carrying amounts | | | | | | | |
| At December 31, 2018 | <u>\$ 19,915</u> | <u>\$</u> | <u>7,154</u> | <u>\$</u> | <u>59,754</u> | <u>\$</u> | <u>86,823</u> |
| At June 30, 2019 | <u>\$ 20,794</u> | <u>\$</u> | <u>7,918</u> | <u>\$</u> | <u>42,965</u> | <u>\$</u> | <u>71,677</u> |

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8. Share Capital and Reserves

Issuance of common shares

There was no common share issued during the period ended June 30, 2019 and year ended December 31, 2018.

Common shares and preferred shares

At June 30, 2019, the authorized share capital comprised of unlimited voting common shares without par value and 20,000,000 preferred shares.

The holders of common shares were 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.

47,364,983 common shares are issued and outstanding as at June 30, 2019 and December 31, 2018. No preferred shares have been issued to date.

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.

9. Share Purchase Options and Warrants

(a) Stock options

At June 30, 2019, 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:

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9. Share Purchase Options and Warrants – Continued

(a) Stock options - Continued

| | Number of Shares | Weighted Average Exercise Price Per Share (CAD) |
|--|-----------------------------|--|
| Balance, December 31, 2017 and December 31, 2018 | 3,700,000 | 0.11 |
| Expired during the period | - | - |
| Granted during the period | - | - |
| Balance, June 30, 2019 | 3,700,000 | 0.11 |

Total share-based payment for the period ended June 30, 2019 was \$193 (June 30, 2018: \$469). The amount has been included in general and administrative expenses.

The options outstanding at June 30, 2019 have an exercise price in the range of CAD\$0.10 to CAD\$0.14 (December 31, 2018: in the range of CAD\$0.10 to CAD\$0.14) and a weighted average contractual life of 1.82 years (December 31, 2018: 2.31 years).

There are 3,620,000 options exercisable at June 30, 2019 (December 31, 2018: 3,620,000), which have an exercise price of in the range of CAD\$0.10 to CAD\$0.14 (December 31, 2018: in the range of CAD\$0.10 to CAD\$0.14) and a weighted average contractual life of 1.82 years (December 31, 2018: 2.34 years).

(b) Share purchase warrants

At June 30, 2019 and December 31, 2018, there was no outstanding warrant.

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10. Trade and Other Payables

| | June 30, 2019 | December 31, 2018 |
|---|--------------------------|------------------------------|
| Trade payables | \$ 2,301,567 | \$ 2,222,338 |
| Other payables | 1,562,670 | 1,183,323 |
| Non-trade payables and accrued expenses | 482,976 | 525,595 |
| | <u>\$ 4,347,213</u> | <u>\$ 3,931,256</u> |

11. Taxes Payable

| | June 30, 2019 | December 31, 2018 |
|--------------------|--------------------------|------------------------------|
| Income tax payable | \$ 488,027 | \$ 336,065 |
| Other tax payable | 175,723 | 355,261 |
| | <u>\$ 663,750</u> | <u>\$ 691,326</u> |

12. Loans Payable

Terms and conditions of outstanding loans as at June 30, 2019 and December 31, 2018 from unrelated individuals are summarized as follows:

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12. Loans Payable – Continued

| | June 30, 2019 | | | | | |
|--------------------|----------------------|-------------------------------|----------------------------|---------------------|-------------------------|-------------------------------|
| | Principal | | | Due date | Interest payable | |
| | RMB | U.S. dollars equivalent | Annual interest rate | | RMB | U.S. dollars equivalent |
| | ¥ | \$ | | ¥ | \$ | |
| Unsecured loan (1) | 3,360,000 | 489,350 | 0% | On demand | - | - |
| Unsecured loan (2) | 2,000,000 | 291,280 | 10% | December 20, 2019 | 52,055 | 7,581 |
| Unsecured loan (3) | 2,000,000 | 291,280 | 7% | December 20, 2019 | 33,945 | 4,944 |
| Unsecured loan (4) | 1,000,000 | 145,640 | 7% | December 20, 2019 | 18,603 | 2,709 |
| Unsecured loan (5) | 1,000,000 | 145,640 | 7% | December 20, 2019 | 14,767 | 2,151 |
| | 9,360,000 | 1,363,190 | | | 119,370 | 17,385 |
| Loan payable | | 1,363,190 | | | | |
| Interest payable | | 17,385 | | | | |
| Total | | \$ 1,380,575 | | | | |

| | December 31, 2018 | | | |
|--------------------|--------------------------|-------------------------------|----------------------------|---------------------|
| | Principal | | | Due date |
| | RMB | U.S. dollars equivalent | Annual interest rate | |
| | ¥ | \$ | | |
| Unsecured loan (1) | 3,360,000 | 488,490 | 0% | On demand |
| Unsecured loan (2) | 2,000,000 | 290,768 | 10% | On demand |
| | 5,360,000 | 779,258 | | |
| Loan payable | | 779,258 | | |
| Interest payable | | - | | |
| Total | | \$ 779,258 | | |

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12. Loans Payable – Continued

- (1) The loan matured on June 24, 2018 and became due on demand. As at June 30, 2019, there was no interest accrued in relation to this loan. The borrowing costs of RMB 75,000 (\$11,341) has been fully amortized during the year ended December 31, 2018.
- (2) In January 2018 and February 2018, the Group, through its subsidiary ZYCY, borrowed loans totaling RMB 4,000,000 (\$581,536) from third parties. The loans bear an annual interest rate of 10%. In December 2018, the Group repaid loans of RMB 2,000,000 (\$290,768). As at June 30, 2019, there was interest accrued of \$7,581 in relation to this loan.
- (3) The loan will mature on December 20, 2019 and as at June 30, 2019, there was interest accrued of \$4,944 in relation to this loan.
- (4) The loan will mature on December 20, 2019 and as at June 30, 2019, there was interest accrued of \$2,709 in relation to this loan.
- (5) The loan will mature on December 20, 2019 and as at June 30, 2019, there was interest accrued of \$2,151 in relation to this loan

13. Bank Loan

In June 2019, the Company, through its subsidiary TTTC, arranged a bank loan of RMB1,500,000 (\$218,460). The bank loan bears an annual interest rate of 6.525% and will be repayable by two equal instalments, i.e. RMB750,000 (\$109,230) each time, on April 21, 2020 and June 24, 2020. Personal guarantee by one of the directors of TTTC has been provided to the bank.

As of June 30, 2019, the outstanding loan amount was RMB1,500,000 (\$218,460), there was interest payable balance of RMB1,903 (\$277) in relation to this bank loan.

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14. General and Administrative Expenses

The breakdown of Group's general and administrative expenses for the periods ended June 30, 2019 and 2018 was as follows:

| | Three months ended | | Six months ended | |
|--|---------------------------|-------------------|-------------------------|-------------------|
| | June 30, | | June 30, | |
| | 2019 | 2018 | 2019 | 2018 |
| Accounting and audit | \$ 47,317 | \$ 52,636 | \$ 83,814 | \$ 92,171 |
| Administrative and office | 4,229 | - | 6,575 | 16,023 |
| Consulting | 34,085 | 39,568 | 68,385 | 75,624 |
| Filing and listing | 6,271 | 6,022 | 10,264 | 9,599 |
| Investor relations | 545 | 689 | 3,829 | 6,952 |
| Legal and professional | 190 | 1,542 | 3,501 | 8,758 |
| Meals and entertainment | 3,609 | 1,961 | 9,380 | 9,238 |
| Miscellaneous | - | 5,552 | - | 15,956 |
| Registrar & transfer agent fees | 443 | 479 | 1,039 | 1,385 |
| Rent | 43,745 | 46,196 | 88,155 | 92,385 |
| Salaries, wages, commission & benefits | 162,161 | 130,595 | 296,530 | 311,973 |
| Stock based compensation | 97 | 233 | 193 | 469 |
| Technology development | 55,643 | 61,613 | 105,062 | 144,561 |
| Travel | 8,747 | 10,391 | 15,835 | 33,742 |
| | <u>\$ 367,082</u> | <u>\$ 357,477</u> | <u>\$ 692,562</u> | <u>\$ 818,836</u> |

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15. Selling Commission, Marketing and Copyrights

The breakdown of Group's selling commission, marketing and copyrights for the periods ended June 30, 2019 and 2018 was as follows:

| | Three months ended | | Six months ended | |
|-------------------------|---------------------|-------------------|---------------------|---------------------|
| | June 30, | | June 30, | |
| | 2019 | 2018 | 2019 | 2018 |
| Commission expense | 34,491 | 30,222 | 99,293 | 139,371 |
| Copyright | 19,926 | 199,299 | 24,373 | 208,183 |
| Meals and entertainment | 10,196 | 10,600 | 21,581 | 20,670 |
| Office expenses | 1,172 | 7,932 | 6,296 | 41,174 |
| Payroll | 27,729 | 38,710 | 59,204 | 98,566 |
| Printing cost | 215,016 | 165 | 281,630 | 312,028 |
| Production fee | 680 | 11,521 | 21,224 | 12,818 |
| Promotion fee | 230,434 | 271,085 | 324,138 | 480,352 |
| Shipping | 583 | 967 | 1,366 | 50,634 |
| Training | 458,468 | - | 523,792 | - |
| Travel | 160,192 | 299,649 | 434,680 | 481,471 |
| | <u>\$ 1,158,887</u> | <u>\$ 870,150</u> | <u>\$ 1,797,577</u> | <u>\$ 1,845,267</u> |

16. 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, account and other receivables, trade and other payables, loans payable, bank loan, loan payable – related parties 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 Group limits its exposure to credit risk by holding its cash in deposits with high credit quality Chinese and Canadian financial institutions.

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16. Financial Risk Management – Continued

(a) Credit risk - Continued

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>June 30,</u> | <u>December 31,</u> |
| | <u>2019</u> | <u>2018</u> |
| Accounts and other receivables (excluding GST/VAT) | \$ 8,118,876 | \$ 4,145,510 |
| Cash and cash equivalent | 1,265,689 | 3,382,267 |
| | <u>\$ 9,384,565</u> | <u>\$ 7,527,777</u> |

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

| | <u>Carrying amount</u> | |
|-------|------------------------|---------------------|
| | <u>June 30,</u> | <u>December 31,</u> |
| | <u>2019</u> | <u>2018</u> |
| China | <u>\$ 7,990,107</u> | <u>\$ 3,978,356</u> |

100% of the Group's revenue for the periods ended June 30, 2019 and 2018 was derived from customers located in China. Two (December 31, 2018: three) customers represent in excess of 10% of accounts receivable at June 30, 2019. Two (2018: two) customers represent in excess of 10% of total revenue for the period ended June 30, 2019. The Group's most significant customers accounted for \$2,732,494 of receivables carrying amount at June 30, 2019 (December 31, 2018: \$1,738,502).

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

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16. Financial Risk Management – Continued

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. At June 30, 2019, the Group had a net working capital of \$862,963 (December 31, 2018: \$174,775). 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, 2019, 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.

(d) Fair values

The fair values of the financial assets and liabilities approximate their carrying value due to their short-term nature. The Group has not offset financial assets with financial liabilities.

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16. Financial Risk Management – Continued

(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.

There were no changes in the Group's approach to capital management during the period ended June 30, 2019 and year ended December 31, 2018. Neither the Group nor its subsidiaries are subject to externally imposed capital requirements.

17. 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, and majority of the equipment was located in China.

18. 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.

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18. Related Parties Transactions - Continued

Key management personnel and director transactions

Directors of the Group control approximately 13.7% percent of the voting shares of the Group as at June 30, 2019 and December 31, 2018.

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.

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

| Director/Officer | Transaction | Three months ended | | Six months ended | |
|------------------------------|-----------------------|--------------------|------------------|-------------------|-------------------|
| | | June 30, | | June 30, | |
| | | 2019 | 2018 | 2019 | 2018 |
| C F Zhou (director and CEO) | Consulting fees (i) | \$ 34,192 | \$ 35,678 | \$ 68,385 | \$ 71,356 |
| C F Zhou (director and CEO) | Interest expense (ii) | 4,563 | 4,761 | 9,075 | 9,469 |
| Danny Hon (director and CFO) | Accounting fees (iii) | 19,496 | 21,908 | 34,492 | 37,556 |
| Danny Hon (director and CFO) | Interest expense (iv) | 1,965 | 2,050 | 3,907 | 4,077 |
| | | <u>\$ 60,215</u> | <u>\$ 64,397</u> | <u>\$ 115,860</u> | <u>\$ 122,458</u> |

| Director/Officer | Balance | June 30, 2019 | December 31, 2018 |
|------------------------------|-------------------------------|---------------------|----------------------|
| C F Zhou (director and CEO) | Consulting fees payable (i) | \$ 1,354,865 | \$ 1,232,893 |
| C F Zhou (director and CEO) | Loan payable (ii) | 124,322 | 119,264 |
| C F Zhou (director and CEO) | Loan interest payable (ii) | 121,160 | 107,359 |
| Danny Hon (director and CFO) | Accounting fees payable (iii) | 575,943 | 522,823 |
| Danny Hon (director and CFO) | Loan payable (iv) | 53,528 | 51,351 |
| Danny Hon (director and CFO) | Loan interest payable (iv) | 62,738 | 56,366 |
| | | <u>\$ 2,292,556</u> | <u>\$ 2,090,056</u> |

- (i) The consulting fees owing to C F Zhou as at June 30, 2019 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 June 30, 2019, there was an interest payable balance of \$121,160 (December 31, 2018: \$107,359) owed to C F Zhou.
- (iii) The Group 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 June 30, 2019 is unsecured, due on demand and bears no interest.

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18. Related Parties Transactions - Continued

(iv) The short-term loans were unsecured and due on demand with an annual interest rate of 15%. As at June 30, 2019, there was an interest payable balance of \$62,738 (December 31, 2018: \$56,366) owed to Danny Hon.

19. 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 | |
|------------------------------|---|--------------------------|--|--------------------------|
| | | | June 30, 2019 | December 31, 2018 |
| Zhong Yu Cheng Yuan ("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 months ended | | Six months ended | |
|---|---------------------------|--------------|-------------------------|--------------|
| | June 30, 2019 | 2018 | June 30, 2019 | 2018 |
| Revenue | \$ 3,125,595 | \$ 4,036,316 | \$ 4,494,330 | \$ 5,743,018 |
| Net income (loss) | 469,273 | 984,795 | 661,880 | 783,560 |
| Net income (loss) attributable to NCI | 187,709 | 393,918 | 264,752 | 313,424 |
| Other comprehensive income (loss) | (57,220) | (152,698) | (4,211) | (71,361) |
| Total comprehensive income (loss) | 412,053 | 832,097 | 657,669 | 712,199 |
| Total comprehensive income (loss) attributable to NCI | \$ 164,821 | \$ 332,839 | \$ 263,068 | \$ 284,880 |

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19. Non-controlling Interests Continued

| Amount in USD | June 30, 2019 | December 31, 2018 |
|----------------------|--------------------------|------------------------------|
| Current assets | \$ 6,484,377 | \$ 5,063,613 |
| Non-current assets | 21,561 | 28,061 |
| Current liabilities | (3,605,709) | (2,849,113) |
| Net assets | \$ 2,900,229 | \$ 2,242,561 |

| Amount in USD | Three months ended June 30, | | Six months ended June 30, | |
|--|--|-----------------------|--------------------------------------|-----------------------|
| | 2019 | 2018 | 2019 | 2018 |
| Cash flow used in operating activities | \$ (476,082) | \$ (1,438,129) | \$ (2,204,172) | \$ (1,889,032) |
| Cash flow used in investing activities | - | (1,458) | - | (1,875) |
| Cash flow provided by financing activities | 293,180 | 14,391 | 589,600 | 811,204 |
| Net increase (decrease) in cash and cash equivalent | \$ (182,902) | \$ (1,425,196) | \$ (1,614,572) | \$ (1,079,703) |
| Dividend paid to NCI during the period | \$ - | \$ - | \$ - | \$ - |