

LINGO MEDIA CORPORATION
Consolidated Financial Statements

For the years ended December 31, 2014
and December 31, 2013

To the Shareholders of Lingo Media Corporation

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards and ensuring that all information in the Management Discussion & Analysis is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors and the Audit Committee include some Directors who are neither management nor employees of the Company. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Audit Committee has the responsibility of meeting with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Audit Committee is also responsible for recommending the appointment of the Company's external auditors.

Collins Barrow Toronto LLP, an independent firm of Chartered Accountants, is appointed by the Audit Committee of the Board to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Audit Committee and management to discuss their audit findings.

April 30, 2015

/s/ Michael Kraft
President & CEO

/s/ Khurram Qureshi
Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Lingo Media Corporation

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We have audited the accompanying consolidated financial statements of Lingo Media Corporation and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2014 and December 31, 2013 and the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2014, December 31, 2013 and December 31, 2012 and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Lingo Media Corporation and its subsidiaries as at December 31, 2014 and December 31, 2013, and its financial performance and its cash flows for the years ended December 31, 2014, December 31, 2013, and December 31, 2012 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Collins Barrow Toronto LLP

Chartered Professional Accountants
Licensed Public Accountants
Toronto, Ontario
April 29, 2015

LINGO MEDIA CORPORATION
Consolidated Financial Statements
As at December 31, 2014 and December 31, 2013

Contents

Consolidated Financial Statements	Page
Consolidated Balance Sheets	4
Consolidated Statements of Comprehensive Income	5
Consolidated Statements of Changes in Equity	6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8 – 26

LINGO MEDIA CORPORATION

Consolidated Balance Sheets

(Expressed in Canadian Dollars, unless otherwise stated)

As at December 31, 2014 and December 31, 2013

	Notes	December 31, 2014	December 31, 2013
ASSETS			
Current Assets			
Cash		\$ 477,001	\$ 78,091
Accounts and grants receivable	6	849,344	1,003,440
Prepaid and other receivables		85,071	84,620
		1,411,416	1,166,151
Non-Current Assets			
Property and equipment	7	24,806	31,926
Intangibles	8	847,598	876,895
Goodwill		139,618	139,618
TOTAL ASSETS		\$ 2,423,438	\$ 2,214,590
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable		150,634	282,315
Accrued liabilities		690,015	601,843
Loans payable	9	838,833	819,545
		1,679,482	1,703,703
Equity			
Share capital	10	18,162,347	18,102,347
Share-based payment reserve	11	2,578,380	2,512,717
Warrants	12	1,393,202	1,132,685
Accumulated other comprehensive income		(204,852)	(168,245)
Deficit		(21,185,121)	(21,068,617)
TOTAL EQUITY		743,956	510,887
TOTAL LIABILITIES AND EQUITY		\$ 2,423,438	\$ 2,214,590
Commitments and contingency	19		

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

These consolidated financial statements are authorized for issue by the Board of Directors on April 30, 2015.

/s/ Michael Kraft

Director

/s/ Martin Bernholtz

Director

LINGO MEDIA CORPORATION

Consolidated Statements of Comprehensive Income
For the years ended December 31, 2014, 2013 and 2012
(Expressed in Canadian Dollars, unless otherwise stated)

	Notes	2014	2013	2012
Revenue		\$ 2,512,464	\$ 2,008,066	\$ 2,016,261
Expenses				
Selling, general and administrative		950,229	941,462	2,121,237
Amortization – intangibles	8	582,857	431,049	365,752
Direct costs		382,593	195,324	273,055
Share-based payments	11	65,663	61,926	243,195
Depreciation – property and equipment	7	7,386	7,624	9,838
Total Expenses		1,988,728	1,637,385	3,013,077
Profit / (Loss) from Operations		523,736	370,681	(996,816)
Net Finance Charges				
Interest expense		217,040	240,516	168,769
Foreign exchange gain		(106,437)	(134,444)	(25,046)
Profit / (Loss) Before Income Tax		413,132	264,609	(1,140,539)
Income Tax Expense	13	269,119	241,666	221,987
Net Profit / (Loss) for the Year		\$ 144,013	\$ 22,943	\$ (1,362,526)
Other Comprehensive Income				
Items subsequently transferred to net profit (loss)				
Exchange differences on translating foreign operations loss		(36,607)	(79,274)	(2,211)
Total Comprehensive Income / (Loss), Net of Tax		\$ 107,406	\$ (56,331)	\$ (1,364,737)
Earnings / (Loss) per Share				
Basic and Diluted		\$ 0.01	\$ (0.00)	\$ (0.07)
Weighted Average Number of Common Shares Outstanding				
Basic and Diluted		21,986,300	21,174,026	20,652,415

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

LINGO MEDIA CORPORATION

Consolidated Statements of Changes in Equity
For the years ended December 31, 2014, 2013 and 2012
(Expressed in Canadian Dollars, unless otherwise stated)

	Issued Share Capital		Share-Based Payment Reserve	Warrants	Accumulated Other Comprehensive Income	Deficit	Total Equity
	Number of shares	Amount					
Balance as at January 1, 2012	20,543,177	\$ 17,925,347	\$ 2,130,735	\$ 1,046,365	\$ (86,760)	\$ (19,565,853)	\$ 1,449,834
Issued shares – against loan payable	356,000	89,000	-	-	-	-	89,000
Loss for the year	-	-	-	-	-	(1,362,526)	(1,362,526)
Warrants expired	-	-	76,861	(76,861)	-	-	-
Warrants extension	-	-	-	163,181	-	(163,181)	-
Share-based payments charged to operations	-	-	243,195	-	-	-	243,195
Other comprehensive loss	-	-	-	-	(2,211)	-	(2,211)
Balance as at December 31, 2012	20,899,177	18,014,347	2,450,791	1,132,685	(88,971)	(21,091,560)	417,292
Profit for the year	-	-	-	-	-	22,943	22,943
Other comprehensive loss	-	-	-	-	(79,274)	-	(79,274)
Issued share – as financing cost against loan payable	880,000	88,000	-	-	-	-	88,000
Share-based payments charged to operations	-	-	61,926	-	-	-	61,926
Balance as at December 31, 2013	21,779,177	18,102,347	2,512,717	1,132,685	(168,245)	(21,068,617)	510,887
Profit for the year	-	-	-	-	-	144,013	144,013
Other comprehensive loss	-	-	-	-	(36,607)	-	(36,607)
Warrants extension (Note 10(b))	-	-	-	260,517	-	(260,517)	-
Issued shares – as financing cost against loans payable	600,000	60,000	-	-	-	-	-
Share-based payments charged to operations	-	-	65,663	-	-	-	65,663
Balance as at December 31, 2014	22,379,177	\$ 18,162,347	\$ 2,578,380	\$ 1,393,202	\$ (204,852)	\$ (21,185,121)	\$ 743,956

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

LINGO MEDIA CORPORATION

Consolidated Statements of Cash Flows

For the years ended December 31, 2014, 2013 and 2012

(Expressed in Canadian Dollars, unless otherwise stated)

	2014	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Profit (Loss) for the Year	\$ 144,013	\$ 22,943	\$ (1,362,526)
Adjustments to Net Profit for Non-Cash Items:			
Amortization – intangibles	582,857	431,049	365,752
Share-based payments	65,663	61,926	243,195
Unrealized foreign exchange gain	(44,035)	(80,468)	(1,331)
Interest accretion	79,288	88,931	27,614
Depreciation - property & equipment	7,386	7,624	9,838
Loss on disposition of property and equipment	7,773	-	-
Operating Profit before Working Capital Changes	842,945	532,005	(717,458)
Working Capital Adjustments:			
Decrease / (Increase) in accounts and grants receivable	154,096	443,522	(271,632)
(Increase) / Decrease in prepaid and other receivables	(451)	35,611	(16,613)
Increase / (Decrease) in accounts payable	(131,681)	(295,340)	204,133
Increase in accrued liabilities	88,172	129,756	136,266
Cash Generated from Operations	953,081	845,554	(665,304)
CASH FLOWS FROM INVESTING ACTIVITIES			
Expenditures on Software & Web Development Cost	(544,635)	(431,711)	(143,215)
Purchase of property and equipment	(9,536)	-	-
Net Cash Flows (Used) in Investing Activities	(554,171)	(431,711)	(143,215)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans	-	240,000	365,000
Repayment of loan payable	-	(615,000)	-
Net Cash Flows (Used in) / Generated by Financing Activities	-	(375,000)	365,000
NET INCREASE (DECREASE) IN CASH	398,910	38,843	(443,519)
Cash at the Beginning of the Year	78,091	39,248	482,767
Cash at the End of the Year	\$ 477,001	\$ 78,091	\$ 39,248

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

LINGO MEDIA CORPORATION

Notes to Consolidated Financial Statements

December 31, 2014, 2013 and 2012

(Expressed in Canadian Dollars, unless otherwise stated)

1. CORPORATE INFORMATION

Lingo Media Corporation ("Lingo Media" or the "Company") is a publicly listed company incorporated in Canada with limited liability under the legislation of the Province of Ontario and its shares are listed on the TSX Venture Exchange and inter-listed on the OTCQB Marketplace. The consolidated financial statements of the Company as at and for the year ended December 31, 2014 comprise the Company and its wholly owned subsidiaries.

Lingo Media is an ESL EdTech industry acquisition company whose goal is to "Change the way the world learns English" by combining education with technology. The company is focused on online and print-based technologies and solutions through its four distinct business units: Lingo Learning Inc. ("Lingo Learning"), ELL Technologies Ltd. ("ELL Technologies"); Speak2Me Inc. ("Speak2Me") and Parlo Corporation ("Parlo"). Lingo Learning is a print-based publisher of English school programs in China. ELL Technologies is a globally-established English language learning multi-media and online training company. Speak2Me is a free-to-consumer advertising-based online English language learning service in China. Parlo is a fee-based online English language learning training and assessment service.

The head office, principal address and registered and records office of the Company is located at 151 Bloor Street West, Suite 703, Toronto, Ontario, Canada, M5S 1S4.

2. BASIS OF PREPARATION

2.1 Statement of compliance and going concern

These consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC").

These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business. The Company has incurred significant losses over the years. During the year ended December 31, 2014, the Company reported a net profit of \$144,013 (2013 – net profit of \$22,943; 2012 – net loss of \$1,362,526), positive cash flows from operations of \$953,081 (2013 - \$845,554; 2012 - negative cash flows from operations of \$665,304). As at December 31, 2014, the Company had a working capital deficiency of \$268,066 (2013-\$537,552). The Company's success depends on the continued profitable commercialization of its online English language learning technology programs. Given the fact that the Company has had an increase in revenue of \$504,398, increase in net profit of \$121,070 and an increase in cash flows of \$398,910, and the Company's current operating and financial plans, management of the Company believes that it will have sufficient access to financial resources to fund the Company's planned operations through fiscal 2015.

2.2 Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis except as provided in note 4. The comparative figures presented in these consolidated financial statements are in accordance with IFRS.

2.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its wholly owned subsidiaries controlled by the Company (the "Group") as at December 31, 2014. Control exists when the Company is exposed to, or has the rights to variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity.

LINGO MEDIA CORPORATION

Notes to Consolidated Financial Statements

December 31, 2014, 2013 and 2012

(Expressed in Canadian Dollars, unless otherwise stated)

2. BASIS OF PREPARATION (Cont'd)

2.3 Basis of consolidation (Cont'd)

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All inter-group balances, transactions, unrealized gains and losses resulting from inter-group transactions and dividends are eliminated in full.

2.4 Functional and presentation currency

The functional currency is the currency of the primary economic environment in which the entity operates and has been determined for each entity within the Group. These consolidated financial statements are presented in Canadian Dollars, which is the Company's functional currency and presentation currency. The functional currency of ELL Technologies is the United States Dollar ("USD") and the functional currency of Speak2Me is Chinese Renminbi ("RMB"). All other subsidiaries' functional currency is Canadian Dollar ("CAD").

The functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21, "The Effects of Changes in Foreign Exchange Rates".

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies, reported amounts of assets, liabilities and contingent liabilities, revenues and expenses at the date of the consolidated financial statements and during the reporting period.

Estimates and assumptions are continuously evaluated and are based on management's historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

- Determination of functional and presentation currency
- Determination of the recoverability of the carrying value of intangible assets and goodwill
- Determination and recognition of long-term revenue contracts
- Recognition of government grant and grant receivable
- Recognition of deferred tax assets
- Valuation of share-based payments
- Recognition of provisions and contingent liabilities
- Assessing whether material uncertainties exist that would cause doubt as to whether the Company could continue as a going concern.

LINGO MEDIA CORPORATION

Notes to Consolidated Financial Statements

December 31, 2014, 2013 and 2012

(Expressed in Canadian Dollars, unless otherwise stated)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Revenue recognition

Revenue from fee-based English language training and assessment services and licenses are recognized on a straight line basis over the term of the agreement and when collectability is reasonably assured.

When the outcome of a contract cannot be reliably estimated, all contract related costs are expensed and revenues are recognized only to the extent that those costs are recoverable. When the uncertainties that prevented reliable estimation of the outcome of a contract no longer exist, contract revenue and expenses are recognized using the percentage of completion method. During the year ended December 31, 2014, the Company had one long-term contract, for which revenues of \$230,000 were recognized based on the cost recovery method.

Revenue from online advertising and sponsorships in China is recognized at the time of the rendering of services and when collectability is reasonably assured.

Revenue from royalty and licensing sales in China is recognized based on confirmation of finished products produced by the Company's co-publishing partners and when collectability is reasonably assured. Royalty revenue from audiovisual products is recognized based on the confirmation of sales by its co-publishing partners, and when collectability is reasonably assured. Royalty revenues are not subject to right of return or product warranties. Revenue from the sale of published and supplemental products is recognized upon delivery and when the risk of ownership is transferred and collectability is reasonably assured.

4.2 Comprehensive income

Comprehensive income measures net earnings for the period plus other comprehensive income. Other comprehensive income consists of changes in equity from non-owner sources, such as changes to foreign currency translation adjustments of foreign operations during the period. Amounts reported as other comprehensive income are accumulated in a separate component of shareholders' equity as accumulated other comprehensive income.

4.3 Property and equipment

Property and equipment are initially recorded at cost. Amortization is provided using methods outlined below at rates intended to amortize the cost of assets over their estimated useful lives.

<u>Method</u>	<u>Rate</u>
Computer and office equipment	Declining balance 20 %

4.4 Software and web development costs

The Company capitalizes all costs related to the development of its fee-based English Language Learning products and services and free-to-consumer when the feasibility and profitability of the project can be reasonably considered certain. Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalized if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. The expenditure capitalized includes the cost of material, and direct labour. Other development expenditure is recognized in the statement of comprehensive income as an expense as incurred. Capitalized development expenditure is stated at cost less accumulated amortization and impairment losses. The software and web development cost are being amortized on a straight-line basis over the useful life of the asset, which is estimated to be 3 years.

LINGO MEDIA CORPORATION

Notes to Consolidated Financial Statements

December 31, 2014, 2013 and 2012

(Expressed in Canadian Dollars, unless otherwise stated)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

4.5 Content platform

The Company acquired a content platform, which was already commercialized. The content platform costs are being amortized on a straight-line basis over the useful life of the asset which is estimated to be 5 years.

4.6 Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net identifiable assets of an acquired business.

The Company measures goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the venture, less the net recognized amount (fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in profit.

The Company elects on a transaction-by-transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognized amount of the identifiable net assets, at the acquisition date. Transaction costs, other than those associated with the issue of debt or equity securities, that the Company incurs in connection with a business combination are expensed as incurred.

4.7 Government grants

The Company receives government grants based on certain eligibility criteria for book publishing industry development in Canada. These government grants are recorded as a reduction of general and administrative expenses to offset direct costs funded by the grant during the period in which the criteria to receive the grant is met. The Company records a liability for the repayment of the grants and a charge to operations in the period in which conditions arise that will cause the government grants to be repayable.

4.8 Deferred income taxes

Deferred taxation is recognized using the liability method on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

However, the deferred taxation is not recognized if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred taxation is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

LINGO MEDIA CORPORATION

Notes to Consolidated Financial Statements

December 31, 2014, 2013 and 2012

(Expressed in Canadian Dollars, unless otherwise stated)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

4.8 Deferred income taxes (Cont'd)

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to offset current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

4.9 Foreign currency translation

Foreign currency transactions are initially recorded in the functional currency at the transaction date exchange rate. At the balance sheet date, monetary assets and liabilities denominated in a foreign currency are translated into the functional currency at the reporting date exchange rate. Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items at year-end exchange rates are recognized in the income statement. Non-monetary items measured at historical cost are translated using the historical exchange rate. Non-monetary items measured at fair value are translated using the exchange rates at the date when fair value was determined.

Financial statements of subsidiaries, affiliates and joint ventures for which the functional currency is not the Canadian Dollar are translated into the Canadian Dollar as follows: all asset and liability accounts are translated at the balance sheet exchange rate and all earnings and expense accounts and cash flow statement items are translated at average exchange rates for the period. The resulting translation gains and losses are recorded as foreign currency translation adjustments in other comprehensive income and recorded in Accumulated other comprehensive income in equity. On disposal of a foreign operation the cumulative translation differences recognized in equity are reclassified to the statement of comprehensive income and recognized as part of the gain or loss on disposal. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into Canadian Dollars at the balance sheet rate.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in other comprehensive income in Accumulated other comprehensive income.

4.10 Earnings (loss) per share

Earnings (loss) per share is computed by dividing the earnings (loss) for the year by the weighted average number of common shares outstanding during the year, including contingently issuable shares which are included when the conditions necessary for issuance have been met. Diluted earnings per share is calculated in a similar manner, except that the weighted average number of common shares outstanding is increased to include potentially issuable common shares from the assumed exercise of common share purchase options and warrants, if dilutive. During the year ended December 31, 2014 and 2013, all the outstanding stock options, warrants and brokers' warrants were anti-dilutive.

4.11 Share-based compensation plan

The share-based compensation plan allows the Company employees and consultants to acquire shares of the Company. The fair value of share-based payment awards granted is recognized as an employee or consultant expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

LINGO MEDIA CORPORATION

Notes to Consolidated Financial Statements

December 31, 2014, 2013 and 2012

(Expressed in Canadian Dollars, unless otherwise stated)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

4.11 Share-based compensation plan (Cont'd)

Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. The fair value is measured at grant date and each tranche is recognized on a graded vesting basis over the period during which the share purchase options vest. The fair value of the share-based payment awards granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the awards were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of awards, for which the related service and non-market vesting conditions are expected to be met.

For equity-settled share-based payment transactions, the Company measures the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably, in which cases, the Company measures their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted.

4.12 Financial instruments

All financial instruments are recorded initially at fair value. In subsequent periods, all financial instruments are measured based on the classification adopted for the financial instrument: fair value through profit and loss ("FVTPL"); held to maturity; loans and receivables; and available for sale or other liability.

Financial assets: FVTPL assets are subsequently measured at fair value with the change in the fair value recognized in net income during the period.

Loans and receivables are subsequently measured at amortized cost using the effective interest rate method.

Financial liabilities: Other liabilities are subsequently measured at amortized cost using the effective interest rate method. Costs that are directly attributable to a financial instrument's origination, acquisition, issuance or assumption, are included in the fair value adjustment of the financial instrument. These costs are amortized over the life of the financial instrument.

The Company has classified its financial instruments as follows:

<u>Financial Instrument</u>	<u>Classification</u>
Cash	FVTPL
Accounts and grants receivable	Loans and receivables
Accounts payable	Other liabilities
Accrued liabilities	Other liabilities
Loans payable	Other liabilities

The Company's financial instruments measured at fair value on the balance sheet consist of cash, which is measured at level 1 of the fair value hierarchy. There are three levels of the fair value hierarchy as follows:

Level 1: Values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2: Values based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3: Values based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

LINGO MEDIA CORPORATION

Notes to Consolidated Financial Statements

December 31, 2014, 2013 and 2012

(Expressed in Canadian Dollars, unless otherwise stated)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

4.13 Impairment of long-lived assets

The Company's property and equipment and intangibles with finite lives are reviewed for an indication of impairment at each balance sheet date. Goodwill is reviewed for impairment annually or at any time if an indicator of impairment exists. If indication of impairment exists, the asset's recoverable amount is estimated. The recoverable amount is the greater of the asset's fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognized when the carrying amount of an asset, or its cash-generating unit, exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses are recognized in profit and loss for the period.

An impairment loss, other than goodwill impairment, is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

5. RECENT ACCOUNTING PRONOUNCEMENTS

The following pronouncements issued by the IASB and interpretations published by IFRIC will become effective for annual periods beginning on or after January 1, 2015.

Effective for periods beginning on or after January 1, 2016

IAS 1 Presentation of Financial Statements was amended by the IASB in December 2014. The amendments are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures. Earlier application is permitted.

Effective for periods beginning on or after January 1, 2017

IFRS 15 Revenue from Contracts with Customers was issued by the IASB in May 2014. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. Earlier application is permitted. IFRS 15 supersedes the following standards: IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers, and SIC-31 Revenue—Barter Transactions Involving Advertising Services.

LINGO MEDIA CORPORATION

Notes to Consolidated Financial Statements

December 31, 2014, 2013 and 2012

(Expressed in Canadian Dollars, unless otherwise stated)

5. RECENT ACCOUNTING PRONOUNCEMENTS (Cont'd)

Effective for periods beginning on or after January 1, 2018

IFRS 9 Financial Instruments was issued by the IASB in July 2014 and will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. A new hedge accounting model is introduced and represents a substantial overhaul of hedge accounting which will allow entities to better reflect their risk management activities in the financial statements. The most significant improvements apply to those that hedge non-financial risk, and so these improvements are expected to be of particular interest to non-financial institutions. Earlier application is permitted.

The Company has not yet completed its evaluations of the effect of adopting the above standards and the impact it may have on its consolidated financial statements.

6. ACCOUNTS AND GRANTS RECEIVABLE

	December 31, 2014	December 31, 2013
Trade receivable	\$ 831,137	\$ 839,336
Government grants receivable (Note 14)	18,207	164,104
	<u>\$ 849,344</u>	<u>\$ 1,003,440</u>

As at December 31, 2014, the Company had accounts receivable of \$43,209 (2013 - \$13,014) greater than 30 days overdue and not impaired.

7. PROPERTY AND EQUIPMENT

Cost, January 1, 2013	\$	212,329
Additions		-
Effect of foreign exchange		3,270
Cost, December 31, 2013	\$	215,599
Additions		9,536
Disposal		(41,551)
Effect of foreign exchange		(9,905)
Cost, December 31, 2014	\$	173,679
Accumulated depreciation, January 1, 2013	\$	173,973
Charge for the year		7,624
Effect of foreign exchange		2,076
Accumulated depreciation, December 31, 2013	\$	183,673
Charge for the year		7,386
Disposal		(33,778)
Effect of foreign exchange		(8,408)
Accumulated depreciation, December 31, 2014	\$	148,873
Net book value, December 31, 2013	\$	31,926
Net book value, December 31, 2014	\$	24,806

LINGO MEDIA CORPORATION

Notes to Consolidated Financial Statements

December 31, 2014, 2013 and 2012

(Expressed in Canadian Dollars, unless otherwise stated)

8. INTANGIBLES

	Software and Web Development	Content Platform	Total
Cost, January 1, 2013	\$ 6,792,163	\$ 1,477,112	\$ 8,269,275
Additions	431,711	-	431,711
Effect of foreign exchange	1,191	-	1,191
Cost, December 31, 2013	7,225,065	1,477,112	8,702,177
Additions	544,635	-	544,635
Effect of foreign exchange	11,911	-	11,911
Cost, December 31, 2014	\$ 7,781,611	\$ 1,477,112	\$ 9,258,723

	Software and Web Development	Content Platform	Total
Accumulated amortization, January 1, 2013	\$ 6,626,596	\$ 766,446	7,393,042
Charge for the year	135,627	295,422	431,049
Effect of foreign exchange	1,191	-	1,191
Accumulated amortization, December 31, 2013	6,763,414	1,061,868	7,825,282
Charge for the year	287,435	295,422	582,857
Effect of foreign exchange	2,986	-	2,986
Accumulated amortization December 31, 2014	\$ 7,053,835	\$ 1,357,290	\$ 8,411,125
Net book value, December 31, 2013	\$ 461,651	\$ 415,244	\$ 876,895
Net book value, December 31, 2014	\$ 727,776	\$ 119,822	\$ 847,598

The Company began commercial production and sale of its services and products during 2009. In 2014, the Company focused on the redesign and upgrade of its ELL Technologies' suite of products and invested \$544,635. The ELL Technologies' suite of products includes five different products, each designed to suit the needs of different demographic groups. Although the full suite of product is not yet complete, the Company has started the commercial production and sale of three of these products.

9. LOANS PAYABLE

	December 31, 2014	December 31, 2013
Loans payable, interest bearing at 9% per annum with monthly interest payments, secured by a general security agreement and due on September 8, 2015 ⁽ⁱ⁾⁽ⁱⁱ⁾	\$ 880,000	\$ 880,000
Unamortized transaction costs	(41,167)	(60,455)
	\$ 838,833	\$ 819,545

LINGO MEDIA CORPORATION

Notes to Consolidated Financial Statements

December 31, 2014, 2013 and 2012

(Expressed in Canadian Dollars, unless otherwise stated)

9. LOANS PAYABLE (Cont'd)

- (i) On August 27, 2014, the Company extended the term of the loan originally advanced on September 8, 2010, and extended for a further one-year term on September 8, 2011, 2012, 2013 and 2014. As additional consideration for the extension of the loan, the Company issued to the lenders an aggregate of 600,000 (2013 - 880,000) common shares of Lingo Media. The common shares were issued based on 6.8 percent of the value of the loan (2013 – 10 percent), divided by the market value per common share on the date of issuance.
- (ii) Included in loans payable are loans amounting to \$480,000 (2013 – \$480,000) to related parties as disclosed in Note 21.

10. SHARE CAPITAL

a) Authorized

Unlimited number of preference shares with no par value

Unlimited number of common shares with no par value

b) Common shares - Transactions:

- (ii) (i) On March 4, 2011, the Company closed a non-brokered private placement financing of 2,500,000 units (each a "Unit") at \$0.60 per Unit and an over-allotment of 1,158,668 Units for gross proceeds of \$2,195,200 (the "Financing"). Each Unit is comprised of one common share (each a "Common Share") in the capital of the Company and one non-transferable common share purchase warrant (each a "Warrant"). Each Warrant entitles the holder to purchase one Common Share at an exercise price of \$0.75 per share until September 4, 2012. The Warrants are callable, at the option of Lingo Media, after July 5, 2011 in the event its Common Shares trade at or over \$1.20 per share for 10 consecutive trading days.

On August 23, 2012, the expiry date of the Warrants was extended for additional 18 months to March 4, 2014 with all other conditions remaining the same. On February 21, 2014, the expiry date of the warrants was extended for an additional 2 years to March 4, 2016 with all other terms remaining consistent.

- (iii) On May 11, 2011, Lingo Media closed a non-brokered private placement financing of 1,875,000 units at \$0.60 per Unit for gross proceeds of \$1,125,000 (the "Second Financing"). Each Unit is comprised of one common share in the capital of the Company and one non-transferable common share purchase warrant. Each Warrant entitles the holder to purchase one Common Share at an exercise price of \$0.75 per share until November 11, 2012. The Warrants are callable, at the option of Lingo Media, after September 11, 2011 in the event its Common Shares trade at or over \$1.20 per share for 10 consecutive trading days.

On August 23, 2012, the expiry date of the Warrants from the Second Financing was extended for an additional 18 months to May 11, 2014 with all other conditions remaining the same. Additionally, on February 21, 2014, the warrants were extended for an additional 2 years to May 11, 2016 with all other terms remaining consistent.

- (iv) On September 8, 2013, the Company extended the term of the \$880,000 loan to September 8, 2014, originally advanced on September 8, 2010, and previously extended for a further one-year term on September 8, 2011 and 2012. As additional consideration for the extension of the loan, the Company respectively issued to the lenders an aggregate of 880,000 common shares of Lingo Media. The common shares were issued based on 10 per cent of the value of the loan, divided by a market price of \$0.10 per common share. In the absence of a reliable measure of the services received, the services have been measured at the fair value of the common shares issued.

LINGO MEDIA CORPORATION

Notes to Consolidated Financial Statements

December 31, 2014, 2013 and 2012

(Expressed in Canadian Dollars, unless otherwise stated)

10. SHARE CAPITAL (Cont'd)

b) Common shares - Transactions: (Cont'd)

- (v) On August 27, 2014, the Company extended the term of the \$880,000 loan to September 8, 2015, originally advanced on September 8, 2010, and previously extended for a further one-year term on September 8, 2011, 2012 and 2013. As additional consideration for the extension of the loan, the Company issued to the lenders an aggregate of 600,000 common shares of Lingo Media. The common shares were valued at market price of \$0.10 per share. In the absence of a reliable measure of the services received, the services have been measured at the fair value of the common shares issued.

11. SHARE-BASED PAYMENTS

In December 2011, the Company amended its stock option plan (the "2011 Plan"). The 2011 Plan was established to provide an incentive to management (officers), employees, directors and consultants of the Company and its subsidiaries. The maximum number of shares which may be reserved for issuance under the 2011 Plan is limited to 4,108,635 common shares less the number of shares reserved for issuance pursuant to options granted under the 1996 Plan, the 2000 Plan, the 2005 Plan and the 2009 Plan, provided that the Board of Directors of the Company has the right, from time to time, to increase such number subject to the approval of the relevant exchange on which the shares are listed and the approval of the shareholders of the Company.

The maximum number of common shares that may be reserved for issuance to any one person under the 2011 Plan is 5% of the common shares outstanding at the time of the grant (calculated on a non-diluted basis) less the number of shares reserved for issuance to such person under any option to purchase common shares of the Company granted as a compensation or incentive mechanism.

The exercise price of each option cannot be less than the market price of the shares on the day immediately preceding the day of the grant less any permitted discount. The exercise period of the options granted cannot exceed 10 years. Options granted under the 2011 Plan do not have any required vesting provisions. However, the Board of Directors of the Company may, from time to time, amend or revise the terms of the 2011 Plan or may terminate it at any time. The following summarizes the options outstanding:

	Number of Options	Weighted Average Exercise Price
Outstanding as at January 1, 2012	2,035,070	\$0.89
Granted	1,700,000	0.24
Expired	(227,570)	0.72
Forfeited	(437,000)	1.04
Outstanding as at January 1, 2013	3,070,500	\$ 0.52
Granted	25,000	0.20
Forfeited	(105,000)	0.66
Expired	(207,250)	0.86
Outstanding as at January 1, 2014	2,783,250	0.48
Granted	1,590,000	0.14
Forfeited	(5,000)	0.66
Expired	(600,750)	0.37
Outstanding as at December 31, 2014	3,767,500	0.35

LINGO MEDIA CORPORATION

Notes to Consolidated Financial Statements

December 31, 2014, 2013 and 2012

(Expressed in Canadian Dollars, unless otherwise stated)

11. SHARE-BASED PAYMENTS (Cont'd)

Options exercisable as at December 31, 2012	1,934,534	\$0.66
Options exercisable as at December 31, 2013	2,033,004	\$0.55
Options exercisable as at December 31, 2014	2,461,166	\$0.45

The weighted average remaining contractual life for the stock options outstanding as at December 31, 2014 was 2.07 years (2013 – 2.13 years, 2012 – 2.62 years). The range of exercise prices for the stock options outstanding as at December 31, 2014 was \$0.13 - \$1.70 (2013 - \$0.20 - \$1.75, 2012 - \$0.24 - \$2.00). The weighted average grant-date fair value of options granted to management, employees, directors and consultants during 2014 has been estimated at \$0.07 (2013 - \$0.20, 2012 - \$0.24) using the Black-Scholes option-pricing model. The estimated fair value of the options granted is expensed over the options vesting periods.

The vesting periods on the options granted in 2014 are as follows, 435,000 (2013 – nil, 2012 – 550,000) stock options vested immediately upon issuance, 445,000 (2013 - 25,000, 2012 – 750,000) stock options will vest quarterly over 18 months, 410,000 stock options will vest quarterly over 12 months, and 300,000 (2013 – nil, 2012 – 400,000) stock options will vest upon achievements of certain milestones.

The pricing model assumes the weighted average risk free interest rates of 1.21% (2013 – 0.98%, 2012 – 1.37%) weighted average expected dividend yields of nil (2013 – nil, 2012 - nil), the weighted average expected common stock price volatility (based on historical trading) of 79% (2013 – 93.57%, 2012 – 82.64%), a forfeiture rate of zero, a weighted average stock price of \$0.14 (2013 - \$0.19, 2012 – \$0.22), a weighted average exercise price of \$0.14 (2013 - \$0.20, 2012 - \$0.24), and a weighted average expected life of 3 years (2013 – 2 years, 2012 – 4.73 years), which were estimated based on past experience with options and option contract specifics.

12. WARRANTS

The following summarizes the warrants outstanding:

	Weighted Average Remaining Contractual Life (Years)	Series	Number of Warrants	Weighted Average Exercise Price
Extended	1.17	A	3,658,668	\$ 0.75
Extended	1.36	B	1,875,000	0.75
December 31, 2012			5,533,668	0.75
December 31, 2013			5,533,668	0.75
December 31, 2014			5,533,668	\$ 0.75

The 3,658,668 warrants issued on March 4, 2011 and the 1,875,000 warrants issued on May 11, 2011 had an expiry date of March 4, 2014 and May 11, 2014 respectively. On February 14, 2014, the warrants were extended to March 4, 2016 and May 11, 2016 respectively.

LINGO MEDIA CORPORATION

Notes to Consolidated Financial Statements

December 31, 2014, 2013 and 2012

(Expressed in Canadian Dollars, unless otherwise stated)

13. INCOME TAXES

The provision for income taxes reflects an effective income tax rate, which differs from the Canadian corporate income tax rate as follows:

	2014	2013	2012
Combined basic Canadian federal and provincial income tax rate	26.50%	26.50%	26.50%
Effective income tax recovery on loss from continuing operations before income taxes	\$ 109,480	\$ 40,438	(302,243)
Increase (decrease) resulting from change in the deferred tax assets not recognized	99,353	283,976	2,244,155
Withholding tax on sales to China	260,630	233,799	208,040
Non-deductible items	23,013	19,416	66,027
Change in prior year estimates	(223,357)	(335,963)	(1,993,992)
	\$ 269,119	\$ 241,666	221,987

The tax effect of temporary differences representing deferred tax assets is as follows:

	2014	2013
Deferred tax assets:		
Operating loss carry forwards	\$ 5,524,000	\$ 5,425,000
Share issue costs	9,000	18,000
	\$ 5,533,000	\$ 5,443,000
Deferred tax assets not recognized	(5,274,000)	(5,175,000)
Deferred tax assets recognized	259,000	268,000
Software and web development costs	(262,000)	(269,000)
Property and equipment	3,000	1,000
Net deferred tax assets	\$ -	\$ -

Deferred tax assets and liabilities will be impacted by changes in tax laws and rates. The effects of these changes are not currently determinable. In assessing whether the deferred tax assets are realizable, management considers whether it is probable that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of taxable income during the years in which those temporary differences become deductible.

Management considers projected taxable income, uncertainties related to the industry in which the Company operates and tax planning strategies in making this assessment. The Company has not recognized any benefit for these losses.

LINGO MEDIA CORPORATION

Notes to Consolidated Financial Statements

December 31, 2014, 2013 and 2012

(Expressed in Canadian Dollars, unless otherwise stated)

13. INCOME TAXES (Cont'd)

At December 31, 2014, the Company has non-capital losses available for carry forward for Canadian income tax purposes amounting to \$20,177,006 (2013 - \$20,472,135). These losses expire in the following fiscal years:

2015	674,805
2026	1,189,664
2027	1,067,640
2028	2,162,781
2029	2,991,207
2030	4,395,814
2031	5,184,479
2032	1,663,076
2033	795,911
2034	51,629

\$ 20,177,006

14. GOVERNMENT GRANTS

Included as a reduction of selling, general and administrative expenses are government grants of \$241,465 (2013 - \$271,647, 2012 - \$128,560), relating to the Company's publishing and software projects. At the end of the year, \$18,207 (2013 - \$164,104, 2012 - \$17,736) is included in accounts and grants receivable.

During 2008, the Company was audited by a government agency and was assessed with a repayment amount of \$115,075 related to a publishing grant. In 2010, the Company was reassessed with a reduction to the repayment reassessment to \$100,000 which was recorded in accrued liabilities and this audit finding was appealed by the Company. In 2013, the appeal was approved and the liability was re-assessed and reduced to \$16,263, which was paid and the difference of \$87,737 was recorded as grant revenue during 2013.

One government grant for the print-based English language learning segment is repayable in the event that the segment's annual net income for each of the previous two years exceeds 15% of revenue. During the year, the conditions for the repayment of grants did not arise and no liability was recorded.

One grant, relating to the Company's "Development of Comprehensive, Interactive Phonetic English Learning Solution" project, is repayable semi-annually at a royalty rate of 2.5% per year's gross sales derived from this project until 100% of the grant is repaid. No royalty was paid in 2014, 2013 or 2012 as no sales were generated from this project.

15. FINANCIAL INSTRUMENTS

15.1 Fair values

The carrying value of cash and accounts and grants receivable, approximates its fair value due to the liquidity of these instruments. The carrying value of accounts payables and accrued liabilities and loans payables approximates its fair value due to the requirement to extinguish the liabilities on demand or payable within a year.

15.2 Financial risk management objectives and policies

The financial risk arising from the Company's operations are currency risk, liquidity risk and credit risk. These risks arise from the normal course of operations and all transactions undertaken are to support the Group's ability to continue as a going concern. The risks associated with these financial instruments and the policies on how to mitigate these risks are as follows:

LINGO MEDIA CORPORATION

Notes to Consolidated Financial Statements

December 31, 2014, 2013 and 2012

(Expressed in Canadian Dollars, unless otherwise stated)

15. FINANCIAL INSTRUMENTS (Cont'd)

15.3 Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's operating activities (when revenue or expense is denominated in a different currency from the Company's functional currency) and the Company's net investments in foreign subsidiaries. The Company operates internationally and is exposed to foreign exchange risk as certain expenditures are denominated in non-Canadian Dollar currencies.

A 10% strengthening of the US Dollars against Canadian Dollars would have increased the net equity by \$90,365 (2013 - \$76,850) due to reduction in the value of net liability balance. A 10% of weakening of the US Dollar against Canadian Dollar at December 31, 2014 would have had the equal but opposite effect. The significant financial instruments of the Company, their carrying values and the exposure to other denominated monetary assets and liabilities, as of December 31, 2014 are as follows:

	US Denominated USD	China Denominated RMB	Euro Denominated Euro
Cash	-	18,412	11,091
Accounts receivable	681,916	-	16,691
Accounts payable	45,926	-	-

The carrying values and the exposure to other denominated monetary assets and liabilities as of December 31, 2013 are as follows:

	US Denominated USD	China Denominated RMB
Cash	43,422	8,978
Accounts receivable	788,497	3,935
Accounts payable	68,785	-

15.4 Liquidity Risk

The Company manages its liquidity risk by preparing and monitoring forecasts of cash expenditures to ensure that it will have sufficient liquidity to meet liabilities when due. The Company's accounts payable and accrued liabilities generally have maturities of less than 90 days. At December 31, 2014, the Company had cash of \$477,001 (2013 - \$78,091), accounts and grants receivable of \$849,344 (2013 - \$1,003,440) and prepaid and other receivables of \$85,071 (2013 - \$84,620) to settle current liabilities of \$1,679,482 (2013 - \$1,703,703).

15.5 Credit Risk

Credit risk refers to the risk that one party to a financial instrument will cause a financial loss for the counterparty by failing to discharge an obligation. The Company is primarily exposed to credit risk through accounts receivable. The maximum credit risk exposure is limited to the reported amounts of these financial assets. Credit risk is managed by ongoing review of the amount and aging of accounts receivable balances. As at December 31, 2014, the Company has outstanding receivables of \$849,344 (2013- \$1,003,440). An allowance for doubtful accounts is taken on accounts receivable if the account has not been collected after a predetermined period of time and is offset to other operating expenses. The Company deposits its cash with high credit quality financial institutions, with the majority deposited within Canadian Tier 1 Banks.

LINGO MEDIA CORPORATION

Notes to Consolidated Financial Statements

December 31, 2014, 2013 and 2012

(Expressed in Canadian Dollars, unless otherwise stated)

16. MAJOR CUSTOMER

The Company has sales to a major customer in 2014 and 2013, a government agency of the People's Republic of China. The total percentage of sales to this customer during the year was 65% (2013 – 75%, 2012 – 66%) and the total percentage of accounts receivable at December 31, 2014 was 84% (2013 – 68%, 2012 – 87%).

17. CAPITAL MANAGEMENT

The Company's primary objectives when managing capital are to (a) safeguard the Company's ability to develop, market, distribute and sell English language learning products, and (b) provide a sound capital structure for raising capital at a reasonable cost for the funding of ongoing development of its products and new growth initiatives. The Board of Directors does not establish quantitative capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company includes equity, comprised of issued share capital, warrants, share-based payments reserve and deficit, in the definition of capital. The Company is dependent on cash flow from co-publishing and licensing agreements and external financing to fund its activities. In order to carry out planned development of its products and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There has been no change to the Company's capital management in 2014 or 2013.

18. SEGMENTED INFORMATION

The Company operates two distinct reportable business segments as follows:

Print-based English Language Learning: Lingo Learning is a print-based publisher of English school programs in China.

Online English Language Learning: ELL Technologies is a globally-established English language learning multi-media and online training company. Parlo is a fee-based online English language training and assessment service. Speak2Me is a free-to-customer advertising-based online English learning service in China.

2014	Online English Language Learning	Print-Based English Language Learning	Total
Segmented assets	\$ 1,407,525	\$ 1,015,913	\$ 2,423,438
Segmented liabilities	623,349	1,056,134	1,679,483
Segmented revenue	831,650	1,680,814	2,512,464
Segmented direct costs	286,945	95,649	382,594
Segmented selling, general & administrative	307,361	642,868	950,229
Segmented intangible amortization	582,857	-	582,857
Segmented other expense	3,652	272,853	276,505
Segmented income (loss)	(349,165)	669,444	320,279
Segmented intangible addition	544,635	-	544,635

LINGO MEDIA CORPORATION

Notes to Consolidated Financial Statements

December 31, 2014, 2013 and 2012

(Expressed in Canadian Dollars, unless otherwise stated)

18. SEGMENTED INFORMATION (Cont'd)

2013	Online English Language Learning	Print-Based English Language Learning	Total
Segmented assets	\$ 1,215,023	\$ 999,567	\$ 2,214,590
Segmented liabilities	496,975	1,206,728	1,703,703
Segmented revenue	466,869	1,541,197	2,008,066
Segmented direct costs	153,200	42,124	195,324
Segmented selling, general & administrative	295,893	645,569	941,462
Segmented intangible amortization	431,049	-	431,049
Segmented other expense	6,171	243,119	249,290
Segmented income (loss)	(419,444)	610,385	190,941
Segmented intangible addition	431,711	-	431,711

2012	Online English Language Learning	Print-Based English Language Learning	Total
Segmented assets	\$ 1,269,953	\$ 1,390,695	\$ 2,660,648
Segmented liabilities	814,887	1,428,469	2,243,356
Segmented revenue	680,321	1,335,940	2,016,261
Segmented direct costs	261,341	11,714	273,055
Segmented selling, general & administrative	1,014,346	1,106,890	2,121,236
Segmented intangible amortization	365,752	-	365,752
Segmented other expense	8,415	223,411	231,826
Segmented income (loss)	(969,533)	(6,075)	(975,608)
Segmented intangible addition	143,215	-	143,215

Other Financial Items	2014	2013	2012
Print-Based English Language Learning segment income (loss)	\$ 669,444	\$ 610,385	\$ (6,075)
Online English Language Learning segment income (loss)	(349,165)	(419,444)	(969,533)
Foreign exchange gain	106,437	134,444	25,046
Interest and other financial	(217,040)	(240,516)	(168,769)
Share-based payments	(65,663)	(61,926)	(243,195)
Other comprehensive income	(36,607)	(79,274)	(2,211)
Total Comprehensive Income /(Loss)	\$ 107,406	\$ (56,331)	\$ (1,364,737)

Revenue by Geographic Region

	2014	2013	2012
China	\$ 1,822,660	\$ 1,543,753	\$1,366,415
Other	689,804	464,313	649,846
	\$ 2,512,464	\$ 2,008,066	\$2,016,261

LINGO MEDIA CORPORATION

Notes to Consolidated Financial Statements

December 31, 2014, 2013 and 2012

(Expressed in Canadian Dollars, unless otherwise stated)

18. SEGMENTED INFORMATION (Cont'd)

Identifiable Assets by Geographic Region

	2014	2013	2012
Canada	\$ 2,410,202	\$ 1,919,176	\$2,510,182
China	13,236	295,414	150,466
	\$ 2,423,438	\$ 2,214,590	\$2,660,648

Transactions between operating segments are recorded at the exchange amount and eliminated upon consolidation.

19 COMMITMENTS AND CONTINGENCY

The Company has future minimum lease payments under operating leases for premises and equipment as follows:

2015	\$ 192,804
2016	35,990
2017	-

The rent expense associated with operating lease for premise and equipment is recognized on a straight-line basis.

As a result of the acquisition of ELL Technologies, the Company will owe royalties of 3-9% (Year 2) and 2-8% (Year 3) of ELL Technologies revenues based upon a number of gross revenue targets. Royalty amounts will be due on a quarterly basis. As of December 31, 2014, royalties in the amount of \$117,314 have been expensed.

20. SUPPLEMENTAL CASH FLOW INFORMATION

	2014	2013	2012
Income taxes and other taxes paid	\$ 269,119	\$ 191,579	\$ 147,707
Interest paid	\$ 85,876	\$ 151,585	\$ 93,648

Non-cash transactions:

- (a) In 2014, 600,000 (2013 – 880, 000) shares of the Company, valued at \$60,000 (2013 - \$88,000), were issued to lenders as a bonus for the loan extension.

21. RELATED PARTY BALANCES AND TRANSACTIONS

During the year, the Company had the following transactions with related parties, made in the normal course of operations, and accounted for at an amount of consideration established and agreed to by the Company and related parties.

- (a) Key management compensation was \$361,405 (2013 – \$228,800, 2012 - \$312,000) and is reflected as consulting fees paid to corporations owned by a director and officers of the Company, of which, \$385,566 (2013 -\$340,944, 2012 - \$277,092) is unpaid and included in accounts payable and accrued liabilities. Options granted to key management during the year are valued at \$36,050 (2013 - \$Nil, 2012 - \$84,055).
- (b) At the year end, the Company had loans payable bearing interest at 9% per annum due to corporations controlled by directors and officers of the Company in the amount of \$480,000 (2013 - \$480,000, 2012 - \$435,000). Interest expense related to these loans is \$43,200 (2013 - \$48,731, 2012 - \$45,271).

LINGO MEDIA CORPORATION

Notes to Consolidated Financial Statements

December 31, 2014, 2013 and 2012

(Expressed in Canadian Dollars, unless otherwise stated)

21. RELATED PARTY BALANCES AND TRANSACTIONS (Cont'd)

- (c) Common shares issued to lenders for the extension of the \$880,000 (2013 - \$880,000) loan include 327,273 common shares (2013 – 480,000, 2012 – 174,000) issued at \$0.10 per share (2013 - \$0.10, 2012 - \$0.25) to lenders' corporations controlled by directors and an officer.

22. SUBSEQUENT EVENT

On April 17, 2015, the Company closed a non-brokered private placement financing of 5,000,000 units at \$0.10 per unit for gross proceeds of \$500,000. Each Unit is comprised of one common share in the capital of the Company and one common share purchase warrant. Each Warrant entitles the holder to purchase one Common Share at an exercise price of \$0.125 per share until April 17, 2016. No finders' fee was paid. One director participated in the private placement financing.