

# **LINGO MEDIA CORPORATION**

## **Condensed Consolidated Interim Financial Statements**

**For the three-month period ended March 31, 2014**

# **LINGO MEDIA CORPORATION**

Condensed Consolidated Interim Financial Statements

As at March 31, 2014

## **Notice to Reader**

Management has compiled the Condensed Consolidated Interim Financial Statements of Lingo Media Corporation (“Lingo Media” or the “Company”) consisting of the Balance Sheets as at March 31, 2014 and the Statements of Comprehensive Income, Changes in Equity and Cash Flows for the three months then ended. All amounts are stated in Canadian Dollars. An accounting firm has not reviewed or audited these interim financial statements and management discussion and analysis thereon.

# LINGO MEDIA CORPORATION

Condensed Consolidated Interim Financial Statements

As at March 31, 2014

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# LINGO MEDIA CORPORATION

Condensed Consolidated Interim Balance Sheets

(Unaudited, expressed in Canadian Dollars, unless otherwise stated)

	Notes	March 31, 2014	December 31, 2013
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents		\$83,026	\$78,091
Accounts and grants receivable	5	887,813	1,003,440
Prepaid and other receivables		106,446	84,620
		<b>1,077,285</b>	<b>1,166,151</b>
<b>Non-Current Assets</b>			
Property and equipment	6	32,221	31,926
Intangibles	7	900,970	876,895
Goodwill		139,618	139,618
		<b>\$2,150,094</b>	<b>\$2,214,590</b>
<b>TOTAL ASSETS</b>			
<b>EQUITY AND LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts payable		312,755	282,315
Accrued liabilities		613,563	601,843
Loans payable	8	891,545	819,545
		<b>1,817,863</b>	<b>1,703,703</b>
<b>TOTAL LIABILITIES</b>			
<b>Equity</b>			
Share capital	9	18,102,347	18,102,347
Warrants	11	1,132,685	1,132,685
Share-based payment reserve		2,515,626	2,512,717
Accumulated other comprehensive income		(296,944)	(168,245)
Deficit		(21,121,483)	(21,068,617)
		<b>332,231</b>	<b>510,887</b>
<b>TOTAL EQUITY</b>			
<b>TOTAL EQUITY AND LIABILITIES</b>			
		<b>\$ 2,150,094</b>	<b>\$2,214,590</b>

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

These condensed consolidated interim financial statements are authorized for issue by the Board of Directors on May 27, 2014.

/s/ Michael Kraft

Director

/s/ Martin Bernholtz

Director

## LINGO MEDIA CORPORATION

Condensed Consolidated Interim Statements of Comprehensive Income

For the three-months ended March 31, 2014, 2013 and 2012

(Unaudited, expressed in Canadian Dollars, unless otherwise stated)

	Notes	2014	2013	2012
<b>Revenue</b>		\$ 236,051	\$ 137,754	\$ 257,927
<b>Expenses</b>				
Selling, general and administrative		215,512	310,918	607,546
Amortization - intangibles		128,843	92,573	99,562
Direct costs		59,932	40,691	71,472
Share-based payments		2,909	25,806	28,726
Depreciation – property and equipment	6	1,398	1,936	3,048
<b>Total Expenses</b>		<b>408,594</b>	<b>471,924</b>	<b>810,354</b>
<b>Loss from Operations</b>		<b>(172,543)</b>	<b>(334,170)</b>	<b>(552,427)</b>
<b>Net Finance Charges</b>				
Interest expense		46,374	67,934	28,575
Foreign exchange (gain) / loss		(174,806)	(38,073)	42,201
<b>Loss Before Income Tax</b>		<b>(44,110)</b>	<b>(364,031)</b>	<b>(623,203)</b>
Income Tax Expense		8,755	12,992	13,019
<b>Net Loss for the Period</b>		<b>(52,866)</b>	<b>(377,023)</b>	<b>(636,222)</b>
<b>Other Comprehensive Income</b>				
Exchange differences on translating foreign operations gain / (loss)		(128,699)	(21,928)	7,601
<b>Total Comprehensive Loss, Net of Tax</b>		<b>\$ (181,565)</b>	<b>\$ (398,951)</b>	<b>\$ (628,621)</b>
<b>Loss per Share</b>				
Basic and Diluted		\$ (0.00)	\$ (0.02)	\$ (0.03)
<b>Weighted Average Number of Common Shares Outstanding</b>				
Basic and Diluted		<b>21,391,013</b>	<b>20,899,177</b>	<b>20,011,494</b>

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

## LINGO MEDIA CORPORATION

Condensed Consolidated Interim Statements of Changes in Equity  
For the three month ended March 31, 2014, 2013 and 2012  
(Unaudited, expressed in Canadian Dollars, unless otherwise stated)

	Issued Share Capital		Share- Based Reserves	Warrants	Accumulated Other Comprehensive Income	Deficit	Total Equity
	No. of Shares	Amount					
<b>Balance as at December 31, 2012</b>	<b>20,899,177</b>	<b>\$18,014,347</b>	<b>\$2,450,791</b>	<b>\$1,132,685</b>	<b>\$(88,971)</b>	<b>\$(21,091,560)</b>	<b>\$417,292</b>
Profit for the year	-	-	-	-	-	22,943	22,943
Other comprehensive income / (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
<b>Balance as at December 31, 2013</b>	<b>21,799,177</b>	<b>\$18,102,347</b>	<b>\$2,512,717</b>	<b>\$1,132,685</b>	<b>\$(168,245)</b>	<b>\$(21,068,617)</b>	<b>\$510,887</b>
Loss for the period	-	-	-	-	-	(52,866)	(52,866)
Other comprehensive income / (loss)	-	-	-	-	(128,699)	-	(128,699)
Share-based payments charged to operations	-	-	2,909	-	-	-	2,909
<b>Balance as at March 31, 2014</b>	<b>21,799,177</b>	<b>\$18,102,347</b>	<b>\$2,515,626</b>	<b>\$1,132,685</b>	<b>\$(296,944)</b>	<b>\$(21,121,483)</b>	<b>\$332,231</b>

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

# LINGO MEDIA CORPORATION

Condensed Consolidated Interim Statements of Cash Flows  
For the three-months ended March 31, 2014, 2013 and 2012  
(Unaudited, expressed in Canadian Dollars, unless otherwise stated)

	2014	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Net Loss for the Period</b>	<b>\$ (52,866)</b>	<b>\$ (377,023)</b>	<b>\$ (636,222)</b>
<b>Adjustments to Net Profit for Non-Cash Items:</b>			
Depreciation / amortization	130,241	94,509	102,610
Share-based payment	2,909	25,806	28,726
Unrealized foreign exchange gain / (loss)	(133,063)	(22,054)	18,810
Interest accretion	22,000	22,250	-
<b>Operating Loss Before Working Capital Changes</b>	<b>(30,779)</b>	<b>(256,512)</b>	<b>(486,076)</b>
<b>Working Capital Adjustments:</b>			
(Increase)/decrease in accounts and grants receivable	115,627	6,658	279,960
(Increase)/decrease in prepaid and other receivables	(21,826)	29,100	(3,630)
Increase/(decrease) in accounts payable	30,440	228,765	(22,255)
Increase/(decrease) in accrued liabilities	11,719	77,622	(49,559)
<b>Cash Generated from / (used in) Operations</b>	<b>105,181</b>	<b>85,633</b>	<b>(281,560)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of intangibles	(148,873)	(106,336)	(25,924)
Purchase of property and equipment	(1,373)	-	-
<b>Net Cash Flows Generated from / (used in) investing activities</b>	<b>(150,246)</b>	<b>(106,336)</b>	<b>(25,924)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from loans	60,000	-	-
Repayment of loan payable	(10,000)	-	-
<b>Net Cash Flows Generated from / (used in) Financing Activities</b>	<b>50,000</b>	<b>-</b>	<b>-</b>
<b>NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>4,935</b>	<b>(20,703)</b>	<b>(307,484)</b>
<b>Cash and Cash Equivalents at the Beginning of the Period</b>	<b>78,091</b>	<b>39,248</b>	<b>482,767</b>
<b>Cash and Cash Equivalents at the End of the Period</b>	<b>\$ 83,026</b>	<b>\$ 18,545</b>	<b>\$ 175,283</b>

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

# LINGO MEDIA CORPORATION

Notes to Condensed Consolidated Interim Financial Statements

March 31, 2014

(Unaudited - See Notice to Reader)

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## 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 OTC Bulletin Board. The condensed consolidated interim financial statements of the Company for the period ended March 31, 2014 comprise the Company and its subsidiaries.

Lingo Media Corporation is an English as a Second Language (“ESL”) industry acquisition company in online and print-based education products and services. The Company is focused on English language learning (“ELL”) on an international scale through its four distinct business units: ELL Technologies Limited (“ELL Technologies”); ELL Technologies Ltd. (“ELL Canada”) Parlo Corporation (“Parlo”); Speak2Me Inc. (“Speak2Me”); and Lingo Learning Inc. (“Lingo Learning”). ELL Technologies is a globally-established ELL multi-media and online training company. Parlo is a fee-based online ELL training and assessment service. Speak2Me is a free-to-consumer advertising-based online ELL service in China. Lingo Learning is a print-based publisher of ELL programs.

The head office, principal address and registered and records office of the Company are 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 condensed consolidated interim financial statements are unaudited and have been prepared in accordance with IAS 34 ‘Interim Financial Reporting’ (“IAS 34”) using accounting policies consistent with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

These condensed consolidated interim 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 recurring over the years. During the period ended March 31, 2014, the Company reported a net loss of \$52,866 (2013 – net loss of \$377,023). As at March 31, 2014, the Company had a working capital deficiency of \$740,578 (March 31, 2013 - \$1,022,013) and deficit of \$21,121,483 (March 31, 2013 - \$21,468,583). This raises significant doubt about the Company’s ability to continue as a going concern. The ability of the Company to continue as a going concern is dependent upon raising additional financing through share issuance, borrowing, sales contracts and distribution agreements. There are no assurances that the Company will be successful in achieving these goals.

The condensed consolidated interim financial statements for the period ended March 31, 2014 were approved and authorized for issue by the board of directors on May 27, 2014.

### 2.2 Basis of measurement

These condensed consolidated interim financial statements have been prepared on the historical cost basis. The comparative figures presented in these condensed consolidated interim financial statements are in accordance with IFRS.

### 2.3 Basis of consolidation

The condensed consolidated interim financial statements comprise the financial statements of the Company and the entities controlled by the Company (i.e. subsidiaries) as at March 31, 2014. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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.



# LINGO MEDIA CORPORATION

Notes to Condensed Consolidated Interim Financial Statements

March 31, 2014

(Unaudited - See Notice to Reader)

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## 2. BASIS OF PREPARATION (Cont'd)

### 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 Speak2Me Inc. is Chinese Renminbi ("RMB") and the functional currency of its ELL Technologies subsidiary is the United States Dollar ("USD").

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 condensed consolidated interim 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 revision 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 of impairment loss
- Recognition of government grant and grant receivable
- Recognition of deferred tax assets
- Valuation of share-based payments
- Recognition of provisions and contingent liabilities

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Company in these Condensed Consolidated Interim Financial Statements are the same as those applied by the Company in its Consolidated Financial Statements for the year ended December 31, 2013.

## 5. ACCOUNTS AND GRANTS RECEIVABLE

Accounts and grants receivable consist of:

	March 31, 2014	December 31, 2013
Trade receivable	\$ 780,570	\$ 839,336
Grants receivable	107,243	164,104
	<u>\$ 887,813</u>	<u>\$ 1,003,440</u>

## LINGO MEDIA CORPORATION

Notes to Condensed Consolidated Interim Financial Statements

March 31, 2014

(Unaudited - See Notice to Reader)

### 6. PROPERTY AND EQUIPMENT

Cost, January 1, 2013	\$ 212,329
Additions	-
Effect of foreign exchange	3,270
Cost, December 31, 2013	\$ 215,599
Additions	1,373
Effect of foreign exchange	1,730
<b>Cost, March 31, 2014</b>	<b>\$ 218,702</b>
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 period	1,398
Effect of foreign exchange	1,410
<b>Accumulated depreciation, March 31, 2014</b>	<b>\$ 186,481</b>
Net book value, January 1, 2013	\$ 38,356
Net book value, December 31, 2013	\$31,926
Net book value, March 31, 2014	\$ 32,221

### 7. INTANGIBLES

	Software and web development	Content Platform	Customer Relationships	Total
Cost, December 31, 2012	6,792,163	1,477,112	130,000	8,399,275
Additions	106,366	-	-	106,366
Cost, March 31, 2013	6,898,529	1,477,112	130,000	8,505,541
Additions	325,345	-	-	325,345
Effect of foreign exchange	1,191	-	-	1,191
Cost, December 31, 2013	<b>7,225,065</b>	<b>1,477,112</b>	<b>130,000</b>	<b>8,832,177</b>
Additions	148,873	-	-	148,873
Effect of foreign exchange	5,288	-	-	5,288
<b>Cost, March 31, 2014</b>	<b>\$ 7,379,226</b>	<b>\$ 1,477,112</b>	<b>\$ 130,000</b>	<b>\$ 8,986,338</b>

## LINGO MEDIA CORPORATION

Notes to Condensed Consolidated Interim Financial Statements

March 31, 2014

(Unaudited - See Notice to Reader)

### 7. INTANGIBLES (Cont'd)

Accumulated depreciation, December 31, 2012	6,626,596	766,446	130,000	7,523,042
Charge for the period	19,729	72,844	-	92,573
Accumulated depreciation, March 31, 2013	6,646,325	839,290	130,000	7,615,615
Charge for the period	115,898	222,578	-	338,476
Effect of foreign exchange	1,191	-	-	1,191
Accumulated depreciation, December 31, 2013	6,763,414	1,061,868	130,000	7,955,282
Charge for the period	55,999	72,844	-	128,843
Effect of foreign exchange	1,243	-	-	1,243
<b>Accumulated depreciation, March 31, 2014</b>	<b>\$ 6,820,656</b>	<b>\$ 1,134,712</b>	<b>\$ 130,000</b>	<b>\$8,085,368</b>
<b>Net book value, December 31, 2013</b>	<b>\$ 461,651</b>	<b>\$ 415,244</b>	<b>-</b>	<b>\$ 876,895</b>
<b>Net book value, March 31, 2014</b>	<b>\$ 558,570</b>	<b>\$ 342,400</b>	<b>-</b>	<b>\$ 900,970</b>

The Company began commercial production and sale of its services and products during 2009 and started amortizing the cost of software and web development costs on a straight-line basis over the useful life of the assets which is estimated to be 3 years.

### 8. LOANS PAYABLE

	March 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, 2013 <sup>(i)(ii)</sup>	880,000	\$ 880,000
Loan payable, interest bearing at 12% per annum with monthly interest payments, secured by accounts receivable and due on demand. Subsequent to the quarter end, this loan was repaid in full	50,000	-
Unamortized transaction costs	(38,455)	(60,455)
	<b>\$ 891,545</b>	<b>\$ 819,545</b>

- (i) On September 8, 2013, 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 and 2013. As additional consideration for the extension of the loan, the Company issued to the lenders an aggregate of 880,000 (2012 - 356,000) common shares of Lingo Media. The common shares were issued based on 10 per cent of the value of the loan, divided by the market value per common share on the date of issuance.
- (ii) Included in loans payable are loans amounting to \$480,000 (2012 - \$535,000) to related parties as disclosed in Note 17.

### 9. SHARE CAPITAL

#### a) Authorized

Unlimited number of preference shares with no par value  
Unlimited number of common shares with no par value

## LINGO MEDIA CORPORATION

Notes to Condensed Consolidated Interim Financial Statements

March 31, 2014

(Unaudited - See Notice to Reader)

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### 9. SHARE CAPITAL (Cont'd)

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

- (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. The number of Common Shares issuable pursuant to the Financing, if all Warrants are exercised, is 7,317,336 Common Shares for gross proceeds of \$4,939,201.

In connection with the Financing, the Company paid 7% finder's fee payable in cash (the "Cash Finder's Fee") or Units (the "Finder's Units") to eligible persons (the "Finders"), along with finder's warrants ("Finder's Warrants") equal to 6% of the Units placed by the Finder in the Financing. Each Finder Unit entitles the holder to one Common Share and one Warrant.

Each Finder's Warrant entitles the holder to acquire one Common Share of Lingo at \$0.60 until September 4, 2012. On closing, the Company issued 23,333 Finder's Units, 151,620 Finder's Warrants and paid a \$92,135 Cash Finder's Fee to the Finders. The Loan lenders waived their right to be repaid \$0.50 of every \$1.00 raised by Lingo Media through this financing.

In the absence of a reliable measure of the services received, the services have been measured at the value of the finder's warrants issued. The warrants were valued using the Black-Scholes pricing model using the following assumption: weighted average risk free interest rates of 1.78% weighted average expected dividend yields of NIL, the weighted average expected common stock price volatility (based on historical trading) of 83%, a forfeiture rate of zero, a stock price of \$0.72, and a weighted average expected life of 1.5 years.

On February 21, 2014, the expiry date of the Warrants was extended to March 4, 2016

- (ii) 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.

In connection with the Second Financing, the Company agreed to pay a 7% Cash Finder's Fee along with Finder's Warrants equal to 6% of the Units placed by the Finder in the Financing. Each Finder's Warrant entitles the holder to acquire one Common Share of Lingo at \$0.60 until November 11, 2012. On closing, the Company issued 78,900 Finder's Warrants and paid a \$55,230 Cash Finder's Fee to the Finders. The lenders waived their right to be repaid \$0.50 of every \$1.00 raised by Lingo Media through this Second Financing. At December 31, 2012, the Finder's Warrants had expired.

In the absence of a reliable measure of the services received, the services have been measured at the value of the finder's warrants issued. The warrants were valued using the Black-Scholes pricing model using the following assumption: weighted average risk free interest rates of 1.51% weighted average expected dividend yields of NIL, the weighted average expected common stock price volatility (based on historical trading) of 65%, a forfeiture rate of zero, a stock price of \$0.80, and a weighted average expected life of 1.5 years.

On February 21, 2014, the expiry date of the Warrants was extended to May 11, 2016 with all other conditions remaining the same.

## LINGO MEDIA CORPORATION

Notes to Condensed Consolidated Interim Financial Statements

March 31, 2014

(Unaudited - See Notice to Reader)

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### 9. SHARE CAPITAL (Cont'd)

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

- (iii) On June 3, 2011, the Company issued 1,036,987 common shares (the "Payment Shares") as the second and final payment representing the US\$763,729 (CAD\$786,535) balance payable to SCP Partners, for the acquisition of ELL Technologies. This payment was made pursuant to the purchase agreement between Lingo Media and SCP Partners announced on May 13, 2010, whereby Lingo Media acquired all of issued and outstanding shares of ELL Technologies.

The Payment Shares are subject to a four month regulatory hold period from the date of issuance and are also subject to a 24 month lock-up and leak-out agreement whereby the Payment Shares will be held in escrow and released in a monthly leak-out of equal instalments of 43,208 shares released each month.

- (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 (2012 - 356,000) 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 (2012 - \$0.25) 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.

### 10. 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 employees, officers, 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. 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.

## LINGO MEDIA CORPORATION

Notes to Condensed Consolidated Interim Financial Statements

March 31, 2014

(Unaudited - See Notice to Reader)

### 10. SHARE-BASED PAYMENTS (Cont'd)

The following summarizes the options outstanding:

	Number of Options	Weighted Average Exercise Price
<b>Outstanding as at January 1, 2013</b>	<b>3,070,500</b>	<b>\$ 0.52</b>
Forfeited	(5,000)	\$ 0.81
Expired	(100,000)	\$ 0.66
<b>Outstanding as at March 31, 2013</b>	<b>2,965,500</b>	<b>\$ 0.51</b>
Granted	25,000	\$ 0.20
Expired	(5,000)	-
Forfeited	(202,250)	-
<b>Outstanding as at December 31, 2013</b>	<b>2,783,250</b>	<b>\$ 0.48</b>
Forfeited	-	-
Expired	-	-
<b>Outstanding as at March 31, 2014</b>	<b>2,783,250</b>	<b>-</b>
<b>Options exercisable as at March 31, 2013</b>	<b>1,931,968</b>	<b>\$ 0.63</b>
<b>Options exercisable as at December 31, 2013</b>	<b>2,033,004</b>	<b>\$ 0.55</b>
<b>Options exercisable as at March 31, 2014</b>	<b>2,265,255</b>	<b>\$ 0.54</b>

The weighted average remaining contractual life for the stock options outstanding as at March 31, 2014 was 2.29 years (2013 – 3.26 years). The range of exercise prices for the stock options outstanding as at March 31, 2014 was \$0.20 - \$1.75 (2013 - \$0.24 - \$2.00). The weighted average grant-date fair value of options granted to employees, consultants and directors during the period has been estimated at \$0.24 (2012 - \$0.47) 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 the past year are as follows, 550,000 stock options vested immediately upon issuance, 750,000 stock options will vest quarterly over 18 months, and 400,000 stock options will vest upon four consecutive quarters of Earnings before Interest, Tax, Depreciation and Amortization.

The pricing model assumes the weighted average risk free interest rates of 1.37% (2012 – 1.50%) weighted average expected dividend yields of NIL (2012 – NIL), the weighted average expected common stock price volatility (based on historical trading) of 82.64% (2012– 80%), a forfeiture rate of zero, a weighted average stock price of \$0.22, a weighted average exercise price of \$0.24, and a weighted average expected life of 4.73 years (2012 –5 years), which were estimated based on past experience with options and option contract specifics.

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### 11. WARRANTS

The following summarizes the warrants outstanding:

	Weighted Average Remaining Contractual Life (Years)	Series	Number of Warrants	Weighted Average Exercise Price
<b>January 1, 2013</b>			-	
Extended	1.28	A	3,658,668	0.75
Extended	0.72	B	1,875,000	0.75
<b>December 31, 2013</b>			<b>5,533,668</b>	<b>0.75</b>
<b>March 31, 2014</b>			<b>5,533,668</b>	

The following summarizes the compensation warrants outstanding:

	Weighted Average Remaining Contractual Life (Years)	Series	Number of Warrants	Weighted Average Exercise Price
<b>January 1, 2012</b>			<b>230,520</b>	<b>Nil</b>
Expired		2011	(151,620)	0.60
Expired		2011	(78,900)	0.60
<b>December 31, 2013</b>			<b>Nil</b>	
<b>March 31, 2014</b>			<b>Nil</b>	

### 12. GOVERNMENT GRANTS

Included as a reduction of selling, general and administrative expenses are government grants of \$90,833 (2013 - \$3,875), relating to the Company's publishing and software projects. At the end of the period, \$107,423 (March 31, 2013 - \$Nil) 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 of \$100,000 which was recorded in accrued liabilities and this proposed audit assessment 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 ELL 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.

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## 13. FINANCIAL INSTRUMENTS

### 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.

### Financial risk management objectives and policies

The financial risk arising from the Company's operations are currency risk and liquidity 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.

Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. The Company's Management oversees these risks. The Board of Directors reviews and agrees on policies for managing each of these risks.

### 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 \$63,684 (2013 - \$6,486) due to reduction in the value of net liability balance. A 10% of weakening of the US dollar against Canadian dollar at March 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 March 31, 2014 are as follows:

	USD Denominated		China Denominated	
	CAD	USD	CAD	RMB
Cash	\$ 50,447	\$ 45,641	\$ 3,586	¥ 20,171
Accounts receivable	\$ 771,399	\$ 697,910	\$ -	¥ -
Accounts payable	\$ 85,798	\$ 77,624	\$ -	¥ -

### Liquidity risk 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 March 31, 2014, the Company had cash of \$83,026, accounts and grants receivable of \$887,813 and prepaid and other receivables of \$106,446 to settle current liabilities of \$1,817,863.

### 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 March 31, 2014, the Company has outstanding receivables of \$887,813. 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.



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### 14. 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 distribution 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.

### 15. 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 ELL 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.

#### Segmented Information (Before Other Financial Items Below)

<b>March 31, 2014</b>	<b>Online English Language Learning</b>	<b>Print-Based English Language Learning</b>	<b>Total</b>
Revenue	\$ 179,928	\$ 56,123	\$ 236,051
Segment non-current assets	1,054,489	18,319	1,072,808
Segment assets	1,232,924	917,170	2,150,094
Segment liabilities	517,702	1,300,161	1,817,863
Segment income (loss)	(38,594)	(139,795)	(178,389)
<b>March 31, 2013</b>			
Revenue	\$ 56,327	\$ 81,427	\$ 137,754
Segment non-current assets	1,046,355	19,806	1,066,161
Segment assets	1,161,518	1,454,623	2,616,141
Segment liabilities	1,078,817	1,470,926	2,549,743
Segment income (loss)	(153,066)	(168,290)	(321,356)

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### 15. SEGMENTED INFORMATION (Cont'd)

<b>Other Financial Items</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Print-Based English Language Learning segment income (loss)	\$ (139,795)	\$ (168,290)	\$ (111,295)
Online English Language Learning segment income (loss)	(38,594)	(153,066)	(425,425)
Foreign exchange	174,806	38,073	(42,201)-
Interest expense	(46,374)	(67,934)	(28,575)
Share-based payment	(2,909)	(25,806)	(28,726)
Other comprehensive income (loss)	(128,699)	(21,928)	7,601
<b>Total Comprehensive Loss</b>	<b>\$(181,565)</b>	<b>\$(398,951)</b>	<b>\$(628,621)</b>

### Revenue by Geographic Region

	<b>2014</b>	<b>2013</b>	<b>2012</b>
China	\$ 56,123	\$ 81,532	\$ 76,271
Other	179,928	56,222	181,656
	<b>\$ 236,051</b>	<b>\$ 137,754</b>	<b>\$ 257,927</b>

### Identifiable Assets by Geographic Region

	<b>2014</b>	<b>2013</b>	<b>2012</b>
Canada	\$ 2,117,969	\$ 2,563,425	\$ 2,296,400
China	32,125	52,716	81,066
	<b>\$ 2,150,094</b>	<b>\$ 2,616,141</b>	<b>\$ 2,377,466</b>

### 16. SUPPLEMENTAL CASH FLOW INFORMATION

	<b>2014</b>	<b>2013</b>	<b>2012</b>
Income taxes and other taxes paid	\$ -	\$ 12,992	\$ 13,019
Interest paid	\$ 24,374	\$ 30,551	\$ 19,870

### 17. RELATED PARTY BALANCES AND TRANSACTIONS

During the period, 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.

- Key management compensation was \$82,500 (2013 – \$82,500) and is reflected as consulting fees paid to corporations owned by a director and officers of the Company, all of which is deferred and included in accounts payable.
- At March 31, 2014, the Company had loans payable due to corporations controlled by directors and officers of the Company in the amount of \$480,000 (2013 - \$535,000) bearing interest at 9% per annum. Interest expense related to these loans is \$7,338 (2013 - \$9,653).