LINGO MEDIA CORPORATION

Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

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 Professional 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.

May 1, 2017

/s/ Michael Kraft	/s/ Khurram Qureshi
President & CEO	Chief Financial Officer

Collins Barrow Toronto LLP
Collins Barrow Place
11 King Street West
Suite 700, PO Box 27
Toronto, Ontario
M5H 4C7 Canada

T. 416.480.0160
F. 416.480.2646

www.collinsbarrow.com

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Lingo Media Corporation

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, 2016 and December 31, 2015 and the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended and December 31, 2016, December 31, 2015 and December 31, 2014 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, 2016 and December 31, 2015, and its financial performance and its cash flows for the years ended December 31, 2016, December 31, 2015 and December 31, 2014 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Collins Barrow Toronto LLP

Chartered Professional Accountants
Licensed Public AccountantsChartered Accountants
May 1, 2017
Toronto, Ontario

LINGO MEDIA CORPORATION

Consolidated Financial Statements
As at December 31, 2016 and December 31, 2015

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Consolidated Financial Statements

LINGO MEDIA CORPORATION

Consolidated Balance Sheets
(Expressed in Canadian Dollars, unless otherwise stated)
As at December 31, 2016 and December 31, 2015

	Notes	December 31, 2016	December 31, 2015
ASSETS			
Current Assets			
Cash		$ 84,303	$ 409,022
Accounts and grants receivable	6	3,044,928	1,961,534
Prepaid and other receivables		579,846	488,154
		3,709,077	**2,858,710**
Non-Current Assets			
Long-term deposit		300,000	-
Property and equipment	7	27,488	28,879
Intangibles	8	3,000,009	2,205,744
Goodwill		139,618	139,618
TOTAL ASSETS		**$ 7,176,192**	**$ 5,232,951**
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable		273,750	250,973
Accrued liabilities		249,736	355,194
Lease inducement		57,673	-
Loans payable	9	150,000	580,000
		731,159	**1,186,167**
Equity			
Share capital	10	21,914,722	18,927,388
Share-based payment reserve	11	3,421,165	2,695,038
Warrants	12	-	1,439,632
Accumulated other comprehensive income		(302,037)	(362,210)
Deficit		(18,588,817)	(18,653,064)
TOTAL EQUITY		**6,445,033**	**4,046,784**
TOTAL LIABILITIES AND EQUITY		**$ 7,176,192**	**$ 5,232,951**
Commitments and contingency	20		

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 28, 2017.

/s/ Michael Kraft
Director

/s/ Martin Bernholtz
Director

LINGO MEDIA CORPORATION

Consolidated Statements of Comprehensive Income
For the years ended December 31, 2016, 2015 and 2014
(Expressed in Canadian Dollars, unless otherwise stated)

	Notes	2016	2015	2014
Revenue		$ 3,195,221	$ 4,925,735	$ 2,512,464
Expenses				
Selling, general and administrative		1,364,736	1,059,703	950,229
Amortization – intangibles	8	1,003,485	721,720	582,857
Direct costs		385,384	382,871	382,593
Share-based payments	11	-	151,038	65,663
Depreciation – property and equipment	7	7,297	8,579	7,386
Total Expenses		**2,760,902**	**2,323,911**	**1,988,728**
Profit from Operations		**434,319**	**2,601,824**	**523,736**
Net Finance Charges				
Interest expense		35,768	158,792	217,040
Foreign exchange loss (gain)		146,599	(399,314)	(106,437)
Profit Before Income Tax		**251,952**	**2,842,346**	**413,133**
Income tax expense	14	187,705	310,289	269,119
Net Profit for the Year		**64,247**	**$ 2,532,057**	**$ 144,014**
Other Comprehensive Income				
Items that maybe subsequently transferred to net profit (loss) exchange differences on translating foreign operations gain (loss)		60,173	(157,358)	(36,607)
Total Comprehensive Income		**$ 124,420**	**$ 2,374,699**	**$ 107,407**
Earnings per Share				
Basic	13	$ 0.00	$ 0.10	$ 0.01
Diluted	13	$ 0.00	$ 0.09	$ 0.01
Weighted Average Number of Common Shares Outstanding				
Basic	13	**33,987,383**	**26,288,889**	**21,986,300**
Diluted	13	**34,951,693**	**29,083,740**	**21,986,300**

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, 2016, 2015 and 2014
(Expressed in Canadian Dollars, unless otherwise stated)

	Issued Share Capital (Note 10)		Share-Based Payment Reserve	Warrants	Accumulated Other Comprehensive Income	Deficit	Total Equity
	Number of common shares	Amount					
Balance as at January 1, 2014	**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	-	-	-	260,517	-	(260,517)	-
Issued shares – as financing cost against loan payable	600,000	60,000	-	-	-	-	60,000
Share-based payments charged	-	-	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**
Profit for the year	-	-	-	-	-	2,532,057	2,532,057
Other comprehensive loss	-	-	-	-	(157,358)	-	(157,358)
Private Placement	5,000,000	500,000	-	-	-	-	500,000
Warrants issuance (Note 10(b))	-	(70,230)	-	70,230	-	-	-
Warrants exercise	1,700,000	236,300	-	(23,800)	-	-	212,500
Stock option exercise	439,166	98,971	(34,380)	-	-	-	64,591
Share-based payment charged to operations	-	-	151,038	-	-	-	151,038
Balance as at December 31, 2015	**29,518,343**	**$ 18,927,388**	**$ 2,695,038**	**$ 1,439,632**	**$ (362,210)**	**$ (18,653,064)**	**$ 4,046,784**
Profit for the year						64,247	64,247
Other comprehensive loss					60,173		60,173
Warrant exercise (note 10 (d))	5,711,683	2,904,840		(683,578)			2,221,262
Expired Warrant			756,054	(756,054)			-
Stock option exercise (note 10 (c))	299,106	82,494	(29,927)				52,567
Balance as at December 31, 2016	**35,529,162**	**$ 21,914,722**	**$ 3,421,165**	**$ -**	**$ (302,037)**	**$ (18,588,817)**	**$ 6,445,033**

No preference shares were issued at December 31, 2016, 2015 and 2014.
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, 2016, 2015 and 2014
(Expressed in Canadian Dollars, unless otherwise stated)

	2016	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Profit for the Year	$ 64,247	$ 2,532,057	$ 144,013
Adjustments to Net Profit for Non-Cash Items:			
Amortization – intangibles	1,003,485	721,720	582,857
Share-based payments	-	151,038	65,663
Unrealized foreign exchange loss (gain)	61,166	(166,109)	(44,035)
Interest accretion	-	41,167	79,288
Lease inducement	57,673	-	-
Depreciation - property and equipment	7,297	8,579	7,386
Loss on disposition of property and equipment	2,670	954	7,773
Operating Profit before Working Capital Changes	1,196,538	3,289,406	842,945
Working Capital Adjustments:			
(Increase) / Decrease in accounts and grants receivable	(1,083,394)	(1,112,190)	154,096
(Increase) / Decrease in prepaid and other receivables	(91,692)	(403,083)	(451)
Increase / (Decrease) in accounts payable	22,777	100,339	(131,681)
Increase / (Decrease) in accrued liabilities	(105,458)	(334,821)	88,172
Cash (Used in) Generated from Operating Activities	(61,229)	1,539,651	953,081
CASH FLOWS FROM INVESTING ACTIVITIES			
Long-term deposit	(300,000)	-	-
Expenditures on software, web development and content development costs	(1,798,687)	(2,071,440)	(544,635)
Purchase of property and equipment	(8,632)	(13,281)	(9,536)
Cash Used in Investing Activities	(2,107,319)	(2,084,721)	(554,171)
CASH FLOWS FROM FINANCING ACTIVITIES			
Share capital issued	-	500,000	-
Proceeds from stock option exercise	52,567	64,591	-
Proceeds from warrant exercise	2,221,262	212,500	-
Proceeds from loans	150,000	90,000	-
Repayment of loan payable	(580,000)	(390,000)	-
Cash Generated from Financing Activities	1,843,829	477,091	-
NET INCREASE (DECREASE) IN CASH	(324,719)	(67,979)	398,910
Cash at the Beginning of the Year	409,022	477,001	78,091
Cash at the End of the Year	**$ 84,303**	**$ 409,022**	**$ 477,001**

Interest paid disclosed in Note 21.
The accompanying notes are an integral part of these consolidated financial statements.

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, 2016 comprise the Company and its wholly owned subsidiaries: Lingo Learning Inc., ELL Technologies Ltd., ELL Technologies Limited, ELL Technologies Worldwide Ltd., Speak2Me Inc., Parlo Corporation and Lingo Group Limited (the "Group").

Lingo Media is an EdTech company that is '*Changing the way the world learns English*'. The Company provides online and print-based solutions through its two distinct business units: ELL Technologies Ltd. ("ELL Technologies") and Lingo Learning Inc. ("Lingo Learning"). ELL Technologies is a global English language learning multi-media and online training company. Lingo Learning is a print-based publisher of English language learning school programs in China.

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

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 were authorized by the Board of Directors on May 1, 2017.

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 the same accounting policies.

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, 2016. 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.

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. The functional currency of ELL Technologies Limited and Lingo Group Limited are United States Dollar ("USD"). 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 and estimates 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 currency
- Determination of allowance for doubtful accounts
- Determination of the recoverability of the carrying value of intangibles and goodwill
- Recognition of internally developed intangibles
- 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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Revenue recognition

Revenue from fee-based English language training and assessment services and licenses are recognized upon delivery based on the terms of the agreement and when the risk of ownership is transferred and collectability is reasonably assured.

When the outcome of long-term service contracts 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 stage of completion method based on milestones achieved.

Revenue from royalty and licensing sales 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.

The Company does not recognize non-monetary revenues until the service received is exchanged and the amount can be reliably estimated. Non-monetary revenues are measured at the fair value of services received.

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

4.2 Comprehensive income

Comprehensive income measures net profit for the period plus other comprehensive income. Other comprehensive income consists of changes in equity, 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. Depreciation is provided using methods outlined below at rates intended to depreciate the cost of assets over their estimated useful lives.

Method	Rate	
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 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.

4.5 Content development costs

The Company capitalizes all costs related to content development of its fee-based English Language Learning products and services when the feasibility and profitability of the project can be reasonably considered certain. Expenditure on content 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 content development expenditure is stated at cost less accumulated amortization and impairment losses. The content development 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 net profit.

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

4.6 Goodwill (Cont'd)

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 recognized quarterly and 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 Current and deferred income taxes

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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.

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.

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.

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.

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

4.11 Share-based compensation plan (Cont'd)

For equity-settled share-based payment transactions with non-employees, 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 financial liability.

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

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

Financial liabilities: Other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Transaction costs are 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:

Financial Instrument	Classification
Cash	FVTPL
Accounts and grants receivable	Loans and receivables
Accounts payable	Other financial liabilities
Accrued liabilities	Other financial liabilities
Loans payable	Other financial 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.

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. The Company's intangible assets that have an indefinite life or not ready for use are not subject to amortization and are tested annually for impairment. 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.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of identifiable net assets of the acquired subsidiary at the date of acquisition. Goodwill is carried at cost less accumulated impairment losses. Goodwill is allocated to each cash generating unit ("CGU") or group of CGUs that are expected to benefit from the related business combination. A group of CGUs represents the lowest level within the entity at which the goodwill is monitored for internal management purposes, which is not higher than an operating segment.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.
A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss in the consolidated statement of comprehensive loss.

An impairment loss recognized for goodwill is not reversed in subsequent periods. On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal. Determining whether goodwill is impaired requires an estimation of the higher of fair value less costs of disposal and value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

4.14 Leases

Leases are classified as either finance or operating. Leases that transfer substantially all of the risks and benefits of ownership of the leased asset to the Company are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of fair value of the leased asset and the present value of the minimum lease payments. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Rental payments, net of any incentives received from the lessor, are charged to earnings on a straight-line basis over the period of the lease.

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

4.15 Warrants

From time to time, the Company may issue warrants as a means of raising capital. The Company values warrants using the Black-Scholes pricing model. Any transaction costs arising on the issue of warrants are recognized in equity as a reduction of the proceeds from warrants. In the event that warrants are exercised, the fair value of the warrants issued is reclassified from warrants to share capital. In the event that warrants expire unexercised, their value is transferred from warrants to share-based payment reserve.

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, 2017.

Effective for periods beginning on or after January 1, 2018

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.

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.

Effective for periods beginning on or after January 1, 2019

IFRS 16, Leases replaces IAS 17, Leases and related interpretations. The core principle is that a lessee recognizes assets and liabilities for all leases with a lease term of more than 12 months. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. The new standard is intended to provide a faithful representation of leasing transactions, in particular those that do not currently require the lessees to recognize an asset and liability arising from an operating lease. IFRS 16 is effective for annual periods beginning on January 1, 2019, with early adoption permitted for entities that would also apply IFRS 15, Revenue from Contracts with Customers.

(Expressed in Canadian Dollars, unless otherwise stated)

5. RECENT ACCOUNTING PRONOUNCEMENTS (Cont'd)

Effective for periods beginning on or after January 1, 2019 (Cont'd)

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, 2016	December 31, 2015
Trade receivable	$3,023,081	$1,941,261
Government grants receivable (Note 15)	21,847	20,273
	$3,044,928	$1,961,534

As at December 31, 2016, the Company had accounts receivable of $ 2,270,820 (2015 - $830,440) greater than 30 days overdue and not impaired.

7. PROPERTY AND EQUIPMENT

	Computer and office equipment
Cost, January 1, 2015	$ 173,679
Additions	13,281
Disposal	(5,000)
Effect of foreign exchange	6,461
Cost, December 31, 2015	$ 188,421
Additions	8,632
Disposal	(114,624)
Effect of foreign exchange	(1,716)
Cost, December 31, 2016	**$ 80,713**
Accumulated depreciation, January 1, 2015	$ 148,873
Charge for the year	8,579
Disposal	(4,046)
Effect of foreign exchange	6,136
Accumulated depreciation, December 31, 2015	**$ 159,542**
Charge for the year	7,297
Disposal	(117,294)
Effect of foreign exchange	3,680
Accumulated depreciation, December 31, 2016	**$ 53,225**
Net book value, December 31, 2015	**$ 28,879**
Net book value, December 31, 2016	**$ 27,488**

(Expressed in Canadian Dollars, unless otherwise stated)

8. INTANGIBLES

	Software and Web Development	Content Platform	Content Development	Total
Cost, January 1, 2015	**$ 7,781,611**	**$ 1,477,112**	**$ -**	**$ 9,258,723**
Additions	782,945	-	1,288,495	2,071,440
Effect of foreign exchange	66,450	-	-	66,450
Cost, December 31, 2015	**8,631,006**	**1,477,112**	**1,288,495**	**11,396,613**
Additions	613,163	-	1,185,525	1,798,687
Effect of foreign exchange	(5,081)	-	-	(5,081)
Cost, December 31, 2016	**$ 9,239,088**	**$ 1,477,112**	**$ 2,474,020**	**$ 13,190,219**

	Software and Web Development	Content Platform	Content Development	Total
Accumulated amortization, January 1, 2015	**$ 7,053,835**	**$ 1,357,290**	**$ -**	**$ 8,411,125**
Charge for the year	510,366	119,822	91,532	721,720
Effect of foreign exchange	58,024	-		58,024
Accumulated amortization, December 31, 2015	**7,622,225**	**1,477,112**	**91,532**	**9,190,869**
Charge for the year	611,865	-	391,620	1,003,485
Effect of foreign exchange	(4,144)	-	-	(4,144)
Accumulated amortization December 31, 2016	**$ 8,229,946**	**$ 1,477,112**	**$ 483,152**	**$ 10,190,210**
Net book value, December 31, 2015	**$ 1,008,781**	**$ -**	**$ 1,196,963**	**$ 2,205,744**
Net book value, December 31, 2016	**$ 1,009,142**	**$ -**	**$ 1,990,867**	**$ 3,000,009**

The Company began commercial production and sale of its services and products during 2009. In 2016, the Company continued to focus on the redesign and upgrade of its ELL Technologies' suite of products and invested $1,798,687 (2015 - $2,071,440). 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, 2016	December 31, 2015
Loans payable, interest bearing at 9% per annum with monthly interest payments, secured by a general security agreement and due on May 9, 2016[(i)]	$ -	$ 580,000
Loans payable, interest bearing at 8% per annum with monthly interest payments, due on April 30, 2017[(ii)]	150,000	-
	$ 150,000	**$ 580,000**

9. LOANS PAYABLE (Cont'd)

(i) The Company extended the term of the loan originally advanced on September 8, 2010, and extended for one-year terms on September 8, 2011, 2012, 2013 and 2014. On September 8, 2015, the loans were extended for a further eight-month term and due on May 9, 2016. These were repaid in April 2016.

(ii) The Company received an unsecured bridge loan in December 2016. Included in loans payable are loans amounting to $50,000 (2015 – $480,000) to related parties as disclosed in Note 22.

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:

(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. During 2016, 600,000 warrants were exercised for $450,000, and the remaining expired on 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.

(iii) 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. During 2016, 1,811,683 warrants were exercised for $1,358,762, and the remaining expired on May 11, 2016.

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 a 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.

10. SHARE CAPITAL (Cont'd)

b) Common shares - Transactions

(iv) On April 17, 2015, Lingo Media 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. The securities issued pursuant to the Financing will be subject to a 4-month regulatory hold period commencing from April 17, 2015. One director of the Company participated in the private placement and subscribed to 400,000 Units for a total price of $40,000. During 2016, 3,300,000 warrants were exercised for $412,500, and the remaining expired on April 17, 2016.

c) Stock options exercise

In 2016, 299,166 stock options were exercised. Each stock option entitled the holder to one common share of the Company at an exercise price of $0.13, $0.14, 0.24 and $0.66 for the gross proceeds of $52,567. These options have a grant date fair value of $0.0674, $0.0721, 0.1443 and $0.5174 respectively. The weighted average exercise price on the date of exercise of these options was $0.18.

d) Warrants exercise

In 2016, 5,711,683 warrants were exercised. Each warrant entitled the holder to one common share of the Company at an exercise price of $0.125 and $0.75 for the gross proceeds of $2,221,262. These warrants have a grant date fair value of $0.014, $0.241 and $0.272. The weighted average exercise price on the date of exercise of these warrants was $0.39.

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:

(Expressed in Canadian Dollars, unless otherwise stated)

11. SHARE-BASED PAYMENTS (Cont'd)

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contract Life (Years)
Outstanding as at January 1, 2014	**2,783,250**	**$ 0.48**	**2.53**
Granted	1,590,000	0.14	2.80
Forfeited	15,000	0.66	1.13
Expired	(600,750)	0.37	-
Outstanding as at January 1, 2015	**3,767,500**	**$ 0.48**	**2.53**
Granted	400,000	0.47	1.43
Forfeited	(100,833)	0.70	0.16
Expired	(25,000)	0.20	-
Exercised		0.15	1.80
Outstanding as at January 1, 2016	**3,602,501**	**$ 0.33**	**1.35**
Granted	700,000	0.69	0.64
Expired	(957,500)	0.81	0.60
Forfeited	(1,000,000)	0.66	0.53
Exercised	(299,166)	0.18	-
Outstanding as at December 31, 2016	**2,045,835**	**$ 0.18**	0.86

Options exercisable as at December 31, 2014	**2,461,166**	**$0.45**
Options exercisable as at December 31, 2015	**3,301,168**	**$0.39**
Options exercisable as at December 31, 2016	**1,820,835**	**$0.19**

The weighted average remaining contractual life for the stock options outstanding as at December 31, 2016 was 0.86 years (2015 – 1.21 years, 2014 – 2.07 years). The range of exercise prices for the stock options outstanding as at December 31, 2016 was $0.14 - $0.24 (2015 - $0.13 - $1.70, 2014 - $0.13 - $1.70). The weighted average grant-date fair value of options granted to management, employees, directors and consultants during 2016 has been estimated at $0.26 (2015 - $0.15, 2014 - $0.07) using the Black-Scholes option-pricing model. The estimated fair value of the options granted is expensed immediately.

The vesting period on the options granted in 2016 was nine months after grant date. In 2015, the vesting periods on the options granted was immediate. In 2014, the vesting periods were as follows, 435,000 stock options vested immediately upon issuance, 445,000 stock options will vest quarterly over 18 months, 410,000 stock options will vest quarterly over 12 months, and 300,000 stock options will vest upon achievements of non-market conditions.

The pricing model assumes the weighted average risk free interest rates of 0.44% (2015 – 0.62%, 2014 – 1.21%) weighted average expected dividend yields of nil (2015 – nil, 2014 – nil), the weighted average expected common stock price volatility (based on historical trading) of 107% (2015 – 52%, 2014 – 79%), a forfeiture rate of zero, a weighted average stock price of $0.70 (2015 - $0.58, 2014 – $0.14), a weighted average exercise price of $0.69 (2015 - $0.58, 2014 - $0.14), and a weighted average expected life of years 1.57 (2015 – 1.5 years, 2014 – 3 years), which were estimated based on past experience with options and option contract specifics.

(Expressed in Canadian Dollars, unless otherwise stated)

12. WARRANTS

The following summarizes the warrants outstanding:

	Weighted Average Remaining Contractual Life (Years)	Series	Number of Warrants	Weighted Average Exercise Price
Extended	1.18	A	3,658,668	0.75
Extended	1.36	B	1,875,000	0.75
December 31, 2014			**5,533,668**	
Issued	0.30		5,000,000	0.125
Exercised			(1,700,000)	0.125
December 31, 2015			**8,833,668**	**0.125**
Exercised			(5,711,683)	0.39
Expired			(3,121,985)	0.75
December 31, 2016			**-**	**-**

The 3,658,668 Series A warrants issued on March 4, 2011 and the 1,875,000 Series B 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. During the year ended December 31, 2016, 600,000 Series A warrants were exercised. The exercise price was $0.75 with proceeds of $450,000. During the year ended December 31, 2016, 1,811,683 Series B warrants were exercised. The exercise price was $0.75 with proceeds of $1,358,762.

The 5,000,000 warrants issued in 2015 had an expiry date of April 17, 2016. (Note 9 (v)) During the year-ended December 31, 2016, 3,300,000 warrants were exercised. The exercise price was $0.125 with proceeds of $412,500.

(Expressed in Canadian Dollars, unless otherwise stated)

13. EARNINGS (LOSS) PER SHARE

The income and weighted average number of common shares used in the calculation of basic and diluted income (loss) per share for the years ended December 31, 2016, 2015, and 2014 were as follows:

	2016 Number	2015 Number	2014 Number
Weighted average number of common shares used as the denominator in calculating basic earnings per share	33,987,383	26,288,889	21,986,300
Adjustments for calculation of diluted earnings per share:			
Options	814,609	1,521,831	-
Warrants	149,701	1,273,020	-
Weighted average number of common shares and potential common shares used as the denominator in calculating diluted earnings per share	34,951,693	29,083,740	21,986,300
Basic earnings (loss) per share	**$ 0.00**	$ 0.10	$ 0.01
Diluted earnings (loss) per share	**$ 0.00**	$ 0.09	$ 0.01

14. INCOME TAXES

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

	2016	2015	2014
Combined basic Canadian federal and provincial income tax rate	26.5%	26.50%	26.50%
Effective income tax taxes	$ 17,025	$753,222	$ 109,480
Increase (decrease) resulting from change in the deferred tax assets not recognized	424,000	(693,585)	99,353
Withholding tax	186,832	310,289	260,630
Non-deductible items	62,601	(11,204)	23,013
Change in prior year estimates	(502,753)	(48,433)	(223,357)
	$187,705	$310,289	$ 269,119

(Expressed in Canadian Dollars, unless otherwise stated)

14. INCOME TAXES (Cont'd)

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

	2016	2015
Deferred tax assets:		
Loss carry forwards	$5,832,000	$ 5,200,000
	5,832,000	$ 5,200,000
Deferred tax assets not recognized	(5,004,000)	(4,580,000)
Deferred tax assets recognized	828,000	620,000
Intangibles	(832,000)	(622,000)
Property and equipment	4,000	2,000
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.

At December 31, 2016, the Company has non-capital losses available for carry forward for Canadian income tax purposes amounting to approximately $22,329,000. These losses expire in the following fiscal years:

2017	348,000
2018	2,741,000
2026	784,000
2027	935,000
2028	2,163,000
2029	2,991,000
2030	4,356,000
2031	4,646,000
2032	1,188,000
2033	806,000
2034	436,000
2035	1,000
2036	934,000
	$ 22,329,000

15. GOVERNMENT GRANTS

Included as a reduction of selling, general and administrative expenses are government grants of $229,694 (2015 - $211,729, 2014 - $241,465), relating to the Company's publishing and software projects. At the end of the year, $21,847 (2015 - $20,273, 2014 - $18,207) is included in accounts and grants receivable.

One government grant for the print-based English language learning segment is repayable in the event that the segment's annual net income before tax for the current year and the previous two years exceeds 15% of revenue. During 2016 and 2015, 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 2016, 2015 or 2014 as no sales were generated from this project.

16. FINANCIAL INSTRUMENTS

16.1 Fair values

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

16.2 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:

16.3 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 monetary assets and liabilities denominated in currencies other than Canadian 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.

The company has been exposed to this fluctuation and has not implemented a program against these foreign exchange fluctuations.

(Expressed in Canadian Dollars, unless otherwise stated)

16. FINANCIAL INSTRUMENTS (Cont'd)

16.3 Foreign currency risk (Cont'd)

A 10% strengthening of the US Dollars against Canadian Dollars would have increased the net equity by approximately $294,858 (2015 - $228,000) due to reduction in the value of net liability balance. A 10% of weakening of the US Dollar against Canadian Dollar at December 31, 2016 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, 2016 are as follows:

	US Denominated USD	Euro Denominated Euro	Great Britain Denominated GBP
Cash	17,652	1,786	-
Accounts receivable	2,267,036	-	-
Accounts payable	88,352	-	

The carrying values and the exposure to other denominated monetary assets and liabilities as of December 31, 2015 are as follows:

	US Denominated USD	China Denominated RMB	Euro Denominated Euro
Cash	367,138	4,574	-
Accounts receivable	1,346,490	-	-
Accounts payable	64,298	-	3,960

16.4 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, 2016, the Company had cash of $84,303 (2015 - $409,022), accounts and grants receivable of $3,044,928 (2015 - $1,961,534) to settle current liabilities of $731,158 (2015 - $1,186,167).

16.5 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, 2016, the Company has outstanding receivables of $3,044,928 (2015 - $1,961,534). An allowance for doubtful accounts is taken on accounts receivable if the account has not been collected after a predetermined period of time as determined by the contract and collectability 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.

(Expressed in Canadian Dollars, unless otherwise stated)

17. MAJOR CUSTOMER

The Company has sales to a major customer in 2016 and 2015, a government agency of the People's Republic of China. The total percentage of sales to this customer during the year was 54% (2015 – 39%, 2014 – 65%) and the total percentage of accounts receivable at December 31, 2016 was 52% (2015 – 45%, 2014 – 84%).

In 2016 and 2015, the Company has sales to an online education services distribution company. The total percentage of sales to this customer during the year was 13% (2015 – 50%, 2014 – 9%) and the total percentage of accounts receivable at December 31, 2016 was 24% (2015 – 50%, 2014 – nil).

18. 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 from the approach used in 2016 or 2015.

19. 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 language learning textbook programs in China. It earns significantly higher royalties from Licensing Sales compared to Finished Product Sales.

Online English Language Learning: ELL Technologies is a global web-based educational technology ("EdTech") English language learning training and assessment company. It earns training revenue by developing and hosting online English language learning solutions for its customers, both off the shelf and customized solutions.

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

2016	**Online English Language Learning**	**Print-Based English Language Learning**	**Total**
Segmented assets	$ 5,043,729	$ 2,132,463	$ 7,176,192
Segmented liabilities	326,463	404,696	731,159
Segmented revenue	1,456,421	1,738,800	3,195,221
Segmented direct costs	167,597	217,787	385,384
Segmented selling, general & administrative	625,512	739,224	1,364,736
Segmented intangible amortization	1,003,485	-	1,003,485
Segmented other expense	1,513	193,489	195,002
Segmented profit	(341,660)	588,274	246,614
Segmented intangible addition	1,798,687	-	1,798,687

(Expressed in Canadian Dollars, unless otherwise stated)

19. SEGMENTED INFORMATION (Cont'd)

2015	**Online English Language Learning**	**Print-Based English Language Learning**	**Total**
Segmented assets	$ 3,756,913	$ 1,476,038	$ 5,232,951
Segmented liabilities	717,139	469,028	1,186,167
Segmented revenue	2,954,614	1,971,121	4,925,735
Segmented direct costs	276,049	106,822	382,871
Segmented selling, general & administrative	337,756	721,947	1,059,703
Segmented intangible amortization	721,720	-	721,720
Segmented other expense	3,097	315,771	318,868
Segmented profit (loss)	1,615,992	826,581	2,442,573
Segmented intangible addition	2,071,440	-	2,071,440

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 profit (loss)	(349,165)	669,444	320,279
Segmented intangible addition	544,635	-	544,635

Other Financial Items	**2016**	2015	2014
Print-Based English Language Learning segment income	$ 588,274	$ 826,581	$ 669,444
Online English Language Learning segment income (loss)	(341,660)	1,615,992	(349,165)
Foreign exchange gain	(146,599)	399,314	106,437
Interest and other financial	(35,768)	(158,792)	(217,040)
Share-based payments	-	(151,038)	(65,663)
Other comprehensive income	60,173	(157,358)	(36,607)
Total Comprehensive Income	**$ 124,420**	$ 2,374,699	$ 107,406

(Expressed in Canadian Dollars, unless otherwise stated)

19. SEGMENTED INFORMATION (Cont'd)

Revenue by Geographic Region

	2016	2015	2014
Latin America	$ 821,762	$ 2,660,535	$ 424,892
China	2,252,170	2,069,253	1,822,660
Other	121,289	195,947	264,912
	$ 3,195,221	$ 4,925,735	$ 2,512,464

Identifiable Non-Current Assets by Geographic Region

	2016	2015	2014
Canada	$ 3,467,115	$ 2,374,241	$ 1,004,424
China	-	-	7,598
	$ 3,467,115	$ 2,374,241	$ 1,012,022

20. COMMITMENTS AND CONTINGENCY

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

2017	$ 219,425
2018	203,979
2019	205,486
2020	205,486
2021	36,134

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

21. SUPPLEMENTAL CASH FLOW INFORMATION

	2016	2015	2014
Income taxes and other taxes paid	$ 187,705	$ 310,289	$ 269,119
Interest paid	$ 25,103	$ 106,731	$ 85,876

22. 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. The Company charged $33,020 (2015 - $8,000, 2014 - $nil) to two corporations with one director in common for rent, administration, office charges and telecommunications.

b. Key management compensation was $480,577 (2015 – $424,111, 2014 – $361,405) and is reflected as consulting fees and commissions paid to corporations owned by a director and officers of the Company, of which, $nil (2015 - $241,331, 2014 - $385,566) is unpaid and included in accounts payable and accrued liabilities. Options granted to key management during the year are $nil (2015 - $nil, 2014 - $36,050). Directors and officers exercised 177,500 options with a fair value of $34,100.

c. At the year end, the Company had loans payable bearing interest at 8% per annum due to corporations controlled by directors and officers of the Company in the amount of $50,000 (2015 - $480,000, 2014 - $480,000). Interest expense related to these loans is $351 (2015 - $43,200, 2014 - $43,200).

23. SUBSEQUENT EVENTS

Subsequent to the year end, the Company received $685,000 of unsecured short term bridge loans bearing interest at 8% per annum and $390,000 of these bridge loans were from related parties. On March 31, 2017 and April 30, 2017, the Company repaid all loans, including interest.