

LINGO MEDIA CORPORATION

Condensed Consolidated Interim Financial Statements

For the nine-month period ended September 30, 2018

LINGO MEDIA CORPORATION

Condensed Consolidated Interim Financial Statements

As at September 30, 2018

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

The accompanying unaudited condensed consolidated interim financial statements of Lingo Media Corporation have been prepared by and are the responsibility of the Company's management. These unaudited condensed consolidated interim financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") and reflect Management's best estimates and judgements based on information currently available. The Company's independent auditor has not performed a review of these financial statements in accordance with standards established for a review of interim financial statements by an entity's auditor.

LINGO MEDIA CORPORATION

Condensed Consolidated Interim Financial Statements

As at September 30, 2018

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LINGO MEDIA CORPORATION

Condensed Consolidated Interim Balance Sheets

As at September 30, 2018 and December 31, 2017

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

| | Notes | September 30, 2018 | December 31, 2017 |
|--|-------|-----------------------|----------------------|
| ASSETS | | | |
| Current Assets | | | |
| Cash and cash equivalents | | \$ 118,689 | \$ 327,434 |
| Accounts and grants receivable | 5 | 1,117,294 | 970,467 |
| Prepaid and other receivables | | 116,904 | 205,482 |
| | | 1,352,887 | 1,503,383 |
| Non-Current Assets | | | |
| Property and equipment | 6 | 31,994 | 30,689 |
| Intangibles | 7 | - | - |
| | | \$ 1,384,881 | \$ 1,534,072 |
| EQUITY AND LIABILITIES | | | |
| Current Liabilities | | | |
| Accounts payable | 17 | \$ 604,181 | \$ 486,636 |
| Accrued liabilities | 17 | 143,546 | 155,156 |
| Lease inducement | | 27,875 | 36,526 |
| Loans payable | 8 | 195,000 | 300,000 |
| | | \$ 970,602 | \$ 980,318 |
| Equity | | | |
| Share capital | 9 | \$ 21,914,722 | \$ 21,914,722 |
| Share-based payment reserve | 10 | 3,880,217 | 3,792,678 |
| Accumulated other comprehensive income | | (307,026) | (303,447) |
| Deficit | | (25,073 634) | (24,850,199) |
| | | \$ 414,279 | \$ 553,754 |
| | | \$ 1,384,881 | \$ 1,534,072 |

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 November 29, 2018.

/s/ Michael Kraft

Director

/s/ Martin Bernhotlz

Director

LINGO MEDIA CORPORATION

Condensed Consolidated Interim Statements of Comprehensive Income (Loss)

For the three and nine-month ended September 30, 2018 and 2017

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

| | Notes | For the three months ended September 30 | | For the nine months ended September 30 | |
|--|-------|--|---------------------|---|---------------------|
| | | 2018 | 2017 | 2018 | 2017 |
| Revenue | | \$ 186,518 | \$ 354,914 | \$ 1,227,032 | \$ 2,021,806 |
| Expenses | | | | | |
| Selling, general and administrative expenses | | 303,739 | 290,963 | 928,363 | 881,020 |
| Amortization – intangibles | 7 | - | 370,993 | - | 972,667 |
| Bad debt (recovery) | | (150,340) | - | (293,379) | - |
| Direct costs | | 73,979 | 42,124 | 167,185 | 153,841 |
| Development costs | | 69,864 | - | 407,300 | - |
| Share-based payment | | 14,468 | 34,839 | 87,539 | 65,560 |
| Depreciation – property and equipment | 6 | 1,544 | 1,916 | 4,761 | 4,725 |
| Total Expenses | | 313,254 | 740,835 | 1,301,769 | 2,077,813 |
| Profit / (Loss) from Operations | | (126,736) | (385,921) | (74,737) | (56,007) |
| Net Finance Charges | | | | | |
| Interest expense | | 4,108 | 9,687 | 43,032 | 31,524 |
| Foreign exchange (gain) / loss | | 14,968 | 77,418 | (48,988) | 195,572 |
| Profit / (Loss) before Tax | | (145,812) | (473,026) | (68,781) | (283,103) |
| Income and Other Tax Expense | | 10,738 | 1,787 | 154,654 | 144,643 |
| Net Profit / (Loss) for the Period | | (156,550) | (474,813) | (223,435) | (427,746) |
| Other Comprehensive Income | | | | | |
| Exchange differences on translating foreign operations gain / (loss) | | (4,215) | (819) | (3,579) | (1,767) |
| Total Comprehensive Income / (Loss), Net of Tax | | \$ (160,765) | \$ (475,632) | \$ (227,014) | \$ (429,513) |
| Earnings /(Loss) per Share | | | | | |
| Basic | | \$(0.00) | \$(0.01) | \$(0.01) | \$(0.01) |
| Diluted | | \$(0.00) | \$(0.01) | \$(0.01) | \$(0.01) |
| Weighted Average Number of Common Shares Outstanding | | | | | |
| Basic | | 35,529,132 | 35,529,132 | 35,529,132 | 35,529,132 |
| Diluted | | 35,529,132 | 35,529,132 | 35,529,132 | 35,529,132 |

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 nine-months ended September 30, 2018 and 2017

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

| | Issued Share Capital | | Share- Based Reserves | Accumulated Other Comprehensive Income | Deficit | Total Equity |
|---|----------------------|----------------------|-----------------------------|---|------------------------|---------------------|
| | No. of Shares | Amount | | | | |
| Balance as at January 1, 2017 | 35,529,192 | \$ 21,914,722 | \$ 3,421,165 | \$ (302,037) | \$ (18,588,817) | \$ 6,445,033 |
| Loss for the period | - | - | - | - | (427,746) | (427,746) |
| Other comprehensive loss | - | - | - | (1,767) | - | (1,767) |
| Share based payments charged to operations | - | - | 65,560 | - | - | 65,560 |
| Balance as at September 30, 2017 | 35,529,192 | \$ 21,914,722 | \$ 3,486,725 | \$ (303,804) | \$ (19,016,563) | \$ 6,081,080 |
| Loss for the period | - | - | - | - | (5,833,636) | (5,833,636) |
| Other comprehensive income | - | - | - | 357 | - | 357 |
| Share-based payments charged to operations | - | - | 305,953 | - | - | 305,953 |
| Balance as at December 31, 2017 | 35,529,192 | \$ 21,914,722 | \$ 3,792,678 | \$ (303,447) | \$ (24,850,199) | \$ 553,754 |
| Loss for the period | - | - | - | - | (223,435) | (223,435) |
| Other comprehensive income | - | - | - | (3,579) | - | (3,579) |
| Share-based payments charged to operations | - | - | 87,539 | - | - | 87,539 |
| Balance as at September 30, 2018 | 35,529,192 | \$ 21,914,722 | \$ 3,880,217 | \$ (307,026) | \$ (25,073,634) | \$ 414,279 |

No preference shares were issued at September 30, 2018.

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 and nine-month ended September 30, 2018 and 2017
(Unaudited, expressed in Canadian Dollars, unless otherwise stated)

| | For the three months ended September 30 | | For the nine months ended September 30 | |
|---|--|------------------|---|--------------------|
| | 2018 | 2017 | 2018 | 2017 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Income / (Loss) for the period | \$ (156,550) | \$ (474,813) | \$ (223,435) | \$ (427,746) |
| Adjustments to Net Profit for Non-Cash Items: | | | | |
| Depreciation / amortization – intangibles | - | 370,993 | - | 972,667 |
| Share-based payment | 14,468 | 34,839 | 87,539 | 65,560 |
| Unrealized foreign exchange (gain)/loss | 1,570 | 15,183 | (3,606) | (1,681) |
| Depreciation – property and equipment | 1,544 | 1,916 | 4,761 | 4,725 |
| Lease inducement | (8,651) | (18,872) | (8,651) | (18,872) |
| Operating Income/(Loss) before Working Capital Changes | (147,619) | (70,754) | (143,392) | 594,653 |
| Working Capital Adjustments: | | | | |
| (Increase)/decrease in accounts and grants receivable | (43,451) | 139,525 | (146,827) | 880,627 |
| (Increase)/decrease in prepaid and other receivables | (32,336) | (4,076) | 88,578 | 427,011 |
| Increase/(decrease) in accounts payable | 55,731 | 108,513 | 115,545 | 96,777 |
| Increase/(decrease) in accrued liabilities | 52,640 | 27,580 | (11,610) | (66,072) |
| Cash Generated from/(used in) Operations | (115,035) | 200,788 | (97,706) | 1,932,996 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Investment in intangibles | - | (149,581) | - | (1,740,001) |
| Net liability assumed through acquisition | - | (80,819) | - | (80,819) |
| Purchase of property and equipment | (6,039) | (9,247) | (6,039) | (9,923) |
| Net Cash Flows Generated from / (used in) Investing Activities | (6,039) | (239,647) | (6,039) | (1,830,743) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| Proceeds from loans | - | 300,000 | 420,000 | 985,000 |
| Repayment of loans payable | - | (300,000) | (525,000) | (1,135,000) |
| Net Cash Flows Generated from/(used in) Financing Activities | - | - | (105,000) | (150,000) |
| NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS | (121,074) | (38,858) | (208,745) | (47,746) |
| Cash and Cash Equivalents at the Beginning of the Period | 239,763 | 75,415 | 327,434 | 84,303 |
| Cash and Cash Equivalents at the End of the Period | \$ 118,689 | \$ 36,557 | \$ 118,689 | \$ 36,557 |

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

LINGO MEDIA CORPORATION

Notes to Condensed Consolidated Interim Financial Statements

For the period ended September 30, 2018

(Unaudited - See Notice to Reader)

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 quoted on the OTC Marketplace. The consolidated financial statements of the Company as at and for the period ended September 30, 2018 comprise the Company and its wholly owned subsidiaries: Lingo Learning Inc., ELL Technologies Ltd., ELL Technologies Limited, Vizualize Technologies Corporation, Speak2Me Inc., Parlo Corporation and Lingo Group Limited (the “Group”).

Lingo Media is a global provider of best-in-class digital and print-based English language learning solutions 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 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. This raises the 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 or debt borrowing or through cash flow generated from 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 September 30, 2018 were approved and authorized by the Board of Directors on November 29, 2018.

2.2 Basis of measurement

These condensed consolidated interim 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 September 30, 2018. Control exists when the Company is exposed to, or has the rights to variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity.

LINGO MEDIA CORPORATION

Notes to Condensed Consolidated Interim Financial Statements

For the period ended September 30, 2018

(Unaudited - See Notice to Reader)

2. BASIS OF PREPARATION (Cont'd)

2.3 Basis of consolidation (Cont'd)

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

2.4 Functional and presentation currency

The functional currency is the currency of the primary economic environment in which the entity operates and has been determined for each entity within the Group. These consolidated financial statements are presented in Canadian Dollars, which is the Company's functional currency. 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 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 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

LINGO MEDIA CORPORATION

Notes to Condensed Consolidated Interim Financial Statements
For the period ended September 30, 2018
(Unaudited - See Notice to Reader)

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, 2017, except the following:

New Standards Adopted in Current Year

IFRS 2 'Share-based Payment' was issued by the IASB in June 2016. These amendments provide clarification on how to account for certain types of share-based transaction. The amendments are effective for the annual period beginning on or after January 1, 2018. The adoption of this amendment did not have a material impact on the Company's condensed interim consolidated financial statements.

IFRS 9 'Financial Instruments: Classification and Measurement', introduces new requirements for the classification and measurement of financial instruments, a single forward-looking expected loss impairment model and a substantially reformed approach to hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The adoption of this amendment did not have a material impact on the Company's condensed interim consolidated financial statements.

IFRS 15 'Revenue from Contracts with Customers' was issued by the IASB in June 2014. The objective of IFRS 15 is to provide a single, comprehensive revenue recognition model for all contracts with customers. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. It also contains new disclosure requirements. Under IFRS 15, revenue from the sale of licenses would be recognized at a point in time when control over the products has been transferred to the customer. The Company transfers control and satisfied its performance obligation upon delivery and acceptance by the customer, which is consistent with the Company's current revenue recognition policy under IAS 18. IFRS 15 is effective for the Company on January 1, 2018. The adoption of this amendment did not have a material impact on the Company's condensed interim consolidated financial statements. The disaggregated revenue has been disclosed in Note 15.

5. ACCOUNTS AND GRANTS RECEIVABLE

Accounts and grants receivable consist of:

| | September 30, 2018 | December 31, 2017 |
|-------------------|---------------------|-------------------|
| Trade receivable | \$ 944,809 | \$ 947,911 |
| Grants receivable | 172,485 | 22,556 |
| | <u>\$ 1,117,294</u> | <u>\$ 970,467</u> |

6. PROPERTY AND EQUIPMENT

| | |
|---------------------------------|----------------------|
| Cost, January 1, 2017 | \$ 80,713 |
| Additions | 9,923 |
| Effect of foreign exchange | (942) |
| Cost, September 30, 2017 | <u>\$ 89,694</u> |
| Additions | - |
| Effect of foreign exchange | 93 |
| Cost, December 31, 2017 | <u>\$ 89,787</u> |
| Additions | 6,039 |
| Effect of foreign exchange | 326 |
| Cost, September 30, 2018 | <u>96,152</u> |

LINGO MEDIA CORPORATION

Notes to Condensed Consolidated Interim Financial Statements

For the period ended September 30, 2018

(Unaudited - See Notice to Reader)

6. PROPERTY AND EQUIPMENT (Cont'd)

| | | |
|---|-----------|---------------|
| Accumulated depreciation, January 1, 2017 | \$ | 53,225 |
| Charge for the period | | 4,725 |
| Effect of foreign exchange | | (855) |
| Accumulated depreciation, September 30, 2017 | \$ | 57,095 |
| Charge for the period | | 1,919 |
| Effect of foreign exchange | | 84 |
| Accumulated depreciation, December 31, 2017 | \$ | 59,098 |
| Charge for the period | | 4,761 |
| Effect of foreign exchange | | 299 |
| Accumulated depreciation, September 30, 2018 | \$ | 64,158 |
| Net book value, January 1, 2017 | \$ | 27,488 |
| Net book value, September 30, 2017 | \$ | 32,517 |
| Net book value, December 31, 2017 | \$ | 30,689 |
| Net book value, September 30, 2018 | \$ | 31,994 |

7. INTANGIBLES

| | Software and Web Development | Content Platform | Content Development | Total |
|---|------------------------------------|---------------------|------------------------|----------------------|
| Cost, January 1, 2017 | \$ 9,239,087 | \$ 1,477,112 | \$ 2,474,020 | \$ 13,190,219 |
| Additions | 590,542 | - | 1,149,459 | 1,740,001 |
| Cost, September 30, 2017 | \$ 9,829,629 | \$ 1,477,112 | \$ 3,623,479 | \$ 14,930,220 |
| Impairment | (590,542) | - | (1,149,459) | (1,740,001) |
| Cost, December 31, 2017 | 9,239,087 | 1,477,112 | 2,474,020 | 13,190,219 |
| Cost, September 30, 2018 | \$ 9,239,088 | \$ 1,477,112 | \$ 2,474,020 | \$ 13,190,219 |
| Accumulated depreciation, January 1, 2017 | \$ 8,229,946 | \$ 1,477,112 | \$ 483,152 | \$ 10,190,210 |
| Charge for the period | 522,315 | - | 450,352 | 972,667 |
| Accumulated depreciation, September 30, 2017 | \$ 8,752,261 | \$ 1,477,112 | \$ 933,504 | \$ 11,162,877 |
| Charge for the period | 34,809 | - | 44,452 | 79,261 |
| Impairment | 452,018 | - | 1,496,063 | 1,948,081 |
| Accumulated depreciation, December 31, 2017 | 9,239,088 | 1,477,112 | 2,474,019 | 13,190,219 |
| Accumulated depreciation, September 30, 2018 | \$ 9,239,088 | \$ 1,477,112 | \$ 2,474,019 | \$ 13,190,219 |
| Net book value, December 31, 2017 | \$ - | \$ - | \$ - | \$ - |
| Net book value, September 30, 2018 | \$ - | \$ - | \$ - | \$ - |

LINGO MEDIA CORPORATION

Notes to Condensed Consolidated Interim Financial Statements

For the period ended September 30, 2018

(Unaudited - See Notice to Reader)

7. INTANGIBLES (Cont'd)

The Company began commercial production and sale of its services and products during 2009. In 2018, the Company continued to maintain and upgrade its ELL Technologies' suite of products and invested \$xx (2017 - \$1,740,001). The ELL Technologies' suite of products includes five different products, each designed to suit the needs of different demographic groups. The Company has started the commercial production and sale of three of the five products.

The Company previously capitalized all development costs related to its software web development, content platform, and content development through to December 31, 2016. During the year ended December 31, 2017, there was uncertainty with respect to feasibility and profitability of the projects due to sales not achieving forecasted levels and a resulting decline in expected future cash flows from their intended use. Consequently, the benefit of these development costs may not be realized as soon as previously expected and, as such, the costs incurred during the year ended December 31, 2017 and the period ended September 30, 2018 were expensed rather than capitalized as they did not meet the criteria for capitalization.

8. LOANS PAYABLE

| | September 30 2018 | December 31 2017 |
|--|----------------------|---------------------|
| Loans payable, interest bearing at 12% per annum with monthly interest payments, due on demand (i) | \$ 195,000 | \$ 300,000 |
| | \$ 195,000 | \$ 300,000 |

(i) The Company received an unsecured short-term loan during the period. Included in loans payable are loans amounting to \$90,000 (2017 - \$Nil) from related parties as disclosed in Note 17.

9. SHARE CAPITAL

Authorized

Unlimited number of preference shares with no par value

Unlimited number of common shares with no par value

10. SHARE-BASED PAYMENTS

In December 2017, the Company amended its stock option plan (the "2017 Plan"). The 2017 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 2017 Plan is limited to 7,105,838 shares less the number of shares reserved for issuance pursuant to options granted under the 1996 Plan, the 2000 Plan, the 2005 Plan, the 2009 Plan and the 2011 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 2017 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.

LINGO MEDIA CORPORATION

Notes to Condensed Consolidated Interim Financial Statements

For the period ended September 30, 2018

(Unaudited - See Notice to Reader)

10. SHARE-BASED PAYMENTS (Cont'd)

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 2017 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 2017 Plan or may terminate it at any time.

The following summarizes the options outstanding:

| | Number of Options | Weighted Average Exercise Price | Weighted Average Remaining Contract Life (Yrs) |
|---|-------------------|---------------------------------------|--|
| Outstanding as at January 1, 2017 | 2,045,835 | \$ 0.18 | 0.86 |
| Granted | 1,972,000 | 0.39 | |
| Expired | (938,335) | 0.62 | |
| Outstanding as at September 30, 2017 | 3,079,500 | \$ 0.20 | |
| Granted | 2,040,000 | 0.20 | |
| Expired | (1,110,750) | 0.18 | |
| Forfeited | (9,750) | 0.13 | |
| Outstanding as at December 31, 2017 | 3,999,000 | \$ 0.21 | 2.77 |
| Forfeited | (113,000) | 0.23 | |
| Outstanding as at September 30, 2018 | 3,886,000 | \$ 0.21 | 2.51 |
| Options exercisable as at September 30, 2017 | | 1,451,570 | \$ 0.19 |
| Options exercisable as at December 31, 2017 | | 2,577,000 | \$ 0.21 |
| Options exercisable as at September 30, 2018 | | 3,549,125 | \$ 0.21 |

The weighted average remaining contractual life for the stock options outstanding as at September 30, 2018 was years 1.97 (2017 – 1.30 years, 2016 – 1.38 years). The range of exercise prices for the stock options outstanding as at September 30, 2018 was \$0.20 - \$0.23 (2017 - \$0.13-\$0.24, 2016 - \$0.13-\$0.77). The weighted average grant-date fair value of options granted to management, employees, directors and consultants has been estimated at \$0.12 (2017 - \$0.0762, 2016 - \$0.2641) using the Black-Scholes option-pricing model. The estimated fair value of the options granted is expensed immediately.

The vesting periods on the options granted in 2017 are as follows, 1,995,000 options are vested immediately upon issuance, 185,000 stock options will vest upon achievements of non-market conditions, 1,832,000 stock options was vesting quarterly over 3 years, three months after grant date. In 2016, the vesting periods on the options granted was nine months after grant date. In 2015, the vesting periods on the options granted was immediate.

The pricing model assumed the weighted average risk free interest rates of 1.39% (2017 – 0.85%, 2016 – 0.44%) weighted average expected dividend yields of Nil (2017 – Nil, 2016 – Nil), the weighted average expected common stock price volatility (based on historical trading) of 97% (2017 – 48%, 2016 – 58%), a forfeiture rate of zero, a weighted average stock price of \$0.21, a weighted average exercise price of \$0.21, and a weighted average expected life of 3 years (2017 – 3 years, 2016 – 2.58 years), which were estimated based on past experience with options and option contract specifics.

LINGO MEDIA CORPORATION

Notes to Condensed Consolidated Interim Financial Statements

For the period ended September 30, 2018

(Unaudited - See Notice to Reader)

11. INCOME TAX

Income tax expense is accrued upon recognition of revenue and is withheld at source on remittances from China.

12. GOVERNMENT GRANTS

Included as a reduction of selling, general and administrative expenses are government grants of \$182,077 (2017 - \$172,088), relating to the Company's publishing and software projects. At the end of the period, \$172,485 (2017 - \$166,399) is included in accounts and grants receivable.

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.

13. FINANCIAL INSTRUMENTS

a. 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.

b. 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.

c. Foreign currency risk

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.

A 10% strengthening of the US Dollar against the Canadian Dollar would have increased the net equity approximately by \$35,457 (2017 - \$123,717) due to reduction in the value of net liability balance. A 10% of weakening of the US Dollar against the Canadian Dollar at September 30, 2018 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 September 30, 2018 are as follows:

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13. FINANCIAL INSTRUMENTS (Cont'd)

| | US Denominated |
|---------------------|-------------------|
| Cash | \$ 71,818 |
| Accounts receivable | 730,740 |
| Accounts payable | 56,298 |

d. 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 September 30, 2018, the Company had cash of \$118,689, accounts and grants receivable of \$1,117,294 and prepaid and other receivables of \$116,904 to settle current liabilities of \$970,602.

e. 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 September 30, 2018, the Company has outstanding trade receivables of \$944,809. 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.

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 2018 or 2017.

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

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15. SEGMENTED INFORMATION (Cont'd)

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.

The company reports an aggregate revenue number that incorporates all revenues generated from print-based and online-based segments. The revenue of print-based is the royalty income from People’s Education & Audio Visual Press. The revenue of online-based is from licensing revenue to the Company’s online English Education programs.

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

Segmented Information (Before Other Financial Items Below)

| September 30, 2018 | Online English Language Learning | Print-Based English Language Learning | Total |
|---|---|--|--------------|
| Segmented assets | \$ 260,098 | \$ 1,124,783 | \$ 1,384,881 |
| Segmented liabilities | 237,912 | 732,691 | 970,603 |
| Segmented revenue | 297,022 | 930,010 | 1,227,032 |
| Segmented direct costs | 98,870 | 68,315 | 167,185 |
| Segmented selling, general & administrative | 608,826 | 319,537 | 928,363 |
| Segmented profit / (loss) | (533,255) | 391,403 | (141,852) |
| September 30, 2017 | Online English Language Learning | Print-Based English Language Learning | Total |
| Segmented assets | \$ 5,473,679 | \$ 1,200,393 | \$ 6,674,072 |
| Segmented liabilities | 250,512 | 342,480 | 592,992 |
| Segmented revenue | 1,066,887 | 954,919 | 2,021,806 |
| Segmented direct costs | 86,703 | 67,138 | 153,841 |
| Segmented selling, general & administrative | 450,733 | 430,287 | 881,020 |
| Segmented intangible amortization | 972,667 | - | 972,667 |
| Segmented other expense | 532 | 148,392 | 149,368 |
| Segmented income (loss) | (444,192) | 309,102 | (135,090) |
| Segmented intangible addition | 1,740,001 | - | 1,740,001 |
| Other Financial Items | 2018 | 2017 | |
| Online English Language Learning segmented income (loss) | \$ (533,255) | \$ (444,192) | |
| Print-Based English Language Learning segmented income | 391,403 | 309,102 | |
| Foreign exchange | 48,988 | (195,572) | |
| Interest expense and other financial expense | (43,032) | (31,524) | |
| Share-based payment | (87,539) | (65,560) | |
| Other comprehensive income (loss) | (3,579) | (1,767) | |
| Total Comprehensive Income | \$ (227,014) | \$ (429,513) | |

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Notes to Condensed Consolidated Interim Financial Statements

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15. SEGMENTED INFORMATION (Cont'd)

Revenue by Geographic Region

| | 2018 | 2017 | 2016 |
|---------------|---------------------|---------------------|---------------------|
| Latin America | \$ 240,695 | \$ 1,000,845 | \$ 835,943 |
| China | 952,090 | 968,805 | 1,553,718 |
| Other | 34,247 | 52,156 | 69,251 |
| | \$ 1,227,032 | \$ 2,021,806 | \$ 2,458,912 |

Identifiable Assets by Geographic Region

| | 2018 | 2017 | 2016 |
|--------|---------------------|---------------------|---------------------|
| Canada | \$ 1,378,026 | \$ 6,674,072 | \$ 6,948,988 |
| China | 6,855 | - | 7,262 |
| | \$ 1,384,881 | \$ 6,674,072 | \$ 6,956,250 |

16. SUPPLEMENTAL CASH FLOW INFORMATION

| | 2018 | 2017 | 2016 |
|-----------------------------------|------------|------------|------------|
| Income taxes and other taxes paid | \$ 154,654 | \$ 144,643 | \$ 157,249 |
| Interest paid | \$ 43,032 | \$ 31,524 | \$ 22,786 |

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.

- For the nine-month period ended September 30, 2018, the Company charged \$153,766 (2017 - \$31,687) to corporations with directors or officer in common for rent, administration, office charges and telecommunications.
- Key management compensation for the nine-month period ended September 30, 2018 was \$250,197 (2017 - \$247,500) and is reflected as consulting fees paid to corporations owned by a director and officers of the Company. \$247,500 of the management compensation is included in accounts payable.
- At September 30, 2018, the Company had loans payable due to two corporations controlled by directors and officers of the Company in the amount of \$195,000 (2017 - \$nil) bearing interest at 12% per annum. Interest expense paid related to these loans is \$15,682 (2017 - \$16,050).