

LINGO MEDIA CORP
Form 20-F
April 30, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Annual Report

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE
ACT OF 1934

OR

X ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2013

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934

Date of event requiring this shell company report

For the transition period from _____ to _____

Commission file number 333-98397

LINGO MEDIA CORPORATION

(FORMERLY LINGO MEDIA INC.)

(Exact name of Registrant as specified in its charter)

Ontario, Canada

(Jurisdiction of incorporation or organization)

151 Bloor Street West, #703, Toronto, Ontario, Canada M5S 1S4

(Address of principal executive offices)

Michael Kraft, President & CEO

Tel: (416) 927-7000 x23 Fax: (416) 927-1222 Email: investor@lingomedia.com

Lingo Media Corporation 151 Bloor Street West, #703, Toronto, Ontario, Canada M5S 1S4

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities to be registered pursuant to Section 12(b) of the Act:

None

Securities to be registered pursuant to Section 12(g) of the Act:

Common Shares, without par value

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report. 21,779,177

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined by Rule 405 of the Securities Act

Yes ☐ No ☒

If this report is an annual transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☐ No ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer ☐ Accelerated Filer ☐ Non-accelerated filer ☒

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

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U.S. GAAP ☐ International Financial Reporting Standards as issued by ☐ Other ☐

the International Accounting Standards Board ☒

If "Other" has been checked in response to the previous question mark, indicate by check mark which financial statement item the registrant has elected to follow: Item 17 ☐ Item 18 ☐

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

LINGO MEDIA CORPORATION

FORM 20-F ANNUAL REPORT

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Forward-Looking Statements

This Annual Report on Form 20-F contains certain forward-looking statements, which reflect management's expectations regarding the Company's results of operations, performance, growth, and business prospects and opportunities.

Statements about the Company's future plans and intentions, results, levels of activity, performance, goals or achievements or other future events constitute forward-looking statements. Wherever possible, words such as "may," "will," "should," "could," "expect," "plan," "intend," "anticipate," "believe," "estimate," "predict," or "potential" or the negative or other variations of these words, or similar words or phrases, have been used to identify these forward-looking statements. These statements reflect management's current beliefs and are based on information currently available to management as at the date hereof.

Forward-looking statements involve significant risk, uncertainties and assumptions. Many factors could cause actual results, performance or achievements to differ materially from the results discussed or implied in the forward-looking statements. These factors should be considered carefully and readers should not place undue reliance on the forward-looking statements. Although the forward-looking statements contained in this Annual Report are based upon what management believes to be reasonable assumptions, the Company cannot assure readers that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this Annual Report, and the Company assumes no obligation to update or revise them to reflect new events or circumstances, except as required by law. Many factors could cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements, including: general economic and market segment conditions, competitor activity, product capability and acceptance, international risk and currency exchange rates and technology changes. More detailed assessment of the risks that could cause actual results to materially differ than current expectations is contained in the sections entitled "Risk Factors", "Information on the Company" and "Operating and Financial Review and Prospects".

PART I

ITEM 1. Identity of Directors, Senior Management and Advisors

Not applicable

Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY 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 under the symbol **LM** and inter-listed on the OTC Bulletin Board under the symbol **LMDCF**. The consolidated financial statements of the Company as at and for the year ended December 31, 2013 comprise the Company and its subsidiaries.

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

(See Item 4 “Information on the Company – History and Development of the Company”)

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.

3.A Selected Financial Data

Conversion to International Financial Reporting Standards

The 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 International Financial Reporting Interpretations Committee (“IFRIC”).

The selected financial data should be read in conjunction with the consolidated financial statements and other financial information included elsewhere in the Annual Report.

Lingo Media Corporation (the “Company” or “Lingo Media”) has not declared any dividends since incorporation and does not anticipate that it will do so in the foreseeable future. The present policy of the Company is to retain any future earnings for use in its operations and the expansion of its business.

The following data for the fiscal years ended December 31, 2013, 2012, 2011 and 2010 is derived from our consolidated financial statements prepared in accordance with IFRS and expressed in Canadian Dollars.

	Fiscal Year Ended December 31			
	2013	2012	2011	2010
Revenue	\$2,008,066	\$2,016,261	\$2,066,969	\$1,985,153
Profit/(Loss) from Operations	370,681	(996,816)	(4,203,274)	(3,477,491)

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Total Comprehensive Profit/(Loss)	(56,331)	(1,364,737)	(4,799,626)	(3,403,607)
Total Assets	2,214,590	2,660,648	3,049,175	5,696,341
Current Assets	1,166,151	1,606,441	1,761,715	1,255,472
Issued Share Capital	21,779,177	20,899,177	20,543,177	13,949,189
Weighted Number of Common Shares	21,174,026	20,652,415	18,797,185	13,277,226
Total Equity	510,887	417,292	1,449,834	1,890,826
Dividends per Common Share	NIL	NIL	NIL	NIL
Basic and Diluted Loss per Share	\$(0.00)	\$(0.07)	\$(0.25)	\$(0.26)

The following selected financial data has been extracted from the consolidated financial statements previously filed with our Annual Reports on Form 20-F) for the 2009 fiscal year, which were prepared in accordance with Canadian GAAP and reconciled to accounting principles generally accepted in the United States ("US GAAP").

	Fiscal Year Ended December 31 2009
Revenue from Continuing Operations	\$1,466,696
Loss from Continuing Operations	(2,959,145)
Loss from Discontinued Operations	367,293
Total Comprehensive Loss	(2,591,852)
Total Assets	5,703,152
Current Assets	847,976
Issued Share Capital	12,465,857
Weighted Number of Common Shares	12,460,930
Total Equity	4,415,042
Dividends per Common Share	NIL
Basic and Diluted Loss per Share from Continuing Operations	(0.24)
Basic and Diluted Loss per Share from Discontinued Operations	0.03
US GAAP Loss from Continuing Operations	(2,396,266)
US GAAP Loss from Discontinued Operations	367,293
US GAAP Total Comprehensive Loss	(2,028,973)
US GAAP Total Assets	921,327
US GAAP Equity	(366,783)
US GAAP Loss per Share from Continuing Operations	(0.19)
US GAAP Loss per Share from Discontinued Operations	(0.16)

3.A.3. Exchange Rates

In this Annual Report, unless otherwise specified, all dollar amounts are expressed in Canadian Dollars (\$). The Government of Canada permits a floating exchange rate to determine the value of the Canadian Dollar against the U.S. Dollar (USD).

The table sets forth the rate of exchange for the Canadian Dollar at the end of the five most recent fiscal periods ended December 31st, the average rates for the period and the range of high and low rates for the period. The data for each month during the previous twelve months is also provided.

Table No. 4

U.S. Dollar/Canadian Dollar

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	Average	High	Low	Close
Mar-14	1.1107	1.1251	1.0966	1.1053
Feb-14	1.1055	1.1140	1.0953	1.1075
Jan-14	1.0942	1.1171	1.0613	1.1119
Dec-13	1.0639	1.0697	1.0578	1.0636
Nov-13	1.0492	1.0599	1.0405	1.0599
Oct-13	1.0364	1.0456	1.0284	1.0429
Sep-13	1.0342	1.0533	1.0238	1.0285
Aug-13	1.0409	1.0553	1.0297	1.0553
Jul-13	1.0404	1.0576	1.0261	1.0287
Jun-13	1.0315	1.0532	1.0170	1.0512
May-13	1.0199	1.0371	1.0023	1.0339
Apr-13	1.0187	1.0270	1.0072	1.0072
Fiscal Yr Ended Dec., 31, 2013	1.0302	1.0697	0.9839	1.0636
Fiscal Yr Ended Dec. 31, 2012	0.9996	1.0279	0.9790	0.9902
Fiscal Yr Ended Dec. 31, 2011	0.9959	1.0130	0.98	0.9944
Fiscal Yr Ended Dec. 31, 2010	1.0295	1.0778	0.9946	0.9946
Fiscal Yr Ended Dec. 31, 2009	1.0839	1.3001	0.9961	1.0264

3.B. Capitalization and Indebtedness

Not applicable

3.C. Reasons for the Offer and Use of Proceeds

Not applicable

3.D. Risk Factors

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:

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 are as follows:

Foreign currency risk

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

A 10% strengthening of the US dollars against Canadian dollars would have increased the net equity by \$76,850 (2012 - \$24,484) due to reduction in the value of net liability balance. A 10% of weakening of the US dollar against Canadian dollar at December 31, 2013 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, 2013 are as follows:

	US Denominated		China Denominated	
	CAD	USD	CAD	RMB
Cash	40,826	43,422	1,577	8,978
Accounts receivable	794,664	788,497	691	3,935
Accounts payable	66,988	68,785	-	-

The carrying values and the exposure to other denominated monetary assets and liabilities as of December 31, 2012 are as follows:

	US Denominated		China Denominated	
	CAD	USD	CAD	RMB
Cash	13,962	14,034	20,199	126,697
Accounts receivable	1,428,636	1,435,959	591	3,721
Accounts payable	61,763	62,079	-	-

*USD and RMB are converted at the prevailing year-end exchange rates.

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, 2013, the Company had cash of \$78,091, accounts and grants receivable of \$1,003,440 and prepaid and other receivables of \$84,620 to settle current liabilities of \$1,703,703.

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, 2013, the Company has outstanding receivables of \$1,003,440. An allowance for doubtful accounts is taken on accounts receivable if the account has not been collected after a predetermined period of time and is offset to other operating expenses.

Economic Dependence

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

Market Trends and Business Uncertainties

Lingo Media believes that the trends in English language learning in China are strong and continue to grow. Developing countries around the world, specifically in the Far East and Latin America are expanding their mandates for the teaching of English to students, young professionals and adults. Although the outlook for learning English in China, other Far East countries, and Latin America remains positive, there can be no assurance that this trend will continue or that the Company will benefit from this trend.

If our major customer and distributors of our print-based products in China fail to devote sufficient time and resources to our business, or if their performance is substandard, our revenues will be adversely affected. We have no experience in directly distributing our products in China and no internal capability to do so yet. We have and will continue to establish collaborative relationships, and those relationships may expose us to a number of other unidentifiable risks.

Competitive Markets

We operate in competitive and evolving markets locally, nationally and globally. These markets are subject to rapid technological change and changes in customer preferences and demand. There can be no assurance that we will be able to obtain market acceptance or compete for market share. We must be able to keep current with the rapidly changing technologies, to adapt its services to evolving industry standards and to improve the performance and reliability of its services. New technologies could enable competitive product offerings and adversely affect us and our failure to adapt to such changes could seriously harm its business.

Failure of Delivery Infrastructure to Perform Consistently

Our success as a business depends, in part, on its ability to provide consistently high quality online services to users via the Delivery Infrastructure. There is no guarantee that the Company's Delivery Infrastructure and/or its software will not experience problems or other performance issues. If the Delivery Infrastructure or software fails or suffers performance problems, then it would likely affect the quality and interrupt the continuation of our services and significantly harm the business.

The Company's Delivery Infrastructure is susceptible to natural or man-made disasters such as earthquakes, floods, fires, power loss and sabotage, as well as interruptions from technology malfunctions, computer viruses and hacker attacks. Other potential service interruptions may result from unanticipated demands on network infrastructure, increased traffic or problems in customer service. Significant disruptions in the Delivery Infrastructure could harm the Company's goodwill and its brands and ultimately could significantly and negatively impact the amount of revenue it may earn from its service. Like all Internet transmissions, our services may be subject to interception and malicious attack. Pirates may be able to obtain or copy our products without paying fees. The Delivery Infrastructure is exposed to spam, viruses, worms, spyware, denial of service or other attacks by hackers and other acts of malice. The Company uses security measures intended to make theft of its software more difficult. However, if the Company is required to upgrade or replace existing security technology, the cost of such security upgrades or replacements could have a material adverse effect on our financial condition, profitability and cash flows.

Limited Intellectual Property Protection

The Company relies on a combination of copyright and trademark laws, trade secrets, confidentiality procedures and contractual provisions to protect its proprietary rights. In addition, our success may depend, in part, on its ability to obtain patent protection and operate without infringing the rights of third parties. There can be no assurance that, once filed, the Company's patent applications will be successful, that we will develop future proprietary products that are patentable, that any issued patents will provide us with any competitive advantages or will not be successfully

challenged by any third parties or that the patents of others will not have an adverse effect on the ability of the Company to do business. In addition, there can be no assurance that others will not independently develop similar products, duplicate some or all of our products or, if patents are issued, design their products so as to circumvent the patent protection held by the Company. We will seek to protect its product documentation and other written materials under trade secret and copyright laws which afford only limited protection. Despite precautions taken by the Company, it may be possible for unauthorized third parties to copy aspects of our business and marketing plans or future strategic documents or to obtain and use information that we regard as proprietary. There can be no assurance that the Company's means of protecting its proprietary rights will be adequate or that our competitors will not independently develop similar or superior technology. Litigation may be necessary in the future to enforce our intellectual property rights, to protect trade secrets or to determine the validity and scope of the propriety rights of others. Such litigation could result in substantial costs and diversion of resources.

Government Regulation and Licensing

The operations may be subject to Canadian and foreign provincial and/or state and federal regulations and licensing. There can be no assurance that we will be able to comply with the regulations or secure and maintain the required licensing for its operations. Government regulation and licensing could seriously impact our ability to achieve its financial and operational objectives. The Company is subject to local, provincial and/or state, federal, and international laws affecting companies conducting business on the Internet, including user privacy laws, laws giving special protection to children, regulations prohibiting unfair and deceptive trade practices and laws addressing issues such as freedom of expression, pricing and access charges, quality of products and services, taxation, advertising, intellectual property rights and information security. The restrictions imposed by and the costs of complying with, current and possible future laws and regulations related to its business could limit our growth and reduce client base and revenue.

Operating in Foreign Jurisdictions

The Company's current and future development opportunities relate to geographical areas outside of Canada. There are a number of risks inherent in international business activities, including government policies concerning the import and export of goods and services, costs of localizing products and subcontractors in foreign countries, costs associated with the use of foreign agents, potentially adverse tax consequences, limits on repatriation of earnings, the burdens of complying with a wide variety of foreign laws, nationalization and possible social, labour, political and economic instability. There can be no assurance that such risks will not adversely affect the business, financial condition and results of operations. Furthermore, a portion of expenditures and revenues will be in currencies other than the Canadian Dollar. Foreign exchange exposure may change over time with changes in the geographic mix of its business activities. Foreign currencies may be unfavourably impacted by global developments, country-specific events and many other factors. As a result, future results may be adversely affected by significant foreign exchange fluctuations.

Economic Conditions

Unfavourable economic and market conditions could increase our financing costs, reduce demand for its products and services, limit access to capital markets and negatively impact any access to future credit facilities. Expenditures by advertisers tend to be cyclical, reflecting overall economic conditions as well as budgeting and buying patterns.

Working Capital

We may need to raise additional funds in order to finance our operations. The Company expects that corporate growth will be funded from equity and/or debt financing(s) to help generate needed capital. Insuring that capital is available to increase production; sales and marketing capacity; and to provide support materials and training in the market place and to expand is essential to success. There can be no assurance that financing will be available on terms favorable to us, or at all. If adequate funds are not available on acceptable terms, we may be forced to curtail or cease our operations. Even if we are able to continue our operations, the failure to obtain financing could have a substantial adverse effect on our business and financial results.

Our Public Trading Market is Highly Volatile

The Company's common shares trade on the TSX Venture Exchange under the symbol "LM", and on NASD:OTC BB under the symbol "LMDCF".

The market price of our common shares could fluctuate substantially due to:

- Quarterly fluctuations in operating results;
- Announcements of new products or services by us or our competitors;
- Technological innovations by us or our competitors;
- General market conditions or market conditions specific to our or our customer's industries; or
- Changes in earning estimates or recommendations by analysts.

Penny Stock Rules

Our common shares are quoted on the OTC Electronic Bulletin Board; a FINRA sponsored and operated quotation system for equity securities. It is a more limited trading market than the NASDAQ Capital Market, and timely, accurate quotations of the price of our common shares may not always be available. You may expect trading volume to be low in such a market. Consequently, the activity of only a few shares may affect the market and may result in wide swings in price and in volume.

Our common shares are listed on the OTC Bulletin Board, and are subject to the requirements of Rule 15(g) 9, promulgated under the Securities Exchange Act as long as the price of our common shares is below \$5.00 per share. Under such rule, broker-dealers who recommend low-priced securities to persons other than established customers and accredited investors must satisfy special sales practice requirements, including a requirement that they make an individualized written suitability determination for the purchaser and receive the purchaser's consent prior to the transaction. The Securities Enforcement Remedies and Penny Stock Reform Act of 1990 also requires additional disclosure in connection with any trade involving a stock defined as a penny stock. Generally, the Commission defines a penny stock as any equity security not traded on an exchange or quoted on NASDAQ that has a market price of less than \$5.00 per share. The required penny stock disclosures include the delivery, prior to any transaction, of a disclosure schedule explaining the penny stock market and the risks associated with it. Such requirements could severely limit the market liquidity of the securities and the ability of purchasers to sell their securities in the secondary market.

The stock market has experienced significant price and volume fluctuations, and the market prices of companies, have been highly volatile. Investors may not be able to sell their shares at or above the then current, OTC BB price. In addition, our results of operations during future fiscal periods might fail to meet the expectations of stock market analysts and investors. This failure could lead the market price of our common shares to decline.

There is Uncertainty as to the Company's Shareholders' Ability to Enforce Civil Liabilities Both Within and Outside of the United States

The preponderance of our assets are located outside the United States and are held through companies incorporated under the laws of Canada, Barbados, and Hong Kong and Representative Offices in China and Taiwan. In addition, a majority of our directors and officers are nationals and/or residents of countries other than the United States. All or a substantial portion of the assets of these persons are located outside the United States. As a result, it may be difficult for shareholders to effect service of process within the United States upon these persons. In addition, investors may have difficulty enforcing, both in and outside the United States, judgments based upon the civil liability provisions of the Securities laws of the United States or any State thereof.

ITEM 4. INFORMATION ON THE COMPANY

4.A. History and Development of the Company

Incorporation and Name Changes

The Company was incorporated under the name Alpha Publishing Inc. pursuant to the Business Corporations Act (Alberta) on April 22, 1996. The name was changed to Alpha Ventures Inc. on May 24, 1996. Pursuant to Articles of Continuance effective April 22, 1998, the Company was continued as an Ontario company under the provisions of the Business Corporations Act (Ontario) under the name, Alpha Communications Corp. The name was changed to Lingo Media Inc. on July 4, 2000, and changed to Lingo Media Corporation on October 16, 2007.

The Company currently has five active subsidiaries: Lingo Learning Inc. "LLI", Speak2Me Inc. "S2M", Speak2Me (Beijing) "S2MBJ", ELL Technologies Limited ("ELL Tech"), and ELL Technologies Ltd. ("ELL Ltd.).

LLI was incorporated pursuant to the Business Corporations Act (Ontario) on November 21, 1994 under the name Alpha Corporation. Alpha Corporation changed its name to Lingo Media Ltd. on August 25, 2000 and again on March 6, 2008 to Lingo Learning Inc.

S2M was incorporated pursuant to the Business Corporations Act (Ontario) on February 22, 2007.

S2MBJ was incorporated under the laws of the People's Republic of China on May 22, 2008.

ELL Tech was incorporated pursuant to the Companies Acts 1985 to 1989 of England and Wales on May 23, 2005 under the name Q Group Limited. On April 29, 2010, after acquiring this wholly-owned subsidiary, its name was changed to ELL Technologies Limited.

ELL Ltd. was incorporated pursuant to the Business Corporations Act (Ontario) on February 23, 2012 under the name 2318041 Ontario Inc. 2318041 Ontario Inc. changed its name to ELL Technologies Ltd. on January 15, 2014.

The Company's Executive Office is located at:

151 Bloor Street West, Suite 703

Toronto, Ontario, Canada M5S 1S4

Telephone: (416) 927-7000

Facsimile: (416) 927-1222

E-mail: investor@lingomedia.com

Website: www.lingomedia.com

The Company's Beijing Representative Office is located at:

Room 1113, 11/F

Block A, Gateway, #18 Xiaguangli North Road

East Third Ring Chaoyang District

Beijing 100027, China

The Company's fiscal year ends on December 31st.

The Company's common shares trade on the TSX Venture Exchange under the symbol "LM", and on the OTC BB under the symbol "LMDCF" and are quoted on the Berlin-Bremen Stock Exchange under the symbol "LIM.BE" and the German securities code is (WKN) 121226.

4.B. BUSINESS OVERVIEW

Background

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

As of December 31, 2012, the Company operated two distinct business segments as follows:

(i) Print-Based English Language Learning

The Company continues to maintain and to grow its legacy business through its subsidiary Lingo Learning, a print-based publisher of English language training programs in China since 2001. Lingo Learning has an established presence in China's education market of over 300 million students. To date, it has co-published more than 475 million units from its library of program titles.

China Publishing

Lingo Media has spent 15 years developing English Language Learning (ELL), products, programs, and relationships in the Chinese market. Learning to communicate in English is seen as a top priority for Chinese school students and young adult learners. Along with learning how to use a PC, English skills are perceived as a key determinant of their future levels of prosperity. The Company's ELL books, audio and CD-based programs are unique in that they have a special focus on the spoken language. In addition to developing learning materials, considerable resources have been

expended on the development of relationships with leading Chinese publishers, both in the education and trade sectors, as well as in extensive marketing of Lingo Media's programs.

The Company is capitalizing on its co-development approach in the Chinese market. Lingo Media sees its relationships with leading Chinese publishers; its Canadian and Chinese author teams; and its original custom-developed content as key factors in opening up the Chinese educational market. The Company has secured long-term publishing contracts for the Kindergarten to Grade 12 (K-12) and higher educational markets, which it anticipates will generate ongoing revenue streams from the sale of its programs.

Co-Publishing Partners in China

People's Education Press

People's Education Press ("PEP") a division of China's State Ministry of Education, publishes more than 60% of educational materials for the Kindergarten to Grade 12 ("K-12") market throughout China, for all subjects, including English Language Learning. PEP has a readership of more than 120 million students. Lingo Learning has two programs with PEP. These series target the elementary market of 100 million students: *PEP Primary English* (for Grades 3-6; Chinese students now begin learning English in Grade 3); and *Starting Line* (Grades 1-6); All series include the core textbooks in addition to supplemental activity books, audiocassettes, teacher resource books, and other materials.

Seasonality

The Company may experience some seasonal trends in the sale of its publications. For example, sales of educational published materials experience seasonal fluctuations with higher sales in the Spring (second calendar quarter) and Fall (fourth calendar quarter).

Online English Language Learning

(i) Training Model

ELL Technologies, acquired in 2010, offers over 1,700 hours of interactive learning through a number of product offerings that include *Scholar*, *Master*, *Business*, *Kids*, and *Placement Test*, and other tailor-made solutions. ELL Technologies is marketed in 12 countries through a network of distributors and earns its revenues from licensing and subscription fees.

To further leverage its Speak2Me lesson and technology platform, the Company acquired Parlo in 2009 to expand its online offerings to include fee-based spoken English training solutions for corporations, governments, and educational institutions. This fee-based training service incorporates a reporting platform in the form of a Learning Management System for HR administrators. Parlo's spoken language learning platform has now been integrated into ELL Technologies.

(ii) Social Learning Model

Through its free-to-consumer www.Speak2Me.cn website, the Company operates an online English language learning service in China that includes a unique social learning infrastructure. This website incorporates its proven pedagogy with fun, interactive lesson modules to address the rapidly growing need for spoken English in China. Speak2Me's platform uses speech recognition technology to teach spoken English online through more than 350 targeted lessons that engage users in interactive conversations with a virtual instructor. The www.speak2me.cn website features *Conversational Advertising*TM which allows an advertiser to embed its brand and message inside a lesson that engages a user for 2-3 minutes and also offers sponsorships.

Segmented Information (Before Other Financial Items Below)

	Print-Based English Language Learning	Online English Language Learning	Total
2013			
Revenue	466,869	1,541,197	2,008,066
Segment non-current assets	1,030,584	17,855	1,048,439
Segment assets	1,215,023	999,567	2,214,590
Segment liabilities	496,975	1,206,728	1,703,703
Segment income (loss)	(419,444)	610,385	190,941

	Print-Based English Language Learning	Online English Language Learning	Total
2012			
Revenue	680,321	1,335,940	2,016,261
Segment non-current assets	1,033,270	20,937	1,054,207
Segment assets	1,269,953	1,390,695	2,660,648
Segment liabilities	814,887	1,428,469	2,243,356
Segment income (loss)	(969,533)	(6,075)	(975,608)

2011

Revenue	829,589	1,237,380	2,066,969
Acquisition of property and equipment	334	2,251	2,585
Segment non-current assets	1,087,845	199,615	1,287,460
Segment assets	1,610,229	1,438,946	3,049,175
Segment liabilities	656,422	942,919	1,599,341
Segment income (loss)	(4,074,438)	183,908	(3,186,929)

2010

Revenue	857,335	1,127,818	1,985,153
Acquisition of property and equipment	2,104	968	3,072
Segment non-current assets	4,394,477	46,392	4,440,869
Segment assets	4,821,279	875,062	5,696,341
Segment liabilities	2,158,863	1,646,652	3,805,515
Segment income (loss)	(2,427,641)	(684,542)	(3,112,183)

Other Financial Items

	2013	2012	2011	2010
Print-Based English Language Learning segment income (loss)	\$610,385	\$(6,075)	\$183,908	\$(684,542)
Online English Language Learning segment income (loss)	(419,444)	(969,533)	(4,074,438)	(2,427,641)
Foreign exchange	134,444	25,046	19,709	(24,177)
Interest and other financial	(240,516)	(168,769)	(328,112)	(294,675)
Stock-based compensation	(61,926)	(243,195)	(518,114)	31,609
Accumulated other comprehensive income	(79,274)	(2,211)	(82,579)	(4,181)
Total Comprehensive Loss	\$(56,331)	\$(1,364,737)	\$(4,799,626)	\$(3,403,607)

Revenue by Geographic Region

2013	2012	2011	2010
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China	\$1,543,753	\$1,366,415	\$1,320,945	\$1,311,850
Other	464,313	649,846	746,024	673,303
	\$2,008,066	\$2,016,261	\$2,066,969	\$1,985,153

Identifiable Assets by Geographic Region

	2013	2012	2011	2010
Canada	\$1,919,176	\$2,510,182	\$2,923,211	\$5,665,434
China	295,414	150,466	121,964	30,907
	\$2,214,590	\$2,660,648	\$3,049,175	\$5,596,341

Intangibles	Software and web development	Content Platform	Customer Relationships	Total
Cost, January 1, 2010	6,210,481	-	-	6,223,297
Additions	312,746	1,477,112	130,000	1,919,858
Cost, December 31, 2010	6,523,227	1,477,112	130,000	8,130,349
Additions	126,472	-	-	126,72
Cost, December 31, 2011	6,649,699	1,477,112	130,000	8,256,811
Additions	142,464	-	-	142,464
Cost, December 31, 2012	6,792,163	1,477,112	130,000	8,399,275
Additions	431,711	-	-	431,711
Effect of foreign exchange	1,191	-	-	1,191
Cost, December 31, 2013	7,225,065	1,477,112	130,000	8,832,177
Accumulated depreciation, Jan. 1, 2010	1,465,490	-	-	1,465,490
Charge of the year	2,230,132	174,792	38,458	2,443,382
Accumulated depreciation, Dec. 31, 2010	3,695,622	174,792	38,458	3,908,872
Charge of the year	2,184,396	295,422	65,000	2,544,818
Impairment Loss	703,600	-	-	703,600
Accumulated depreciation, Dec. 31, 2011	6,583,618	470,214	103,458	7,157,290
Charge of the year	42,978	296,232	26,542	365,752
Accumulated depreciation, Dec. 31, 2012	6,626,596	766,446	130,000	7,523,042
Charge of the year	135,627	295,422	-	431,049
Effect of foreign exchange	1,191	-	-	1,191
Accumulated depreciation, Dec. 31, 2013	6,763,414	1,061,868	130,000	7,955,282
Net book value, Dec. 31, 2010	2,840,241	1,302,320	91,542	4,234,283
Net book value, Dec. 31, 2011	66,081	1,006,898	26,542	1,099,521
Net book value, Dec. 31, 2012	165,567	710,666	-	876,233
Net book value, Dec. 31, 2013	461,651	415,244	-	876,895

The Company began commercial production and sale of its services and products during 2009 and started amortizing the cost of software and web development costs on a straight-line basis over the useful life of the assets which is estimated to be 3 years. During 2011, the Company recognized an impairment loss of \$703,600 in relation to its software and web development in Speak2Me because the carrying value of the software and web development exceeded the expected recoverable amount. The recoverable amount is based on management's best estimate of the selling price, less costs to sell. In 2013, the Company focused on redesign and upgrade of its ELL Technology suite of products and invested \$431,711 in the product development cost. The project is expected to be complete in 2015, however, the Company has started the commercial production and sale of some of its products. No impairment was

recognized in 2012 or 2013.

4.C. Organization Structure

See 4.A. “History and Development of the Company” for more information.

Name of subsidiary	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting rights held				
			December 31, 2013	December 31, 2012		December 31, 2011	
Lingo Learning Inc.	Developer and publisher of English language learning print and audio-based products	Canada	100%	100	%	100	%
Speak2Me Inc.	Free English language learning online service	Canada	100%	100	%	100	%
ELL Technologies Limited	English language learning multi-media & online training service	U.K.	100%	100	%	100	%
ELL Technologies Ltd. ¹	English language learning multi-media & online training service	Canada	-	-		-	
Speak2Me Education Information & Technology Co. Ltd.	Marketing and sales of Speak2Me service and products	China	100%	100	%	100	%

Notes:

1. This subsidiary was acquired in January 2014.

4.D. Property and Equipment

The Company’s executive offices are located in rented premises of approximately 4,270 sq. ft. at 151 Bloor Street West, Suite 703, Toronto, Ontario, Canada M5S 1S4. The Company began occupying these facilities, through its subsidiary Lingo Learning Inc. in March 2006.

The Company's Beijing representative offices are located in rented premises of approximately 2,174 sq. ft. at Room 1113, 11/F, Block A, Gateway, #18 Xiaguangli North Road, East Third Ring Chaoyang District, Beijing 100027, China.

The Company has office equipment, furniture and computer equipment located in these offices and for the fiscal years ended December 31, 2013, 2012, 2011, 2010, and 2009, they have a net carrying value of \$31,926, \$38,356, \$48,321, \$58,161, and \$73,351, respectively.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion for the fiscal years ended December 31, 2013, December 31, 2012, and December 31, 2011 should be read in conjunction with the consolidated financial statements of the Company and the notes thereon.

The following discussion contains forward-looking statements that are subject to significant risks and uncertainties. Readers should carefully review the risk factors described herein and in other documents the Company files from time to time with the Securities and Exchange Commission.

5.A Overview

Critical Accounting Policies and Estimates

BASIS OF PREPARATION

Statement of compliance and going concern

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

These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business. The Company has incurred significant losses recurring over the years. This raises significant doubt about the Company’s ability to continue as a going concern. The ability of the Company to continue as a going concern is dependent upon raising additional financing through share issuance, borrowing, sales contracts and distribution agreements. There are no assurances that the Company will be successful in achieving these goals.

Basis of measurement

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

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and the entities controlled by the Company (the “Group”) as at December 31, 2013. 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.

Functional and presentation currency

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

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

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

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

- Determination of functional and presentation currency
- Determination of the recoverability of the carrying value of intangible assets and goodwill
- Determination of impairment loss
- Recognition of government grant and grant receivable
- Recognition of deferred tax assets
- Valuation of share-based payments
- Recognition of provisions and contingent liabilities

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

Revenue from royalty and licensing sales in China is recognized based on confirmation of finished products produced by its 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.

Revenue from fee-based English language training and assessment services and licenses are recognized on a straight line basis over the term of the agreement and when collectability is reasonably assured. Revenue from online advertising and sponsorships in China is recognized at the time of delivery and when collectability is reasonably assured.

Comprehensive income

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

Property and equipment

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

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

Software and web development costs

The Company capitalizes all costs related to the development of its free-to-consumer and fee-based ELL 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 materials, direct labour and an appropriate proportion of overheads. 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.

Content Platform

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

Customer relationships

The Company acquired customer relationships through its acquisition of ELL Technologies. The customer relationships are being amortized on a straight-line basis over the useful life of the asset which is estimated to be 2 years.

Goodwill

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

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

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

Government grants

The Company receives government grants based on certain eligibility criteria for book publishing industry development in Canada. These government grants are recorded as a reduction of general and administrative expenses to offset direct costs funded by the grant. 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.

Deferred income taxes

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

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

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

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

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.

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 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 income statement and recognized as part of the gain or loss on disposal. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into Canadian Dollars at the balance sheet rate.

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

Earnings (loss) per share

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

Share-based compensation plan

The share-based compensation plan allows 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.

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

Financial instruments

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

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

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

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

The Company has classified its financial instruments as follows:

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

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

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

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

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

Impairment of long-lived assets

The Company's property and equipment and intangibles with finite lives are reviewed for an indication of impairment at each balance sheet date. Goodwill is reviewed for impairment annually or at any time if an indicator of impairment exists. If indication of impairment exists, the asset's recoverable amount is estimated. The recoverable amount is the greater of the asset's fair value less costs to sell 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.

Operating Results

Financial information for the year ended December 31, 2013, 2012 and 2011 was prepared in accordance with IFRS.

Fiscal Year Ended December 31, 2013 vs. Fiscal Year Ended December 31, 2012

Revenues from print-based English language learning for the year ended December 31, 2013 were \$1,541,197 compared to \$1,335,940 for fiscal 2012. Direct costs associated with publishing revenue are kept to a minimum and has been consistent throughout the years. The Company continues to maintain its relationship with PEP and is investing in the development of its existing and new programs and marketing activities to maintain and increase its royalty revenues.

Publishing revenue for the year ended December 31, 2013 increased 15% compared to fiscal 2012. This increase is mainly attributed to the increased royalties through licensing sales to local publishers rather than direct sales made by PEP. Since the State Ministry of Education has mandated the increase of licensing sales vs. direct sales to local publishers, PEP had increased its licensing sales revenues. The Company expects this trend to continue but it does not have any control over PEP's attempt to enter into licensing sales vs. direct sales with additional local publishers.

In 2013, Lingo Media generated \$466,869 in online English language learning revenue as compared to \$680,321 in 2012, a decrease of 31%. This decrease in sales is due to the fact that the Company had minimized its sales efforts related to its ELL Technologies legacy suite of products. The Company has been completely redesigning the user interface, learning management system and the multi-browser delivery system for desktops and tablets for its ELL Technologies suite of products including *Scholar*, *Master*, *Business*, *Kids*, and *Placement Test*. The product overhaul has been completed and full sales efforts have resumed.

Selling, General and Administrative Costs

Selling, general and administrative expenses were \$941,462 in fiscal 2013 compared to \$2,121,237 for fiscal 2012, a reduction of 56%. This decrease was due to the rationalization of costs related to the operations of both business segments. Selling, general and administrative expenses for the two segments are segregated below.

(i) Print-Based English Language Learning

Selling, general and administrative costs for print-based publishing decreased significantly from 2012 to 2013. The decrease in sales, marketing & administration and professional fees was primarily due to cost rationalization efforts in 2013. The increase in grants reflects the re-assessment of a liability and a one-time increase of \$87,737 was recorded. The following is a breakdown of selling, general and administrative costs directly related to print-based English language learning:

	2013	2012
Sales, marketing & administration	\$ 189,676	\$ 436,081
Consulting fees	396,809	468,678
Travel	84,705	60,118
Premises	131,257	146,715
Shareholder service	54,073	51,812
Professional fees	60,696	130,379
Less: Grants	(271,647)	(186,893)
	\$645,569	\$1,106,890

(ii) Online English Language Learning

Selling, general and administrative costs related to online English language learning were \$295,893 for fiscal 2013 compared to \$1,014,346 for the same period in 2012. Selling, general and administrative costs for this business unit continued to decrease in 2013 as a result of further cost rationalization.

	2013	2012
Sales, marketing & administration	\$133,138	\$650,729
Consulting fees and salaries	69,213	152,170
Travel	7,990	14,810
Premises	32,814	58,318
Professional fees	52,738	79,986
Grant repayment accrual	-	58,333
	\$295,893	\$1,014,346

Government Grants

Lingo Media makes applications to the Canadian Government for various types of grants to support its publishing and international marketing activities. Each year, the amount of any grant may vary depending on certain eligibility criteria (including prior year revenues) and the monies available to and the number of eligible candidates. These government grants are recorded as a reduction of general and administrative expenses to offset direct costs funded by the grant. During the year, the Company recorded \$271,647 of such grants.

One government grant for the print-based English language learning segment is repayable in the event that the segment's annual net income for each of the previous two years exceeds 15% of revenue and at such time a liability would be recorded. During the year, the conditions for the repayment of the government grant were not met 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 2013 or 2012 as no sales were generated from this project.

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

While the Company will continue to apply for various government grants to fund its ongoing development and market expansion, there can be no assurance the Company will be successful in obtaining these grants in the future or that the Company will meet the eligibility requirements for the grants or that the grant programs will continue to be offered.

Segment Information

Total comprehensive loss for the Company was \$56,331 for the year ended December 31, 2013 as compared to \$1,364,737 in 2012. These losses can be attributed to the two operating segments and other financial costs as shown below:

Online English Language Learning	2013	2012
Revenue	466,869	680,321
Expenses:		
Direct costs	153,200	261,341
Selling, general & administrative	295,893	1,014,346
Amortization of property & equipment	3,533	4,177
Amortization of development costs	431,049	365,752
Income taxes and other taxes	2,638	4,238
	886,313	1,649,854
Segment Loss - Online English Language Learning	(419,444)	(969,533)

Print-Based English Language Learning	2013	2012
Revenue	1,541,197	1,335,940
Expenses:		
Direct costs	42,124	11,714
Selling, general & administrative	645,569	1,106,890
Amortization of property & equipment	4,091	5,662
Income taxes and other taxes	239,028	217,749
	930,812	1,342,015
Segment Income – Print-Based English Language Learning	610,385	(6,075)
Other	2013	2012
Foreign exchange	134,444	25,046
Interest and other financial expenses	(240,516)	(168,769)
Share-based compensation	(61,926)	(243,195)
Other comprehensive income	(79,274)	(2,211)
	(247,272)	(389,129)
Total Comprehensive Loss	(56,331)	(1,364,737)

During the year, the Company continued to invest in product development and redesigned its fee-based online training and assessment service. The majority of its expenses consist of selling, general and administrative expenses detailed in the selling, general and administrative section above. The loss decreased as a result of decreased expenditures related to cost rationalization, and reduced financial expenses and share-based compensation.

Share-Based Payments

The Company amortizes share-based payments with a corresponding increase to the contributed surplus account. During 2013, the Company recorded an expense of \$61,926 compared to \$243,195 during 2012. The decrease in this expense is due to fewer stock options granted and vested, and no financing activities.

Foreign Exchange

The Company recorded foreign exchange gain of \$134,444 as compared to a gain of \$25,046 in fiscal 2012, relating to the Company's currency risk through its activities denominated in foreign currencies. The Company is exposed to foreign exchange risk as a significant portion of its revenue and expenses are denominated in US Dollars, European Euros, and Chinese Renminbi.

Income Tax Expense

The Company recorded a tax expense of \$241,666 for the year ended December 31, 2013 compared to a tax expense of \$221,987 in 2012. This tax is a withholding tax paid on revenues earned in China and repatriated outside of China.

Net Profit / (Loss) for the Year

The Company reported a net profit of \$22,943 for the year ended December 31, 2013, as compared to a net loss of \$(1,362,526) in 2012, an operational improvement of \$1,385,469. This improvement in profitability is primarily attributed to a reduction in selling, general and administrative expenses of \$1,179,775.

Fiscal Year Ended December 31, 2012 vs. Fiscal Year Ended December 31, 2011

Revenues from print-based English language learning for the year ended December 31, 2012 were \$1,335,940 compared to \$1,237,380 for fiscal 2011. Direct costs associated with publishing revenue are kept to a minimum and has been consistent throughout the years. The Company continues to maintain its relationship with PEP and is investing in the development of its existing and new programs and marketing activities to maintain and increase its royalty revenues.

Publishing revenue for the year ended December 31, 2012 increased 8% compared to fiscal 2011. This increase is mainly attributed to the increased royalty through licensing sales to local publishers rather than direct sales made by PEP. Since the State Ministry of Education has mandated the increase of licensing sales vs. direct sales to local publishers, PEP had increased its licensing sales revenues. The Company expects this trend to continue but it does not have any control over PEP's attempt to enter into licensing sales vs. direct sales with additional local publishers.

In 2012, Lingo Media generated \$680,321 in online English language learning revenue as compared to \$829,589 in 2011, a decrease of 18%. This decrease in sales is due to the Company minimizing its sales efforts related to its ELL Technologies legacy suite of products. The Company has been completely redesigning the user interface, learning management system and the multi-browser delivery system for desktops and tablets for its ELL Technologies suite of products including *Scholar*, *Business*, *Business Traveler*, *Master*, *Kids*, and *Placement Test*, and other tailor-made solutions. The redesign is expected to be completed and full sales efforts will resume before the end of the second quarter.

Selling, General and Administrative

Selling, general and administrative expenses were \$2,121,237 in fiscal 2012 compared to \$2,340,555 for fiscal 2011, a reduction of 9%. This decrease was largely due to the rationalization of costs related to the operations of online English language learning services. Selling, general and administrative expenses for the two segments are segregated below.

(i) Print-Based English Language Learning

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Selling, general and administrative cost for print-based publishing increased from 2011 to 2012 primarily because of increased sales and marketing efforts. The increase in sales, marketing & administration was primarily due to increased product revisions of all 12 levels of *PEP* and 8 levels of *Starting Line* products. Professional fees increased due to prior year adjustments as did premises due to the expiry of sub-leases. The following is a breakdown of selling, general and administrative costs directly related to print-based English language learning:

	2012	2011
Sales, marketing & administration	\$436,081	\$234,479
Consulting fee	468,678	590,461
Travel	60,118	67,248
Premises	146,715	74,493
Shareholder service	51,812	81,115
Professional fees	130,379	10,301
Less: Grants	(186,893)	(192,352)
	\$1,106,890	\$865,745

(ii) Online English Language Learning

Selling, general and administrative cost related to online English language learning was \$1,014,346 for fiscal 2012 compared to \$1,474,810 for the same period in 2011. Selling, general and administrative costs for this business unit continued to decrease in 2012 as a result of further cost rationalization. Professional fees increased due to prior year adjustments.

	2012	2011
Sales, marketing & administration	\$650,729	\$1,255,232
Consulting fees and salaries	152,170	325,333
Travel	14,810	30,893
Reserve for doubtful accounts	-	(43,569)
Premises	58,318	66,549
Professional fees	79,986	15,372
Less: Grants	58,333	(175,000)
	\$1,014,346	\$1,474,810

Government Grants

Lingo Media makes applications to the Canadian government for various types of grants to support its publishing and international marketing activities. Each year, the amount of any grant may vary depending on certain eligibility criteria (including prior year revenues) and the monies available to the pool of eligible candidates.

These government grants are recorded as a reduction of general and administrative expenses to offset direct costs funded by the grant. During the year, the Company recorded \$128,560 of such grants.

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 and at such time a liability would be recorded. During the year, the conditions for the repayment of the government grant were not met 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.

During 2008, Lingo Media was audited by a government grant agency and was assessed with a repayment of \$115,075 relating to a publishing grant. In 2010, the Company was reassessed with a reduction to the repayment to \$100,000 which is recorded in accrued liabilities and this audit finding is currently under appeal.

While the Company will continue to apply for various government grants to fund its ongoing development and market expansion, there can be no assurance the Company will be successful in obtaining these grants in the future, that the Company will meet the eligibility requirements for the grants or that the grant programs will still be offered.

Segment Information

Total comprehensive loss for the Company was \$1,364,737 for the year ended December 31, 2012 as compared to \$4,799,626 in 2011. These losses can be attributed to the two operating segments and other financial costs as shown below:

Online ELL	2012	2011
Revenue	680,321	829,589
Expenses:		
Direct cost	261,341	168,013
Selling, general & administrative	1,014,346	1,474,810
Amortization of property & equipment	4,177	5,186
Amortization of development costs	365,752	2,544,818
Impairment loss	-	703,600
Income taxes and other taxes	4,238	7,600
	1,649,854	4,904,027
Segment Loss - Online ELL	(969,533)	(4,074,438)
Print-Based ELL	2012	2011
Revenue	1,335,940	1,237,380
Expenses:		
Direct cost	11,714	(26,264)
Selling, general & administrative	1,106,890	865,745
Amortization of property & equipment	5,662	7,414
Amortization of development costs	-	8,807
Income taxes and other taxes	217,749	197,770
	1,342,015	1,089,472
Segment Loss – Print-Based ELL	(6,075)	183,908
Other	2012	2011
Foreign exchange	(25,046)	(19,709)
Interest and other financial expenses	168,769	328,112
Share-based compensation	243,195	518,114
Other comprehensive income	2,211	82,579
	(389,129)	(909,986)
Total Comprehensive Loss	(1,364,737)	(4,799,626)

During the year, the Company continued to invest in product development and is redesigning its fee-based online training and assessment service. The majority of its expenses consist of selling, general and administrative expenses detailed in the selling, general and administrative section above. The loss decreased as a result of decreased expenditures related to cost rationalization, and reduced financial expenses and share-based compensation.

Share-based Payments

The Company amortizes share-based payments with a corresponding increase to the contributed surplus account. During 2012, the Company recorded an expense of \$243,195 compared to \$518,114 during 2011. The decrease in this expense is due to fewer options granted and vested, and no financing activities.

Foreign Exchange

The Company recorded foreign exchange gain of approximately \$25,046 as compared to a gain of approximately \$19,709 in fiscal 2011, relating to the Company's currency risk through its activities denominated in foreign currencies as the Company is exposed to foreign exchange risk as a significant portion of its revenue and expenses are denominated in US Dollars, European Euros, and Chinese Renminbi.

Income Tax Expense

The Company recorded a tax expense of \$221,987 for the year ended December 31, 2012 compared to a tax expense of \$205,370 in 2011. This tax is paid on revenues earned in China.

Net Loss

The Company reported a total comprehensive loss of \$1,364,737 for the year ended December 31, 2012, as compared to \$4,799,626 in 2011. The loss per share in 2012 was \$0.07 as compared to \$0.25 in 2012. In addition to cost rationalization during the year, this significant reduction in loss is mainly due to a reduction in the amortization of intangibles.

5.B Liquidity and Capital Resources

Financial information for the years ended December 31, 2013, 2012 and 2011 was prepared in accordance with IFRS.

As at December 31, 2013, the Company had cash of \$78,091 as compared to \$39,248 in 2012 and \$482,767 in 2011. Accounts and grants receivable of \$1,003,440 were outstanding at the end of 2013 as compared to \$1,446,962 in 2012 and \$1,175,330 in 2011. With 68% of the receivables from PEP and a 180 day collection cycle, the Company does not anticipate an effect on its liquidity. Total current assets amounted to \$1,166,151 (2012 - \$1,606,441, 2011 - \$1,761,715) with current liabilities of \$1,703,703 (2012 - \$2,243,356, 2011 - \$1,599,341) resulting in a working capital deficit of (\$537,552) (2012 - (\$636,915), 2011 - working capital \$162,375).

The Company receives government grants based on certain eligibility criteria for international marketing support and publishing industry development in Canada. These government grants are recorded as a reduction of general and administrative expenses to offset direct costs funded by the grant. The Company receives these grants throughout the year from different agencies and government programs. Each grant is applied for separately based on the Company meeting certain eligibility requirements. The Company has relied on obtaining these grants for its operations and has been successful at securing them in the past, but it cannot be assured of obtaining these grants in the future. Government grants recorded during the year were \$271,647 as compared to \$128,560 in 2012 and \$132,599 in 2011.

The Company plans on raising additional equity through private placement financings, as the capital markets permit, in an effort to finance its growth plans and expansion into new international markets. The Company has been successful in raising sufficient working capital in the past.

The Company has incurred significant losses over the years. This raises significant doubt about the Company's ability to continue as a going concern. The ability of the Company to continue as a going concern is dependent upon raising additional financing through the issuance of equity, debt financing, sales contracts and distribution agreements. The outcome of these matters is partially dependent on factors outside of the Company's control.

5.C Research and Development

During the years ended December 31, 2013, 2012 and 2011, respectively, the Company expended \$876,895, \$876,233, and \$1,099,521 on intangibles, under the categories of "software and web development costs", "content platform" and "customer relationships". These expenditures in 2013, 2012, and 2011 were primarily directed at developing the ELL Technologies products for the international market.

5.D Trend Information

Lingo Media believes that the trends in English language learning are strong and will continue to grow. Developing countries around the world, specifically in the Far East and Latin America are expanding their mandates for the teaching of English to students, young professionals and adults. Although the outlook for learning English in China, other Far East countries, and Latin America remains positive, there can be no assurance that this trend will continue or that the Company will benefit from this trend.

5.E Off-Balance Sheet Arrangements

The Company has not entered into any off-balance sheet finance arrangements.

5.F Tabular disclosure of contractual obligations

Our obligations as of December 31, 2013 were as follows:

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

2014	\$230,896
2015	194,932
2016	40,091

The rent expense associated with operating lease for premise and equipment is recognized on a straight-line basis. As a result of the acquisition of ELL Technologies, the Company will owe royalties of 3-9% (Year 2) and 2-8% (Year 3) of ELL Technologies revenues based upon a number of gross revenue targets. Royalty amounts will be due on a quarterly basis. As of December 31, 2013, royalties in the amount of \$117,314 (2012 - \$100,206) have been expensed.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

6.A. Directors and Senior Management

Table No. 6

Directors and Senior Management

April 30, 2014

Name	Position	Age	Date of Election/ Appointment
Michael P. Kraft	President/CEO/Director	50	November 1996
Khurram Qureshi	CFO/Secretary/Treasurer	51	April 1997/December 2011
Gali Bar-Ziv	COO	41	June 2009
Scott Remborg	Director	63	July 2000
Jerry Grafstein	Director	59	September 2010
Weibing Gong	Director	45	September 2010
Mohammad El Ammawy	Director	52	August 2013
Martin Bernholtz	Director	51	August 2013

Michael P. Kraft is the President, CEO and a Director of Lingo Media and has been so since its inception in 1996. He is also the Chairman of Buckingham Group Limited, a private merchant banking corporation and President of MPK Inc., a private business consulting corporation to private and public companies since 1994. Mr. Kraft is a director of Pioneering Technology Inc., JM Capital II Corp., HTN Inc. and Southtech Capital Corporation, all TSX Venture Exchange listed companies. He received a Bachelor of Arts in Economics from York University in 1985.

Khurram Qureshi was the Chief Financial Officer of the Company from 1997 to July 2009, and reappointed in December 2011. Mr. Qureshi received a Bachelor of Administrative Studies from York University in 1987 and received the Chartered Accountant designation in 1990. Mr. Qureshi is also a partner at CQK, Chartered Accountants LLP.

Gali Bar-Ziv brings more than 10 years of management and entrepreneurial experience, including financing, mergers and acquisitions, strategic planning, channel development and corporate development. Most recently, Gali profitably grew a sales, marketing and distribution start-up to sales growth of more than 700% year over year. Prior to that, Gali successfully turned around the largest service division of a \$300MM financial services company. Gali holds a Bachelor of Law (LL.B) degree from the University of London and an MBA in Strategic and Entrepreneurial studies from the Schulich School of Business in Toronto.

Scott Remborg is an independent consultant in the Information Technology and eCommerce sector. From 1994 to 1999, he initiated and led the development of Sympatico, Canada's largest Internet service and portal, for Bell Canada and twelve other telecommunications companies across Canada. From 2001 to 2003, Mr. Remborg was General Manager, eBusiness, at Air Canada. He also held senior management positions at Reuters and I.P. Sharp Associates. Mr. Remborg has an MBA from BI Norwegian School of Management and the University of Alberta.

The Honourable Jerry S. Grafstein, Q.C., holds degrees from the University of Western Ontario and the University of Toronto and has taught the Bar Admission Course at Osgoode Hall. Mr. Grafstein has wide-ranging legal and business experience in all aspects of media. He was a co-founder of a range of media companies, focusing on broadcasting, cable, communications, and publication enterprises in Canada, the USA, the UK and South America. He advised several key government ministries, including Transportation, External Affairs, Consumer and Corporate Affairs and Justice. He was appointed to the Senate of Canada in 1984 by then Prime Minister Pierre Elliott Trudeau. Mr. Grafstein has served on all Senate Committees, including the Foreign Affairs and the Legal and Constitutional Affairs Committees. He served as Chairman of the Senate Banking, Trade and Commerce Committee. While in the Senate, he was a long serving Co-Chair of the Canada-United States Inter-Parliamentary Group, and a long serving senior officer of the Organization for Security and Co-Operation in Europe Parliamentary Assembly (OSCE PA). Mr. Grafstein retired from the Senate on January 1, 2010. He continues his law practice in corporate finance and communication law as counsel to Minden Gross LLP in Toronto and remains active in the local affairs in Toronto.

Tommy Weibing Gong holds an Electrical & Mechanics Engineering degree from Huazhong University of Science and Technology in China, and professional IT certifications through his North American education and started his IT career in 1996 in Silicon Valley. He is founder of Polar Bear Energy Inc., a business in the Cleantech and Greentech sector. Mr. Gong is now a leading commercial property developer in Shanghai with his partnership with Shanghai Green Town Plaza Real Estate Development Co., Ltd, Shanghai Zhetie Green Town Real Estate Development Co., Ltd, and through his interests as founder of Zysteq North America Corporation and Chairman of Shanghai Tommy Real Estate Development Co., Ltd, and Shanghai Tommy & Jane Property Investment and Management Co., Ltd.

Mohamed El Ammawy is the Chief Commercial Officer for Orascom Telecom (OTH). Mohamed oversees the commercial functions within OTH and Vimpelcom's BU Asia and Africa covering market development, data & product development, sales, public relations, market planning & pricing as well as customer operations. Mohamed has more than 15 years of commercial and management experience, of which 13 are in the telecom industry. He joined the commercial team of OTH nine years ago; contributed to the success of OTH and participated in the growth of many operators within the group. During his tenure he achieved and delivered many challenging targets in the markets of Pakistan, Algeria, Egypt, Bangladesh, Tunisia, North Korea, and Canada. Prior to joining OTH, Mohamed held different marketing positions at Vodafone Egypt for more than four years. At the onset of his career, he held various marketing & advertising positions at Coca-Cola Egypt. Mohamed holds a Master's degree in Business Administration from ESLSCA Business School in Paris; majoring in International Marketing and a Bachelor degree in Accounting from Ain Shams University in Cairo.

Martin Bernholtz, BBA, CA is the Chief Financial Officer of Kerbel Group Inc. since 1988, an integrated construction and land development company. In this capacity he is responsible for strategy, finance, accounting, taxation and personnel. Mr. Bernholtz has considerable sophisticated business experience in real estate, finance and public markets. Mr. Bernholtz graduated with a Bachelor degree in Business Administration from York University in 1981 and became a Chartered Accountant in 1984. While in practice at Laventhol & Horwath and at BDO Dunwoody he gained considerable experience in the business valuation and litigation support areas.

The Directors have served in their respective capacities since their election and/or appointment and will serve until the next Annual General Meeting or until a successor is duly elected, unless the office is vacated in accordance with the Articles/By-Laws of the Company.

The Senior Management serves at the pleasure of the Board of Directors with management service contracts but without term of office, except as disclosed herein.

No Director and/or Executive Officer has been the subject of any order, judgment, or decree of any governmental agency or administrator or of any court or competent jurisdiction, revoking or suspending for cause any license, permit or other authority of such person or of any corporation of which he is a Director and/or Executive Officer, to engage in the securities business or in the sale of a particular security or temporarily or permanently restraining or enjoining any such person or any corporation of which he is an officer or director from engaging in or continuing any conduct, practice, or employment in connection with the purchase or sale of securities, or convicting such person of any felony or misdemeanor involving a security or any aspect of the securities business or of theft or of any felony.

There are no arrangements or understandings between any two or more Directors or Executive Officers, pursuant to which he was selected as a Director or Executive Officer. There are no family relationships between any two or more Directors or Executive Officers.

6.B. Compensation

The table below sets forth information concerning the compensation paid, during each of the last three fiscal years (as applicable), to the Company's Chief Executive Officer, Chief Financial Officer, and other Executive Officers of the Company and its subsidiaries who received total remuneration, determined on the basis of base salary and bonuses in excess of \$100,000 during the last three fiscal years ended December 31 (the "Named Executive Officers").

Summary Compensation Table

Name and principal position	Year	Salary (\$)	Non-equity incentive						Total compensation (\$)
			Share-based awards (\$)	Option-based awards (\$)(2)	Annual incentive plans	Long-term incentive plans(3)	Pension Value (\$)	All other compensation (\$)(1)	
Michael P. Kraft President, Chief Executive Officer and Director	2013	38,000	Nil	Nil	Nil	Nil	Nil	24,294	62,294
	2012	180,000	Nil	43,290	Nil	Nil	Nil	20,520	243,810
	2011	180,000	Nil	127,045	Nil	Nil	Nil	Nil	307,045
Gali Bar-Ziv Chief Operating Officer	2013	120,000	Nil	Nil	Nil	Nil	Nil	17,084	137,084
	2012	144,000	Nil	14,430	Nil	Nil	Nil	Nil	158,430
	2011	144,000	Nil	222,246	Nil	Nil	Nil	Nil	366,246
Khurram Qureshi Chief Financial Officer	2013	60,000	Nil	Nil	Nil	Nil	Nil	Nil	60,000
	2012	60,000	Nil	14,430	Nil	Nil	Nil	Nil	74,430
	2011	5,000	Nil	Nil	Nil	Nil	Nil	Nil	5,000
Ryan Robertson Chief Financial Officer	2011	100,000	Nil	103,480	Nil	Nil	Nil	Nil	203,480
Notes:									

Perquisites and other personal benefits, securities or property that do not in the aggregate exceed the lesser of (1)\$50,000 and 10% of the total of the annual salary and bonus for any NEO for the financial year, if any, are not disclosed.

The weighted average grant date fair value was calculated in accordance with the Black-Scholes model using the (2)common share price on the date of grant, with the key valuation assumptions being stock-price volatility of 79%, risk free interest rate of 1.35%, no dividend yields, and expected life of 5 years.

"LTIP" or "long term incentive plan" means any plan which provides compensation intended to serve as (3)incentive for performance to occur over a period longer than one financial year, but does not include option or stock appreciation right plans or plans for compensation through restricted shares or restricted share units.

(4) Ryan Robertson was succeeded as Chief Financial Officer by Khurram Qureshi in December 2011.

Management Agreements

Michael P. Kraft

The Company entered into a consulting agreement (the "**Kraft Consulting Agreement**") dated as of October 18, 2007 with MPK Inc. pursuant to which the Company engaged MPK Inc. to provide the services of Michael P. Kraft (the "**Consultant**") to be the President & Chief Executive Officer of the Company. MPK Inc. is a corporation wholly-owned and controlled by Michael P. Kraft.

The Kraft Consulting Agreement provides for an initial term of twenty-four (24) months to begin on January 1, 2008 and was renewed for both January 2010 and 2012. The Kraft Consulting Agreement provides that the Company pay MPK Inc. \$15,000 per month plus reimbursement for certain expenses properly incurred in connection with the Company. In addition to providing an allowance for a health and dental plan, the Kraft Consulting Agreement also provides for an automobile allowance of \$1,500 per month.

Gali Bar-Ziv

The Company entered into a consulting agreement (the "**Bar-Ziv Consulting Agreement**") dated as of June 1, 2009 with Busy Babies Inc. pursuant to which the Company engaged Busy Babies Inc. to provide the services of Gali Bar-Ziv (the "**Consultant**") to be the Chief Operating Officer of the Company. Busy Babies Inc. is a corporation wholly-owned and controlled by Gali Bar-Ziv.

The Bar-Ziv Consulting Agreement provided for an initial term of twelve (12) months to begin on June 1, 2009 and automatic renewals for a further one (1) year unless terminated pursuant to the terms thereof. The Bar-Ziv Consulting Agreement provides that the Company pay the Consultant up to \$12,000 per month plus reimbursement for certain expenses properly incurred in connection with the Company. The Bar-Ziv Consulting Agreement also provides for an automobile allowance of \$500 per month, mobile phone, and parking allowance.

Khurram Qureshi

Mr. Qureshi is engaged by the Company on a month-to-month basis and receives \$5,000 per month plus reimbursement for certain expenses properly incurred in connection with the Company.

Stock Options. The Company grants stock options to Directors, Senior Management and employees; refer to ITEM #6.E., "Share Ownership, Stock Options".

Director Compensation. The non-management directors of the Company are entitled to reimbursement for reasonable travel and other out-of-pocket expenses incurred in connection with attendance at meetings of the Board of Directors. The Board of Directors may award special remuneration to any Director undertaking any special services on behalf of the Company other than services ordinarily required of a Director. Other than indicated below no Director received any compensation for his services as a Director, including committee participation and/or special assignments.

Change of Control Remuneration.

Michael Kraft

1. The Consultant may terminate the Kraft Consulting Agreement upon ninety (90) days written notice to the Company and the Company shall pay to the Consultant, all amounts due and owing up to the effective date of termination. The Consultant may also terminate the Kraft Consulting Agreement for the following reasons: (i) a material change in the position, duties and responsibilities of the Consultant; (ii) the Consultant ceases to be the most senior officer of the Company; (iii) any material reduction in the compensation payable to the Consultant in accordance with the terms of the Kraft Consulting Agreement; and (iv) the Company's head office being located more than 50 kilometres from its current location and the Consultant's current residence ("**Good Cause**"). If the Consultant terminates the Kraft Consulting Agreement for Good Cause the Company shall pay to the Consultant, all amounts due and owing up to the effective date of termination and a settlement amount equal to eighteen (18) months of compensation at the rate of compensation payable to the Consultant immediately prior to the effective

date of termination.

2. The Kraft Consulting Agreement may be terminated by the Company by giving written notice to the Consultant and the Company shall pay to the Consultant, all amounts due and owing up to the effective date of termination and a settlement amount equal to eighteen (18) months of compensation at the rate of compensation payable to the Consultant immediately prior to the effective date of termination.

3. In the event of a change of control, the Consultant may, for a period of six (6) months after the effective date of any such change of control, elect to terminate the Kraft Consulting Agreement with the Company upon eight weeks' notice and the Company shall pay to the Consultant, all amounts due and owing up to the effective date of termination and a settlement amount equal to eighteen (18) months of compensation at the rate of compensation payable to the Consultant immediately prior to the effective date of termination by voluntary resignation. In the event of a change of control and if the Company terminates the Consultant without cause, the settlement amount shall be equal to twenty-four (24) months of compensation at the rate of compensation payable to the Consultant immediately prior to the effective date of termination.

The Consultant is subject to an 18 month non-compete period following the termination of the Kraft Consulting Agreement.

Gali Bar-Ziv

The Consultant may terminate the Bar-Ziv Consulting Agreement upon ninety (90) days written notice to the Company and the Company shall pay to the Consultant, all amounts due and owing up to the effective date of termination. The Consultant may also terminate the Bar-Ziv Consulting Agreement for the following reasons: (i) a material change in the position, duties and responsibilities of the Consultant; (ii) the Consultant ceases to be the most senior officer of the Company; (iii) any material reduction in the compensation payable to the Consultant in accordance with the terms of the Bar-Ziv Consulting Agreement; and (iv) the Company's head office being located more than 50 kilometres from its current location and the Consultant's current residence ("**Good Cause**"). If the Consultant terminates the Bar-Ziv Consulting Agreement for Good Cause the Company shall pay to the Consultant, all amounts due and owing up to the effective date of termination and a settlement amount equal to six (6) months of compensation at the rate of compensation payable to the Consultant immediately prior to the effective date of termination.

2. The Bar-Ziv Consulting Agreement may be terminated by the Company by giving written notice to the Consultant and the Company shall pay to the Consultant, all amounts due and owing up to the effective date of termination.

The Consultant is subject to a nine month non-compete period following the termination of the Bar-Ziv Consulting Agreement.

Other Compensation. No Executive Officer/Director received "other compensation" in excess of the lesser of US\$25,000 or 10% of such officer's cash compensation, and all Executive Officers/Directors as a group did not receive other compensation which exceeded US\$25,000 times the number of persons in the group or 10% of the compensation.

Bonus/Profit Sharing/Non-Cash Compensation. Except for the stock option program discussed in ITEM #6.E., the Company has no material bonus or profit sharing plans pursuant to which cash or non-cash compensation is or may be paid to the Company's Directors or Executive Officers.

Pension/Retirement Benefits. No funds were set aside or accrued by the Company during Fiscal 2012 to provide pension, retirement or similar benefits for Directors or Executive Officers.

6.C. Board Practices

6.C.1. Terms of Office.

The Directors have served in their respective capacities since their election and/or appointment and will serve until the next Annual General Meeting or until a successor is duly elected, unless the office is vacated in accordance with the Articles/By-Laws of the Company.

The Senior Management serves at the pleasure of the Board of Directors with management service contracts but without term of office, except as disclosed herein.

6.C.2. Termination benefits

Not applicable

6.C.3. Board of Director Committees.

The Company has established an Audit Committee, Compensation Committee and Corporate Governance Committee in compliance with the Guidelines.

The Audit Committee assists the Board in its oversight of: (i) the integrity of the financial reporting of the Company; (ii) the independence and performance of the Company's external auditors; and (iii) the Company's compliance with legal and regulatory requirements. The members of the Audit Committee during the past fiscal year were Tommy Gong (Chairman), Scott Remborg, and Michael Kraft, Messrs. Gong and Remborg being independent as defined in the Guidelines. Following the 2013 shareholder meeting, the Committee was comprised of Martin Bernholtz (Chair), Scott Remborg, and Michael Kraft. Messrs. Gong and Remborg being independent as defined in the Guidelines.

The Compensation Committee assists the Board in fulfilling its obligations relating to human resource and compensation matters of the Company and its subsidiaries and to establish a plan for the continuity and development of senior management. The members of the Compensation Committee during the past fiscal year were Scott Remborg (Chairman), Jerry Grafstein, and Michael Kraft, Messrs. Grafstein and Remborg being independent as defined in the Guidelines. Following the 2013 shareholder meeting, the Committee was comprised of Scott Remborg (Chair), Jerry Grafstein, and Tommy Gong. All being independent as defined in the Guidelines.

The Corporate Governance Committee assists the Board by: (i) developing, reviewing and planning the Company's approach to corporate governance issues, including developing a set of corporate governance principles and guidelines specifically applicable to the Company; (ii) identifying and recommending to the Board potential new nominees to the Board; (iii) monitoring management's succession plan for the Chief Executive Officer (the "CEO") and other senior management; and (iv) overseeing enforcement of and compliance with the Company's proposed Code of Business Conduct. The members of the Corporate Governance Committee during the past fiscal year were Messrs. Grafstein (Chairman), Remborg and Kraft, Messrs. Grafstein and Remborg being independent directors as defined in the Guidelines. Following the shareholder meeting, Mr. Kraft was succeeded by Mr. Bernholtz.

6.E. Share Ownership

Table No. 7 lists, as of March 31, 2014, Directors and Executive Officers who beneficially own the Company's voting securities and the amount of the Company's voting securities owned by the Directors and Executive Officers as a group. Table No. 7 includes all persons/companies where the Company is aware that they have 5% or greater beneficial interest in the Company's securities.

Table No. 7

Shareholdings of Directors and Executive Officers

Shareholdings of 5% Shareholders

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership ⁽¹⁾	Percent of Class
Common	Michael P. Kraft ⁽²⁾⁽⁴⁾	1,764,905 ⁽⁵⁾	8.1%
Common	Khurram Qureshi	134,990 ⁽⁷⁾	*
Common	Gali Bar-Ziv	101,500 ⁽⁸⁾	*
Common	Scott Remborg ⁽²⁾	154,372 ⁽⁶⁾	*
Common	Tommy Gong	[nil] ⁽¹⁹⁾	*
Common	Jerry Grafstein	200,000 ⁽¹⁰⁾	*
Common	Mohammed El Ammawy	[nil]	*
Common	Martin Bernholtz	70,000 ⁽¹¹⁾	*
Common	Orascom Telecom Holding SAE	2,857,143	13.1%
Common	SCP Partners	2,016,617	9.2%
As a group (10 parties)		7,299,527	33.5%

* Less than 1%.

(1) The information as to voting securities beneficially owned, controlled or directed, not being within the knowledge of the Company, has been furnished by the respective individuals.

(2) Member of the Audit Committee.

(3) Member of the Compensation Committee.

(4) Member of the Corporate Governance Committee.

Of such shares, 95,636 are held in Mr. Kraft's RRSP, and 1,669,269 are held by Buckingham Group Limited, a

(5) company controlled by Mr. Kraft. Mr. Kraft also holds 550,000 options and 166,670 warrants to purchase up to an additional 716,670 common shares of the Company.

(6) Of such shares, 3,428 are held in Mr. Remborg's RRSP account. Mr. Remborg also holds options to purchase up to an additional 215,750 common shares of the Company.

(7) Of such shares, 58,250 are held in Mr. Qureshi's RRSP account, and 51,925 are held in his wife's RRSP account. Khurram Qureshi also holds options to purchase up to an additional 200,000 common shares of the Company.

(8) Of such shares, 2,000 are held in Mr. Bar-Ziv's RRSP, and 99,500 are held by Busy Babies Inc., a company controlled by Mr. Bar-Ziv. Mr. Bar-Ziv also holds 540,000 options and 30,000 warrants to purchase up to an additional 570,000 common shares of the Company.

(9) Tommy Gong also holds options to purchase up to an additional 82,500 common shares of the Company.

(10) Of such shares, 200,000 are held by New Court Corporation, a company controlled by Mr. Grafstein. Mr. Grafstein also holds options to purchase up to an additional 172,500 common shares of the Company.

(11) Mr. Bernholtz also holds options to purchase up to an additional 37,500 common shares of the Company.

Stock Options

TSX Venture Exchange Rules and Policies

The terms and conditions of incentive options granted by the Company are done in accordance with the rules and policies of the TSX Venture Exchange ("TSX VEN"), including the number of common shares under option, the exercise price and expiration date of such options, and any amendments thereto.

Such “terms and conditions”, including the pricing of the options, expiration and the eligibility of personnel for such stock options; are described below. The TSX VEN policy in respect of incentive stock options provides that shareholder approval is not required if the aggregate number of common shares that may be reserved for issuance pursuant to incentive stock options does not exceed 10% of the issued common shares of the Company, 5% to any one individual and 2% to any consultant at the time of granting.

Shareholder approval of the grant of incentive stock options is required pursuant to the rules of the TSX VEN where the grant will result in the Company having options outstanding which, in aggregate, are exercisable to acquire over 10% (to a maximum of 20%) of the outstanding common shares of the Company. In addition, disinterested shareholders (all shareholders excluding insiders and associates of insiders) approval is required pursuant to the rules of the TSX VEN where:

(a) grant of incentive stock options could result at any time in:

- (i) the Company having options outstanding to insiders which, in aggregate, are exercisable to acquire over 20% of the outstanding common shares of the Company; or
- (ii) the issuance to insiders, within a one year period, of common shares which, in aggregate, exceed 10% of the outstanding common shares of the Company; or
- (iii) the issuance to any one insider and such insider's associates, within a one year period, of common shares which, in aggregate, exceed 5% of the outstanding common shares of the Company; or
- (iv) the issuance to any consultant of common shares which, in aggregate, exceed 2% of the outstanding common shares of the Company; or

(b) the Company is proposing to decrease the exercise price of stock options held by any insiders.

Company Stock Option Plan

The Board has approved a stock option plan (the "**Stock Option Plan**") whereby options may be granted to directors, officers, employees, consultants of the Company and its subsidiaries. The number of shares which may be reserved for issuance under the Stock Option Plan is limited to 4,108,635 common shares, representing approximately 20% of the issued and outstanding common shares of the Company as at November 3, 2011.

The maximum number of common shares which may be reserved for issuance in a 12 month period to any one individual under the Stock Option Plan, shall not, in the aggregate, exceed 5% of the issued and outstanding common shares of the Company at the time of grant. The maximum number of common shares which may be reserved for

issuance in a 12 month period to any consultants and persons engaged in investor relations activities for the Company, shall not, in the aggregate, exceed 2% of the issued and outstanding common shares at the time of grant. Any common shares subject to a prior option granted under the Stock Option Plan which for any reason are cancelled or terminated prior to exercise will be available for a subsequent grant under the Stock Option Plan.

The option price of any common shares cannot be less than the closing price of the shares on the day immediately preceding the day upon which the option is granted less any permitted discount. Options may be granted under the Stock Option Plan to be exercisable for a maximum period of ten years, subject to earlier termination, upon the termination of the optionee's employment, upon the optionee ceasing to be an employee, officer, director or consultant of the Company or any of its subsidiaries, as applicable, or upon the optionee retiring, becoming permanently disabled or dying. The options under the Stock Option Plan are non-transferable. The Stock Option Plan contains provisions for adjustment in the number of shares issuable thereunder in the event of a subdivision, consolidation, reclassification or change of the common shares, a merger or other relevant changes in the Company's capitalization.

On July 5, 2006, October 5, 2007, October 14, 2008, August 18, 2009, September 23, 2010, and December 8, 2011 the Company's shareholders ratified and approved an increase in the number of common shares eligible to be issued under the Company's Stock Option Plan to approximately 20% of the issued and outstanding common shares as at the date of the respective shareholders meetings. Currently, the Stock Option Plan provides that the maximum aggregate number of shares reserved for issuance and which could be purchased upon the exercise of all options granted thereunder could not exceed 4,108,635, which number represented 20% of the 20,543,177 issued and outstanding as at the Record Date of the Company's Annual and Special Meeting on December 8, 2011. As of the date hereof, options to purchase an aggregate of 3,070,500 common shares are outstanding under the Stock Option Plan.

The names and titles of the Directors/Executive Officers of the Company to whom outstanding stock options have been granted and the number of common shares subject to such options are set forth in the Table below as of March 31, 2014, as well as the number of options granted to Directors and officers as a group.

Stock Options Outstanding

Expressed in Canadian Dollars

	Number of securities underlying unexercised options (#)	Option exercise price (C\$)	Option expiration date
Michael P. Kraft	300,000	0.24	November 26, 2017
President, Chief Executive Officer and Director	200,000	0.66	February 15, 2016
	50,000	1.00	February 15, 2016
	100,000	0.24	November 26, 2017
Gali Bar-Ziv	100,000	1.07	February 15, 2016
Chief Operating Officer	340,000	0.66	February 15, 2016
Khurram Qureshi	100,000	0.24	November 26, 2017
Chief Financial Officer	50,000	1.70	February 15, 2016
	50,000	1.00	February 15, 2016

			February 15, 2016
			November 26, 2017
	92,500	0.24	
	42,500	0.66	February 15, 2016
Scott Remborg	50,000	1.00	
	30,750	1.75	February 15, 2016
			May 1, 2014
			November 26, 2017
	82,500	0.24	
Jerry Grafstein	30,000	0.66	February 15, 2016
			November 26, 2017
	62,500	0.24	
Tommy Gong	20,000	0.66	February 15, 2016
			Nil
Mohammed El Ammawy	Nil	Nil	Nil
			November 26, 2017
Martin Bernholtz	37,500	0.24	

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

7.A. Major Shareholders.

7.A.1.a. Holdings By Major Shareholders.

Refer to ITEM #6.E. and Table No. 7. Other than those shareholders set forth in Table No.7, there are no shareholders who hold more than 5% of the Company's shares.

7.A.1.b. Significant Changes in Major Shareholders' Holdings.

There were no significant changes in major shareholders' holdings.

7.A.2. Canadian Share Ownership. March 31, 2014, the Company's registered shareholders' list showed 21,779,177 common shares outstanding with 33 registered shareholders, with 16,728,894 owned by 22 shareholders residing in Canada, 2,028,331 shares owned by 4 registered shareholders in US and 3,021,952 shares owned by 7 foreign registered shareholders.

7.A.3. Control of Company. The Company is a publicly owned Canadian corporation, the shares of which are owned by U.S. residents, Canadian residents and other foreign residents. The Company is not controlled by any foreign government or other person(s) except as described in ITEM #4.A., "History and Development of the Company", and ITEM #6.E., "Share Ownership".

7.B. Related Party Transactions

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

(a) Key management compensation was \$228,800 (2012 - \$312,000) and is reflected as consulting fees paid to corporations owned by a director and officers of the Company, of which, \$340,944 (2012 - \$277,092) is unpaid and included in accounts payable and accrued liabilities. Options granted to key management during the year are valued at \$Nil (2012 - \$84,055).

(b) At the year end, the Company had loans payable bearing interest at 9% per annum due to corporations controlled by directors and officers of the Company in the amount of \$480,000 (2012 - \$435,000). Interest expense related to these loans is \$48,731 (2012 - \$45,271).

(c) Common shares issued to lenders for the extension of the \$880,000 (2012 - \$890,000) loan include 480,000 (2012 - 174,000) common shares issued at \$0.10 (2012 - \$0.25) per share to lenders' corporations controlled by directors and an officer.

Other than as disclosed above, there have been no transactions since December 31, 2013 or proposed transactions, which have materially affected or will materially affect the Company in which any director, executive officer, or beneficial holder of more than 10% of the outstanding common stock, or any of their respective relatives, spouses, associates or affiliates has had or will have any direct or material indirect interest. Management believes the transactions referenced above were on terms at least as favorable to the Company as the Company could have obtained from unaffiliated parties.

ITEM 8. FINANCIAL INFORMATION

8.A. Consolidated Statements and Other Financial Information

The Company's financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

The financial statements as required under ITEM #18 are attached hereto and found immediately following the text of this Annual Report. The audit reports of Collins Barrow Toronto LLP are included herein immediately preceding the financial statements and schedules.

Audited Financial Statements

for Fiscal 2013 and Fiscal 2012

8.A.7. Legal/Arbitration Proceedings

The Directors and the management of the Company do not know of any material, active or pending, legal proceedings against them; nor is the Company involved as a plaintiff in any material proceeding or pending litigation.

The Directors and the management of the Company know of no active or pending proceedings against anyone that might materially adversely affect an interest of the Company.

8.A.8 Company Policy on Dividend Distribution

The Company does not intend to pay dividends in cash or in kind in the foreseeable future. The Company expects to retain any earnings to finance the further growth of the Company. The directors of the Company will determine if and when dividends should be declared and paid in the future based upon the earnings and financial conditions of the Company at the relevant time and such other factors as the directors may deem relevant. All of the Common Shares of the Company are entitled to an equal share in any dividends declared and paid.

8.B. Significant Changes

No significant change has occurred since the date of the annual financial statements.

ITEM 9. THE OFFER AND LISTING

9.A.4. Common Share Trading Information

The Company's common shares began trading on the Alberta Stock Exchange in Calgary, Alberta, Canada under its former name Alpha Ventures Inc. in November 1996. The Alberta Stock Exchange was absorbed by the Canadian Venture Exchange, which was absorbed by the TSX Venture Exchange ("Exchange"). The Company's listing was automatically transferred from the Alberta Stock Exchange to the Exchange as a Tier 2 company. The current stock symbol on the Exchange is "LM". The CUSIP number is 5357441065.

The Exchange currently classifies Issuers into different tiers based on standards, including historical financial performance, stage of development and financial resources of the Issuer at the time of listing. Specific Minimum Listing Requirements for each industry segment in each of Tier 1, Tier 2 and Tier 3 have been established by the Exchange.

Policy 2.1 of the Exchange outlines the Minimum Listing Requirements for each industry segment in Tier 1 and Tier 2. Under this policy, Lingo Media Corporation is a Tier 2 Issuer in the industry segment category of Junior Industrial. Each industry segment is further divided into categories. Quantitative minimum requirements for listing for the industry segment Junior Industrial and Tier 2 are provided in Section 4.3 of Exchange Policy 2.1.

Similarly, Policy 2.5 of the Exchange sets out the minimum standards to be met by Issuers to continue to qualify for listing in each Tier, referred to as Tier Maintenance Requirements ("TMR"). A Tier 2 Issuer which fails to meet one of the Tier 2 TMR will not automatically be suspended or designated as "Inactive". The Exchange will provide notice of failure to meet one of the Tier 2 TMR and will allow the Issuer 6 months from the date of notice to meet the requirement, failing which the Exchange may designate the Issuer as Inactive. If a Tier 2 Issuer fails to meet more than one Tier 2 TMR, notice will be given to the Issuer by the Exchange and if the requirements are not met within 90 days of the notice, the Exchange will designate the Issuer as Inactive and apply the restrictions on Inactive Issuers retroactively. An Inactive Issuer may continue to trade on Tier 2 of the Exchange for 18 months from the date it is designated as Inactive. If the Issuer does not meet all of the applicable Tier 2 TMR within that 18 month period, its listed shares may be suspended from trading by the Exchange.

To maintain a listing as an active Tier 2 Issuer, an Issuer must meet all Tier 2 TMR for its industry segment as set out in Section 4 of the Exchange Policy 2.5.

The table No. 9 lists the volume of trading and high, low and closing sales prices on the TSX Venture Exchange for the Company's common shares for: the last 12 months, the last twelve fiscal quarters; and the last five fiscal years.

Table No. 9

TSX Venture Exchange

Common Shares Trading Activity

Period Ended	Sales -- Canadian Dollars Volume	High	Low	Close
<i>Monthly</i>				
March 2014	565,981	0.22	0.07	0.21
February 2014	38,095	0.10	0.08	0.10
January 2014	43,427	0.11	0.10	0.10
December 2013	474,602	0.13	0.11	0.11
November 2013	481,881	0.13	0.10	0.12
October 2013	76,168	0.15	0.10	0.15
September 2013	221,841	0.15	0.10	0.10
August 2013	86,963	0.10	0.08	0.10
July 2013	98,923	0.12	0.09	0.10
June 2013	156,784	0.15	0.12	0.12
May 2013	77,564	0.18	0.14	0.14
April 2013	169,552	0.23	0.10	0.18
<i>Yearly</i>				
12/31/2013	2,395,000	0.27	0.08	0.11
12/31/2012	2,439,295	0.45	0.16	0.27
12/31/2011	1,793,567	0.95	0.24	0.35
12/31/2010	2,022,202	1.24	0.39	0.75
12/31/2009	1,457,515	1.43	0.62	1.04
<i>Quarterly</i>				
3/31/2014	646,300	0.22	0.07	0.21
12/31/2013	1,031,200	0.15	0.10	0.11
9/30/2013	411,100	0.15	0.08	0.10
6/30/2013	403,900	0.23	0.10	0.12
3/31/2013	548,800	0.27	0.22	0.22
12/31/2012	1,194,600	0.35	0.19	0.27

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09/30/2012	812,200	0.30	0.16	0.25
06/30/2012	369,800	0.36	0.23	0.24
3/31/2012	62,695	0.45	0.27	0.36
12/31/2011	724,639	0.60	0.24	0.35
9/30/2011	674,808	0.80	0.51	0.55
6/30/2011	320,920	0.82	0.60	0.77

The Company's shares became quoted for trading on the OTC Bulletin Board on January 22, 2004.

The table No.10 lists the volume of trading and high, low and closing sales prices on the OTC Bulletin Board for the Company's common shares for the last 12 months, the last twelve fiscal quarters; and the last five fiscal years.

Table No. 10

OTC Bulletin Board

Common Shares Trading Activity

Period Ended	Sales -- US Dollars			
	Volume	High	Low	Close
<i>Monthly</i>				
March 2014	2,857	0.08	0.08	0.08
February 2014	1,428	0.10	0.08	0.08
January 2014	15,500	0.10	0.10	0.10
December 2013	8,499	0.14	0.10	0.10
November 2013	0	0.14	0.14	0.14
October 2013	2,527	0.14	0.09	0.14
September 2013	0	0.09	0.09	0.09
August 2013	2,527	0.10	0.07	0.09
July 2013	4,047	0.13	0.10	0.10
June 2013	12,000	0.13	0.13	0.13
May 2013	0	0.13	0.13	0.13
April 2013	0	0.13	0.13	0.13

<i>Yearly</i>				
12/31/2013	29,600	0.26	0.07	0.10
12/31/2012	97,200	0.37	0.23	0.26
12/31/2011	137,246	0.99	0.26	0.26
12/31/2010	924,558	1.52	0.38	0.46
12/31/2009	453,900	1.24	0.51	1.00

<i>Quarterly</i>				
03/31/2014	13,900	0.10	0.08	0.08
12/31/2013	3,500	0.14	0.09	0.10
09/30/2013	22,500	0.13	0.07	0.09
06/30/2013	3,600	0.26	0.13	0.13
03/31/2013	0	0.26	0.26	0.26
12/31/2012	1,700	0.26	0.23	0.26
09/30/2012	1,400	0.26	0.23	0.23

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06/30/2012	93,900	0.37	0.25	0.26
3/31/2012	200	0.37	0.26	0.37
12/31/2011	8,880	0.59	0.26	0.26
9/30/2011	44,076	0.81	0.57	0.59
6/30/2011	8,584	0.99	0.74	0.74
3/31/2011	75,706	0.88	0.46	0.88
12/31/2010	90,582	0.68	0.46	0.46
9/30/2010	168,656	0.66	0.38	0.60
6/30/2010	247,020	0.78	0.40	0.40

The Company's common shares became quoted for trading on the Berlin-Bremen Stock Exchange on August 20, 2003. No trades of the Company's common shares have taken place on the Berlin-Bremen Stock Exchange to this date.

9.A.5. Common Share Description

Not Applicable

9.C. Stock Exchanges Identified

The common shares trade on the TSX Venture Exchange, OTCBB and are quoted for trading on the Berlin-Bremen Stock Exchange. Refer to ITEM #9.A.4.

ITEM 10. ADDITIONAL INFORMATION

10.A. Share Capital

Not Applicable

10.B. Memorandum and Articles of Association

Objects and Purposes

The Company's corporation number as assigned by the Ontario Ministry of Consumer and Commercial Relations is 4020-1165. The Company's Articles of Incorporation do not contain the Company's purpose or its objectives, as neither is required under the laws of Ontario.

Disclosure of Interest of Directors

No director of the Company is permitted to vote on any resolution to approve a material contract or transaction in which such director has a material interest.

Subject to the Articles of Incorporation and any unanimous shareholder agreement, the board may fix their remuneration.

Borrowing Powers of Directors, ByLaws - Section 3.10

The board of directors may from time to time:

- (i) borrow money upon the credit of the Corporation;
- (ii) issue, reissue, sell or pledge debt obligations of the Corporation;
- (iii) subject to the Business Corporations Act (Ontario), give a guarantee on behalf of the Corporation to secure performance of an obligation of any person; and
- (iv) mortgage, hypothecate, pledge or otherwise create a security interest in all or any property of the Corporation, owned or subsequently acquired, to secure any debt obligations of the Corporation.

Delegation of Power to Borrow, Bylaws – Section 3.11

The board may by resolution delegate all or any of the powers conferred on them by paragraphs (i) and (iii) of section 3.10 hereof, to any one or more of the directors, the Managing Director, the executive committee, the Chairman of the Board (if any), the President, any Vice-President, the Secretary, the Treasurer, any Assistant Secretary, any Assistant Treasurer or the General Manager.

Director Qualification and Retirement

Neither the Articles of Incorporation nor the Bylaws of the Company discuss the retirement or non-retirement of directors under an age limit requirement, and there is no number of shares required for director qualification.

Description of Rights, Preferences and Restrictions

Attaching to Each Class of Shares

a) Class/Number of Shares. The Company's Articles of Incorporation provide that: the Corporation is authorized to issue two classes of shares, namely an unlimited number of Preferred Shares without nominal or par value ("Preferred Shares") and an unlimited number of Common Shares ("Common Shares").

b) Common Shares. The holders of Common Shares shall be entitled:

- to vote at all meetings of shareholders, except meetings at which only holders of a specified class of shares are
- 1) entitled to vote, and on every poll taken at every such meeting, or adjourned meeting, every holder of Common Shares shall be entitled to one vote in respect of each Common Share held; and
- 2) subject to the rights of the holders of Preferred Shares, to receive the remaining property of the Corporation upon a dissolution; and
- 3) subject to the rights of the holders of Preferred Shares, to receive all other dividends declared by the Corporation.

c) Preferred Shares. The Preferred Shares as a class shall carry and be subject to the following rights, privileges, restrictions and conditions:

1) Directors' Rights to Issue in One or More Series.

The Preferred Shares may at any time or from time to time be issued in one or more series, each series to consist of such number of shares as may before the issue thereof be determined by the Directors by resolution; the Directors of the Company may (subject as hereinafter provided) by resolution fix, from time to time before the issued thereof, the designation, rights, privileges, restrictions and conditions attaching to the shares of such series including, without limiting the generality of the foregoing (1) the issue price, (2) the rate, amount or method of calculation of dividends and whether the same are subject to change of dividends and whether the same are subject to change or adjustment, (3) whether such dividends shall be cumulative, non-cumulative or partly cumulative, (4) the dates, manner and currencies of payments of dividends and the dates from which dividends shall accrue, (5) the redemption and/or purchase prices and terms and conditions of redemption and/or purchase, with or without provision for sinking or similar funds, (6) conversion and/or exchange and/or classification rights, (7) the voting rights if any, and/or (8) other provisions, the whole subject to the following provisions, and to the issue of Certificate(s) of Amendment setting forth such designations, rights, privileges, restrictions and conditions attaching to the shares of each series.

2) Ranking of Preferred Shares.

The Preferred Shares shall be entitled to preference over the Common Shares of the Corporation and over any other shares ranking junior to the Preferred Shares with respect to payment of dividends and distribution of assets in the event of liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or any other distribution of the assets of the Corporation among its shareholders for the purpose of winding up its affairs and may also be given such other preferences not inconsistent with paragraphs (1) and (2) hereof over the Common Shares of the Corporation and over any other shares ranking junior to the Preferred Shares as may be determined in the case of each series of Preferred Shares authorized to be issued.

3) Amendment with Approval of Holders of Preferred Shares.

The rights, privileges, restrictions and conditions attaching to the Preferred Shares as a class may be repealed, altered, modified, amended or amplified by Certificate(s) of Amendment, but in each case with the approval of the holders of Preferred Shares (only as a class but not as individual series) given as hereinafter specified.

4) Approval of Holders of Preferred Shares.

Subject to the Provisions of the Business Corporations Act, any consent or approval given by the holders of Preferred Shares as a class shall be deemed to have been sufficiently given if it shall have been given in writing by the holders of at least sixty-six and two-thirds percent ($66\frac{2}{3}\%$) of the outstanding Preferred Shares or by a resolution passed at a meeting of holders of Preferred Shares duly called and held upon not less than fifteen days' notice at which the holders of at least a majority of the outstanding Preferred Shares are present or are represented by proxy and carried by the affirmative vote of not less than sixty-six and two-thirds percent of the votes cast at such meetings, in addition to any other consent or approval required by the Business Corporation Act. If at any such meeting the holders of a majority of the outstanding Preferred Shares are not present or represented by proxy within one-half hour after the time appointed for such meeting, then the meeting shall be adjourned to such date not less than fifteen days thereafter and to such time and place as may be designated by the Chairman, and not less than ten days' written notice shall be given of such adjourned meeting. At such adjourned meeting the holders of the Preferred Shares present or represented by proxy may transact the business for which the meeting was originally convened and a resolution passed by the affirmative vote of not less than sixty-six and two-thirds percent of the votes cast at such meeting shall constitute the consent or approval of the holders of Preferred Shares. On every poll taken at every meeting, every holder of Preferred Shares shall be entitled to one vote in respect of each share held. Subject to the foregoing, the formalities to be observed in respect of the giving or waiving of notice of any such meeting and the conduct thereof shall be those from time to time prescribed in the Bylaws of the Corporation with respect to meetings of shareholders. Any consent or approval given by the holders of Preferred Shares or a series as a class shall be deemed to have been sufficiently given if in the same manner as provided herein regarding holders of Preferred Shares as a class.

d) Dividend Rights. The Company's Bylaws provide that holders of common shares shall be entitled to receive dividends and the Company shall pay dividends thereon, as and when declared by the board of directors of the Company out of moneys properly applicable to the payment of dividends, in such amount and in such form as the board of directors may from time to time determine and all dividends which the directors may declare on the common shares shall be declared and paid in equal amounts per share on all common shares at the time outstanding, subject to the prior rights of any shares ranking senior to the common shares with respect to priority in the payment of dividends.

e) Voting Rights. Neither the Company's Bylaws nor its Articles of Incorporation provide for the election or re-election of directors at staggered intervals.

f) Redemption Provisions. The Company may purchase any of its issued common shares subject to the provisions of the Ontario Business Corporations Act.

g) Sinking Fund Provisions. Neither the Company's Articles of Incorporation nor its Bylaws contain sinking fund provisions.

h) Liability to Further Capital Calls by the Company. Neither the Company's Articles of Incorporation nor its Bylaws contain provisions allowing the Company to make further capital calls with respect to any shareholder of the Company.

i) Discriminatory Provisions Based on Substantial Ownership. Neither the Company's Articles of Incorporation nor its Bylaws contain provisions that discriminate against any existing or prospective holders of securities as a result of such shareholder owning a substantial number of shares.

j) Miscellaneous Provisions. Neither the Articles of Incorporation nor the Bylaws of the Company address the process by which the rights of holders of stock may be changed. The general provisions of the Ontario Business Corporations Act apply to this process, and require shareholder meetings and independent voting for such changes.

A meeting of shareholders may be called at any time by resolution or by the Chairman of the Board or by the President and the Secretary shall cause notice of a meeting of shareholders to be given when directed so to do by resolution of the board or by the Chairman or the Board or the President.

The board shall call an annual meeting of the shareholders not later than eighteen (18) months after the Corporation comes into existence and subsequently not later than fifteen (15) months after holding the last preceding annual meeting.

A special meeting of shareholders may be called at any time and may be held in conjunction with an annual meeting of shareholders.

Meeting of shareholders shall be held at the place within Canada determined by the board from time to time. Notwithstanding the above subsection, a meeting of shareholders may be held outside Canada if all the shareholders entitled to vote at that meeting so agree, and a shareholder who attends a meeting of shareholders held outside Canada is deemed to have so agreed except when he attends the meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting is not lawfully held.

Neither the Articles of Incorporation nor the Bylaws of the Company discuss limitations on the rights to own securities or exercise voting rights thereon.

Although not expressly enumerated in the Articles, pursuant to Canadian regulations, shareholder ownership must be disclosed by any shareholder who owns more than 10% of the Company's common stock.

There is no provision of the Company's Articles of Incorporation or Bylaws that would delay, defer or prevent a change in control of the Company, and that would operate only with respect to a merger, acquisition, or corporate restructuring involving the Company (or any of its subsidiaries). The Company's Bylaws do not contain a provision indicating the ownership threshold above which shareholder ownership must be disclosed. With respect to the matters discussed in this Item 10B, the law applicable to the Company is not significantly different from United States law. Neither the Articles of Incorporation nor Bylaws contain provisions governing changes in capital that are more stringent than the conditions required by law.

The Ontario Business Corporations Act contains provisions that require a "special resolution" for effecting certain corporate actions. Such a "special resolution" requires a three-quarters vote of shareholders rather than a simple majority for passage. The principle corporate actions for which the Company would require a "special resolution" include:

- a. Changing its name;
- b. Changing the place where its registered office is situated;
- c. Adding, changing or removing any restriction on the business or businesses that the corporation may carry on;
- d. Certain reorganizations of the corporation and alterations of share capital;
- e. Increasing or decreasing the number of directors or the minimum or maximum number of directors;
- f. Any amendment to its articles regarding constraining the issue or transfer of shares to persons who are not resident Canadians; and
- g. Dissolution of the corporation.

10.C. Material Contracts

Not Applicable

10.D. Exchange Controls

Except as discussed in ITEM #10.E., the Company is unaware of any Canadian federal or provincial laws, decrees, or regulations that restrict the export or import of capital, including foreign exchange controls, or that affect the remittance of dividends, interest or other payments to non-Canadian holders of the common shares. The Company is unaware of any limitations on the right of non-Canadian owners to hold or vote the common shares imposed by Canadian federal or provincial law or by the charter or other constituent documents of the Company.

10.E. Taxation

A brief description of provisions of the tax treaty between Canada and the United States is included below, together with a brief outline of certain taxes, including withholding provisions, to which United States security holders are subject under existing laws and regulations of Canada. The consequences, if any, of provincial, state and local taxes are not considered.

Security holders should seek the advice of their own tax advisors, tax counsel or accountants with respect to the applicability or effect on their own individual circumstances of the matters referred to herein and of any provincial, state or local taxes.

Material Canadian Federal Income Tax Consequences

The discussion under this heading relates to the principal Canadian federal income tax consequences of acquiring, holding and disposing of shares of common stock of the Company for a shareholder of the Company who is not a resident of Canada but is a resident of the United States and who will acquire and hold shares of common stock of the Company as capital property for the purposes of the *Income Tax Act* (Canada) (the “Canadian Tax Act”). This summary does not apply to a shareholder who carries on business in Canada through a “permanent establishment” situated in Canada or performs independent personal services in Canada through a fixed base in Canada if the shareholder’s holding in the Company is effectively connected with such permanent establishment or fixed base. This information is based on the provisions of the Canadian Tax Act and the regulations thereunder and on an understanding of the administrative practices of Canada Revenue Agency, and takes into account all specific proposals to amend the Canadian Tax Act or regulations made by the Minister of Finance of Canada as of the date hereof. This discussion is not a substitute for independent advice from a shareholder’s own Canadian and U.S. tax advisors.

The provisions of the Canadian Tax Act are subject to income tax treaties to which Canada is a party, including the Canada-United States Income Tax Convention (1980), as amended (the “Convention”).

Dividends on Common Shares and Other Income. Under the Canadian Tax Act, a non-resident of Canada is subject to Canadian withholding tax at the rate of 25 percent on dividends paid or deemed to have been paid to him or her by a corporation resident in Canada. The Convention limits the rate to 15 percent if the shareholder is a resident of the United States and the dividends are beneficially owned by and paid to such shareholder, and to 5 percent if the shareholder is also a corporation that beneficially owns at least 10 percent of the voting stock of the payor-corporation.

The amount of a stock dividend (for tax purposes) would be equal to the amount by which the paid up or stated capital of the Company had increased because of the payment of such dividend. The Company will furnish additional tax information to shareholders in the event of such a dividend. Interest paid or deemed to be paid on the Company’s debt securities held by non-Canadian residents may also be subject to Canadian withholding tax, depending upon the terms and provisions of such securities and any applicable tax treaty.

The Convention exempts from Canadian income tax dividends paid to a religious, scientific, literary, educational or charitable organization or to an organization constituted and operated exclusively to administer a pension, retirement or employee benefit fund or plan, if the organization is a resident of the United States and is exempt from income tax under the laws of the United States.

Dispositions of Common Shares. Under the Canadian Tax Act, a taxpayer’s capital gain or capital loss from a disposition of a share of common stock of the Company is the amount, if any, by which his or her proceeds of disposition exceed (or are exceeded by, respectively) the aggregate of his or her adjusted cost base of the share and reasonable expenses of disposition. One-half of a capital gain (the “taxable capital gain”) is included in income, and one-half of a capital loss in a year (the “allowable capital loss”) is deductible from taxable capital gains realized in the same year. The amount by which a shareholder’s allowable capital loss exceeds the taxable capital gain in a year may be deducted from a taxable capital gain realized by the shareholder in the three previous or any subsequent year, subject to adjustment when the capital gains inclusion rate in the year of disposition differs from the inclusion rate in the year the deduction is claimed.

If a share of common stock of the Company is disposed of to the Company other than in the open market in the manner in which shares would normally be purchased by the public, the proceeds of disposition will, in general terms, be considered as limited to the paid-up capital of the share and the balance of the price paid will be deemed to be a dividend. In the case of a shareholder that is a corporation, the amount of any capital loss otherwise determined may be reduced by the amount of dividends previously received in respect of the shares disposed of, unless the corporation owned the shares for at least 365 days prior to sustaining the loss and (together with corporations, persons and other entities, with whom the corporation was not dealing at arm’s length) did not own more than five percent of the shares

of any class of the corporation from which the dividend was received. These loss limitation rules may also apply where a corporation is a member of a partnership or a beneficiary of a trust that owned the shares disposed of.

Under the Canadian Tax Act, a non-resident of Canada is subject to Canadian tax on taxable capital gains, and may deduct allowable capital losses, realized on a disposition of "taxable Canadian property." Shares of common stock of the Company will constitute taxable Canadian property of a shareholder at a particular time if the shareholder used the shares in carrying on business in Canada, or if at any time in the five years immediately preceding the disposition 25 percent or more of the issued shares of any class or series in the capital stock of the Company belonged to one or more persons in a group comprising the shareholder and persons with whom the shareholder did not deal at arm's length.

The Convention relieves United States residents from liability for Canadian tax on capital gains derived on a disposition of shares unless (a) the value of the shares is derived principally from "real property" in Canada, including the right to explore for or exploit natural resources and rights to amounts computed by reference to production, (b) the shareholder was resident in Canada for 120 months during any period of 20 consecutive years preceding, and at any time during the 10 years immediately preceding, the disposition and the shares were owned by him when he or she ceased to be resident in Canada, or (c) the shares formed part of the business property of a "permanent establishment" that the holder has or had in Canada within the 12 months preceding the disposition.

Material United States Federal Income Tax Considerations

The following discussion is based upon the sections of the Internal Revenue Code of 1986, as amended (the "Code"), Treasury Regulations, published Internal Revenue Service ("IRS") rulings, published administrative positions of the IRS and court decisions that are currently applicable. This discussion does not consider the potential effects, both adverse and beneficial, of any recently proposed legislation that, if enacted, could be applied, possibly on a retroactive basis, at any time. Holders and prospective holders of shares of the Company should consult their own tax advisors about the Federal; state, local and foreign tax consequences of purchasing, owning and disposing of shares of the Company.

U.S. Holders. As used herein, a "U.S. Holder" includes a holder of shares of the Company who is a citizen or resident of the United States, a corporation created or organized in or under the laws of the United States or of any political subdivision thereof, any entity that is taxable as a corporation for U.S. tax purposes and any other person or entity whose ownership of shares of the Company is effectively connected with the conduct of a trade or business in the United States. A U.S. Holder does not include persons subject to special provisions of Federal income tax law, such as tax exempt organizations, qualified retirement plans, financial institutions, insurance companies, real estate investment trusts, regulated investment companies, broker-dealers, nonresident alien individuals or foreign corporations whose ownership of shares of the Company is not effectively connected with conduct of trade or business in the United States, shareholders who acquired their stock through the exercise of employee stock options or otherwise as compensation and shareholders who hold their stock as ordinary assets and not as capital assets.

Distributions on Shares of the Company. U.S. Holders receiving dividend distributions (including constructive dividends) with respect to shares of the Company are required to include in gross income for United States Federal

income tax purposes the gross amount of such distributions to the extent that the Company has current or accumulated earnings and profits as defined under U.S. Federal tax law, without reduction for any Canadian income tax withheld from such distributions. Such Canadian tax withheld may be credited against the U.S. Holder's United States Federal income tax liability or, alternatively, may be deducted in computing the U.S. Holder's United States Federal taxable income by those who itemize deductions. (See discussion that is more detailed at "Foreign Tax Credit" below). To the extent that distributions exceed current or accumulated earnings and profits of the Company, they will be treated first as a return of capital up to the U.S. Holder's adjusted basis in the shares and thereafter as gain from the sale or exchange of the shares. Preferential tax rates for net capital gains are applicable to a U.S. Holder that is an individual, estate or trust. There are currently no preferential tax rates for long-term capital gains for a U.S. Holder that is a corporation.

Dividends paid on the shares of the Company are not expected to be eligible for the dividends received deduction provided to corporations receiving dividends from certain United States corporations. A U.S. Holder that is a corporation may be entitled to a 70% deduction of the United States source portion of dividends received from the Company (unless the Company qualifies as a "foreign personal holding company" or a "passive foreign investment company", as defined below) if such U.S. Holder owns shares representing at least 10% of the voting power and value of the Company.

In the case of foreign currency received as a dividend that is not converted by the recipient into U.S. Dollars on the date of receipt, a U.S. Holder will have a tax basis in the foreign currency equal to its U.S. Dollar value on the date of receipt. Any gain or loss recognized upon a subsequent sale or other disposition of the foreign currency, including the exchange for U.S. Dollars, will be ordinary income or loss. However, for tax years after 1997, an individual whose realized foreign exchange gain does not exceed U.S. \$200 will not recognize that gain, to the extent that there are not expenses associated with the transaction that meet the requirement for deductibility as a trade or business expense (other than travel expenses in connection with a business trip or as an expense for the production of income).

Foreign Tax Credit. A U.S. Holder who pays (or has withheld from distributions) Canadian income tax with respect to the ownership of shares of the Company may be entitled, at the option of the U.S. Holder, to either a deduction or a tax credit for such foreign tax paid or withheld. It will be more advantageous to claim a credit because a credit reduces United States Federal income taxes on a dollar-for-dollar basis, while a deduction merely reduces the taxpayer's income subject to tax. This election is made on a year-by-year basis and applies to all foreign taxes paid by (or withheld from) the U.S. Holder during that year. There are significant and complex limitations that apply to the credit, among which is the general limitation that the credit cannot exceed the proportionate share of the U.S. Holder's United States Federal income tax liability that the U.S. Holder's foreign source income bears to his or its worldwide taxable income. In the determination of the application of this limitation, the various items of income and deduction must be classified into foreign and domestic sources. Complex rules govern this classification process. There are further limitations on the foreign tax credit for certain types of income such as "passive income", "high withholding tax interest", "financial services income", and "shipping income". The availability of the foreign tax credit and the application of the limitations on the credit are fact specific and holders and prospective holders of shares of the Company should consult their own tax advisors regarding their individual circumstances.

In the case of certain U.S. Holders that are corporations (other than corporations subject to Subchapter S of the Code), owning 10% or more of the Company's Common Shares, a portion of the qualifying Canadian income tax paid by the Company will also be available as a foreign tax credit for U.S. federal income tax purposes, at the election of the U.S. Holder.

Disposition of Shares of the Company. A U.S. Holder will recognize a gain or loss upon the sale of shares of the Company equal to the difference, if any, between (i) the amount of cash plus the fair market value of any property received, and (ii) the shareholder's tax basis in the shares of the Company. This gain or loss will be a capital gain or loss if the shares are a capital asset in the hands of the U.S. Holder, and will be a short-term or long-term capital gain or loss depending upon the holding period of the U.S. Holder. Gains and losses are netted and combined according to

special rules in arriving at the overall capital gain or loss for a particular tax year. Deductions for net capital losses are subject to significant limitations. Corporate capital losses (other than losses of corporations electing under Subchapter S or the Code) are deductible to the extent of capital gains. Non-corporate taxpayers may deduct net capital losses, whether short-term or long-term, up to U.S. \$3,000 a year (U.S. \$1,500 in the case of a married individual filing separately). For U.S. Holders that are individuals, any unused portion of such net capital loss may be carried over to be used in later tax years until such net capital loss is thereby exhausted. For U.S. Holders that are corporations (other than corporations subject to Subchapter S of the Code), an unused net capital loss may be carried back three years from the loss year and carried forward five years from the loss year to be offset against capital gains until such net capital loss is thereby exhausted.

Other Considerations

In the following circumstances, the above sections of this discussion may not describe the United States Federal income tax consequences resulting from the holding and disposition of shares of the Company:

Foreign Personal Holding Company. If at any time during a taxable year more than 50% of the total combined voting power or the total value of the Company's outstanding shares is owned, directly or indirectly, by five or fewer individuals who are citizens or residents of the United States and 60% (50% in subsequent years) or more of the Company's gross income for such year was derived from certain passive sources (e.g., from dividends received from its subsidiaries), the Company would be treated as a "foreign personal holding company". In that event, U.S. Holders that hold shares of the Company (on the earlier of the last day of the Company's tax year or the last date on which the Company was a foreign personal holding company) would be required to include in gross income for such year their allowable portions of such passive income to the extent the Company does not actually distribute such income.

Foreign Investment Company. If 50% or more of the combined voting power or total value of the Company's outstanding shares are held, directly or indirectly, by citizens or residents of the United States, United States domestic partnerships or corporations, or estates or trusts other than foreign estates or trusts (as defined by the Code Section 7701 (a)(31)), and the Company is found to be engaged primarily in the business of investing, reinvesting, or trading in securities, commodities, or any interest, it is possible that the Company might be treated as a "foreign investment company" as defined in Section 1246 of the Code, causing all or part of any gain realized by a U.S. Holder selling or exchanging shares of the Company to be treated as ordinary income rather than capital gain.

Passive Foreign Investment Company. As a foreign corporation with U.S. Holders, the Company will be treated as a passive foreign investment company ("PFIC"), as defined in Section 1297 of the Code, if 75% or more of its gross income in a taxable year is passive income, or the average percentage of the Company's assets (by value) during the taxable year which produce passive income or which are held for production of same is at least 50%. Passive income is defined to include gross income in the nature of dividends, interest, royalties, rents and annuities; excess of gains over losses from certain transactions in any commodities not arising inter alia from a PFIC whose business is actively involved in such commodities; certain foreign currency gains; and other similar types of income. Foreign mining companies that are in the exploration stage may have little or no income from operations and/or may hold substantial cash and short-term securities that pay interest and dividends while awaiting expenditure in connection with the business. Given the complexities of determining what expenditures may be deductible and of how assets held for production of active income should be valued, the Company, based on advice from its professional advisers, cannot conclude whether it is a PFIC.

It is not the intention of the Company to be considered a PFIC and the Company does not consider this to be a material risk. In the event that it were to become classified as a PFIC, the following should be taken into consideration. U.S. Holders owning shares of a PFIC are subject to a special tax and to an interest charge based on the

value of deferral of U.S. tax attributable to undistributed earnings of a PFIC for the period during which the shares of the PFIC are owned. This special tax would apply to any gain realized on the disposition of shares of a PFIC. In addition, the gain is subject to U.S. federal income tax as ordinary income, taxed at top marginal rates, rather than as capital gain income. The special tax would also be payable on receipt of excess distributions (any distributions received in the current year that are in excess of 125% of the average distributions received during the 3 preceding years or, if shorter, the shareholder's holding period). If, however, the U.S. Holder makes a timely election to treat a PFIC as a qualified electing fund ("QEF") with respect to such shareholder's interest and the Company provides an annual information statement, the above-described rules will not apply. The Company will provide such an information statement upon request from a U.S. Holder for current and prior taxable years. Instead, the electing U.S. Holder would include annually in his gross income his pro rata share of the PFIC's ordinary earnings and any net capital gain regardless of whether such income or gain was actually distributed. A U.S. Holder of a PFIC treated as a QEF can, however, further elect to defer the payment of United States Federal income tax on such income and gain inclusions, with tax payments ultimately requiring payment of an interest factor. In addition, with a timely QEF election, the electing U.S. Holder will obtain capital gain treatment on the gain realized on disposition of such U.S. Holder's interest in the PFIC. Special rules apply to U.S. Holders who own their interests in a PFIC through intermediate entities or persons.

Effective for tax years of U.S. Holders beginning after December 31, 1997, U.S. Holders who hold, actually or constructively, marketable stock of a foreign corporation that qualifies as a PFIC may elect to mark such stock to the market (a "mark-to-market election"). If such an election is made, such U.S. Holder will not be subject to the special taxation rules of PFIC described above for the taxable years for which the mark-to-market election is made. A U.S. Holder who makes such an election will include in income for the taxable year an amount equal to the excess, if any, of the fair market value of the shares of the Company as of the close of such tax year over such U.S. Holder's adjusted basis in such shares. In addition, the U.S. Holder is allowed a deduction for the lesser of (i) the excess, if any, of such U.S. Holder's adjusted tax basis in the shares over the fair market value of such shares as of the close of the tax year, or (ii) the excess, if any of (A) the mark-to-market gains for the shares in the Company included by such U.S. Holder for prior tax years, including any amount which would have been included for any prior year but for Section 1291 interest on tax deferral rules discussed above with respect to a U.S. Holder, who has not made a timely QEF election during the year in which he holds (or is deemed to have held) shares in the Company and the Company is a PFIC ("Non-Electing U.S. Holder"), over (B) the mark-to-market losses for shares that were allowed as deductions for prior tax years. A U.S. Holder's adjusted tax basis in the shares of the Company will be increased or decreased to reflect the amount included or deducted as a result of mark-to-market election. A mark-to-market election will apply to the tax year for which the election is made and to all later tax years, unless the PFIC stock ceases to be marketable or the IRS consents to the revocation of the election.

The IRS has issued proposed regulations that would treat as taxable certain transfers of PFIC stock by a Non-Electing U.S. Holder that are not otherwise taxed, such as gifts, exchanges pursuant to corporate reorganizations, and transfers at death. In such cases, the basis of the Company's shares in the hands of the transferee and the basis of any property received in the exchange for those shares would be increased by the amount of gain recognized. A U.S. Holder who has made a timely QEF election (as discussed herein) will not be taxed on certain transfers of PFIC stock, such as gifts, exchanges pursuant to corporate reorganizations, and transfers at death. The transferee's basis in this case will depend on the manner of the transfer. The specific tax effect to the U.S. Holder and the transferee may vary based on the manner in which the shares of the Company are transferred. Each U.S. Holder should consult a tax advisor with respect to how the PFIC rules affect their tax situation.

The PFIC and QEF election rules are complex. U.S. Holders should consult a tax advisor regarding the availability and procedure for making the QEF election as well as the applicable method for recognizing gains or earnings and profits under the foregoing rules.

Controlled Foreign Corporation. If more than 50% of the voting power of all classes of stock or the total value of the stock of the Company is owned, directly or indirectly, by citizens or residents of the United States, United States domestic partnerships and corporations or estates or trusts other than foreign estates or trusts, each of whom own 10% or more of the total combined voting power of all classes of stock of the Company ("United States shareholder"), the Company could be treated as a "controlled foreign corporation" under Subpart F of the Code. This classification would effect many complex results including the required inclusion by such United States shareholders in income of their pro rata share of "Subpart F income" (as specially defined by the Code) of the Company. Subpart F requires current inclusions in the income of United States shareholders to the extent of a controlled foreign corporation's accumulated earnings invested in "excess passive" assets (as defined by the Code). In addition, under Section 1248 of the Code, a gain from the sale or exchange of shares by a U.S. Holder who is or was a United States shareholder at

any time during the five year period ending with the sale or exchange is treated as ordinary dividend income to the extent of earnings and profits of the Company attributable to the stock sold or exchanged. Because of the complexity of Subpart F, and because it is not clear that Subpart F would apply to the U.S. Holders of shares of the Company, a more detailed review of these rules is outside of the scope of this discussion.

If the Company is both a PFIC and controlled foreign corporation, the company will not be treated as a PFIC with respect to United States shareholders of the controlled foreign corporation. This rule will be effective for taxable years of the Company ending with or within such taxable years of United States shareholders.

Summary

Management believes this discussion covers all material tax consequences. Nevertheless, this is not intended to be, nor should it be construed to be, legal or tax advice to any holder of common shares of the Company. Holders and prospective holders are encouraged to consult their own tax advisers with respect to their particular circumstances.

10.F. Dividends and Paying Agents

Not Applicable

Item 11. Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's operating activities (when revenue or expense is denominated in a different currency from the Company's functional currency) and the Company's net investments in foreign subsidiaries. The Company operates internationally and is exposed to foreign exchange risk as certain expenditures are denominated in non-Canadian Dollar currencies. A 10% strengthening of the US dollars against Canadian dollars would have increased the net equity by \$76,850 (2012 - \$24,484) due to reduction in the value of net liability balance. A 10% of weakening of the US dollar against Canadian dollar at December 31, 2013 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, 2013 are as follows:

US Denominated

			China Denominated	
	CAD	USD	CAD	RMB
Cash	40,826	43,422	1,577	8,978
Accounts receivable	794,664	788,497	691	3,935
Accounts payable	66,988	68,785	-	-

The carrying values and the exposure to other denominated monetary assets and liabilities as of December 31, 2012 are as follows:

	US Denominated		China Denominated	
	CAD	USD	CAD	RMB
Cash	13,962	14,034	20,199	126,697
Accounts receivable	1,428,636	1,435,959	591	3,721
Accounts payable	61,763	62,079	-	-

*USD and RMB are converted at the prevailing year-end exchange rates.

The Company operates one segment of its business in China, and a substantial portion of our operating expenses are in Canadian dollars, whereas our revenue from co-publishing agreements are primarily in Renminbi which is first converted to US dollars then to Canadian dollars.

A significant adverse change in foreign currency exchange rates between the Canadian dollars relative to US dollars or Renminbi to US dollars could have a material effect on our consolidated results of operations, financial position or cash flows. We have not hedged exposures denominated in foreign currencies, as they are not material at this time.

	RMB	USD At 12/31/2013	USD -5%	USD -10%	USD -15%
Year-end Exchange Rate For 1 RMB to USD		0.1652	0.1569	0.1487	0.1404
Annual Revenue From China	8,925,051	1,474,418	1,400,697	1,326,977	1,253,256
Accounts Receivable	3,927,801	648,873	616,429	583,985	551,542
	USD	CAD Year 2013	CAD +5%	CAD -5%	CAD -10%
Average Annual Exchange Rate for 1 USD to CAD		1.0302	1.0817	0.9787	0.9272
Annual Revenue From China	1,452,439	1,496,303	1,571,118	1,421,488	1,346,673
	USD	CAD At 12/31/2013	CAD +5%	CAD -5%	CAD -10%
Year-end Exchange Rate for 1 USD to CAD		1.0636	1.1168	1.0104	0.9572
Cash	43,422	46,184	48,493	43,875	41,565
Accounts Receivable	787,497	838,645	880,578	796,713	754,781
Accounts Payable	68,785	73,160	76,818	69,502	65,844

Item 12. Description of Securities Other than Equity Securities

Not Applicable

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies

Not Applicable

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

Not Applicable

ITEM 15. CONTROLS AND PROCEDURES

15.A. As of the end of the period covered by this report ("Date of Evaluation"), an evaluation was carried out under the supervision and with the participation of the Company's management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of our disclosure controls and procedures. Based on that evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

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, 2014.

In October 2012, the IASB issued amendments to IFRS 10 Consolidated Financial Statements to require investment entities to measure subsidiaries at fair value through profit or loss. In addition, IFRS 12 Disclosure of Interests in Other Entities has been amended to include disclosure requirements for investment entities. IAS 27 Separate Financial Statements has been amended to require investment entities to measure investments in subsidiaries at fair value through profit or loss when separate financial statements are presented.

IAS 32 Financial Instruments: Presentation was amended by the IASB in December 2011. Offsetting Financial Assets and Financial Liabilities amendment addresses inconsistencies identified in applying some of the offsetting criteria.

IAS 36 Impairment of Assets was amended by the IASB in June 2013. Recoverable Amount Disclosures for Non-Financial Assets amendment modifies certain disclosure requirements about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

IAS 39 Financial Instruments: Recognition and Measurement was amended by the IASB in June 2013. Novation of Derivatives and Continuation of Hedge Accounting amendment will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met (in this context, a novation indicates that parties to a contract agree to replace their original counterparty with a new one).

IFRIC Interpretation 21 Levies was issued by the IFRIC in May 2013. The Interpretation on the accounting for levies imposed by governments clarifies the obligating event that gives rise to a liability to pay a levy.

IFRS 9 – Financial Instruments addresses the classification and measurement of financial assets. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value. The new standard also requires a single impairment method to be used. IFRS 9 is available for application, however, previous mandatory effective date of January 1, 2015 has been removed as the IASB decided that this date would not allow sufficient time for entities to apply the new standard because the impairment phase of the IFRS 9 has not yet been completed. The IASB will decide upon a new date when the entire IFRS 9 project is closer to completion.

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.

15.B. There have been no changes that have materially affected, or that is reasonably likely to affect, the Company's internal control over financial reporting during the period covered by this Annual Report.

ITEM 16. RESERVED**ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

During the past fiscal year, the members of the audit committee (the "**Audit Committee**") were Tommy Gong ("**Chairman**"), Scott Remborg and Michael P. Kraft, of whom Tommy Gong and Scott Remborg are independent. Mr. Gong was succeeded as Chairman by Martin Bernholtz in August 2013. Each member of the Audit Committee is financially literate as defined by MI 52-110.

A member of the Audit Committee is *independent* if the member has no direct or indirect material relationship with the Company. A material relationship means a relationship which could, in the view of the Board, reasonably interfere with the exercise of a member's independent judgment.

A member of the Audit Committee is considered *financially literate* if he or she has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Company. Each has acquired these attributes through relevant experience serving as directors and/or audit committee members of various other private and public companies.

ITEM 16B. CODE OF ETHICS

The Company has adopted a "Code of Conduct", the text of such code is available through its internet website.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Nature of Services	Fees Paid to Auditor Year-ended	Fees Paid to Auditor Year-ended	Fees Paid to Auditor Year-ended
	December 31, 2013	December 31, 2012	December 31, 2011
Audit Fees(1)	\$81,077	\$94,245	\$66,350
Audit-Related Fees(2)	6,934	4,200	Nil

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Tax Fees(3)	6,444	5,021	5,021
All Other Fees(4)	Nil	Nil	11,925
Total	\$94,385	\$103,466	\$83,296

Notes:

(1) *"Audit Fees" include fees necessary to perform the annual audit and any quarterly reviews of the Company's financial statements*

(2) *"Audit-Related Fees" include services that are traditionally performed by the auditor. These audit-related services include employee benefit audits, due diligence assistance, accounting consultations on proposed transactions, internal control reviews and audit or attest services not required by legislation or regulation.*

(3) *"Tax Fees" include fees for all tax services other than those included in "Audit Fees" and "Audit-Related Fees". This category includes fees for tax compliance, tax planning and tax advice. Tax planning and tax advice includes assistance with tax audits and appeals, tax advice related to mergers and acquisitions, and requests for rulings or technical advice from tax authorities*

(4) *"All Other Fees" include all other non-audit services*

ITEM 16D. NOT APPLICABLE

ITEM 16E. NOT APPLICABLE

ITEM 16F. NOT APPLICABLE

ITEM 16G. NOT APPLICABLE

PART III

ITEM 17. FINANCIAL STATEMENTS

The Company has elected to provide financial statements pursuant to ITEM #18.

ITEM 18. FINANCIAL STATEMENTS

The Company's financial statements are stated in Canadian Dollars (CAD) and are prepared in accordance with with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

The financial statements as required under ITEM #18 are attached hereto as exhibits. The audit reports of Collins Barrow Toronto LLP are included herein immediately preceding the financial statements and schedules.

Audited Financial Statements

Auditor's Report, dated April 29, 2014

Consolidated Balance Sheets at December 31, 2013 and December 31, 2012

Consolidated Statements of Comprehensive Income for the years ended December 31, 2013, 2012, and 2011

Consolidated Statements of Changes in Equity for the years ended December 31, 2013, 2012, and 2011

Consolidated Statements of Cash Flows for the years ended December 31, 2013, 2012, and 2011

Notes to Financial Statements

ITEM 19. EXHIBITS

1.1 Articles of Amendment. Certificates of Incorporation, By-Laws/Articles, incorporated by reference from the Lingo Media Inc. F-1 Registration Statement filed August 20, 2002.

1.2 Amended By-Laws of the Company incorporated by reference from the Lingo Media Corporation Form 20-F/A filed February 17, 2012.

12.1. Certificate of the CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

12.2. Certificate of the CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

13.1 Certificate of the CEO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

13.2 Certificate of the CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LINGO MEDIA CORPORATION

By: /s/ "Michael P. Kraft"

Michael P. Kraft
President and Chief Executive Officer

By: /s/ "Khurram Qureshi"

Khurram Qureshi
Chief Financial Officer
April 30, 2014

LINGO MEDIA CORPORATION

Consolidated Financial Statements

For the year ended December 31, 2013

Management's Responsibility

To the Shareholders of Lingo Media Corporation

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

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

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

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

April 29, 2014

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

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

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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, 2013 and December 31, 2012, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2013, December 31, 2012 and December 31, 2011 and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditor's 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 judgment, 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, 2013 and December 31, 2012, and its financial performance and its cash flows for the years ended December 31, 2013, December 31, 2012 and December 31, 2011 in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements which indicates that the Company has material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

Licensed Public Accountants
Chartered Accountants
April 29, 2014
Toronto, Ontario

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LINGO MEDIA CORPORATION

Consolidated Financial Statements

As at December 31, 2013

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LINGO MEDIA CORPORATION

Consolidated Balance Sheets

(Expressed in Canadian Dollars, unless otherwise stated)

	Notes	December 31, 2013	December 31, 2012
ASSETS			
Current Assets			
Cash		\$78,091	\$39,248
Accounts and grants receivable	6	1,003,440	1,446,962
Prepaid and other receivables		84,620	120,231
		1,166,151	1,606,441
Non-Current Assets			
Property and equipment	7	31,926	38,356
Intangibles	8	876,895	876,233
Goodwill		139,618	139,618
TOTAL ASSETS		\$2,214,590	\$2,660,648
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable		282,315	577,655
Accrued liabilities		601,843	472,087
Loans payable	9	819,545	1,193,614
		1,703,703	2,243,356
Equity			
Share capital	10	18,102,347	18,014,347
Warrants	12	1,132,685	1,132,685
Share-based payment reserve	11	2,512,717	2,450,791
Accumulated other comprehensive income		(168,245)	(88,971)
Deficit		(21,068,617)	(21,091,560)
TOTAL EQUITY		510,887	417,292
TOTAL LIABILITIES AND EQUITY		\$2,214,590	\$2,660,648

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 29, 2014.

/s/ Martin Bernholtz /s/ Michael Kraft
Director Director

LINGO MEDIA CORPORATION

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2013, 2012 and 2011

(Expressed in Canadian Dollars, unless otherwise stated)

	Notes	2013	2012	2011
Revenue		\$2,008,066	\$2,016,261	\$2,066,969
Expenses				
Selling, general and administrative		941,462	2,121,237	2,340,555
Amortization – intangibles	8	431,049	365,752	2,544,818
Direct costs		195,324	273,055	141,749
Share-based payments	11	61,926	243,195	518,114
Depreciation – property and equipment	7	7,624	9,838	12,600
Amortization – publishing development costs		-	-	8,807
Impairment loss	8	-	-	703,600
Total Expenses		1,637,385	3,013,077	6,270,243
Profit / (Loss) from Operations		370,681	(996,816)	(4,203,274)
Net Finance Charges				
Interest expense		240,516	168,769	328,112
Foreign exchange (gain) / loss		(134,444)	(25,046)	(19,709)
Profit / (Loss) Before Income Tax		264,609	(1,140,539)	(4,511,677)
Income Tax Expense	13	241,666	221,987	205,370
Net Profit / (Loss) for the Year		\$22,943	\$(1,362,526)	\$(4,717,047)
Other Comprehensive Income				
Item to be reclassified to profit or loss		-	-	-
Exchange differences on translating foreign operations gain / (loss)		(79,274)	(2,211)	(82,579)
Total Comprehensive Loss, Net of Tax		\$(56,331)	\$(1,364,737)	\$(4,799,626)
Loss per Share				
Basic and Diluted		\$ (0.00)	\$ (0.07)	\$ (0.25)

Weighted Average Number of Common Shares Outstanding

Basic and Diluted	21,174,026	20,652,415	18,797,185
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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, 2013, 2012 and 2011

(Expressed in Canadian Dollars, unless otherwise stated)

	Issued Share Capital		Share-Based Payment Reserve	Warrants	Accumulated Other Comprehensive Income	Deficit	Total Equity
	Number of shares	Amount					
Balance as at January 1, 2011	13,949,189	\$15,131,192	\$1,612,621	\$-	\$ (4,181)	\$ (14,848,806)	\$1,890,826
Loss for the year	-	-	-	-	-	(4,717,047)	(4,717,047)
Other comprehensive income / (loss)	-	-	-	-	(82,579)	-	(82,579)
Issued shares – balance of ELL Technologies Limited acquisition payment	1,036,987	786,535	-	-	-	-	786,535
Issued shares – equity financing	5,557,001	3,053,985	-	-	-	-	3,053,985
Warrants issued	-	(1,046,365)	-	1,046,365	-	-	-
Share-based payments charged to operations	-	-	518,114	-	-	-	518,114
Balance as at December 31, 2011	20,543,177	17,925,347	2,130,735	1,046,365	\$ (86,760)	(19,565,853)	1,449,834
Issued shares – against loan payable	356,000	89,000	-	-	-	-	89,000
	-	-	-	-	-	(1,362,526)	(1,362,526)

Loss for the year

Warrants expired	-	-	76,861	(76,861)	-	-	-
Warrants extension	-	-	-	163,181	-	(163,181)	-
Share-based payments charged to operations	-	-	243,195	-	-	-	243,195
Other comprehensive income (loss)	-	-	-	-	(2,211)	-	(2,211)
Balance as at December 31, 2012	20,899,177	18,014,347	2,450,791	1,132,685	(88,971)	(21,091,560)	417,292
Profit for the year	-	-	-	-	-	22,943	22,943
Other comprehensive income / (loss)	-	-	-	-	(79,274)	-	(79,274)
Issued shares – as financing cost against loan payable	880,000	88,000	-	-	-	-	88,000
Share-based payments charged to operations	-	-	61,926	-	-	-	61,926
Balance as at December 31, 2013	21,779,177	\$18,102,347	\$2,512,717	\$1,132,685	\$ (168,245)	\$(21,068,617)	\$510,887

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, 2013, 2012 and 2011

(Expressed in Canadian Dollars, unless otherwise stated)

	2013	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Profit / (Loss) for the Year	\$22,943	\$(1,362,526)	\$(4,717,047)
Adjustments to Net Profit for Non-Cash Items:			
Amortization – intangibles	431,049	365,752	2,544,818
Share-based payments	61,926	243,195	518,114
Unrealized foreign exchange gain	(80,468)	(1,331)	(34,923)
Interest accretion	88,931	27,614	178,795
Depreciation - property & equipment	7,624	9,838	12,600
Impairment loss	-	-	703,600
Amortization – publishing development costs	-	-	8,807
Operating Loss before Working Capital Changes	532,005	(717,458)	(785,236)
Working Capital Adjustments:			
(Increase) / decrease in accounts and grants receivable	443,522	(271,632)	(244,229)
(Increase) / decrease in prepaid and other receivables	35,611	(16,613)	(10,153)
Increase / (decrease) in accounts payable	(295,340)	204,133	(530,168)
Increase / (decrease) in accrued liabilities	129,756	136,266	(394,072)
Cash Generated from / (used in) Operations	845,554	(665,304)	(1,963,858)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of intangibles	(431,711)	(143,215)	(138,681)
Purchase of property and equipment	-	-	(2,585)
Net Cash Flows Generated used in Investing Activities	(431,711)	(143,215)	(141,266)
CASH FLOWS FROM FINANCING ACTIVITIES			
Share capital issued during the year	-	-	3,320,200
Share issue costs	-	-	(266,215)
Proceeds from loans	240,000	365,000	-
Repayment of loan payable	(615,000)	-	(697,000)
Net Cash Flows Generated used in Financing Activities	(375,000)	365,000	2,356,985
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	38,843	(443,519)	251,861
Cash at the Beginning of the Year	39,248	482,767	230,906
Cash at the End of the Year	\$78,091	\$39,248	\$482,767

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

LINGO MEDIA CORPORATION

Notes to Consolidated Financial Statements

December 31, 2013

(Expressed in Canadian Dollars, unless otherwise stated)

1. CORPORATE INFORMATION

Lingo Media Corporation (“Lingo Media” or the “Company”) is a publicly listed company incorporated in Canada with limited liability under the legislation of the Province of Ontario and its shares are listed on the TSX Venture Exchange and inter-listed on the OTC Bulletin Board. The consolidated financial statements of the Company as at and for the year ended December 31, 2013 comprise the Company and its wholly owned subsidiaries.

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

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

2. BASIS OF PREPARATION

2.1 Statement of compliance and going concern

These consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and

interpretations of the IFRS Interpretations Committee (“IFRIC”).

These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business. The Company has incurred significant losses recurring over the years. During the year ended December 31, 2013, the Company reported a net profit of \$22,943 (2012 – net loss of \$1,362,526). As at December 31, 2013, the Company had a working capital deficiency of \$537,552 (2012 - \$636,915) and deficit of \$21,180,617 (2012 - \$21,091,560). This raises significant doubt about the Company’s ability to continue as a going concern. The ability of the Company to continue as a going concern is dependent upon raising additional financing through share issuance, borrowing, sales contracts and distribution agreements. There are no assurances that the Company will be successful in achieving these goals.

2.2 Basis of measurement

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

2.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its wholly owned subsidiaries controlled by the Company (the “Group”) as at December 31, 2013. 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.

LINGO MEDIA CORPORATION

Notes to Consolidated Financial Statements

December 31, 2013

(Expressed in Canadian Dollars, unless otherwise stated)

2. BASIS OF PREPARATION (Cont'd)

2.4 Functional and presentation currency

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's 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 revision affects both current and future periods.

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

- Determination of functional and presentation currency
- Determination of the recoverability of the carrying value of intangible assets and goodwill
- Determination of impairment loss
- Recognition of government grant and grant receivable
- Recognition of deferred tax assets
- Valuation of share-based payments
- Recognition of provisions and contingent liabilities

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

Revenue from royalty and licensing sales in China is recognized based on confirmation of finished products produced by its 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.

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

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

LINGO MEDIA CORPORATION

Notes to Consolidated Financial Statements

December 31, 2013

(Expressed in Canadian Dollars, unless otherwise stated)

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

Comprehensive income

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

Property and equipment

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

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

Software and web development costs

The Company capitalizes all costs related to the development of its free-to-consumer and fee-based ELL 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 materials, direct labour and an appropriate proportion of overheads. 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.

Content platform

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

Customer relationships

The Company acquired customer relationships through its acquisition of ELL Technologies. The customer relationships are being amortized on a straight-line basis over the useful life of the asset which is estimated to be 2 years.

Goodwill

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

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

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

LINGO MEDIA CORPORATION

Notes to Consolidated Financial Statements

December 31, 2013

(Expressed in Canadian Dollars, unless otherwise stated)

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

Government grants

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

Deferred income taxes

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

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

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

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

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.

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 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.

LINGO MEDIA CORPORATION

Notes to Consolidated Financial Statements

December 31, 2013

(Expressed in Canadian Dollars, unless otherwise stated)

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

Foreign currency translation (Cont'd)

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

Earnings (loss) per share

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

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.

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

Financial instruments

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

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

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

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

Financial instruments (Cont'd)

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

The Company has classified its financial instruments as follows:

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

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

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

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

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

Impairment of long-lived assets

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

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

5. RECENT ACCOUNTING PRONOUNCEMENTS

The following pronouncements issued by the IASB and interpretations published by IFRIC will become effective for annual periods beginning on or after January 1, 2014.

In October 2012, the IASB issued amendments to IFRS 10 Consolidated Financial Statements to require investment entities to measure subsidiaries at fair value through profit or loss. In addition, IFRS 12 Disclosure of Interests in Other Entities has been amended to include disclosure requirements for investment entities. IAS 27 Separate Financial Statements has been amended to require investment entities to measure investments in subsidiaries at fair value through profit or loss when separate financial statements are presented.

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5. RECENT ACCOUNTING PRONOUNCEMENTS (Cont'd)

IAS 32 Financial Instruments: Presentation was amended by the IASB in December 2011. Offsetting Financial Assets and Financial Liabilities amendment addresses inconsistencies identified in applying some of the offsetting criteria.

IAS 36 Impairment of Assets was amended by the IASB in June 2013. Recoverable Amount Disclosures for Non-Financial Assets amendment modifies certain disclosure requirements about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

IAS 39 Financial Instruments: Recognition and Measurement was amended by the IASB in June 2013. Novation of Derivatives and Continuation of Hedge Accounting amendment will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met (in this context, a novation indicates that parties to a contract agree to replace their original counterparty with a new one).

IFRIC Interpretation 21 Levies was issued by the IFRIC in May 2013. The Interpretation on the accounting for levies imposed by governments clarifies the obligating event that gives rise to a liability to pay a levy.

IFRS 9 – Financial Instruments addresses the classification and measurement of financial assets. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value. The new standard also requires a single impairment method to be used. IFRS 9 is available for application, however, previous mandatory effective date of January 1, 2015 has been removed as the IASB decided that this date would not allow sufficient time for entities to apply the new standard because the impairment phase of the IFRS 9 has not yet been completed. The IASB will decide upon a new date when the entire IFRS 9 project is closer to completion.

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, 2013	December 31, 2012
Trade receivable	\$ 839,336	\$ 1,429,226
Grants receivable (Note 14)	164,104	17,736
	\$ 1,003,440	\$ 1,446,962

7. PROPERTY AND EQUIPMENT

Cost, December 31, 2011	\$ 213,162
Additions	-
Effect of foreign exchange	(833)
Cost, December 31, 2012	\$ 212,329
Additions	-
Effect of foreign exchange	3,270
Cost, December 31, 2013	\$ 215,599

Accumulated depreciation, December 31, 2011	\$ 164,841
Charge for the year	9,838
Effect of foreign exchange	(706)
Accumulated depreciation, December 31, 2012	\$ 173,973
Charge for the year	7,624
Effect of foreign exchange	2,076
Accumulated depreciation, December 31, 2013	\$ 183,673

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7. PROPERTY AND EQUIPMENT (Cont'd)**Net book value, December 31, 2012 \$38,356****Net book value, December 31, 2013 \$31,926****8. INTANGIBLES**

	Software and web development	Content Platform	Customer Relationships	Total
Cost, December 31, 2011	\$ 6,649,699	\$ 1,477,112	\$ 130,000	\$8,256,811
Additions	142,464	-	-	142,464
Cost, December 31, 2012	6,792,163	1,477,112	130,000	8,399,275
Additions	431,711	-	-	431,711
Effect of foreign exchange	1,191	-	-	1,191
Cost, December 31, 2013	\$ 7,225,065	\$ 1,477,112	\$ 130,000	\$8,832,177

	Software and web development	Content Platform	Customer Relationships	Total
Accumulated depreciation, Dec 31, 2011	\$ 6,583,618	\$470,214	\$ 103,458	\$7,157,290
Charge of the year	42,978	296,232	26,542	365,752
Accumulated depreciation, Dec 31, 2012	6,626,596	766,446	130,000	7,523,042
Charge of the year	135,627	295,422	-	431,049
Effect of foreign exchange	1,191	-	-	1,191
Accumulated depreciation Dec. 31, 2013	\$ 6,763,414	\$ 1,061,868	\$ 130,000	\$7,955,282

Net book value, Dec. 31, 2012	\$ 165,567	\$710,666	\$ -	\$876,233
Net book value, Dec. 31, 2013	\$ 461,651	\$415,244	\$ -	\$876,895

The Company began commercial production and sale of its services and products during 2009 and started amortizing the cost of software and web development costs on a straight-line basis over the useful life of the assets which is estimated to be 3 years. During 2011, the Company recognized an impairment loss of \$703,600 in relation to its software and web development in Speak2Me because the carrying value of the software and web development exceeded the expected recoverable amount. The recoverable amount is based on management's best estimate of the selling price, less costs of disposal. In 2013, the Company focused on redesign and upgrade of its ELL suite of products and invested \$431,049 in the product development cost. The ELL suite of products includes five different products, each designed to suit the needs of different demographic groups. The full project is expected to complete in 2015, however, the Company has started the commercial production and sale of one of these products. No impairment was recognized in 2013 and 2012.

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9. LOANS PAYABLE

	December 31, 2013	December 31, 2012
Loans payable, interest bearing at 9% per annum with monthly interest payments, secured by a general security agreement and due on September 8, 2014 ⁽ⁱ⁾⁽ⁱⁱ⁾	\$ 880,000	\$ 890,000
Loans payable, interest bearing at 12% per annum ⁽ⁱⁱ⁾ with monthly interest payments, secured by accounts receivable and due on January 31, 2013	-	365,000
Unamortized transaction costs	(60,455)	(61,386)
	\$ 819,545	\$ 1,193,614

On September 8, 2013, the Company extended the term of the loan originally advanced on September 8, 2010, and extended for a further one-year term on September 8, 2011, 2012 and 2013. As additional consideration for the (i) extension of the loan, the Company issued to the lenders an aggregate of 880,000 (2012 - 356,000) common shares of Lingo Media. The common shares were issued based on 10 per cent of the value of the loan, divided by the market value per common share on the date of issuance.

(ii) Included in loans payable are loans amounting to \$480,000 (2012 – \$535,000) to related parties as disclosed in Note 21.

10. SHARE CAPITAL**a) Authorized**

Unlimited number of preference shares with no par value

Unlimited number of common shares with no par value

b) Common shares - Transactions:

(i) On March 4, 2011, the Company closed a non-brokered private placement financing of 2,500,000 units (each a "Unit") at \$0.60 per Unit and an over-allotment of 1,158,668 Units for gross proceeds of \$2,195,200 (the "Financing"). Each Unit is comprised of one common share (each a "Common Share") in the capital of the

Company and one non-transferable common share purchase warrant (each a "Warrant"). Each Warrant entitles the holder to purchase one Common Share at an exercise price of \$0.75 per share until September 4, 2012.

The Warrants are callable, at the option of Lingo Media, after July 5, 2011 in the event its Common Shares trade at or over \$1.20 per share for 10 consecutive trading days. The number of Common Shares issuable pursuant to the Financing, if all Warrants are exercised, is 7,317,336 Common Shares for gross proceeds of \$4,939,201.

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

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

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

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10. SHARE CAPITAL (Cont'd)

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

(i) (Cont'd)

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

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

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

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

ELL Technologies.

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

On September 8, 2013, the Company extended the term of the \$880,000 loan to September 8, 2014, originally advanced on September 8, 2010, and previously extended for a further one-year term on September 8, 2011 and 2012. As additional consideration for the extension of the loan, the Company respectively issued to the lenders an (iv) aggregate of 880,000 (2012 - 356,000) common shares of Lingo Media. The common shares were issued based on 10 per cent of the value of the loan, divided by a market price of \$0.10 (2012 - \$0.25) per common share. In the absence of a reliable measure of the services received, the services have been measured at the fair value of the common shares issued.

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 employees, officers, directors and consultants of the Company and its subsidiaries. The maximum number of shares which may be reserved for issuance under the 2011 Plan is limited to 4,108,635 common shares less the number of shares reserved for issuance pursuant to options

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11. SHARE-BASED PAYMENTS (Cont'd)

granted under the 1996 Plan, the 2000 Plan, the 2005 Plan and the 2009 Plan, provided that the Board of Directors of the Company has the right, from time to time, to increase such number subject to the approval of the relevant exchange on which the shares are listed and the approval of the shareholders of the Company.

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

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

	Number of Options	Weighted Average Exercise Price
Outstanding as at December 31, 2011	2,035,070	\$ 0.89
Granted	1,700,000	0.24
Expired	(227,570)	0.72
Forfeited	(437,000)	1.04
Outstanding as at December 31, 2012	3,070,500	\$ 0.52
Granted	25,000	0.20
Expired	(105,000)	0.86
Forfeited	(207,250)	0.85
Outstanding as at December 31, 2013	2,783,250	0.48
Options exercisable as at December 31, 2012	1,934,534	\$ 0.66

Options exercisable as at December 31, 2013 2,033,004 \$ 0.55

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

The vesting periods on the options granted in 2013 are as follows, nil (2012 – 550,000) stock options vested immediately upon issuance, 25,000 (2012 - 750,000) stock options will vest quarterly over 18 months, and nil (2012 - 400,000) stock options will vest upon four consecutive quarters of Earnings before Interest, Tax and Amortization.

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

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12. Warrants

The following summarizes the warrants outstanding:

	Weighted Average Remaining Contractual Life (Years)	Series	Number of Warrants	Weighted Average Exercise Price
	1.44	A	3,658,668	0.75
	0.80	B	1,875,000	0.75
December 31, 2013 and 2012			5,533,668	0.75

The 3,658,668 warrants issued on March 4, 2011 and the 1,875,000 warrants issued on May 11, 2011 had an expiry date of March 4, 2014 and May 11, 2014 respectively. The expiry dates have been extended subsequent to the balance sheet date (Note 22).

The following summarizes the compensation warrants outstanding:

	Series	Number of Warrants	Weighted Average Exercise Price
December 31, 2011		230,520	
Expired	2011	(151,620)	0.60
Expired	2011	(78,900)	0.60
December 31, 2013 and 2012		Nil	Nil

13. INCOME TAXES

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

	2013		2012		2011	
Combined basic Canadian federal and provincial income tax rate	26.50	%	26.50	%	28.25	%
Effective income tax recovery on loss from continuing operations before income taxes	\$40,438		\$(302,243))	\$(1,274,549)	
Increase (decrease) resulting from change in the deferred tax assets not recognized	283,976		2,244,155		1,208,000	
Withholding tax on sales to China	233,799		208,040		186,019	
Non-deductible items	19,416		66,027		148,483	
Change in prior year estimates	(335,963)		(1,993,992)		(62,583))
	\$241,666		\$221,987		\$205,370	

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13. INCOME TAXES (Cont'd)

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

	2013	2012
Deferred tax assets:		
Operating loss carry forwards	\$5,425,000	\$5,128,000
Share issue costs	18,000	27,000
	\$5,443,000	\$5,155,000
Deferred tax assets not recognized	(5,175,000)	(4,890,000)
Deferred tax assets recognized	268,000	265,000
Software and web development costs	(269,000)	(269,000)
Property and equipment	1,000	4,000
Net deferred tax assets (liabilities)	\$-	\$-

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, 2013, the Company has non-capital losses available for carry forward for Canadian income tax purposes amounting to \$20,472,135 (2012 - \$19,352,905). These losses expire in the following fiscal years:

2014	\$551,129
2015	767,114
2026	1,189,664
2027	1,067,640
2028	2,162,781
2029	2,991,207
2030	4,395,814
2031	5,184,479
2032	1,663,076
2033	499,231
	\$20,472,135

14. GOVERNMENT GRANTS

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

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14. GOVERNMENT GRANTS (Cont'd)

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

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. No royalty was paid in 2013 or 2012 as no sales were generated from this project.

15. FINANCIAL INSTRUMENTS

Fair values

The carrying value of cash and accounts and grants receivable, approximates its fair value due to the liquidity of these instruments. The carrying value of accounts payables and accrued liabilities and loans payables approximates its fair

value due to the requirement to extinguish the liabilities on demand or payable within a year.

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:

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 are as follows:

Foreign currency risk

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

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Foreign currency risk (Cont'd)

A 10% strengthening of the US dollars against Canadian dollars would have increased the net equity by \$76,850 (2012 - \$24,484) due to reduction in the value of net liability balance. A 10% of weakening of the US dollar against Canadian dollar at December 31, 2013 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, 2013 are as follows:

	US Denominated		China Denominated	
	CAD	USD	CAD	RMB
Cash	40,826	43,422	1,577	8,978
Accounts receivable	794,664	788,497	691	3,935
Accounts payable	66,988	68,785	-	-

The carrying values and the exposure to other denominated monetary assets and liabilities as of December 31, 2012 are as follows:

	US Denominated		China Denominated	
	CAD	USD	CAD	RMB
Cash	13,962	14,034	20,199	126,697
Accounts receivable	1,428,636	1,435,959	591	3,721
Accounts payable	61,763	62,079	-	-

*USD and RMB are converted at the prevailing year-end exchange rates.

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, 2013, the Company had cash of \$78,091, accounts and grants receivable of \$1,003,440 and prepaid and other receivables of \$84,620 to settle current liabilities of \$1,703,703.

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, 2013, the Company has outstanding receivables of \$1,003,440. An allowance for doubtful accounts is taken on accounts receivable if the account has not been collected after a predetermined period of time and is offset to other operating expenses.

16. ECONOMIC DEPENDENCE

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

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17. CAPITAL MANAGEMENT

The Company's primary objectives when managing capital are to (a) safeguard the Company's ability to develop, market, distribute and sell ELL 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 2013 or 2012.

18. SEGMENTED INFORMATION

The Company operates two distinct reportable business segments as follows:

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

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

Segmented Information (Before Other Financial Items Below)

2013	Online English Language Learning	Print-Based English Language Learning	Total
Revenue	\$466,869	\$1,541,197	\$2,008,066
Segment assets	1,215,023	999,567	2,214,590
Segment liabilities	496,975	1,206,728	1,703,703
Segment income (loss)	(419,444)	610,385	190,941
2012			
Revenue	\$680,321	\$1,335,940	\$2,016,261
Segment assets	1,269,953	1,390,695	2,660,648
Segment liabilities	814,887	1,428,469	2,243,356
Segment income (loss)	(969,533)	(6,075)	(975,608)

LINGO MEDIA CORPORATION

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18. SEGMENTED INFORMATION (Cont'd)

Other Financial Items	2013	2012
Print-Based English Language Learning segment income (loss)	\$610,385	\$(6,075)
Online English Language Learning segment income (loss)	(419,444)	(969,533)
Foreign exchange	134,444	25,046
Interest and other financial	(240,516)	(168,769)
Stock-based compensation	(61,926)	(243,195)
Other comprehensive income	(79,274)	(2,211)
Total Comprehensive Loss	\$(56,331)	\$(1,364,737)

Revenue by Geographic Region

	2013	2012
China	\$1,543,753	\$1,366,415
Other	464,313	649,846
	\$2,008,066	\$2,016,261

Identifiable Assets by Geographic Region

	2013	2012
Canada	\$1,919,176	\$2,510,182
China	295,414	150,466
	\$2,214,590	\$2,660,648

19. COMMITMENTS AND CONTINGENCY

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

2014	\$230,896
2015	194,932
2016	40,091

The rent expense associated with operating lease for premise and equipment is recognized on a straight-line basis. As a result of the acquisition of ELL Technologies, the Company will owe royalties of 3-9% (Year 2) and 2-8% (Year 3) of ELL Technologies revenues based upon a number of gross revenue targets. Royalty amounts will be due on a quarterly basis. As of December 31, 2013, royalties in the amount of \$117,314 (2012 - \$100,206) have been expensed.

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20. SUPPLEMENTAL CASH FLOW INFORMATION

	2013	2012
Income taxes and other taxes paid	\$191,579	\$147,707
Interest paid	\$151,585	\$93,648

Non-cash transactions:

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

21. RELATED PARTY BALANCES AND TRANSACTIONS

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

- (a) Key management compensation was \$228,800 (2012 – \$312,000) and is reflected as consulting fees paid to corporations owned by a director and officers of the Company, of which, \$340,944 (2012 -\$277,092) is unpaid and included in accounts payable and accrued liabilities. Options granted to key management during the year are valued at \$Nil (2012 - \$84,055).

- (b) At the year end, the Company had loans payable bearing interest at 9% per annum due to corporations controlled by directors and officers of the Company in the amount of \$480,000 (2012 - \$435,000). Interest expense related to these loans is \$48,731 (2012 - \$45,271).

Common shares issued to lenders for the extension of the \$880,000 (2012 - \$890,000) loan include 480,000 (2012 – (c) 174,000) common shares issued at \$0.10 (2012 - \$0.25) per share to lenders' corporations controlled by directors and an officer.

22. SUBSEQUENT EVENT

On February 14, 2014, approval was received from the Toronto Venture Exchange (TSXV) to extend the expiry of 3,658,668 warrants from March 4, 2014 to March 4, 2016 and 1,875,000 warrants from May 11, 2014 to May 11, 2016.