Consolidated Financial Statements

Mood Media Corporation

For the year ended December 31, 2012

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Mood Media Corporation

We have audited the accompanying consolidated financial statements of **Mood Media Corporation**, which comprise the consolidated statements of financial position as at December 31, 2012 and 2011, and the consolidated statements of loss, comprehensive loss, cash flows and changes in equity for the years then ended 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.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. 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 auditors' 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 auditors consider 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 **Mood Media Corporation** as at December 31, 2012 and 2011, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Toronto, Canada
March 27, 2013

/s/ Ernst & Young LLP
Chartered Accountants
Licensed Public Accountants

Mood Media Corporation
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at December 31, 2012

In thousands of US dollars unless otherwise stated

	Notes	2012	2011
ASSETS			
Current assets			
Cash		$46,384	$15,706
Restricted cash		2,675	2,675
Trade and other receivables	24	96,511	71,459
Inventory	11	30,938	26,205
Prepaid expenses		9,329	6,484
Deferred costs		7,135	3,985
		192,972	**126,514**
Assets classified as held for sale	3,4,27	15,767	-
Total current assets		**208,739**	**126,514**
Non-current assets			
Deferred costs		8,591	6,467
Property and equipment	12	57,656	54,682
Other financial assets	19	3,210	862
Investment in associates		621	407
Intangible assets	14	339,673	288,554
Goodwill	15	329,291	244,623
Total assets		**947,781**	**722,109**
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	24	101,016	73,833
Income tax payable		1,217	3,587
Deferred revenue		12,814	9,326
Other financial liabilities	19	8,788	8,103
Current portion of long-term debt	17	2,132	3,550
		125,967	**98,399**
Liabilities directly associated with assets classified as held for sale	3,4,27	9,645	-
Total current liabilities		**135,612**	**98,399**
Non-current liabilities			
Deferred revenue		7,249	7,104
Deferred tax liabilities	18	34,431	30,312
Other financial liabilities	19	29,457	45,694
Long-term debt	17	586,183	465,691
Total liabilities		**792,932**	**647,200**
Equity			
Share capital	20	323,318	171,912
Contributed surplus		30,934	27,204
Foreign exchange translation reserve		2,163	806
Deficit		(204,669)	(125,167)
Reserves of a disposal group held for sale		1,510	-
Equity attributable to owners of the parent		**153,256**	**74,755**
Non-controlling interests		1,593	154
Total equity		**154,849**	**74,909**
Total liabilities and equity		**$947,781**	**$722,109**
Commitments and contingencies	23		

The accompanying notes form part of the consolidated financial statements

On behalf of the Board of Directors:

Lorne Abony
CEO and Director

James Lanthier
Director

Mood Media Corporation
CONSOLIDATED STATEMENTS OF INCOME (LOSS)

For the year ended December 31, 2012

In thousands of US dollars unless otherwise stated

	Notes	2012	2011
Continuing operations			
Revenue	5	**$443,823**	**$274,771**
Expenses			
Cost of sales (excludes depreciation and amortization)	23	183,759	95,091
Operating expenses		148,404	96,967
Depreciation and amortization	12,14	57,856	42,047
Share-based compensation	22	3,758	3,175
Other expenses	6	39,812	22,790
Foreign exchange (gain) loss on financing transactions		(1,428)	5,067
Finance costs, net	7	51,045	61,350
Loss for the year before taxes		**(39,383)**	**(51,716)**
Income tax (credit) charge	9	(14,219)	545
Loss for the year from continuing operations		**(25,164)**	**(52,261)**
Discontinued operations			
Loss after tax from discontinued operations	27	(54,067)	(7,644)
Loss for the year		**(79,231)**	**(59,905)**
Attributable to			
Owners of the parent		(79,502)	(59,951)
Non-controlling interests		271	46
		$(79,231)	**$(59,905)**
Net earnings (loss) per share			
Basic and diluted	10	$(0.50)	$(0.48)
Basic and diluted from continuing operations	10	(0.16)	(0.42)
Basic and diluted from discontinued operations	10	(0.34)	(0.06)

The accompanying notes form part of the consolidated financial statements

Mood Media Corporation
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the year ended December 31, 2012

In thousands of US dollars unless otherwise stated

	2012	2011
Loss for the year	**$(79,231)**	**$(59,905)**
Exchange differences on translation of foreign operations	2,905	(2,966)
Other comprehensive income (loss) for the year, net of tax	**2,905**	**(2,966)**
Total comprehensive loss for the year, net of tax	**(76,326)**	**(62,871)**
Attributable to:		
Owners of the parent	(76,635)	(62,912)
Non-controlling interests	309	41
	$(76,326)	**$(62,871)**

The accompanying notes form part of the consolidated financial statements

Mood Media Corporation
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the year ended December 31, 2012

In thousands of US dollars unless otherwise stated

	Notes	2012	2011
Operating activities			
Loss for the year before taxes - continuing operations		$(39,383)	$(51,716)
Loss for the year before taxes - discontinued operations	3,4,27	(53,353)	(2,728)
		(92,736)	**(54,444)**
Non-cash adjustment to reconcile loss for the year before taxes to net cash flows			
Depreciation and impairment of property and equipment		38,284	26,343
Amortization and impairment of intangible assets		55,608	27,098
Profit on disposal of property and equipment		(1,233)	-
Share-based compensation		3,758	8,418
Finance costs, net and foreign exchange from financing		48,829	68,543
Working capital adjustments			
Increase in trade and other receivables		(4,809)	(5,316)
Increase in inventories		(3,895)	(6,580)
Decrease in trade and other payables		(9,726)	(3,951)
Decrease in deferred revenue		(5,703)	(9,762)
		28,377	**50,349**
Income tax paid		(7,301)	(3,943)
Interest received		144	20
Net cash flows from operating activities		**21,220**	**46,426**
Investing activities			
Purchase of property and equipment and intangible assets		(37,958)	(23,161)
Acquisition of businesses, net of cash acquired	13	(120,204)	(8,616)
Net cash flows used in investing activities		**(158,162)**	**(31,777)**
Financing activities			
Repayment of borrowings		(243,197)	(145,605)
Transaction costs on issue of common shares	20	(5,427)	(1,261)
Proceeds from debt facilities	17	350,000	462,000
Proceeds from private placement	20	143,601	29,145
Proceeds from exercise of share options	20	560	729
Proceeds from issue of convertible debentures	17	-	13,331
Financing costs paid	17	(8,942)	(17,426)
Cost of settlement of credit facilities	7	(4,800)	-
Finance lease payments		(1,623)	(1,103)
Interest paid		(37,442)	(33,238)
Proceeds from exercise of warrants	19	6,500	-
Dividends paid to non-controlling interest		(467)	-
Proceeds from disposal of property and equipment		1,111	-
Repayment of loans to former DMX/Muzak shareholders and debtholders	13	(32,267)	(305,000)
Repayment of derivative financial instrument		-	(6,910)
Purchase of derivative financial instrument		-	(619)
Net cash flows from (used in) financing activities		**167,607**	**(5,957)**
Net increase in cash		**30,665**	**8,692**
Net foreign exchange gain		**13**	**209**
Cash at beginning of year		**15,706**	**6,805**
Cash at end of year		**$46,384**	**$15,706**

The accompanying notes form part of the consolidated financial statements

Mood Media Corporation
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the year ended December 31, 2012

In thousands of US dollars unless otherwise stated

	Notes	Share Capital	Contributed Surplus	Foreign Exchange Translation Reserve	Deficit	Discontinued operations	Total	Non-Controlling Interests	Total Equity
As at January 1, 2012		**$171,912**	**$27,204**	**$806**	**$(125,167)**	**$-**	**$74,755**	**$154**	**$74,909**
Income (loss) for the year		-	-	-	(79,502)	-	(79,502)	271	(79,231)
Translation of foreign operations		-	-	2,867	-	-	2,867	38	2,905
Discontinued operations		-	-	(1,510)	-	1,510	-	-	-
Total comprehensive income (loss)		**-**	**-**	**1,357**	**(79,502)**	**1,510**	**(76,635)**	**309**	**(76,326)**
Share-based compensation	22	-	3,758	-	-	-	3,758	-	3,758
Fair value of non-controlling interests acquired	13	-	-	-	-	-	-	1,597	1,597
Dividends paid to non-controlling interests		-	-	-	-	-	-	(467)	(467)
Issue of share capital	20	143,601	-	-	-	-	143,601	-	143,601
Transaction costs on issue of share capital	20	(5,427)	-	-	-	-	(5,427)	-	(5,427)
Exercise of warrants	19,20	12,308	-	-	-	-	12,308	-	12,308
Exercise of share options	20,22	560	-	-	-	-	560	-	560
Conversion of debentures	20	364	(28)	-	-	-	336	-	336
As at December 31, 2012		**$323,318**	**$30,934**	**$2,163**	**$(204,669)**	**$1,510**	**$153,256**	**$1,593**	**$154,849**

The accompanying notes form part of the consolidated financial statements

Mood Media Corporation
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the year ended December 31, 2011

In thousands of US dollars unless otherwise stated

	Notes	Share Capital	Contributed Surplus	Foreign Exchange Translation Reserve	Deficit	Total	Non-Controlling Interests	Total Equity
As at January 1, 2011		**$142,691**	**$10,577**	**$3,767**	**$(65,216)**	**$91,819**	**$113**	**$91,932**
Income (loss) for the year		-	-	-	(59,951)	(59,951)	46	(59,905)
Translation of foreign operations		-	-	(2,961)	-	(2,961)	(5)	(2,966)
Total comprehensive income (loss)		**-**	**-**	**(2,961)**	**(59,951)**	**(62,912)**	**41**	**(62,871)**
Share-based compensation	22	-	8,418	-	-	8,418	-	8,418
Issue of share capital	20	29,145	-	-	-	29,145	-	29,145
Issue of warrants	17,20	-	7,308	-	-	7,308	-	7,308
Issue of convertible debentures		-	986	-	-	986	-	986
Transaction costs on issue of share capital	20	(1,261)	-	-	-	(1,261)	-	(1,261)
Exercise of share options	22,20	729	-	-	-	729	-	729
Conversion of debentures	20	608	(85)	-	-	523	-	523
As at December 31, 2011		**$171,912**	**$27,204**	**$806**	**$(125,167)**	**$74,755**	**$154**	**$74,909**

The accompanying notes form part of the consolidated financial statements

1. Corporate information

Mood Media Corporation ("Mood Media" or the "Company") is a publicly traded company on the Toronto Stock Exchange and the London Alternative Investment Market and is domiciled and incorporated in Canada. The Company's registered office is located at 99 Sante Drive, Concord, Ontario, Canada.

The Company provides in-store audio, visual and scent marketing solutions to a range of businesses including specialist retailers, department stores, supermarkets, financial institutions and fitness clubs as well as hotels and restaurants. Proprietary technology and software is used to deploy music from a compiled music library to client sites. This library comes from a diverse network of producers including major labels and independent and emerging artists.

2. Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations issued and effective or issued and early adopted as at the date of these consolidated financial statements. The policies set out below have been consistently applied to all the periods presented.

All amounts are expressed in US dollars (unless otherwise specified), rounded to the nearest thousand.

These consolidated financial statements of the Company were approved by the Board of Directors and authorized for issue on March 27, 2013.

3. Summary of estimates, judgments and assumptions

The preparation of the Company's consolidated financial statements requires management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements. However, uncertainty about these estimates, judgments and assumptions could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

Share-based compensation

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based compensation transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based compensation transactions are disclosed in note 22.

Fair value measurement of contingent consideration

Contingent consideration, resulting from business combinations, is valued at fair value at the acquisition date as part of the business combination. When the contingent consideration meets the definition of a derivative and, thus, a financial liability, it is subsequently remeasured to fair value at each reporting date. The determination of the fair value is based on discounted cash flows. The key assumptions take into consideration the probability of meeting each performance target and the discount factor.

Fair value of financial instruments

When the fair value of financial assets and financial liabilities recorded in the consolidated statements of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include consideration of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

3. Summary of estimates, judgments and assumptions (continued)

Income taxes

Tax regulations and legislation and the interpretations thereof in the various jurisdictions in which the Company operates are subject to change. As such, income taxes are subject to measurement uncertainty. Deferred tax assets are recognized to the extent that it is probable that the deductible temporary differences will be recoverable in future periods. The recoverability assessment involves a significant amount of estimation including: an evaluation of when the temporary differences will reverse, an analysis of the amount of future taxable earnings, the availability of cash flow to offset the tax assets when the reversal occurs and the application of tax laws. To the extent that the assumptions used in the recoverability assessment change, there may be a significant impact on the consolidated financial statements of future periods.

Contingencies

Contingencies, by their nature, are subject to measurement uncertainty as the financial impact will only be confirmed by the outcome of a future event. The assessment of contingencies involves a significant amount of judgment including assessing whether a present obligation exists and providing a reliable estimate of the amount of cash outflow required in settling the obligation. The uncertainty involved with the timing and amount at which a contingency will be settled may have a material impact on the consolidated financial statements of future periods to the extent that the amount provided for differs from the actual outcome.

Inventory obsolescence

The Company’s obsolescence provision is determined at each reporting period and the changes recorded in the consolidated statements of income (loss). This calculation requires the use of estimates and forecasts of future sales. Qualitative factors, including market presence and trends, strength of customer relationships, as well as other factors, are considered when making assumptions with regard to recoverability. A change in any of the significant assumptions or estimates used could result in a material change to the provision.

Sales returns accrual

The sales return accrual is determined at each reporting period and the changes recorded as a reduction of revenue in the consolidated statements of income (loss) and as a reduction of trade and other receivables in the consolidated statements of financial position. The calculation uses historical return rates for customers or groups of customers. As historical return rates may differ from future return rates, actual returns may differ from the estimated accrual.

3. Summary of estimates, judgments and assumptions (continued)

Property and equipment

The Company has estimated the useful lives of the components of all of its property and equipment based on past experience and industry norms, and is depreciating these assets over their estimated useful lives. Management assesses these estimates on a periodic basis and makes adjustments when appropriate. Rental equipment installed at customer premises includes costs directly attributable to the installation process. Judgment is required in determining which costs are considered directly attributable to the installation process and the percentage capitalized is estimated based on work order hours for the year.

Impairment of long-lived assets

Long-lived assets primarily include property and equipment and intangible assets. An impairment loss is recognized when the carrying value of the cash-generating unit ("CGU"), which is defined as a unit that has independent cash inflows, to which the asset relates, exceeds the CGU's fair value, which is determined using a discounted cash flow method. The Company tests the recoverability of its long-lived assets when events or circumstances indicate that the carrying values may not be recoverable. While the Company believes that no provision for impairment is required, management must make certain estimates regarding the Company's profit projections that include assumptions about growth rates and other future events. Changes in certain assumptions could result in charging future results with an impairment loss.

Leases

The determination of whether an arrangement with a customer is, or contains, a lease is based on the substance of the arrangement at the inception date, whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Goodwill and indefinite-lived intangible assets

The Company performs asset impairment assessments for indefinite-lived intangible assets and goodwill on an annual basis or on a more frequent basis when circumstances indicate impairment may have occurred. Under IFRS, the Company selected October 1 as the date when it performs its annual impairment analysis. Impairment calculations under IFRS are done at a CGU group level. Calculations use a discounted cash flow method under a one-step approach and consider the relationship between the Company's market capitalization and its book value. Goodwill is allocated and tested in conjunction with its related CGU or group of CGUs that benefit from collective synergies. The assessments used to test for impairment are based on discounted cash flow projections that include assumptions about growth rates and other future events. Industry information is used to estimate appropriate discount rates used in the calculation of discounted cash flows.

3. Summary of estimates, judgments and assumptions (continued)

Discontinued operations

During March 2012, management decided to dispose of Mood Media Entertainment Limited ("MME"), which is a major line of business and classified it as a disposal group held for sale and as a discontinued operation. Management has determined that MME has met the criteria to be classified as held for sale in accordance with the requirements of IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations:*

- A Confidential Investor Memorandum has been prepared and distributed to prospective buyers for review.
- Some non-disclosure agreements have been executed.
- Management is in active negotiations with a prospective buyer and believe it is highly probable that this position will be concluded in the near term.

In the consolidated statements of income (loss), revenue and expenses from discontinued operations are reported separately from revenue and expenses from continuing operations, down to the level of loss after taxes. The resulting loss after taxes is reported separately in the consolidated statements of income (loss).

4. Summary of significant accounting policies

Basis of measurement and principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries after the elimination of intercompany balances and transactions. Investments in entities over which the Company exercises significant influence are accounted for using the equity method. The results of operations of subsidiaries acquired during the year are included from their respective dates of acquisition. Non-controlling interests represent the portion of net earnings and net assets that are not held by the Company and are presented separately in the consolidated statements of income (loss) and within equity in the consolidated statements of financial position.

The consolidated financial statements have been prepared on a historical cost basis except for derivative financial instruments, compensation warrants and contingent consideration, which are measured at fair value as detailed in the accounting policies set out below.

In thousands of US dollars unless otherwise stated

4. Summary of significant accounting policies (continued)

Foreign currency translation

The consolidated financial statements are presented in US dollars, which is the Company's functional currency. Each subsidiary consolidated by the Company determines its own functional currency based on the primary economic environment in which the subsidiary operates.

Transactions in foreign currencies are initially recorded by subsidiaries in their respective functional currency on the date of the transaction. Monetary assets and liabilities denominated in a foreign currency are translated at the exchange rate in effect at the date of the consolidated financial statements. Other non-monetary assets and liabilities are translated at their historical exchange rates. Revenue and expenses are translated at average exchange rates prevailing during the year. Gains and losses resulting from foreign currency translation are recorded in the consolidated statements of income (loss).

Assets and liabilities of subsidiaries with functional currencies other than US dollars are translated at the exchange rate in effect at the date of the consolidated financial statements. Revenue and expense items are translated at the average rate of exchange during the period date of the consolidated financial statements. Exchange gains or losses arising from the translation of these subsidiaries are included as part of other comprehensive income (loss).

Cash and restricted cash

Cash includes cash on hand and balances with banks. Restricted cash is used to collateralize outstanding letters of credit which serve as collateral for various bonds, ranging from performance bonds to wage bonds.

Trade receivables

Trade receivables are carried at amounts due, net of a provision for amounts estimated to be uncollectible.

Inventory

Inventory is valued at the lower of cost and net realizable value. Equipment for resale is valued at weighted average cost. CD and DVD finished goods and components are valued at the standard cost of inventory, which approximates the first-in, first-out basis, net of an allocation of volume rebates and other payments received from suppliers. Provisions are made for slow moving and obsolete inventory. Reversals of previous write-downs to net realizable value are required when there is a subsequent increase in the value of the inventory.

4. Summary of significant accounting policies (continued)

Property and equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the remaining estimated useful lives of the assets as outlined below:

Furniture, fixtures and leasehold improvements	2 – 5 years
Rental equipment	3 – 5 years
Computer and other equipment	1 – 3 years
Vehicles	3 years

Leasehold improvements are amortized on a straight-line basis over the remaining terms of the leases. Depreciation only commences once the asset is in use. Included in other equipment are interactive displays which are transferred from “assets not in use” when they are distributed to customers.

The useful lives, method of depreciation and the assets’ residual values are reviewed at least annually and the depreciation charge is adjusted prospectively, if appropriate.

Company as a lessee

Finance leases that transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs, net in the consolidated statements of income (loss). A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognized as an operating expense in the consolidated statements of income (loss) on a straight-line basis over the lease term.

4. Summary of significant accounting policies (continued)

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at the acquisition date fair value and the amount of any non-controlling interest in the acquiree. Acquisition costs incurred are expensed and included in other expenses in the consolidated statements of income (loss). When the Company acquires a business, it assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions at the acquisition date. Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability will be recognized in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*, either in the consolidated statements of income (loss) or as a charge to other comprehensive income.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired business or equity method investee at the date of acquisition. If this consideration is lower than the fair value of the net assets acquired, the difference is recognized in the consolidated statements of income (loss). After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's CGUs or group of CGUs that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Intangible assets

Intangible assets are assets acquired that lack physical substance and that meet the specified criteria for recognition apart from goodwill. Intangible assets acquired mainly consist of brands, customer relationships, music library and technology platforms and software. Intangible assets are amortized on a straight-line basis as outlined below:

Brands	5 years – Indefinite
Customer relationships	5 – 15 years
Music library	5 – 10 years
Technology platforms and software	3 – 10 years

Residual values and useful lives are reviewed at least annually and are adjusted, if appropriate.

4. Summary of significant accounting policies (continued)

Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortization and are tested annually for impairment or more frequently when conditions indicating impairment exist. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level, for which there are separately identifiable cash inflows (CGUs). Value in use is determined by discounting estimated future cash flows using a pre-tax discount rate that reflects the current market assessment of the time value of money and the specific risks of the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available.

If no such transactions can be identified, an appropriate valuation model has to be used. The recoverable amount of assets that do not generate independent cash inflows is determined based on the CGU to which the asset belongs.

The Company bases its impairment calculation on detailed budgets, forecast calculations, quoted market prices, or other valuation techniques, or a combination thereof, necessitating management to make subjective judgments and assumptions.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased.

Goodwill is allocated to CGUs or a group of CGUs for the purpose of impairment testing based on the level at which management monitors it, which is not larger than an operating segment.

Revenue recognition – In-store media

The Company's in-store media revenue is derived predominantly from sales of music and messaging services. Revenue is recognized when persuasive evidence of an arrangement exists, prices are fixed or determinable, collectability is reasonably assured and services have been rendered. Revenue from music and messaging services is recognized during the period the service is provided based on the contract terms. As part of its arrangements for in-store media, the Company provides customers with a proprietary media player that is integral and essential to the related services. This equipment may be sold or leased to customers. Revenue from proprietary equipment sales is deferred and recognized over the contract term. Revenue for equipment sales of non-proprietary equipment is recognized upon installation. Contracts are typically for a multi-year non-cancellable period. Royalty revenue is recognized on an accrual basis when collection is reasonably assured. Installation revenue relating to proprietary equipment is deferred and recognized over the term of the contract.

4. Summary of significant accounting policies (continued)

Revenue recognition – Point of purchase (relates to discontinued operations)

The Company's point of purchase revenue is realized from the sale of specialty music CD and DVD products through interactive displays. The retailer purchases the inventory on the interactive display and a sale is recorded at the time the inventory is shipped to the customer. On a scheduled basis during the year, the Company initiates a change to some of the albums on the interactive display (a "Board Change"). When a Board Change occurs, the retailer is permitted to return inventory from the interactive display for albums that are delisted, provided that the new replacement titles are purchased. The return liability for the returnable inventory is recorded in the same period as the Board Change order is shipped. A sales return accrual is estimated based on new replacement albums shipped in the period for which the delisted album returns have not yet been received. Estimated return rates are based on historical return rates for individual customers and customer groups. Sales returns are recorded as a reduction of revenue in the consolidated statements of income (loss) and a reduction of trade and other receivables in the consolidated statements of financial position.

Under certain seasonal programs, the retailer may return unsold inventory at the end of the program. A sale is recorded at the time the inventory is shipped to the customer and a sales return accrual is estimated at the end of each reporting period based on historical return rates of similar programs and, where available, retail sales of the program and remaining retail inventory of the program at the end of the reporting period.

Deferred revenue and deferred cost of goods sold

The Company may invoice certain subscribers in advance for contracted music services. Amounts received in advance of the service period are deferred and recognized as revenue in the period services are provided.

The Company recognizes revenue and related deferred cost of sales from proprietary equipment sales over the life of the related contract.

Customer acquisition costs

The Company incurs direct and incremental sales commissions in connection with acquiring new customers. As the Company obtains recurring contracts from new customers, the sales commissions are capitalized as part of deferred costs and amortized as a component of operating expenses over the term of the related contract. If a contract is terminated early, any remaining deferred sales commissions are expensed to reflect the termination of the customer contract.

4. Summary of significant accounting policies (continued)

Investments in joint ventures

Investments in joint ventures are accounted for using the equity method.

Share-based compensation

The Company accounts for share-based awards that require the Company to measure and recognize compensation expense for all share-based compensation awards made to employees, consultants and directors based on estimated fair values. The fair value of share-based compensation is determined using the Black-Scholes option pricing model, which is affected by the Company's share price as well as assumptions regarding a number of variables on the date of grant. Forfeitures for the share-based awards are estimated on the grant date and revised if the actual forfeitures differ from previous estimates. Employee share-based compensation is expensed using the straight-line method over the vesting period. The offsetting entry to the share-based compensation expense is an increase to contributed surplus. Where applicable, non-employee share-based compensation is measured at the earlier of completion of performance, when a performance commitment is reached, or when the options have vested. Non-employee share-based compensation is expensed in the same manner and in the same period as if the Company had paid cash for the services.

Taxation

Current income tax assets and liabilities in the consolidated financial statements are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statements of income (loss). Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries and associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

4. Summary of significant accounting policies (continued)

Deferred tax assets are recognized for all deductible temporary differences and carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

In respect of deductible temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year in which the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income (loss) or directly in equity. Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognized subsequently if new information about facts and circumstances change. The adjustment would either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it is incurred during the measurement period or in profit or loss.

4. Summary of significant accounting policies (continued)

Financial assets and financial liabilities

The Company classifies its financial assets and liabilities into the following categories:

- Financial assets and financial liabilities at fair value through profit or loss;
- Loans and receivables; and
- Other financial assets and other financial liabilities.

The Company has not classified any financial instruments as available for sale. Appropriate classification of financial assets and financial liabilities is determined at the time of initial recognition or when reclassified on the consolidated statements of financial position. Financial instruments classified as fair value through profit (loss) are recognized on the trade date, which is the date that the Company commits to purchase or sell the asset.

i) Financial assets and financial liabilities at fair value through profit or loss

The Company classifies certain financial assets and financial liabilities as either held for trading or designated at fair value through profit or loss. Assets and liabilities in this category include derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships and compensation warrants. Financial assets and financial liabilities at fair value through profit or loss are carried at fair value. Related realized and unrealized gains and losses are included in the consolidated statements of income (loss).

ii) Loans and receivables

Loans and receivables include originated and purchased non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Assets in this category include trade receivables and are classified as current assets on the consolidated statements of financial position.

Loans and receivables are initially recognized at fair value plus transaction costs. They are subsequently measured at amortized cost using the effective interest rate method less any impairment. Receivables are reduced by provisions for estimated bad debts.

iii) Other financial liabilities

Other financial liabilities include trade and other payables and long-term debt instruments, including convertible debentures, and are measured at amortized cost using the effective interest rate method. Long-term debt instruments are initially measured at fair value, which is the consideration received, net of transaction costs incurred. Transaction costs related to the long-term debt instruments are netted against the carrying value of the instruments and amortized using the effective interest rate method.

4. Summary of significant accounting policies (continued)

Determination of fair value

The Company categorizes its fair value measurements according to a three-level hierarchy. The hierarchy prioritizes the inputs used by the Company's valuation techniques. A level is assigned to each fair value measurement based on the lowest level input significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are defined as follows:

Level 1 - Unadjusted quoted prices at the measurement date for identical assets or liabilities in active markets.

Level 2 - Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 - Significant unobservable inputs that are supported by little or no market activity.

Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the receivables or a group of receivables is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Derivatives and hedges

Derivative instruments are recorded in the consolidated statements of financial position at fair value unless exempted from derivative treatment as a normal purchase and sale. Changes in their fair value are recorded in the consolidated statements of income (loss) unless cash flow hedge accounting is used, in which case changes in fair value are recorded in the consolidated statements of comprehensive income (loss).

4. Summary of significant accounting policies (continued)

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statements of income (loss), net of any reimbursement.

Earnings (loss) per share

Earnings (loss) per share amounts are calculated by dividing the net earnings (loss) for the year attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share amounts are calculated by dividing the net results attributable to common shareholders of the Company (after adjusting for interest on the convertible debentures) by the weighted average number of common shares outstanding during the year plus the weighted average number of common shares that would be issued on conversion of all the dilutive potential common shares into common shares.

In thousands of US dollars unless otherwise stated

4. Summary of significant accounting policies (continued)

Discontinued operations

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

In the consolidated statements of income (loss), revenue and expenses from discontinued operations are reported separately from revenue and expenses from continuing operations, down to the level of income (loss) after taxes. The resulting income or loss (after taxes) is reported separately in the consolidated statements of income (loss).

Property and equipment and intangible assets are not depreciated or amortized once classified as held for sale.

The consolidated statements of cash flows have been presented inclusive of all cash flows from both continuing and discontinued operations. Amounts relating to solely discontinued operations by operating and investing activities are disclosed in note 27.

4. Summary of significant accounting policies (continued)

New standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Company's consolidated financial statements are listed below. This listing of standards and interpretations issued are those that the Company reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date.

The Company intends to adopt these standards when they become effective.

IAS 1, Financial Statement Presentation – Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or "recycled") to income or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Company's financial position or performance. The amendment becomes effective for annual periods beginning on or after July 1, 2012.

IAS 28, Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

Amendments to IAS 32, Offsetting Financial Assets and Financial Liabilities; and IFRS 7, Disclosures

The amendments in IAS 32 clarify certain items regarding offsetting financial assets and financial liabilities and IFRS 7 addresses common disclosure requirements. The amendments are to be applied retrospectively and will be effective for annual periods commencing on or after January 1, 2013 for IFRS 7 and January 1, 2014 for IAS 32, with earlier application permitted. The amendment affects presentation only and has no impact on the Company's financial position or performance.

4. Summary of significant accounting policies (continued)

IFRS 9, Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the International Accounting Standards Board's ("IASB") work on the replacement of IAS 39 and applies to the classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after January 1, 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. In 2013, the classification and measurement phase is expected to go into a re-deliberation period and the exposure drafts for the impairment and hedge accounting phases are expected to be released. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will potentially have no impact on the classification and measurements of financial liabilities.

IFRS 10, Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27, *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-*12 Consolidation - Special Purpose Entities.* IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled and, therefore, are required to be consolidated by a parent, compared with the requirements of IAS 27. This standard becomes effective for annual periods beginning on or after January 1, 2013.

IFRS 11, Joint Arrangements

IFRS 11 replaces IAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly-controlled Entities — Non-monetary Contributions by Ventures*. IFRS 11 removes the option to account for jointly controlled entities ("JCEs") using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard becomes effective for annual periods beginning on or after January 1, 2013.

4. Summary of significant accounting policies (continued)

IFRS 12, Disclosure of Involvement with Other Entities

IFRS 12 includes all of the disclosures that were previously included in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31, IAS 28 and SIC-12 and SIC-13. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after January 1, 2013. The amendment affects presentation only and has no impact on the Company's financial position or performance.

IFRS 13, Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. This standard becomes effective for annual periods beginning on or after January 1, 2013.

The Company is assessing the impact of the adoption of these standards.

In thousands of US dollars unless otherwise stated

5. Revenue

The composition of revenue is as follows:

	2012	2011
Sale of goods	$111,172	$45,295
Rendering of services	328,979	226,080
Royalties	3,672	3,396
	$443,823	**$274,771**

6. Other expenses

	2012	2011
Transaction costs	$20,402	$18,006
Restructuring and integration costs	19,410	4,784
	$39,812	**$22,790**

Transaction costs incurred during the year ended December 31, 2012 are associated with the acquisitions of DMX, BIS, ICI and Technomedia (note 13). Transaction costs for the year ended December 31, 2012 consist of legal and professional fees of $6,255 (2011 - $3,309), consultants' fees of $5,477 (2011 - $7,968), employee bonuses related to the transactions of $3,195 (2011 - $3,284) and other transaction costs of $5,475 (2011 - $3,445). Transaction costs incurred during the year ended December 31, 2011 are associated with the acquisitions of Pelika and Muzak.

Restructuring and integration costs for the year ended December 31, 2012 consist of severance costs of $14,564 (2011 - $3,190) and other integration costs of $4,846 (2011- $1,594) in respect of IT integration, relocation expenses, rebranding and other integration and transition activities. These restructuring and integration activities are as a result of integrating various businesses, primarily Muzak, Mood Europe and DMX.

7. Finance costs, net

	2012	2011
Interest expense	$44,047	$33,158
Change in fair value of financial instruments (i)	(8,186)	8,942
Cost of settlement of credit facility (ii)	17,745	11,919
Other finance costs, net (iii)	(2,561)	7,331
	$51,045	**$61,350**

(i) Change in fair value of financial instruments consists of:

	2012	2011
Cross-currency interest rate swap (a)	$(630)	$1,296
Interest rate floor (b)	(9,395)	5,954
Interest rate cap (c)	244	365
Compensation warrants	1,595	1,327
	$(8,186)	**$8,942**

(a) The Company has a cross-currency interest rate swap for a notional amount of $32,375 that converts Euros into US dollars at a foreign exchange rate of 1.2350 and converts floating interest to a fixed rate of 8.312%. The Company does not account for this cross-currency interest rate swap as a hedging instrument and, therefore, any change in fair value is recorded as a finance cost in the consolidated statements of income (loss).

(b) In accordance with the Company's credit agreement, the Company entered into an arrangement whereby LIBOR would have a minimum floor of 1.50%. However, at the time of entering this credit agreement, LIBOR was 0.25%. Under IFRS, the interest rate floor is considered an embedded derivative and is fair valued at the date of issuance and at each subsequent reporting period. Any change in fair value is included within finance costs, net in the consolidated statements of income (loss). The change in the fair value during the year ended December 31, 2012 was a credit of $9,395 (2011 - charge of $5,954) (note 19).

(c) In accordance with the Company's credit agreement, the Company has entered into an arrangement where the Company capped LIBOR at 3.5% for 50% of the credit facility. Any changes in fair value in the interest rate cap are recorded as finance costs, net in the consolidated statements of income (loss). The change in the fair value during the year ended December 31, 2012 was $244 (2011 - $365) (note 19).

(ii) The cost of settlement of the credit facility for the year ended December 31, 2012 includes $7,427 of accelerated discount for deferred financing costs, a $5,518 non-cash discount for the interest rate floor and an early settlement fee of $4,800 as a result of the repayments made to the first lien facility and the second lien facility following the closing of the unsecured notes (note 17).

7. Finance costs, net (continued)

(iii) Other finance costs include the change in fair value of the contingent consideration in respect of the acquisition of Muzak. For the year ended December 31, 2012, the change in fair value of the contingent consideration was a credit of $7,865 (2011 - charge of $1,805). Other finance costs also include the accretion interest in respect of the convertible debentures, the credit facilities and the unsecured notes, the accretion of debt related to the interest rate floor and the prepayment option. For the year ended December 31, 2012, accretion interest in respect of the convertible debentures was $1,432 (2011 - $1,403) (note 17); accretion of the credit facilities and unsecured notes was $2,340 (2011 - $2,908) (note 17); accretion of debt related to the interest rate floor was $1,711 (2011 - $1,258); and amortization of the prepayment option was a credit of $80 (2011 - nil) (note 19). The remaining credit of $99 within other finance costs (2011 - $43) represents interest income and share of profits of associates.

8. Employee benefits expenses

	2012	2011
Wages and salaries	$83,019	$67,437
Social security costs	18,750	11,572
Pension costs	1,288	824
	$103,057	**$79,833**

9. Income tax

	2012	2011
Current tax expense		
Current tax on income for the year	$5,240	$5,340
Total current tax	**$5,240**	**$5,340**
Deferred tax expense		
Origination and reversal of temporary differences	$(1,338)	$262
Recognition of previously unrecognized deferred tax assets	(18,121)	(5,057)
Total deferred tax credit (note 18)	**$(19,459)**	**$(4,795)**
Total income tax (credit) charge	**$(14,219)**	**$545**

The Company acquired the shares of DMX, BIS and Technomedia during the year. As part of the allocation of the purchase price, a deferred tax liability was recognized in respect of DMX of $19,277 and BIS of $3,223. The Company recognized the benefit of previous years' tax losses in the same jurisdiction in the same amount for the DMX deferred tax liability.

In thousands of US dollars unless otherwise stated

9. Income tax (continued)

Corporation tax in the United States applied to loss for the year is as follows:

	2012	2011
Loss for the year before taxes	**$(39,383)**	**$(51,716)**
Expected tax charge: based on the standard United States domestic corporation tax rate of 40% (2011 - 40%)	(15,753)	(20,687)
Expenses not deductible for tax purposes	8,979	4,081
Change in estimate for under (over) provision in previous years	(100)	(428)
Different tax rates applied in overseas jurisdictions	(992)	1,957
Recognition of previously unrecognized deferred tax asset	(20,143)	-
Unprovided deferred tax movement	12,921	15,622
US State and other	869	-
Total income tax (credit) charge	**$(14,219)**	**$545**

The Company is resident in Canada for the purposes of the Tax Act and it believes that it is, and will continue to be, treated as a domestic corporation in the United States under the Internal Revenue Code of 1986 (United States). As a result, the Company (but not the Company's subsidiaries) is generally taxable on its worldwide income in both Canada and the United States (subject to the availability of any tax credits or deductions in either or both jurisdictions in respect of foreign taxes paid by the Company). Management of the Company is of the view that the status of the Company as taxable both in Canada and the United States has not given rise to any material adverse consequences as of the date hereof. Management of the Company is also of the view that such status is not likely to give rise to any material adverse consequences.

In thousands of US dollars unless otherwise stated

10. Earnings (loss) per share

Basic and diluted earnings (loss) per share ("EPS") amounts have been determined by dividing loss for the year by the weighted average number of common shares outstanding throughout the year.

	2012	2011
Weighted and diluted average common shares (000s)	**160,106**	**124,645**
Total operations		
Basic EPS	$(0.50)	$(0.48)
Diluted EPS	(0.50)	(0.48)
Continuing operations		
Basic EPS	(0.16)	(0.42)
Diluted EPS	(0.16)	(0.42)
Discontinued operations		
Basic EPS	(0.34)	(0.06)
Diluted EPS	(0.34)	(0.06)

Convertible debentures, share options and warrants have not been included in the calculation of diluted EPS because they are anti-dilutive for the years presented.

11. Inventory

	2012	2011
Components	$5,265	$5,255
Finished goods	25,673	20,950
	$30,938	**$26,205**

Inventory is held at the lower of cost and net realizable value.

12. Property and equipment

	Furniture, fittings and leasehold improvements	Rental equipment	Computer and other equipment	Vehicles	Assets not in use	Total
Cost						
As at January 1, 2011	**$3,660**	**$11,006**	**$23,931**	**$679**	**$4,155**	**$43,431**
Additions	567	10,177	4,734	105	5,200	20,783
Acquisitions	2,299	28,592	7,602	2,043	-	40,536
Disposals	(95)	(704)	(110)	(68)	-	(977)
Transfers	-	-	4,602	-	(4,602)	-
Exchange differences	(329)	(1,273)	(522)	(10)	(121)	(2,255)
As at December 31, 2011	**6,102**	**47,798**	**40,237**	**2,749**	**4,632**	**101,518**
Additions	1,803	21,462	4,317	3,867	715	32,164
Acquisitions	1,914	4,648	1,250	280	-	8,092
Disposals	(88)	(1,139)	(149)	(2,325)	-	(3,701)
Discontinued operations	(3,051)	(6,997)	(5,176)	-	(5,456)	(20,680)
Exchange differences	446	1,526	253	19	109	2,353
As at December 31, 2012	**7,126**	**67,298**	**40,732**	**4,590**	**-**	**119,746**
Depreciation						
As at January 1, 2011	**1,007**	**3,027**	**18,541**	**484**	**-**	**23,059**
Depreciation	1,212	16,295	7,715	878	-	26,100
Disposals	(95)	(534)	(91)	(61)	-	(781)
Exchange differences	1,084	(3,148)	536	(14)	-	(1,542)
As at December 31, 2011	**3,208**	**15,640**	**26,701**	**1,287**	**-**	**46,836**
Depreciation	1,454	18,659	5,646	1,723	-	27,482
Disposals	(13)	(1,029)	(109)	(1,859)	-	(3,010)
Discontinued operations	(2,274)	(4,665)	(3,995)	-	-	(10,934)
Exchange differences	331	1,310	63	12	-	1,716
As at December 31, 2012	**2,706**	**29,915**	**28,306**	**1,163**	**-**	**62,090**
Net book value						
As at December 31, 2012	**$4,420**	**$37,383**	**$12,426**	**$3,427**	**$-**	**$57,656**
As at December 31, 2011	2,894	32,158	13,536	1,462	4,632	54,682

13. Business combinations

Acquisitions of DMX, BIS, ICI and Technomedia in 2012

On December 24, 2012, the Company acquired 100% of the issued and outstanding shares of the following private entities: Technomedia NY, LLC, Technomedia Solutions, LLC, ServiceNET Exp, LLC, Convergence, LLC, (collectively "Technomedia"). Technomedia provides advanced media and technology innovations for multiple industries, including retail, hospitality, theme parks, performing arts, museums, special venue and education. The Company believes that the acquisition of Technomedia will support the growth of the Company's visual business.

On October 19, 2012, Muzak, a subsidiary of the Company, acquired certain assets and liabilities of Independent Communications Inc. ("ICI"), one of its largest franchisees. ICI offers a range of in-store audio, visual and scent solutions and operates in the mid-Atlantic region of the United States.

On May 31, 2012, the Company acquired 100% of the issued and outstanding shares of the following private entities: Aplusk B.V., BIS Bedrijfs Informatie Systemen B.V., BIS Business Information Systems N.V., Avimotion Holding B.V. and BIS Elecktrotechniek B.V. (collectively "BIS"). BIS provides the design, installation and supply of audio and visual solutions to private and public sector organizations in the Benelux region. The Company believes the acquisition of BIS will support the growth of the Company's visual business.

On March 20, 2012, the Company acquired 100% of the issued and outstanding shares of DMX Holdings Inc. ("DMX"), a private company that provides brand-enhancing in-store media services in North America. The non-controlling interest of one of DMX's subsidiaries was not acquired. The Company elected to measure the non-controlling interest in the subsidiary at the proportionate share of its interest in the identifiable net assets. The Company believes DMX will complement its core in-store media business.

13. Business combinations (continued)

The fair values of the identifiable assets and liabilities of DMX and BIS and the preliminary identifiable assets and liabilities of ICI and Technomedia as at the date of acquisition are as follows:

	DMX	BIS	ICI	Technomedia
Assets				
Cash	$1,930	$533	$-	$1,019
Trade receivables and prepaid expenses	17,880	10,251	4,134	9,319
Inventories	2,974	3,455	718	289
Property and equipment	3,168	1,748	2,874	302
Intangible assets	52,486	12,893	15,324	10,580
	78,438	**28,880**	**23,050**	**21,509**
Liabilities				
Trade and other payables	27,590	9,042	1,054	5,292
Deferred revenue	3,309	2,911	1,788	1,566
Loans to former DMX debtholders	32,267	-	-	-
Deferred tax liabilities	19,277	3,223	-	-
	82,443	**15,176**	**2,842**	**6,858**
Total identifiable net assets (liabilities) at fair value	(4,005)	13,704	20,208	14,651
Non-controlling interests	(1,597)	-	-	-
Goodwill arising on acquisition	56,067	14,417	7,086	8,155
Purchase consideration transferred	**50,465**	**28,121**	**27,294**	**22,806**
Fair value analysis of purchase consideration transferred:				
Cash	50,465	28,121	22,294	22,806
Deferred consideration	-	-	5,000	-
Total purchase consideration	**50,465**	**28,121**	**27,294**	**22,806**
Analysis of cash flows on acquisition:				
Net cash acquired	1,930	533	-	1,019
Cash paid	(50,465)	(28,121)	(22,294)	(22,806)
Net cash outflow (included in net cash flows used in investing activities)	**$(48,535)**	**$(27,588)**	**$(22,294)**	**$(21,787)**

13. Business combinations (continued)

As part of the acquisition of DMX, the Company was required to pay loans to former debtholders in the amount of $32,267. The DMX sale and purchase agreement contained a working capital adjustment, which resulted in an additional payment of $2,438 which is included in the total cash purchase consideration transferred.

The fair value of trade and other receivables was equivalent to the book value.

The allocation of the purchase price was based on the fair value of identifiable assets, including assets acquired and liabilities assumed at the effective date of the acquisition, with the excess of the purchase price over the fair value being allocated to goodwill. Management engaged an independent valuator for the DMX and BIS purchase price allocations to determine the fair value allocated to intangible assets. The valuation has been completed for DMX and BIS. The intangible assets on the share purchases of DMX and BIS are not deductible for tax purposes and deferred tax liabilities of $19,277 and $3,223 respectively have been recorded. For tax purposes the purchase of ICI and Technomedia are deemed to be asset purchases, therefore the intangible assets are deductible for the purposes of tax and no deferred tax liabilities have been recorded.

The independent valuator has not completed the valuation of intangible assets and certain other assets and liabilities for ICI and Technomedia; therefore, the allocation of the ICI and Technomedia purchase price is based on management's best estimate and is currently considered preliminary. The ICI sale and purchase agreement contains a working capital adjustment, which is in the process of being finalized.

The goodwill recognized is attributed to the expected synergies and other benefits from combining the assets and liabilities of DMX, BIS, ICI and Technomedia with those of the Company.

If the acquisitions of DMX, BIS, ICI and Technomedia had taken place on January 1, 2012, consolidated revenue for the year ended December 31, 2012 would have been approximately $542,000. Since acquisition, DMX, BIS, ICI and Technomedia have contributed revenue of $109,000 for the year ended December 31, 2012.

Acquisitions of Muzak and Pelika in 2011

On May 6, 2011, the Company acquired 100% of the issued and outstanding shares of Muzak, a privately-held company that is a provider of sensory branding services for business in North America. The Company has acquired Muzak to further expand the Company's international presence and benefit from synergies between the two businesses.

On February 16, 2011, the Company acquired 100% of the issued and outstanding shares of Pelika, a private company based predominantly in Finland, specializing in the provision of digital business music solutions to the hospitality sector. The Company has acquired Pelika to expand the Company's international in-store media network.

13. Business combinations (continued)

The fair value of the identifiable assets and liabilities of Muzak and Pelika as at the date of acquisition are as follows:

	Muzak	Pelika
Assets		
Cash	$1,136	$396
Restricted cash	2,675	-
Trade and other receivables	28,387	345
Inventories	6,968	47
Property and equipment	40,320	216
Intangible assets	174,666	6,588
Other assets	1,091	-
	255,243	**7,592**
Liabilities		
Trade and other payables	(12,673)	(542)
Deferred revenue	(13,375)	-
Other financial liabilities	(3,245)	-
Deferred tax liabilities	-	(1,713)
Loans to former Muzak shareholders and debtholders	(305,000)	-
	(334,293)	**(2,255)**
Total identifiable net (liabilities) assets at fair value	(79,050)	5,337
Goodwill arising on acquisition	115,546	4,811
Purchase consideration transferred	**36,496**	**10,148**
Fair value analysis of purchase consideration transferred:		
Cash	-	10,148
Convertible debentures	5,000	-
Warrants	7,308	-
Contingent consideration	24,188	-
Total purchase consideration	**36,496**	**10,148**
Analysis of cash flows on acquisition:		
Net cash acquired	1,136	396
Cash paid	-	(10,148)
Net cash inflow (outflow) (included in net cash flows used in investing activities)	**$1,136**	**$(9,752)**

In thousands of US dollars unless otherwise stated

13. Business combinations (continued)

As part of the acquisition of Muzak, the Company was required to pay loans to former shareholders and debt holders in the amount of $305,000.

The fair value of trade and other receivables was equivalent to the book value.

The allocation of the purchase price was based on the fair value of identifiable assets, including assets acquired and liabilities assumed at the effective date of the acquisition, with the excess of the purchase price over the fair values being allocated to goodwill. Management engaged an independent valuator to determine the fair value allocated to intangible assets. The goodwill recognized above is attributed to the expected synergies and other benefits from combining the assets and liabilities of Muzak and Pelika with those of the Company. None of the recognized goodwill with respect to the acquisition of Pelika is deductible for tax purposes.

In thousands of US dollars unless otherwise stated

14. Intangible assets

	Customer relationships	Music library	Technology platforms and software	Brands	Total
Cost					
As at January 1, 2011	**$55,681**	**$28,499**	**$51,796**	**$13,918**	**$149,894**
Additions	-	-	2,377	-	2,377
Acquisitions	147,208	1,271	12,503	20,269	181,251
Exchange differences	(958)	(538)	(1,080)	(260)	(2,836)
As at December 31, 2011	**201,931**	**29,232**	**65,596**	**33,927**	**330,686**
Additions	-	-	7,593	-	7,593
Acquisitions	68,881	-	15,589	6,813	91,283
Discontinued operations	(21,439)	(6,634)	(5,133)	-	(33,206)
Exchange differences	1,532	428	1,425	346	3,731
As at December 31, 2012	**250,905**	**23,026**	**85,070**	**41,086**	**400,087**
Amortization					
As at January 1, 2011	**8,547**	**2,714**	**4,597**	**-**	**15,858**
Amortization	14,646	3,628	9,067	-	27,341
Exchange differences	(395)	(202)	(470)	-	(1,067)
As at December 31, 2011	**22,798**	**6,140**	**13,194**	**-**	**42,132**
Amortization	18,298	2,531	11,468	1,595	33,892
Discontinued operations	(10,188)	(3,110)	(3,037)	-	(16,335)
Exchange differences	236	127	362	-	725
As at December 31, 2012	**31,144**	**5,688**	**21,987**	**1,595**	**60,414**
Net book value					
As at December 31, 2012	**$219,761**	**$17,338**	**$63,083**	**$39,491**	**$339,673**
As at December 31, 2011	179,133	23,092	52,402	33,927	288,554

Total amortization recognized for the year ended December 31, 2012 was $33,892, (2011 - $27,341), which forms part of depreciation and amortization in the consolidated statements of income (loss).

Internally generated intangible assets with a net book value of $6,712 (2011 - $1,789) have been included within technology platforms and software as at December 31, 2012.

In thousands of US dollars unless otherwise stated

15. Goodwill

	2012	2011
Cost, beginning of year	**$250,041**	**$132,577**
Goodwill arising on acquisitions	85,725	120,356
Discontinued operations	(4,845)	-
Net exchange differences	3,788	(2,892)
Cost, end of year	**334,709**	**250,041**
Accumulated impairment losses, beginning and end of year	**(5,418)**	**(5,418)**
Net book value, end of year	**$329,291**	**$244,623**

16. Impairment testing of goodwill and intangible assets with indefinite lives

Goodwill acquired through business combinations and brands with indefinite lives have been allocated to two CGUs for impairment testing as follows:

- Mood Europe
- Mood North America

Mood Entertainment was a CGU during the year ended December 31, 2011. In March 2012, Mood Entertainment was classified as a discontinued operation at which point its goodwill was fully impaired.

Carrying amount of goodwill and intangible assets with indefinite lives allocated to each CGU

	Mood Europe		Mood North America		Mood Entertainment	
	2012	2011	2012	2011	2012	2011
Goodwill	$142,436	$124,281	$186,855	$115,546	$-	$4,796
Brands	$13,980	$13,658	$-	$20,269	$-	$-

Rebranding

In connection with the Company's integration of recent acquisitions, in October 2012 management assessed the useful life of the Muzak brand as being five years, which reflects the expected residual life of the brand. At this time, management assessed the brand for impairment and determined no impairment was required.

Valuation

The Company performed its annual impairment test as at October 1, 2012. The Company considers the relationship between its market capitalization and its book value, among other factors, when reviewing for indicators of impairment.

The recoverable amounts of the CGUs have been determined based on a fair value less costs to sell ("FVLCS") calculation using cash flow projections from financial budgets approved by senior management covering a one-year period. Cash flows beyond the budgeted period are extrapolated using a growth rate that does not exceed the long-term average growth rate for the industry.

16. Impairment testing of goodwill and intangible assets with indefinite lives (continued)

Key assumptions used in FVLCS calculations

The calculation of FVLCS is most sensitive to the following assumptions:

- Discount rates
- Growth rate used to extrapolate cash flows beyond the budgeted period

Discount rates – Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Company and its operating segments and is derived from its weighted average cost of capital ("WACC"). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Company's investors. The cost of debt is based on the interest-bearing borrowings the Company is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data. The discount rates applied to cash flow projections are between 11% - 14% depending on the CGU.

Growth rate estimates – Rates are based on published industry research and do not exceed the long-term average growth rate for the industry. The growth rates used to extrapolate the cash flows beyond the budgeted period for the Mood North America and Mood Europe CGUs are between 5% - 10%.

As a result of the analysis performed management did not recognize any impairment for any CGU in the year ended December 31, 2012, except in respect of discontinued operations (note 27).

17. Loans and borrowings

	Prescribed interest rate	2012	2011
Due in less than one year:			
Credit facility iv)	7.0%	**$2,132**	**$3,550**
Due in more than one year:			
Senior unsecured notes i)	9.25%	350,000	-
Unamortized discount – financing costs ii)		(8,719)	-
Unamortized premium – prepayment option iii)		3,120	-
		344,401	**-**
Credit facility iv)	7.0%	207,897	449,675
Unamortized discount – financing costs v)		(6,317)	(15,861)
Unamortized discount – interest rate floor vi)		(4,747)	(11,976)
		196,833	**421,838**
10% Unsecured convertible debentures vii)	10.0%	44,949	43,853
		586,183	**465,691**
Total loans and borrowings		**$588,315**	**$469,241**

Senior unsecured notes

i) On October 19, 2012, the Company closed its offering of $350,000 aggregate principal amount of senior unsecured notes (the "Notes") by way of a private placement. The Notes are guaranteed by all of Mood's existing U.S. subsidiaries (other than Mood Entertainment Inc. and Muzak Heart & Soul Foundation). The guarantee is an unsecured obligation. The Notes are due October 15, 2020 and bear interest at an annual rate of 9.25%. The effective interest rate on the Notes is 9.46%.

In connection with the Notes, amendments were made to the Company's existing first lien credit facility. The first lien credit facility was amended to, among other things: (i) permit the incurrence of the debt represented by the Notes; (ii) revise the financial maintenance covenants contained therein, including: removing the maximum total leverage ratio financial maintenance covenant, adding a maximum senior secured leverage ratio financial maintenance covenant, reducing the minimum interest coverage ratio financial maintenance covenant and providing for customary equity cure rights related to financial maintenance compliance; and (iii) increase the size of the Company's first lien revolving credit facility from $20,000 to $25,000.

ii) During the year ended December 31, 2012, total costs of $8,942 associated with the Notes have been recorded as finance costs and deducted from the Notes. The notes will be accreted back to their principal amount over the term of the Notes. During the year ended December 31, 2012, accretion expense was $223, which is included in finance costs, in the consolidated statements of income (loss) (note 7).

17. Loans and borrowings (continued)

iii) The Notes contain an option to repay the entire amount prior to October 15, 2020 at a set repayment fee. This option has been treated as an embedded derivative financial instrument in the consolidated statement financial of position under IFRS and was valued at $3,200 on October 19, 2012. The prepayment option is measured at fair value at each reporting date with any change recorded as finance costs, in the consolidated statements of income (loss). The amortization expense of $80 for the year ended December 31, 2012 is included within finance costs, net in the consolidated statements of income (loss) (note 7).

Credit facility

iv) In May 2011, the Company entered into credit facilities with Credit Suisse Securities AG, as agent, consisting of a $20,000, 5-year revolving credit facility, a $355,000 7-year first lien term loan and a $100,000, 7.5-year second lien term loan (collectively the "Credit Facilities").

The Company has used the net proceeds of the Notes to repay $140,000 of its first lien credit facility and $100,000 of its second lien credit facility. Credit Suisse on behalf of the lenders under the First Lien Credit Facility has security over substantially all the property and assets based in the United States (other than Mood Entertainment Inc.). In addition, as discussed above, the Company amended the first lien credit facility to increase the size of the Company's first lien revolving credit facility from $20,000 to $25,000. As at December 31, 2012, the Company had $21,600 available under the revolving credit facility. The credit facilities are subject to the maintenance of financial covenants (per the amended credit facilities agreement). The Company was in compliance with these covenants as at December 31, 2012.

Following the repayments to the credit facilities the first lien term loan is repayable at $533 a quarter, with the remainder repayable on May 6, 2018. Interest on the first lien loan accrues at a rate of adjusted LIBOR plus 5.50% per annum or the alternate base rate plus 4.50% per annum, as applicable. The effective interest rate on the credit facilities is 8.0%.

On August 2, 2011, the Company purchased an interest rate cap for $619 in conjunction with the requirements of the credit agreement. This derivative financial instrument is fair valued at each reporting date and any change in fair value is recorded within the consolidated statements of income (loss). As at December 31, 2012, the fair value of the interest rate cap was $10 (2011 - $254). This is shown within other financial assets within the consolidated statements of financial position. The change in fair value of $244 for the year ended December 31, 2012 is included in finance costs, net in the consolidated statements of income (loss) (note 7).

17. Loans and borrowings (continued)

v) The total costs associated with the credit facilities of $17,426 were recorded as finance costs and are accreted over the term of the credit facilities using the effective interest rate method. Accretion expense associated with the credit facilities for the year ended December 31, 2012 was $2,117. In addition, accelerated accretion expense of $7,427 was recorded as part of the cost of settlement of the credit facilities within finance costs, net in the consolidated statements of income (loss) related to the repayments made to the credit facilities during the year ended December 31, 2012 (note 7).

Unamortized finance costs as at December 31, 2012 were $6,317 (2011 - $15,861).

vi) On initial recognition, the interest rate floor was ascribed a fair value of $13,234 and this non-cash liability is included within other financial liabilities in the consolidated statements of financial position. On initial recognition, the carrying value of the debt was reduced by the same amount, which is accreted over the term of the debt. The accretion of debt related to the interest rate floor was $1,711 (2011 - $1,258) for the year ended December 31, 2012 (note 7).

Following the repayments made to the credit facilities, a further $5,518 of accretion charge was expensed to the consolidated statements of income (loss) as part of the cost of settlement of the credit facilities within finance costs, net during the year ended December 31, 2012.

Unrecognized debt accretion as at December 31, 2012 was $4,747 (2011 - $11,976).

Convertible debentures

vii) On October 1, 2010, the Company issued new debentures (the “New Debentures”) with a principal amount of $31,690. As part of this transaction, the Company also issued, as partial payment of the underwriters’ fee, an additional $1,078 in New Debentures for a total of $32,768 aggregate principal amount of New Debentures.

The New Debentures have characteristics of both debt and equity. Accordingly, $28,112 of the fair value was ascribed to the debt component and $4,656 was ascribed to the equity component. Fair value was determined by reference to similar debt instruments and market transactions of the amended debentures.

Costs associated with the New Debentures have been recorded as finance costs for the convertible debentures and are recognized over the term of the related facilities. These have been pro-rated against the debt and equity components. As at December 31, 2012, the carrying value of the debt component was $28,024 (2011 - $26,951), which is net of unamortized financing costs of $1,140 (2011 - $1,554). During the year ended December 31, 2011, holders of the New Debentures elected to convert $646 of New Debentures into common shares at the conversion price of $2.43 per common share, resulting in the issue of 265,843 common shares (note 20). The carrying value of the $646 of New Debentures was $608 at the date of conversion.

17. Loans and borrowings (continued)

On May 6, 2011, the Company issued new debentures (the "Consideration Debentures") with a principal amount of $5,000 as part of the consideration for the acquisition of Muzak. The Consideration Debentures have a maturity date of October 31, 2015 and bear interest at a rate of 10% per annum, payable semi-annually. They are convertible at any time at the option of the holders into common shares at an initial conversion price of $2.43 per common share. The Consideration Debentures have characteristics of both equity and debt. Accordingly, on issuance, $4,602 of the fair value was ascribed to the debt component and $398 was ascribed to the equity component. Fair value was determined by reference to similar debt instruments. As at December 31, 2012, the carrying value of the debt component was $4,408 (2011 - $4,659).

During the year ended December 31, 2012, holders of the Consideration Debentures elected to convert $364 of Consideration Debentures into common shares at the conversion price of $2.43 per common share, resulting in the issue of 146,500 common shares. The carrying value of the converted Consideration Debentures was $364 at the date of conversion split between a debt component of $336 and an equity component of $28.

On May 27, 2011, the Company completed a private placement of debentures (the "Convertible Debentures") with a principal amount of $13,500. The Convertible Debentures were issued for a subscription price of $0.9875 per $1 principal amount, resulting in gross proceeds of $13,331. The Convertible Debentures have a maturity date of October 31, 2015 and bear interest at a rate of 10% per annum, payable semi-annually. They are convertible at any time at the option of the holders into common shares at an initial conversion price of $2.80 per common share. The Convertible Debentures have characteristics of both equity and debt.

Accordingly, on issuance, $12,085 of the fair value was ascribed to the debt component and $1,246 was ascribed to the equity component. Fair value was determined by reference to similar debt instruments. As at December 31, 2012, the carrying value of the debt component was $12,517 (2011 - $12,243). A deferred tax liability of $658 was recorded on the equity component of convertible debentures issued in 2011. The corresponding entry was a reduction to contributed surplus.

For the year ended December 31, 2012, total accretion interest in respect of all convertible debentures was $1,432, which is included within finance costs, net in the consolidated statements of income (loss) (note 7).

In thousands of US dollars unless otherwise stated

18. Deferred tax assets and liabilities

	2012	2011
Balance, at beginning of year	**$(30,312)**	**$(28,718)**
Recognized on acquisitions	(22,500)	(1,713)
Tax charge (credit) recognized in discontinued operations	-	(4,463)
Tax charge (credit) recognized in consolidated statements of income (loss) – continuing operations (note 9)	19,459	4,795
Tax charge recognized in equity	-	(51)
Net foreign exchange differences and other movements	(811)	(162)
Transferred to discontinued operations	(267)	-
Balance, at end of year	**$(34,431)**	**$(30,312)**

Deferred tax assets have been recognized in respect of all tax losses and other temporary differences giving rise to deferred tax assets where management believes it is probable that these assets will be recovered.

The movements in deferred tax assets and liabilities (prior to the offsetting of balances within the same jurisdiction as permitted by IAS 12) during the year are shown below.

Details of the deferred tax asset (liability) amounts recognized in the consolidated statements of income (loss) and amounts recognized in equity in the consolidated statements financial position are as follows:

	Asset 2012	Liability 2012	Net 2012	Credited (charged) to profit or loss	Foreign exchange movement (charged) credited to other comprehensive income (loss)	Asset (liability) recognized on acquisition
Property and equipment	$302	$-	$302	$(271)	$-	$-
Operating losses carried forward	18,778	-	18,778	15,426	-	-
Goodwill	-	(4,087)	(4,087)	(4,087)		
Identifiable intangible assets	-	(48,897)	(48,897)	10,216	(794)	(22,500)
Other temporary and deductible differences	2,232	(2,759)	(527)	(1,825)	(17)	-
Deferred tax assets (liabilities)	**$21,312**	**$(55,743)**	**$(34,431)**	**$19,459**	**$(811)**	**$(22,500)**

The net deferred tax liability in respect of other temporary and deductible differences has increased during the year by $267 as a result of the transfer of deferred tax assets to discontinued operations.

In thousands of US dollars unless otherwise stated

18. Deferred tax asset and liabilities (continued)

	Asset 2011	Liability 2011	Net 2011	(Charged) credited to profit or loss	Movement credited (charged) to equity or other comprehensive income (loss)	Asset (liability) recognized on acquisition
Property and equipment	$573	$-	$573	$56	$-	$-
Operating losses carried forward	3,352	-	3,352	(2,086)	-	-
Identifiable intangible assets	-	(35,819)	(35,819)	5,257	613	(1,713)
Other temporary and deductible differences	3,757	(2,175)	1,582	(2,895)	(664)	-
Deferred tax assets (liabilities)	**$7,682**	**$(37,994)**	**($30,312)**	**$332**	**$(51)**	**$(1,713)**

A deferred tax asset has not been set up for the following:

	2012	2011
Deductible temporary differences	$45,355	$46,656
Unused tax losses	34,089	108,510
	$79,444	**$155,166**

As at December 31, 2012, there was nil recognized as deferred tax liability (2011 - nil) for taxes that would be payable on the unremitted earnings of the Company’s subsidiaries. The Company has determined that undistributed profits of its subsidiaries will not be distributed in the foreseeable future. The unused tax losses and deductible timing differences can be carried forward for 20 years. As a result of the company's dual residence status, there are also losses available to carry forward at December 31, 2012 in Canada of approximately $115m.

In thousands of US dollars unless otherwise stated

19. Other financial assets and financial liabilities

Other financial assets

	2012	2011
Interest rate cap	$10	$254
Leases receivable	-	608
Prepayment option	3,200	-
Total other financial assets	**3,210**	**862**
Due in less than one year	-	608
Due in more than one year	3,210	254
Total other financial assets	**$3,210**	**$862**

Interest rate cap

On August 2, 2011, in accordance with the Company's credit agreement, the Company entered into an arrangement where the Company capped LIBOR at 3.5% for 50% of the credit facility. This derivative financial instrument is fair valued at each reporting date and any change in fair value is recorded within the consolidated statements of income (loss).

Prepayment option

The Company has the right to prepay the Notes early, but will incur a penalty depending on the date of settlement. The prepayment option has been treated as an embedded derivative financial instrument under IFRS. On initial recognition, the prepayment option was ascribed a fair value of $3,210, which is recorded within other financial assets in the consolidated statements of financial position. On initial recognition the carrying value of the Notes were increased by the same amount, which is amortized over the term of the Notes. The amortization of the prepayment was $80 for the year ended December 31, 2012, which is shown within other finance costs, net (note 7) in the consolidated statements of income (loss). The prepayment option is fair valued at each year end reporting date and any change in the fair value is recognized in the consolidated statements of income (loss) in finance costs, net. Fair value is determined by reference to various inputs including interest rate curves.

In thousands of US dollars unless otherwise stated

19. Other financial assets and financial liabilities (continued)

Other financial Liabilities

	2012	2011
Cross-currency interest rate swap	$2,277	$2,907
Finance leases	3,047	1,496
Deferred and contingent consideration	23,128	25,993
Interest rate floor	9,793	19,188
Compensation warrants	-	4,213
Total other financial liabilities	**38,245**	**53,797**
Due in less than one year	8,788	8,103
Due in more than one year	29,457	45,694
Total other financial liabilities	**$38,245**	**$53,797**

Cross-currency interest rate swap

As at December 31, 2010, the Company had entered into a cross-currency interest rate swap for the period ending June 4, 2013. The cross-currency interest rate swap has a historical notional amount of $32,375 and converts Euros into US dollars at a foreign exchange rate of 1.2350 and converts floating interest to a fixed rate of 8.312%.

The Company does not account for the cross-currency interest rate swap as a hedging derivative financial instrument for accounting purposes. The change in fair value compared to the previous period is presented in finance costs, net in the consolidated statements of income (loss).

For the year ended December 31, 2012, the change in fair value of the cross-currency interest rate swap was a gain of $630 which is included in finance costs, net in the consolidated statements of income (loss) (note 7). As at December 31, 2012, the fair value of the cross-currency interest rate swap was $2,277 (2011 - $2,907), and has been recorded in other financial liabilities in the consolidated statements of financial position. Fair value is determined by management with reference to mark-to-market valuations provided by financial institutions.

19. Other financial assets and financial liabilities (continued)

Deferred and contingent consideration

The consideration for the acquisition of ICI contains deferred consideration of $5,600, to be paid in 2013. The fair value of the ICI deferred consideration was $5,000 (note 13) as at December 31, 2012 (2011 - nil)

As part of the consideration for the acquisition of Muzak, a maximum of $30,000 cash may be paid in the three years following closing in the event that the Company achieves minimum EBITDA targets. The fair value of the Muzak contingent consideration was $18,128 (note 13) as at December 31, 2012 (2011 - $25,993).

Interest rate floor

The Credit Facilities carry an interest rate floor of 150 basis points, which is considered an embedded derivative under IFRS as the floor rate exceeded actual LIBOR at the time that the debt was incurred. As a result, the interest rate floor derivative was required to be separated from the carrying value of credit facilities and accounted for as a separate financial liability measured at fair value through profit or loss.

The interest rate floor is fair valued at each reporting date and any change in the fair value is recorded in the consolidated statements of income (loss) in finance costs, net. The change in fair value for the year ended December 31, 2012 was a gain of $9,395 (note 7). The fair value of the interest rate floor as at December 31, 2012 was $9,793 (2011 - $19,188). Fair value is determined by reference to mark-to-market valuation performed by financial institutions at each reporting date.

19. Other financial assets and financial liabilities (continued)

Compensation warrants

The lenders of the Mezzanine Facilities received compensation warrants (the "Compensation Warrants") which can be exercised for 4,100,000 common shares of Mood Media at an exercise price of CDN$1.60 per common share for a period of 42 months from the date of issuance.

Upon issuance, the Compensation Warrants were classified as a non-cash financial liability and ascribed a fair value of $2,262 and included within other financial liabilities in the consolidated statements of financial position. The Compensation Warrants are fair valued at each reporting period and any change in fair value is recorded in finance costs in the consolidated statements of income (loss).

On May 17, 2012, the Compensation Warrants were exercised with proceeds of CDN$6,560, which was translated to $6,500. On the exercise date, the fair value of the Compensation Warrants was $5,808. Fair value was determined based on the Black-Scholes option pricing model. The change in fair value from January 1, 2012 until the exercise date was a loss of $1,595 (2011 - $1,327), which is shown within finance costs, net in the consolidated statements of income (loss) (note 7).

Upon exercise, the fair value of the exercised Compensation Warrants, along with any issuance proceeds, was classified as share capital. The total amount classified as share capital attributable to the Compensation Warrants was $12,308.

In thousands of US dollars unless otherwise stated

20. Shareholders' equity

Share capital

Share capital represents the number of common shares outstanding.

As at December 31, 2012, an unlimited number of common shares with no par value were authorized.

Changes to share capital were as follows:

	Notes	Number of Shares	Amount
Balance as at January 1, 2011		**114,089,835**	**$142,691**
Common shares issued, net of issue costs		12,896,015	27,884
Options exercised	22	685,370	729
Conversion of convertible debentures	17	265,843	608
Balance as at December 31, 2011		**127,937,063**	**$171,912**
Common shares issued, net of issue costs		38,589,000	138,174
Warrants exercised	19	4,100,000	12,308
Options exercised	22	867,000	560
Conversion of convertible debentures	17	146,500	364
Balance as at December 31, 2012		**171,639,563**	**$323,318**

On April 26, 2012, the Company entered into an agreement pursuant to which the underwriters agreed to purchase 6,675,000 common shares of the Company on a bought deal private placement basis at a price of CDN$4.12 per common share. The offering closed on May 17, 2012 with a further 114,000 common shares purchased under the over-allotment option. Total gross proceeds were $27,717 and net proceeds after expenses were $26,562.

On March 20, 2012, in connection with the closing of the acquisition of DMX, the Company completed the private placement of 31,800,000 common shares at a subscription price of CDN$3.60 per common share for gross proceeds of $115,884 and net proceeds after expenses of $111,612.

On May 6, 2011, in connection with the closing of the acquisition of Muzak, the Company completed a private placement of 5,396,015 common shares at a subscription price of CDN$2.51 per common share for gross proceeds of $14,073 and net proceeds after expenses of $13,637.

On February 2, 2011, the Company completed a private placement offering of 7,500,000 common shares at 125 pence per common share, listed on the London Alternative Investment Market. The private placement resulted in gross proceeds of $15,072 and net proceeds after expenses of $14,247.

20. Shareholders' equity (continued)

Foreign exchange translation reserve

The foreign exchange translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Deficit

Deficit represents the accumulated loss of the Company attributable to the shareholders to date.

21. Related party disclosures

Compensation of key management personnel

	2012	**2011**
Salaries and bonuses	$6,941	$6,430
Pension costs	26	18
Share-based compensation	2,618	3,018
	$9,585	**$9,466**

The amounts disclosed in the table are the amounts recognized as an expense during the reporting period relating to those considered to be key management personnel. Key management personnel are those having authority and responsibility for planning, directing and controlling the activities of the Company, including senior management and members of the Board. The total number of key management personnel was 10 during the year ended December 31, 2012.

22. Share-based compensation

Equity-settled share options

The Company has a share option plan (the "Plan") for its employees, directors and consultants, whereby share options may be granted subject to certain terms and conditions. The issuance of share options is determined by the Board of Directors of the Company. The aggregate number of shares of the Company that may be issued under the Plan is limited to 10% of the number of issued and outstanding common shares at the time. The exercise price of share options must not be less than the fair market value of the common shares on the date that the option is granted. Share options issued under the Plan vest at the rate of 25% on each of the four subsequent anniversaries of the grant date and are subject to the recipient remaining employed with the Company. All of the vested share options must be exercised no later than 10 years after the grant date. With the adoption of the Company's current share option plan on June 17, 2008, no further grants of options were made pursuant to the former 2005 plan. Options previously granted under the 2005 plan will continue to vest. The Company uses the Black-Scholes option pricing model to determine the fair value of options issued.

On December 6, 2012, 625,000 share options were granted with an exercise price of CDN$1.71. On November 9, 2012, 200,000 share options were granted with an exercise price of CDN$2.24. On June 7, 2012, 930,000, share options were granted with an exercise price of CDN$3.01.

On May 12, 2011, 7,000,000 share options were granted with an exercise price of CDN$2.88. On August 24, 2011, 325,000 share options were granted with an exercise price of CDN$2.83. On November 16, 2011, 150,000 share options were granted with an exercise price of CDN$2.69.

During the year ended December 31, 2012, the following assumptions were used: weighted average volatility of 57% (2011 - 70%) based on historic information, expected dividend yield of nil, weighted average expected life of 6.25 years (2011 – 6.25 years) and weighted average interest rate of 1.87% (2011 - 1.87%). The weighted average fair value of the options granted during the year ended December 31, 2012 was $1.28 (2011 - $1.86) per share.

The expense recognized for the year ended December 31, 2012 relating to equity-settled share-option transactions for employees was $3,758 (2011 - $3,175). An additional expense of nil (2011 - $5,243) in respect of share-based compensation relating to non-employees has been recorded in other expenses in the consolidated statements of income (loss). Therefore, total share-based compensation expense for the year ended December 31, 2012 was $3,758 (2011 - $8,418).

In thousands of US dollars unless otherwise stated

22. Share-based compensation (continued)

Changes in the number of options, with their weighted average exercise prices for the year ended December 31, 2012 and 2011, are summarized below:

	2012		2011	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at beginning of year	**15,250,300**	**$1.82**	**8,460,670**	**$0.47**
Granted during the year	1,755,000	2.41	7,475,000	3.00
Exercised during the year	(867,000)	0.65	(685,370)	1.06
Forfeited/expired during the year	(672,500)	2.67	-	-
Outstanding at end of year	**15,465,800**	**1.92**	**15,250,300**	**1.82**
Exercisable at end of year	**8,334,550**	**$1.17**	**5,989,869**	**$0.70**

The following information relates to share options that were outstanding as at December 31, 2012:

Range of exercise prices	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price
$0.00-$0.30	3,600,000	6	$0.21
$0.31-$1.50	2,458,300	5	1.08
$1.51-$2.50	1,565,000	5	1.78
$2.51-$3.50	7,842,500	8	3.00
	15,465,800	**7**	**$1.92**

Warrants

The following warrants were outstanding as at December 31, 2012:

	Number	Exercise price	Expiry date
Muzak acquisition warrants	4,407,543	$3.50	May 2016

Warrants are recorded at the time of the grant for an amount based on the Black-Scholes option pricing model, which is affected by the Company's share price as well as assumptions regarding a number of subjective variables.

In July 2012, 125,000 debenture warrants issued to PFH expired unexercised.

In thousands of US dollars unless otherwise stated

23. Commitments and contingencies

Operating leases

Future minimum rental payments under non-cancellable operating leases as at December 31 are as follows:

	2012	2011
Within one year	$16,410	$10,959
After one year but not more than five years	40,512	25,603
More than five years	4,901	6,535
	$61,823	**$43,097**

Finance leases

The Company has finance leases for various items of equipment. These leases have terms of renewal but no purchase options and escalation clauses. Renewals are at the option of the specific entity that holds the lease. Future minimum lease payments under finance leases, together with the present value of the net minimum lease payments, are as follows:

	2012		2011	
	Minimum payments	Present value	Minimum payments	Present value
Within one year	$2,051	$1,920	$1,489	$1,340
After one year but not more than five years	1,536	719	466	219
Total minimum lease payments	3,587	2,639	1,955	1,559
Less amounts representing finance charges	(540)	(540)	(459)	(459)
Present value of minimum lease payments	**$3,047**	**$2,099**	**$1,496**	**$1,100**

23. Commitments and contingencies (continued)

Contingencies

PFH litigation

In August 2008, the Company received notification that PFH Investments Limited ("PFH") had filed a complaint with the Ontario Superior Court of Justice against the Company and certain officers under Section 238 of the Canada Business Corporations Act ("CBCA") alleging that the Company, when negotiating amendments to convertible debentures first issued to PFH in 2006, withheld data related to the issuance of share options at a strike price of $0.30 per share, such conversion price to which PFH was then entitled. In addition to damages of $35,000 and among other things, PFH is seeking a declaration that the amendments to the original debenture agreement are void and that the original debenture be reinstated. The Company believes it acted properly and in accordance with the original and amended debenture agreements when it fully repaid the debenture in the amount of $1,620 on June 19, 2008 and has responded accordingly. On July 2, 2009, the Company extended a confidential settlement offer to PFH. Among the various proposed obligations of the parties under the offer, pursuant thereto, but subject to regulatory approval, the Company would have issued to PFH 3,333,333, shares at $0.30 per share. This offer has since expired. Mood Media continues to consult with legal counsel and intends to continue to vigorously defend the claim, which it believes to be without merit. Since it is not possible to determine the final outcome of this matter and management believes that the claims are without merit, no accrual has been recorded.

License arrangements

During the year ended December 31, 2012, in the normal course of operating the business, the Company renegotiated the rates for certain licenses. As a result of finalizing these negotiations, the Company received a fiscal 2012 benefit of approximately $4,600.

In thousands of US dollars unless otherwise stated

24. Financial instruments

Risk management

The Company is exposed to a variety of financial risks including market risk (including currency risk and interest rate risk), liquidity risk and credit risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

Currency risk

The Company operates in the US, Canada and internationally. The functional currency of the Company is US dollars. Currency risk arises because the amount of the local currency income, expenses, cash flows, receivables and payables for transactions denominated in foreign currencies may vary due to changes in exchange rates ("transaction exposures") and because the non-US-denominated financial statements of the Company's subsidiaries may vary on consolidation into US dollars ("translation exposures").

The most significant translation exposure arises from the Euro currency. The Company is required to revalue the Euro-denominated net assets of the European subsidiaries at the end of each period with the foreign currency translation gain or loss recorded in other comprehensive income (loss). Based on the European subsidiaries' net assets as at December 31, 2012, fluctuations of plus or minus $0.05/€ would, everything else being equal, affect other comprehensive income (loss) for the year ended December 31, 2012 by approximately plus or minus $4,700. The Company does not currently hedge translation exposures.

Interest rate risk

The Company's interest rate risk arises on a debt drawn under the Credit Facilities, which bear interest at a floating rate. The level of interest rate risk is mitigated by the fact that the Credit Facilities carry an interest rate floor which currently exceeds LIBOR. The Company also purchased an interest rate cap during the year ended December 31, 2011.

24. Financial instruments (continued)

Liquidity risk

Liquidity risk arises through excess of financial obligations over available financial assets due at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. The Company achieves this by maintaining sufficient cash and through the availability of funding from the committed Credit Facilities. As at December 31, 2012, the Company had cash of $46,384 and $21,600 available under the revolving credit facility. Cash at banks earns interest at floating rates based on daily bank deposit rates.

Credit risk

Credit risk arises from cash held with banks and credit exposure to customers on outstanding trade receivable balances. The maximum exposure to credit risk is equal to the carrying value of the financial assets. The objective of managing counterparty credit risk is to prevent losses in financial assets. The Company assesses the credit quality of the counterparties, taking into account their financial position, past experience and other factors. Management also monitors payment performance and the utilization of credit limits of customers. The carrying amount of accounts receivable is reduced through the use of an allowance for doubtful accounts and the amount of the loss is recognized in the consolidated statements of income (loss) in operating expenses. When a receivable balance is considered uncollectible, it is written off against the allowance for doubtful accounts. Subsequent recoveries of amounts previously written off are credited against operating expenses in the consolidated statements of income (loss).

In thousands of US dollars unless otherwise stated

24. Financial instruments (continued)

The following table sets forth details of the age of receivables, allowance for doubtful accounts, other allowances and the sales return accrual:

	2012	2011
Trade and other receivables, before allowances	$102,744	$79,046
Less:		
Allowance for doubtful accounts	(6,233)	(4,724)
Sales return accrual*	-	(3,783)
Other allowances*	-	(492)
Add:		
Provincial sound tax credits receivable*	-	1,412
Trade and other receivables, net	**$96,511**	**$71,459**
Analysis		
Current	$57,081	$39,028
Past due 1-30 days	21,147	18,058
Past due 31-60 days	7,193	11,311
Past due 61+ days	17,323	10,649
Less:		
Allowance for doubtful accounts	(6,233)	(4,724)
Sales return accrual*	-	(3,783)
Other allowances*	-	(492)
Add:		
Provincial sound tax credits receivable*	-	1,412
Trade and other receivables, net	**$96,511**	**$71,459**

The movement in the allowance for doubtful accounts is shown below:

	2012	2011
Allowance for doubtful accounts, beginning of year	$4,724	$3,787
Allowance acquired	1,533	1,131
Reduction in allowance	(24)	(194)
Allowance for doubtful accounts, end of year	**$6,233**	**$4,724**

Trade and other receivables are non-interest bearing and are generally on 30-90 day terms.

* These items relate entirely to the discontinued operations (note 27).

In thousands of US dollars unless otherwise stated

24. Financial instruments (continued)

Financial assets and financial liabilities – classification and measurement

As at December 31, 2012	Cash, loans and receivables	Other financial liabilities	Financial assets and liabilities at fair value through profit or loss	Total
Current financial assets				
Cash	$46,384	$-	$-	$46,384
Trade and other receivables	96,511	-	-	96,511
	142,895	**-**	**-**	**142,895**
Non-current financial assets				
Interest rate cap	-	-	10	10
Prepayment option	-	-	3,200	3,200
	-	**-**	**3,210**	**3,210**
Current financial liabilities				
Trade and other payables	-	101,016	-	101,016
Credit facility	-	2,132	-	2,132
Cross-currency interest rate swap	-	-	2,277	2,277
	-	**103,148**	**2,277**	**105,425**
Non-current financial liabilities				
Credit facility	-	196,833	-	196,833
Senior unsecured notes	-	344,401	-	344,401
Convertible debentures	-	44,949	-	44,949
Interest rate floor	-	-	9,793	9,793
	$-	**$586,183**	**$9,793**	**$595,976**

24. Financial instruments (continued)

Financial assets and financial liabilities – classification and measurement

As at December 31, 2011	Cash, loans and receivables	Other financial liabilities	Financial assets and liabilities at fair value through profit or loss	Total
Current financial assets				
Cash	$15,706	$-	$-	$15,706
Trade and other receivables	71,459	-	-	71,459
	87,165	**-**	**-**	**87,165**
Non-current financial assets				
Interest rate cap	-	-	254	254
	-	-	**254**	**254**
Current financial liabilities				
Trade and other payables	-	73,833	-	73,833
Credit facility	-	3,550	-	3,550
Cross-currency interest rate swap	-	-	320	320
	-	**77,383**	**320**	**77,703**
Non-current financial liabilities				
Credit facility	-	421,838	-	421,838
Convertible debentures	-	43,853	-	43,853
Interest rate floor	-	-	19,188	19,188
Cross-currency interest rate swap	-	-	2,587	2,587
Compensation warrants	-	-	4,213	4,213
	$-	**$465,691**	**$25,988**	**$491,679**

24. Financial instruments (continued)

The following table outlines the Company's contractual obligations as at December 31, 2012:

Description	Total	Less than one year	One to three years	Beyond three years
Credit facility	$210,029	$2,132	$4,265	$203,632
Credit facility interest	77,652	14,849	29,244	33,559
Senior unsecured notes	350,000	-	-	350,000
Senior unsecured notes interest	262,777	32,825	65,649	164,303
Convertible debentures	50,266	-	50,266	-
Convertible debenture interest	15,289	5,096	10,193	-
Operating leases	61,823	16,410	20,256	25,157
Finance leases	3,587	2,051	768	768
Deferred and contingent consideration	23,728	5,600	18,128	-
Trade and other payables	101,016	101,016	-	-
Total	**$1,156,167**	**$179,979**	**$198,769**	**$777,419**

Fair value of financial instruments

The book values of the Company's financial assets and financial liabilities approximate the fair values of such items as at December 31, 2012, with the exception of the convertible debentures. The book value of the convertible debentures outstanding was $44,949 (2011 - $43,853) and the fair value was $52,549 (2011 - $53,513).

The following tables present information about the Company's financial assets and liabilities measured at fair value on a recurring basis and indicates the fair value hierarchy of the valuation techniques used to determine such fair values.

	Fair value as at December 31, 2012			
Description	Total	Level 1 Quoted prices in active markets for identical assets	Level 2 Significant other observable inputs	Level 3 Significant unobservable inputs
Cross-currency interest rate swap	$(2,277)	$-	$(2,277)	$-
Interest rate cap	10	-	10	-
Interest rate floor	(9,793)	-	(9,793)	-
Prepayment option	3,200	-	3,200	-

In thousands of US dollars unless otherwise stated

24. Financial instruments (continued)

	Fair value as at December 31, 2011			
Description	**Total**	**Level 1 Quoted prices in active markets for identical assets**	**Level 2 Significant other observable inputs**	**Level 3 Significant unobservable inputs**
Cross-currency interest rate swap	$(2,907)	$-	$(2,907)	$-
Interest rate cap	254	-	254	-
Compensation warrants	(4,213)	-	(4,213)	-
Interest rate floor	(19,188)	-	(19,188)	-

During the year ended December 31, 2012, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements. No transfers between any levels of the fair value hierarchy took place in the equivalent comparative year. There were also no changes in the purpose of any financial asset/liability that subsequently resulted in a different classification of that asset/liability.

25. Management of capital

The Company's objective in managing its capital structure is to ensure a sufficient liquidity position to finance its strategic growth plans, operating expenses, financial obligations as they become due, working capital and capital expenditures. The Company's capital comprises shareholders' equity, convertible debentures, bank debt and unsecured notes. There have been no changes in the Company's approach to capital management in the year. Total managed capital was as follows:

	2012	**2011**
Shareholders' equity	$153,256	$74,755
Convertible debentures	44,949	43,853
Credit facilities	210,029	453,225
Senior unsecured notes	350,000	-
	$758,234	**$571,833**

The Company manages its capital structure and makes adjustments to it in accordance with its stated objectives with consideration given to changes in economic conditions and the risk characteristics of the underlying assets. Since inception, the Company has issued common shares, convertible debentures and promissory notes to finance its activities. The Company has historically not paid dividends to its shareholders and instead retains cash for future growth and acquisitions.

In thousands of US dollars unless otherwise stated

26. Segment information

The Company reports its continuing operations in one reportable segment, 'In-store media', based on the business activity of the Company and its subsidiaries.

In-store media

The Company provides multi-sensory in-store media and marketing solutions to a wide range of customer-facing businesses in the retail, financial services, hospitality, restaurant and leisure industries internationally. Revenue is derived predominantly from the provision of audio, visual and messaging services and the sale and lease of propriety equipment

Geographical areas

Revenue is derived from the following geographic areas based on where the customer is located:

	2012	2011
US	$263,800	$135,525
Canada	5,525	50
International	89,454	80,810
Netherlands	45,479	17,657
France	39,565	40,729
Total revenue	**$443,823**	**$274,771**

Non-current assets

Non-current assets (excluding deferred tax assets) are derived from the following geographic areas, based on the location of the individual subsidiaries of the Company:

	2012	2011
US	$457,957	$322,053
Canada	8,235	-
International	201,535	174,523
France	71,315	68,837
Total non-current assets	**$739,042**	**$565,413**

27. Discontinued operations

During March 2012, the Company decided to dispose of MME and intends to complete the disposal within the 12 months from March 2012. As at December 31, 2012, MME remained as classified as a disposal group held for sale and as a discontinued operation. The results of MME are presented below:

	2012	2011
Revenue	$29,747	$55,689
Expenses	49,605	58,417
Operating loss	**(19,858)**	**(2,728)**
Impairment of goodwill and long-lived assets	33,495	-
Loss before taxes from discontinued operations	**(53,353)**	**(2,728)**
Income tax charge	714	4,916
Loss after taxes from discontinued operations	**$(54,067)**	**$(7,644)**

The major classes of assets and liabilities of MME classified as held for sale as at December 31, 2012 are as follows:

ASSETS	
Trade and other receivables	$9,386
Inventories	5,679
Prepaid expenses	702
Assets classified as held for sale	**$15,767**
LIABILITIES	
Trade and other payables	$9,519
Deferred revenue	126
Liabilities directly associated with assets classified as held for sale	**$9,645**

During the year ended December 31, 2012, the Company determined that MME was a discontinued operation and wrote off goodwill of $4,845, intangible assets of $16,871 and property and equipment of $11,779.

In thousands of US dollars unless otherwise stated

27. Discontinued operations (continued)

The net cash flows incurred by MME are as follows:

	2012	2011
Operating activities	$(11,076)	$1,236
Investing activities	(3,200)	(6,479)
Net cash outflow	**$(14,276)**	**$(5,243)**

MME is no longer disclosed as a separate reportable segment in note 26.