Interim Consolidated Financial Statements

Mood Media Corporation

Unaudited

For the three months ended March 31, 2014

Mood Media Corporation
INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at March 31, 2014

In thousands of US dollars unless otherwise stated

	Notes	March 31, 2014	December 31, 2013
ASSETS			
Current assets			
Cash		$35,134	$22,410
Restricted cash		411	713
Trade and other receivables		96,992	97,974
Income taxes recoverable		1,633	1,418
Inventory		31,370	31,033
Prepaid expenses		11,705	11,924
Deferred costs		8,131	8,198
Total current assets		**185,376**	**173,670**
Non-current assets			
Deferred costs		8,632	8,623
Property and equipment		52,690	53,318
Other financial assets	11	554	97
Investment in associates		724	724
Intangible assets		300,996	311,261
Goodwill	16	258,087	264,142
Total assets		**807,059**	**811,835**
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables		110,923	115,038
Income taxes payable		3,021	3,219
Deferred revenue		23,676	15,432
Other financial liabilities	11	775	1,091
Current portion of long-term debt	10	2,132	2,132
Total current liabilities		**140,527**	**136,912**
Non-current liabilities			
Deferred revenue		7,562	7,253
Deferred tax liabilities		37,073	38,735
Other financial liabilities	11	6,050	6,638
Long-term debt	10	598,038	597,062
Total liabilities		**789,250**	**786,600**
Equity			
Share capital	14	323,658	323,318
Contributed surplus		33,795	33,209
Foreign exchange translation reserve		4,800	5,656
Deficit		(344,679)	(337,176)
Equity attributable to owners of the parent		**17,574**	**25,007**
Non-controlling interests		235	228
Total equity		**17,809**	**25,235**
Total liabilities and equity		**$807,059**	**$811,835**
Commitments and contingencies	17		

The accompanying notes form part of the interim consolidated financial statements

Mood Media Corporation
INTERIM CONSOLIDATED STATEMENTS OF INCOME (LOSS)

For the three months ended March 31, 2014

In thousands of US dollars unless otherwise stated

	Notes	Three months ended March 31, 2014	Three months ended March 31, 2013
Continuing operations			
Revenue	5	**$122,990**	**$129,087**
Expenses			
Cost of sales (excludes depreciation and amortization)		57,424	58,687
Operating expenses		42,216	44,438
Depreciation and amortization		18,514	17,724
Share-based compensation	13	816	363
Other (income) expenses	6	(635)	5,894
Foreign exchange (gain) loss on financing transactions		(1,006)	6,035
Finance costs (income), net	7	13,726	(5,476)
Income (loss) for the period before taxes		**(8,065)**	**1,422**
Income tax charge (credit)	8	(569)	6,392
Loss for the period from continuing operations		**(7,496)**	**(4,970)**
Discontinued operations			
Loss after tax from discontinued operations	15	-	(3,752)
Loss for the period		**(7,496)**	**(8,722)**
Attributable to:			
Owners of the parent		(7,503)	(8,838)
Non-controlling interests		7	116
		$(7,496)	**$(8,722)**
Net loss per share			
Basic and diluted	9	**$(0.04)**	**$(0.05)**
Basic and diluted from continuing operations	9	(0.04)	(0.03)
Basic and diluted from discontinued operations	9	-	(0.02)

The accompanying notes form part of the interim consolidated financial statements

Mood Media Corporation
INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

For the three months ended March 31, 2014

In thousands of US dollars unless otherwise stated

	Three months ended March 31, 2014	Three months ended March 31, 2013
Loss for the period	**$(7,496)**	**$(8,722)**
Items that may be reclassified subsequently to the loss for the period		
Exchange differences on translation of foreign operations	(856)	(2,979)
Other comprehensive loss for the period, net of tax	**(856)**	**(2,979)**
Total comprehensive loss for the period, net of tax	**(8,352)**	**(11,701)**
Attributable to:		
Owners of the parent	(8,359)	(11,811)
Non-controlling interests	7	110
	$(8,352)	**$(11,701)**

The accompanying notes form part of the interim consolidated financial statements

Mood Media Corporation
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three months ended March 31, 2014

In thousands of US dollars unless otherwise stated

	Notes	Three months ended March 31, 2014	Three months ended March 31, 2013
Operating activities			
Income (loss) for the period before taxes - continuing operations		$(8,065)	$1,422
Loss for the period before taxes - discontinued operations	15	-	(3,752)
		(8,065)	**(2,330)**
Non-cash adjustment to reconcile loss for the period before taxes to net cash flows			
Depreciation of property and equipment		6,853	8,327
Amortization of intangible assets and goodwill		11,661	10,213
Gain on disposal of property and equipment		(107)	-
Share-based compensation	13	816	363
Shares issued in lieu of severance		61	-
Finance costs, net and foreign exchange from financing		12,720	1,479
Gain on sale of Residential Latin America music operations	6	(3,541)	-
Working capital adjustments			
Decrease in trade and other receivables		3,689	1,750
Increase in inventories		(359)	(1,888)
Decrease in trade and other payables		(13,801)	(14,956)
Increase in deferred revenue		8,534	8,446
		18,461	11,404
Income taxes paid		(1,378)	(1,216)
Interest received		11	24
Net cash flows from operating activities		17,094	10,212
Investing activities			
Purchase of property and equipment and intangible assets		(9,563)	(7,839)
Proceeds on sale of Residential Latin America music operations	6	10,000	-
Proceeds from disposal of property and equipment		157	-
Net cash flows from (used in) investing activities		594	(7,839)
Financing activities			
Repayment of borrowings		(533)	(533)
Proceeds from exercise of share options	14	48	-
Finance lease payments		(348)	(426)
Interest paid		(3,902)	(3,633)
Net cash flows used in financing activities		(4,735)	(4,592)
Net increase (decrease) in cash		**12,953**	**(2,219)**
Net foreign exchange gain		**(229)**	**(294)**
Cash at beginning of period		**22,410**	**46,384**
Cash at end of period		**$35,134**	**$43,871**

The accompanying notes form part of the interim consolidated financial statements

Mood Media Corporation
INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the three months ended March 31, 2014

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, 2014		**$323,318**	**$33,209**	**$5,656**	**$(337,176)**	**$25,007**	**$228**	**$25,235**
Loss) for the period		-	-	-	(7,503)	(7,503)	7	(7,496)
Translation of foreign operations		-	-	(856)	-	(856)	-	(856)
Total comprehensive loss		**-**	**-**	**(856)**	**(7,503)**	**(8,359)**	**7**	**(8,352)**
Share-based compensation		-	586	-	-	586	-	586
Issue of share capital	14	292	-	-	-	292	-	292
Exercise of share options	14	48	-	-	-	48	-	48
As at March 31, 2014		**$323,658**	**$33,795**	**$4,800**	**$(344,679)**	**$17,574**	**$235**	**$17,809**

The accompanying notes form part of the interim consolidated financial statements

Mood Media Corporation
INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the three months ended March 31, 2013

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, 2013		**$323,318**	**$30,934**	**$2,163**	**$(204,669)**	**$1,510**	**$153,256**	**$1,593**	**$154,849**
Loss for the period		-	-	-	(8,838)	-	(8,838)	116	(8,722)
Translation of foreign operations		-	-	(2,973)	-	-	(2,973)	(6)	(2,979)
Discontinued operations		-	-	(3,421)	-	3,421	-	-	-
Total comprehensive loss		**-**	**-**	**(6,394)**	**(8,838)**	**3,421**	**(11,811)**	**110**	**(11,701)**
Share-based compensation	13	-	363	-	-	-	363	-	363
As at March 31, 2013		**$323,318**	**$31,297**	**$(4,231)**	**$(213,507)**	**$4,931**	**$141,808**	**$1,703**	**$143,511**

The accompanying notes form part of the interim 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 199 Bay Street, Toronto, 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 are 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 interim consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as issued by the International Accounting Standards Board (“IASB”) and using the same accounting policies and methods as were used for the Company’s annual financial statements and notes for the year ended December 31, 2013. These interim consolidated financial statements do not include all of the information and disclosures required by International Financial Reporting Standards (“IFRS”) for annual financial statements. Accordingly, these interim consolidated financial statements should be read in conjunction with the Company’s annual financial statements as at and for the year ended December 31, 2013 and the accompanying notes.

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

These interim consolidated financial statements of the Company were approved by the Audit Committee and authorized for issue on May 7, 2014.

3. Summary of estimates, judgments and assumptions

The preparation of the Company’s interim 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 interim 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.

There has been no substantial change in the Company’s critical accounting estimates since the publication of the annual consolidated financial statements as at and for the year ended December 31, 2013. The comparative interim consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the March 31, 2014 interim consolidated financial statements.

In thousands of US dollars unless otherwise stated

4. Summary of significant accounting policies

New standards, interpretations and amendments adopted

The Company adopted the following standards on January 1, 2014:

Amendments to IAS 32, Offsetting Financial Assets and Financial Liabilities

The amendments in IAS 32 clarify certain items regarding offsetting financial assets and financial liabilities. The amendments are to be applied retrospectively and will be effective for periods commencing on or after January 1, 2014 with earlier application permitted. The amendment has had no impact on the Company's financial presentation or performance.

Amendments to IAS 36, Impairment of Assets

These narrow-scope amendments to IAS 36 address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The amendments are to be applied retrospectively for periods beginning on or after January 1, 2014. Earlier application is permitted for periods when the entity has already applied IFRS 13. The standard has had no impact on the Company's financial position or performance.

IFRIC Interpretation 21, Levies

The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be recognized before the specified minimum threshold is reached. The standard has had no impact on the Company's financial position or performance.

In thousands of US dollars unless otherwise stated

4. Summary of significant accounting policies (continued)

New standards, interpretations and amendments thereof not yet effective

Standards issued but not yet effective up to the date of issuance of the Company's interim 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.

IFRS 9, Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASB's 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 mandatory date of adoption for this standard has not been set. The Company will continue to assess any impact on the classification and measurement of the Company's financial assets, as well as any impact on the classification and measurement of financial liabilities.

5. Revenue

The composition of revenue is as follows:

	Three months ended March 31, 2014	**Three months ended March 31, 2013**
Rendering of services	$84,316	$89,344
Sale of goods	37,958	38,726
Royalties	716	1,017
	$122,990	**$129,087**

In thousands of US dollars unless otherwise stated

6. Other expenses

	Three months ended March 31, 2014	Three months ended March 31, 2013
Transaction costs (i)	$430	$3,030
Restructuring and integration costs (ii)	2,476	2,864
Gain on sale of residential Latin America music operations (iii)	(3,541)	-
	$(635)	**$5,894**

(i) Transaction costs incurred during the three months ended March 31, 2014 and the three months ended March 31, 2013 primarily relate to the Company's strategic and operational review as well as costs associated with prior acquisitions.

	Three months ended March 31, 2014	Three months ended March 31, 2013
Legal and professional fees	$-	$1,123
Consultant fees	430	1,091
Other transaction costs (a)	-	816
	$430	**$3,030**

(a) Other transaction costs include travel related to the strategic and operational review in addition to miscellaneous expenses incurred during and after the Company's acquisitions.

(ii) Restructuring and integration costs consist of severance costs, information technology integration, relocation expenses, rebranding and other integration and transition activities. These restructuring and integration activities are a result of integrating various businesses, primarily Muzak, DMX and Mood Europe.

	Three months ended March 31, 2014	Three months ended March 31, 2013
Severance costs	$623	$2,397
Other integration costs	1,853	467
	$2,476	**$2,864**

(iii) On January 10, 2014, the Company completed the sale of assets related to its residential Latin America music operations to independent affiliate Stingray Digital ("Stingray"). The assets were held by a subsidiary of DMX and consisted primarily of customer contracts and residential receivables. Under the terms of the agreement, Mood Media received an initial cash payment of $10,000 and extinguished a liability for royalties owed by Mood of $1,400. Upon the residential Latin American operations' achievement of certain key performance indicators, Stingray will pay Mood Media an additional amount of up to $4,900. As a result of the transaction, the Company recorded an initial gain on sale of $3,541 including the estimated fair value of the contingent consideration and reduced goodwill by $6,011 and intangibles by $1,341 to account for the goodwill and intangibles associated with the disposed assets (note 16). The Company believes the transaction further advances its strategy to simplify its portfolio, integrate and streamline its operations.

In thousands of US dollars unless otherwise stated

7. Finance costs (income), net

	Three months ended March 31, 2014	Three months ended March 31, 2013
Interest expense	$13,271	$12,800
Change in fair value of financial instruments (i)	(1,041)	(3,835)
Change in fair value of deferred and contingent consideration (ii)	-	(15,484)
Other finance costs, net (iii)	1,496	1,043
	$13,726	**$(5,476)**

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

	Three months ended March 31, 2014	Three months ended March 31, 2013
Cross-currency interest rate swap (a)	$-	$(1,147)
Interest rate floor (b)	(584)	(738)
Interest rate cap (c)	-	5
Prepayment option (d)	(457)	(1,955)
	$(1,041)	**$(3,835)**

(a) The Company entered into a cross-currency interest rate swap on June 4, 2010, which matured on June 4, 2013. The cross-currency interest rate swap had a historical notional amount of $32,375 that converted euros into US dollars at a foreign exchange rate of 1.2350 and converted floating interest to a fixed rate of 8.312%. The change in the fair value during the three months ended March 31, 2013 has been recognized within finance costs, net in the interim consolidated statements of loss.

(b) In accordance with the Company’s First Lien 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 interim consolidated statements of loss.

(c) In accordance with the Company’s First Lien 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 interim consolidated statements of loss.

In thousands of US dollars unless otherwise stated

7. Finance costs (income), net (continued)

(d) The Company has the right to prepay the 9.25% Senior Unsecured 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 $3,200 and is recorded within other financial assets in the interim consolidated statements of financial position (note 10). On initial recognition, the carrying value of the Notes was increased by the same amount, which is amortized over the term of the Notes.

The prepayment option is fair valued at each reporting date and any change in the fair value is recognized within finance costs, net in the interim consolidated statements of loss.

(ii) Change in fair value of deferred and contingent consideration consists of:

	Three months ended March 31, 2014	**Three months ended March 31, 2013**
ICI deferred consideration	$-	$173
Muzak contingent consideration (a)	-	(15,657)
	$-	**$(15,484)**

(a) 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 earnings before interest, tax and depreciation ("EBITDA") targets. The Company records this potential contingent consideration at the established fair value at each reporting period end. Fair value is established using the probability of expected outcomes. The contingent consideration expires in May 2014.

(iii) Other finance costs, net consist of:

	Three months ended March 31, 2014	**Three months ended March 31, 2013**
Accretion interest on convertible debentures	$733	$389
Accretion of the First Lien credit facilities	376	300
Accretion of the 9.25% Senior Unsecured Notes	276	275
Accretion of debt related to the interest rate floor	221	222
Amortization of the debt premium arising from the prepayment option	(99)	(119)
Other (a)	(11)	(24)
	$1,496	**$1,043**

(a) The remaining credit represents fees associated with the Company's First Lien credit facilities, interest income and share of profits from associates.

In thousands of US dollars unless otherwise stated

8. Income taxes

	Three months ended March 31, 2014	Three months ended March 31, 2013
Current tax expense		
Current taxes on income for the period	$1,116	$796
Total current taxes	**1,116**	**796**
Deferred tax expense		
Origination and reversal of temporary differences	(1,685)	5,596
Total deferred tax charge (credit)	**(1,685)**	**5,596**
Total income tax charge (credit)	**$(569)**	**$6,392**

9. Loss per share

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

	Three months ended March 31, 2014	Three months ended March 31, 2013
Weighted and diluted average common shares (000's)	**171,749**	**171,640**
Total operations		
Basic EPS	$(0.04)	$(0.05)
Diluted EPS	(0.04)	(0.05)
Continuing operations		
Basic EPS	$(0.04)	$(0.03)
Diluted EPS	(0.04)	(0.03)
Discontinued operations		
Basic EPS	$-	$(0.02)
Diluted EPS	-	(0.02)

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

In thousands of US dollars unless otherwise stated

10. Loans and borrowings

	Prescribed interest rate	March 31, 2014	December 31, 2013
Due in less than one year:			
First Lien credit facility iv)	7.00 %	**$2,132**	**$2,132**
Due in more than one year:			
9.25% Senior Unsecured Notes i)	9.25%	350,000	350,000
Unamortized discount – financing costs ii)		(7,342)	(7,618)
Unamortized premium – prepayment option iii)		2,604	2,703
		345,262	**345,085**
First Lien credit facility iv)	7.00 - 7.75%	215,232	215,765
Unamortized discount – financing costs v)		(6,078)	(6,455)
Unamortized discount – interest rate floor vi)		(3,636)	(3,858)
		205,518	**205,452**
10% Unsecured convertible debentures vii)	10.00%	47,258	46,525
		598,038	**597,062**
Total loans and borrowings		**$600,170**	**$599,194**

9.25% Senior Unsecured Notes

i) On October 19, 2012, the Company closed its offering of $350,000 aggregate principal amount of 9.25% Senior Unsecured Notes (the "Notes") by way of a private placement. The Notes are guaranteed by all of Mood Media's existing U.S. subsidiaries (other than Mood Media Entertainment Inc.). The guarantee is an unsecured obligation. The Notes are due on 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: (a) permit the incurrence of the debt represented by the Notes; (b) 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 (c) increase the size of the Company's First Lien revolving credit facility from $20,000 to $25,000.

10. Loans and borrowings (continued)

ii) The total costs associated with the Notes of $8,942 were 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. The accretion expense is included within finance costs, net in the interim consolidated statements of loss (note 7).

iii) The Notes contain an option to repay the entire amount prior to October 15, 2020 at a set repayment fee. This prepayment option has been treated as an embedded derivative financial instrument in the interim consolidated statements of financial position and at inception was valued at $3,200 (October 19, 2012). The prepayment option is measured at fair value at each reporting date and included in other financial assets (note 11), with any change recorded within finance costs, net in the interim consolidated statements of loss (note 7).

The amortization of the debt premium arising from the prepayment option is included in finance costs (note 7).

First Lien credit facility

iv) On May 6, 2011 the Company entered into credit facilities with Credit Suisse Securities AG ("Credit Suisse"), as agent, consisting of a $20,000 five-year First Lien 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 used the net proceeds of the Notes to repay $140,000 of its First Lien term loan and the Second Lien term loan in its entirety. 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 Media Entertainment Inc.).

On October 9, 2013, the Company drew down $10,000 on the First Lien revolving credit facility. As at March 31, 2014, the Company had $11,060 available under the First Lien revolving credit facility, including outstanding letters of credit of $3,940. The First Lien credit facilities are subject to the maintenance of financial covenants and on December 4, 2013, the Company amended the First Lien credit facility to modify certain defined terms and financial covenants. The Company was in compliance with its covenants as at March 31, 2014.

The First Lien term loan is repayable at $533 per quarter, with the remainder repayable on May 6, 2018. Interest on the First Lien term 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 First Lien credit facilities is 7.74%. During the three months ended March 31, 2014, repayments of $533 were made on the First Lien term loan (three months ended March 31, 2013 - $533).

In thousands of US dollars unless otherwise stated

10. Loans and borrowings (continued)

On August 2, 2011, in accordance with the Company's First Lien credit facilities agreement, the Company purchased an interest rate cap for $619, which matures on August 4, 2014. The interest rate cap is measured at fair value at each reporting date and included in other financial assets (note 11), with any change recorded within finance costs, net in the interim consolidated statements of loss (note 7).

v) The total costs associated with the First Lien credit facilities of $18,786, which include the fee for the 2013 amendment, were recorded as finance costs and are accreted over the term of the First Lien credit facilities using the effective interest rate method.

Accretion expenses associated with the First Lien credit facilities are included within finance costs, net in the interim consolidated statements of loss (note 7).

vi) The First Lien credit facilities contain an interest rate floor, which the Company has treated as an embedded derivative. This non-cash liability is recorded within other financial liabilities in the interim consolidated statements of financial position. On initial recognition, the interest rate floor was ascribed a fair value of $13,234. The carrying value of the debt was reduced by the same amount, which is accreted over the term of the debt. The interest rate floor is measured at fair value at each reporting date and included in other financial liabilities (note 11).

The change in fair value and the accretion of debt related to the interest rate floor are included within finance costs, net in the interim consolidated statements of loss (note 7).

Convertible debentures

vii) The Company has issued three series of convertible debentures: the New Debentures, the Consideration Debentures and the Convertible Debentures (collectively the "Mood Convertible Debentures"). Interest accrues on the Mood Convertible Debentures at the respective interest rate and it is payable semi-annually. The Mood Convertible Debentures are convertible at any time at the option of the holders into common shares at the respective conversion price.

	New Debentures	Consideration Debentures	Convertible Debentures
Date of issuance	October 1, 2010	May 6, 2011	May 27, 2011
Maturity date	October 31, 2015	October 31, 2015	October 31, 2015
Interest rate	10%	10%	10%
Conversion price	$2.43	$2.43	$2.80

In thousands of US dollars unless otherwise stated

10. Loans and borrowings (continued)

Convertible debentures (continued)

The Mood Convertible Debentures have characteristics of both debt and equity. Accordingly, on issuance, fair value was ascribed to the debt component and to the equity component. Fair value was determined by reference to similar debt instruments and market transactions of the Mood Convertible Debentures.

	New Debentures	Consideration Debentures	Convertible Debentures	Total
Debt component	$28,112	$4,602	$12,085	$44,799
Equity component	4,656	398	1,246	6,300
Discount on issuance	-	-	169	169
Principal at issuance	**$32,768**	**$5,000**	**$13,500**	**$51,268**

The Convertible Debentures were issued for a subscription price of $0.9875 per $1 principal amount. A deferred tax liability of $658 was recorded on the equity component of the Convertible Debentures issued in 2011; the corresponding entry was a reduction to contributed surplus.

Costs associated with the Mood Convertible Debentures have been recorded as finance costs and are recognized over the term of the related facilities. These costs have been prorated against the debt and equity components.

	New Debentures	Consideration Debentures	Convertible Debentures	Total
Principal at issuance	**$32,768**	**$5,000**	**$13,500**	**$51,268**
2011 Conversions	646	-	-	646
2012 Conversions	-	356	-	356
Principal as at March 31, 2014	**$32,122**	**$4,644**	**$13,500**	**$50,266**

In thousands of US dollars unless otherwise stated

10. Loans and borrowings (continued)

Convertible debentures (continued)

Reconciliation of carrying value and outstanding principal as at March 31, 2014

	New Debentures	Consideration Debentures	Convertible Debentures	Total
Carrying value as at December 31, 2013	**$29,236**	**$4,490**	**$12,799**	**$46,525**
Accretion interest for the period	631	21	81	733
Carrying value as at March 31, 2014	**29,867**	**4,511**	**12,880**	**47,258**
Unamortized balance	2,255	133	620	3,008
Principal outstanding as at March 31, 2014	**$32,122**	**$4,644**	**$13,500**	**$50,266**

The unamortized balance for the New Debentures includes unamortized financing costs as at March 31, 2014 of $622 (December 31, 2013 - $725).

Accretion interest is included within finance costs, net in the interim consolidated statement of loss (note 7).

In thousands of US dollars unless otherwise stated

11. Other financial assets and financial liabilities

Other financial assets

	March 31, 2014	December 31, 2013
Prepayment option	$554	$97
Total other financial assets	**554**	**97**
Due in more than one year	554	97
Total other financial assets	**$554**	**$97**

Other financial liabilities

	March 31, 2014	December 31, 2013
Finance leases	$1,343	$1,663
Interest rate floor	5,482	6,066
Total other financial liabilities	**6,825**	**7,729**
Due in less than one year	775	1,091
Due in more than one year	6,050	6,638
Total other financial liabilities	**$6,825**	**$7,729**

There have been no significant changes to the terms of the other financial assets and liabilities as stated in the underlying agreements as at March 31, 2014 since the publication of the annual consolidated financial statements as at and for the year ended December 31, 2013.

The change in the fair value of the other financial assets and liabilities that are carried at fair value is included within finance costs, net in the interim consolidated statements of loss (note 7).

12. 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. The Company's policies and processes for managing these risks have not changed since the publication of the annual consolidated financial statements as at and for the year ended December 31, 2013.

In thousands of US dollars unless otherwise stated

12. Financial instruments (continued)

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 March 31, 2014, with the exception of the convertible debentures and the 9.25% Senior Unsecured Notes. The book value of the convertible debentures outstanding was $47,258 (December 31, 2013 - $46,525) and the fair value was $44,276 (December 31, 2013 - $43,670). The book value of the 9.25% Senior Unsecured Notes was $345,262 (December 31, 2013 - $345,085) and the fair value was $334,250 (December 31, 2013 – $309,056).

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 March 31, 2014		
Description	**Total**	**Level 1 Quoted prices in active markets for identical assets**	**Level 2 Significant other observable inputs**	**Level 3 Significant unobservable inputs**
Interest rate floor	$(5,482)	$-	$(5,482)	$-
Prepayment option	554	-	554	-

		Fair value as at December 31, 2013		
Description	**Total**	**Level 1 Quoted prices in active markets for identical assets**	**Level 2 Significant other observable inputs**	**Level 3 Significant unobservable inputs**
Interest rate floor	$(6,066)	$-	$(6,066)	$-
Prepayment option	97	-	97	-

During the three months ended March 31, 2014, 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.

In thousands of US dollars unless otherwise stated

13. 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 2008 share option plan, no further grants of options were made pursuant to the former 2005 plan. On June 14, 2011, the Company received reapproval for the 2008 option plan, hereafter known as the 2011 option plan, in accordance with the Toronto Stock Exchange ("TSX") rules requiring reapproval of option plans every three years. Options previously granted under the 2005 and 2008 plan will continue to vest. The Company uses the Black-Scholes option pricing model to determine the fair value of options issued.

On March 10, 2014, 950,000 share options were granted with an exercise price of CDN$0.88 (US$0.79). There were no share options granted during the three months ended March 31, 2013.

The expense recognized for the three months ended March 31, 2014 relating to equity-settled share and option transactions for employees was $816 (three months ended March 31, 2013 - $363).

In thousands of US dollars unless otherwise stated

13. Share-based compensation (continued)

Changes in the number of options, with their weighted average exercise prices for the three months ended March 31, 2014 and 2013, are summarized below:

		March 31, 2014		March 31, 2013
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at beginning of period	**18,818,300**	**$1.58**	**15,590,800**	**$1.92**
Granted during the period	950,000	0.79	-	-
Exercised during the period	(232,500)	0.21	-	-
Forfeited/expired during the period	(495,000)	2.39	(206,250)	2.81
Outstanding at end of period	**19,040,800**	**$1.54**	**15,384,550**	**$1.91**
Exercisable at end of period	**9,724,550**	**$1.49**	**8,384,550**	**$1.16**

The following information relates to share options that were outstanding as at March 31, 2014:

Range of exercise prices	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price
$0.00-$0.30	3,367,500	5	$0.21
$0.31-$1.50	7,583,300	8	0.77
$1.51-$2.50	1,240,000	3	1.73
$2.51-$3.50	6,850,000	7	3.01
	19,040,800	**7**	**$1.54**

Warrants

The following warrants were outstanding as at March 31, 2014:

	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 thousands of US dollars unless otherwise stated

14. Shareholders' equity

Share capital

Share capital represents the number of common shares outstanding.

As at March 31, 2014, an unlimited number of common shares with no par value were authorized.

Changes to share capital were as follows:

	Number of Shares	Amount
Balance as at January 1, 2013 and December 31, 2013	**171,639,563**	**$323,318**
Balance as at January 1, 2014	**171,639,563**	**$323,318**
Common shares issued, net of issue costs	367,440	292
Options exercised	232,500	48
Balance as at March 31, 2014	**172,239,503**	**$323,658**

During March 2014, the Company entered into agreements with two former employees to issue a total of 367,440 common shares pursuant to their severance agreements.

Deficit

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

In thousands of US dollars unless otherwise stated

15. Discontinued operations

During March 2012, the Company decided to dispose of Mood Media Entertainment ("MME"). On May 31, 2013, the Company sold substantially all the assets of MME for proceeds of $2,000. As part of the disposition, the Company is exiting any residual activities. The Company is currently finalizing the costs of exit and the closing working capital accounts.

The results of MME are as follows:

	Three months ended March 31, 2014	**Three months ended March 31, 2013**
Revenue	**$-**	**$6,544**
Expenses	-	9,512
Operating loss	**-**	**(2,968)**
Impairment	-	784
Loss before and after taxes from discontinued operations	**$-**	**$(3,752)**

During the three months ended March 31, 2013, the Company impaired property and equipment of $784.

The net cash flows incurred by MME are as follows:

	Three months ended March 31, 2014	**Three months ended March 31, 2013**
Operating activities	$-	$(501)
Investing activities	-	(784)
Net cash outflow	**$-**	**$(1,285)**

MME is no longer disclosed as a separate reportable segment in note 18.

In thousands of US dollars unless otherwise stated

16. Goodwill

	March 31, 2014	December 31, 2013
Cost, beginning of period	**$344,560**	**$336,400**
Goodwill arising on acquisitions	-	2,347
Sale of operations	(6,011)	-
Net exchange differences	(44)	5,813
Cost, end of the period	**338,505**	**344,560**
Accumulated impairment losses, beginning of period	**(80,418)**	**(5,418)**
Impairment loss in the period	-	(75,000)
Accumulated impairment losses, end of period	**(80,418)**	**(80,418)**
Net book value, end of the period	**$258,087**	**$264,142**

The decrease in Goodwill from the sale of operations of $6,011 relates to the Company's sale of assets for its residential Latin America music operations completed on January 10, 2014.

During 2013, Goodwill arising on acquisitions of $2,347 relate to working capital adjustments in ICI of $1,822 and Technomedia of $525.

Management identified indicators for impairment as at September 30, 2013. As a result, the Company recognized an impairment charge of $75,000.

17. Commitments and contingencies

Operating leases

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

	March 31, 2014	December 31, 2013
Within one year	$15,697	$16,470
After one year but not more than five years	32,177	33,840
More than five years	3,289	3,652
	$51,163	**$53,962**

In thousands of US dollars unless otherwise stated

17. Commitments and contingencies (continued)

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:

	March 31, 2014		December 31, 2013	
	Minimum payments	**Present Value**	**Minimum payments**	**Present value**
Within one year	$1,074	$1,005	$1,468	$1,374
After one year but not more than five years	568	266	573	268
Total minimum lease payments	1,642	1,271	2,041	1,642
Less amounts representing finance charges	(299)	(299)	(378)	(378)
Present value of minimum lease payments	**$1,343**	**$972**	**$1,663**	**$1,264**

Contingencies

From time to time, the Company encounters disputes and is sometimes subject to claims from third parties in relation to its normal course of operations. The Company generally believes such claims to be without merit and will consult with its legal counsel to vigorously defend its position. The aggregate provision for various claims as at March 31, 2014 was immaterial.

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.

18. Segment information

The Company reports its continuing operations in three reportable segments, "In-store media - International" and "In-store media - North America" based on the significant business activity of the Company and its subsidiaries and "Other" for the purposes of reconciliation to the Company's financial statements.

The Company's chief operating decision maker monitors the operating result of these business units separately for the purposes of assessing performance and allocating resources.

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, messaging and maintenance services and the sale and lease of proprietary and non-proprietary equipment.

In-store media - North America

The Company's In-store media North America's operations are based in the United States and Canada.

In-store media - International

The Company's In-store media International's operations are based in Europe, Asia and Australia.

Other

The Company's other segment includes the Company's corporate activities and Technomedia, which do not fit in the two segments described above.

In thousands of US dollars unless otherwise stated

18. Segment information (continued)

Segment information, three months ended March 31, 2014

	In-store media North America	In-store media International	Other	Consolidated Group
Revenue	$66,772	$47,749	$8,469	$122,990
Expenses				
Cost of sales	30,393	20,864	6,167	57,424
Operating expenses	17,333	21,497	3,386	42,216
Segment profit (loss) (i)	**$19,046**	**$5,388**	**$(1,084)**	**$23,350**

Segment information, three months ended March 31, 2013

	In-store media North America	In-store media International	Other	Consolidated Group
Revenue	$72,540	$46,050	$10,497	$129,087
Expenses				
Cost of sales	31,110	19,680	7,897	58,687
Operating expenses	19,948	20,468	4,022	44,438
Segment profit (loss) (i)	**$21,482**	**$5,902**	**$(1,422)**	**$25,962**

Reconciliation of segment profit to Consolidated Group loss for the period before taxes from continuing operations

	Three months ended March 31, 2014	Three months ended March 31, 2013
Segment profit (loss) (i)	**$23,350**	**$25,962**
Depreciation and amortization	18,514	17,724
Share-based compensation	816	363
Other (income) expenses	(635)	5,894
Foreign exchange (gain) loss on financing transactions	(1,006)	6,035
Finance costs (income), net	13,726	(5,476)
Profit (loss) for the period before taxes from continuing operations	**$(8,065)**	**$1,422**

(i) Segment profit is management's additional GAAP metric internally referred to as Adjusted EBITDA and is prepared on a consistent basis. Adjusted EBITDA is considered by executive management as one of the key drivers for the purpose of making decisions about performance assessment and resource allocation of each operating segment.

In thousands of US dollars unless otherwise stated

18. Segment information (continued)

Geographical areas

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

	Three months ended March 31, 2014	Three months ended March 31, 2013
U.S.	$72,870	$81,614
Canada	1,284	1,423
Netherlands	15,205	15,001
Other International	33,631	31,049
Total revenue	**$122,990**	**$129,087**

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:

	March 31, 2014	December 31, 2013
U.S.	$421,945	$435,174
Canada	7,689	7,689
International	192,049	195,302
Total non-current assets	**$621,683**	**$638,165**

19. Subsequent Events

On May 1, 2014, the Company refinanced its credit facilities with Credit Suisse, as agent. The new facilities consist of a $15,000 5-year Senior Secured revolving credit facility and a $235,000 Senior Secured 5-year term loan. Interest on the Senior Secured 5-year term loan accrues at a rate of adjusted LIBOR plus 6.00% per annum with a LIBOR floor of 1%. The new First Lien term loan is repayable at a rate 1% of the initial principal per annum at the rate of $588 per quarter. The new facilities have more favorable financial covenants as well as provisions which permit the Company to use net asset sales proceeds, within defined limits, to repay unsecured debt.