Interim Consolidated Financial Statements

Mood Media Corporation

Unaudited

For the three and six months ended June 30, 2013

Mood Media Corporation
INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at June 30, 2013

In thousands of US dollars unless otherwise stated

	Notes	June 30, 2013	December 31, 2012
ASSETS			
Current assets			
Cash		$30,809	$46,384
Restricted cash		715	2,675
Trade and other receivables		90,188	96,511
Income tax receivable		671	-
Inventory		33,862	30,938
Prepaid expenses		11,230	9,329
Deferred costs		6,880	7,135
		174,355	**192,972**
Assets classified as held for sale	20	-	15,767
Total current assets		**174,355**	**208,739**
Non-current assets			
Deferred costs		9,297	8,591
Property and equipment		55,059	57,656
Other financial assets	14,18	688	3,210
Investment in associates		693	621
Intangible assets	11	321,182	341,232
Goodwill	12	329,509	329,732
Total assets		**890,783**	**949,781**
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables		97,663	103,016
Income tax payable		2,712	1,217
Deferred revenue		17,419	12,814
Other financial liabilities	14,18	7,500	8,788
Current portion of long-term debt	13	2,132	2,132
		127,426	**127,967**
Liabilities directly associated with assets classified as held for sale	20	-	9,645
Total current liabilities		**127,426**	**137,612**
Non-current liabilities			
Deferred revenue		7,302	7,249
Deferred tax liabilities		38,303	34,431
Other financial liabilities	14,18	8,141	29,457
Long-term debt	13	587,275	586,183
Total liabilities		**768,447**	**794,932**
Equity			
Share capital	15	323,318	323,318
Contributed surplus		31,622	30,934
Foreign exchange translation (deficit) reserve	15	(450)	2,163
Deficit	15	(233,983)	(204,669)
Reserve of discontinued operations		-	1,510
Equity attributable to owners of the parent		**120,507**	**153,256**
Non-controlling interests		1,829	1,593
Total equity		**122,336**	**154,849**
Total liabilities and equity		**$890,783**	**$949,781**
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 and six months ended June 30, 2013

In thousands of US dollars unless otherwise stated

		Three months ended		Six months ended	
	Notes	**June 30, 2013**	**June 30, 2012**	**June 30, 2013**	**June 30, 2012**
Continuing operations					
Revenue	5,19	**$126,268**	**$107,844**	**$255,355**	**$191,926**
Expenses					
Cost of sales (excludes depreciation and amortization)		54,476	39,503	113,163	72,413
Operating expenses		44,134	38,280	88,572	67,881
Depreciation and amortization		16,496	13,664	34,220	25,974
Share-based compensation	16	325	942	688	1,829
Other expenses	6	7,916	5,645	13,810	16,321
Foreign exchange (gain) loss on financing transactions		(4,178)	8,856	1,857	5,368
Finance costs, net	7	15,970	9,273	10,494	25,504
Loss for the period before taxes		**(8,871)**	**(8,319)**	**(7,449)**	**(23,364)**
Income tax charge (credit)	8	499	(1,155)	6,891	(17,952)
Loss for the period from continuing operations		**(9,370)**	**(7,164)**	**(14,340)**	**(5,412)**
Discontinued operations					
Loss after tax from discontinued operations	20	(10,984)	(23,763)	(14,736)	(36,016)
Loss for the period		**(20,354)**	**(30,927)**	**(29,076)**	**(41,428)**
Attributable to					
Owners of the parent		(20,476)	(30,933)	(29,314)	(41,396)
Non-controlling interests		122	6	238	(32)
		$(20,354)	**$(30,927)**	**$(29,076)**	**$(41,428)**
Net earnings (loss) per share					
Basic and diluted	9	$(0.12)	$(0.18)	$(0.17)	$(0.28)
Basic and diluted from continuing operations	9	(0.05)	(0.04)	(0.08)	(0.04)
Basic and diluted from discontinued operations	9	(0.07)	(0.14)	(0.09)	(0.24)

The accompanying notes form part of the interim consolidated financial statements

Mood Media Corporation
INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the three and six months ended June 30, 2013

In thousands of US dollars unless otherwise stated

	Three months ended		Six months ended	
	June 30, 2013	**June 30, 2012**	**June 30, 2013**	**June 30, 2012**
Loss for the period	**$(20,354)**	**$ (30,927)**	**$(29,076)**	**$(41,428)**
Items that may be reclassified subsequently to the loss for the period				
Exchange differences on translation of foreign operations	364	(6,951)	(2,615)	(4,268)
Amounts recognized through the interim consolidated statements of income (loss) statement	(1,510)	-	(1,510)	-
Other comprehensive loss for the period, net of tax	**(1,146)**	**(6,951)**	**(4,125)**	**(4,268)**
Total comprehensive loss for the period, net of tax	**(21,500)**	**(37,878)**	**(33,201)**	**(45,696)**
Attributable to:				
Owners of the parent	(21,626)	(37,908)	(33,437)	(45,692)
Non-controlling interests	126	30	236	(4)
	$(21,500)	**$(37,878)**	**$(33,201)**	**$(45,696)**

The accompanying notes form part of the consolidated financial statements

Mood Media Corporation
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three and six months ended June 30, 2013

In thousands of US dollars unless otherwise stated

	Notes	Three months ended		Six months ended	
		June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Operating activities					
Loss for the period before taxes - continuing operations		$(8,871)	$(8,319)	$(7,449)	$(23,364)
Loss for the period before taxes - discontinued operations	20	(10,984)	(24,357)	(14,736)	(35,400)
		(19,855)	**(32,676)**	**(22,185)**	**(58,764)**
Non-cash adjustment to reconcile income (loss) for the period before taxes to net cash flows					
Depreciation and impairment of property and equipment		6,039	6,286	14,366	13,695
Amortization and impairment of intangible assets	11	10,435	24,084	20,648	36,429
Share-based compensation	16	325	942	688	1,829
Loss on disposal of discontinued operations	20	7,394	-	7,394	-
Finance costs, net and foreign exchange from financing		13,412	19,168	14,891	31,222
Working capital adjustments					
Decrease (increase) in trade and other receivables		9,971	(13,297)	11,721	(8,597)
Increase in inventories		(758)	(2,189)	(2,646)	(4,801)
(Decrease) increase in trade and other payables		(2,880)	1,658	(17,836)	(4,497)
(Decrease) increase in deferred revenue		(4,079)	(4,283)	4,367	1,413
		20,004	(307)	31,408	7,929
Income tax paid		(160)	(3,342)	(1,376)	(3,966)
Interest received		28	3	52	31
Net cash flows from operating activities		**19,872**	**(3,646)**	**30,084**	**3,994**
Investing activities					
Purchase of property and equipment and intangible assets		(8,001)	(8,519)	(15,840)	(17,529)
Acquisition of businesses, net of cash acquired	10	(2,347)	(28,106)	(2,347)	(73,986)
Net cash flows used in investing activities		**(10,348)**	**(36,625)**	**(18,187)**	**(91,515)**
Financing activities					
Repayment of borrowings	13	(533)	(887)	(1,066)	(1,775)
Transaction costs on issue of common shares		-	(834)	-	(5,106)
Proceeds from private placement		-	27,717	-	143,601
Proceeds from exercise of share options		-	188	-	256
Finance lease payments		(428)	(555)	(854)	(859)
Interest paid		(22,280)	(11,552)	(25,913)	(20,433)
Proceeds from exercise of warrants		-	6,500	-	6,500
Cost of settlement of interest rate swap	7	(1,578)	-	(1,578)	-
Dividends paid to non-controlling interest		-	(282)	-	(282)
Proceeds from disposal of discontinued operations		2,000	-	2,000	-
Proceeds from disposal of property and equipment		97	212	97	212
Repayment of loans to former DMX debt holders		-	-	-	(32,267)
Net cash flows from (used in) financing activities		**(22,722)**	**20,507**	**(27,314)**	**89,847**
Net (decrease) increase in cash		(13,198)	(19,764)	**(15,417)**	2,326
Net foreign exchange gain		136	(32)	(158)	(303)
Cash at beginning of period		43,871	37,525	46,384	15,706
Cash at end of period		**$30,809**	**$17,729**	**$30,809**	**$17,729**

The accompanying notes form part of the consolidated financial statements

Mood Media Corporation
INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the three and six months ended June 30, 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**
Income (loss) for the period		-	-	-	(29,314)	-	(29,314)	238	(29,076)
Translation of foreign operations		-	-	(2,613)	-	-	(2,613)	(2)	(2,615)
Discontinued operations		-	-		-	(1,510)	(1,510)	-	(1,510)
Total comprehensive income (loss)		**-**	**-**	**(2,613)**	**(29,314)**	**(1,510)**	**(33,437)**	**236**	**(33,201)**
Share-based compensation	16	-	688	-	-	-	688	-	688
As at June 30, 2013		**$323,318**	**$31,622**	**$(450)**	**$(233,983)**	**$-**	**$120,507**	**$1,829**	**$122,336**

The accompanying notes form part of the consolidated financial statements

Mood Media Corporation
INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the three and six months ended June 30, 2012

In thousands of US dollars unless otherwise stated

	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**
Loss for the period	-	-	-	(41,396)	-	(41,396)	(32)	(41,428)
Translation of foreign currency operations	-	-	(4,296)	-	-	(4,296)	28	(4,268)
Discontinued operations	-	-	2,161	-	(2,161)	-	-	-
Total comprehensive income (loss)	**-**	**-**	**(2,135)**	**(41,396)**	**(2,161)**	**(45,692)**	**(4)**	**(45,696)**
Share-based compensation	-	1,829	-	-	-	1,829	-	1,829
Fair value of non-controlling interests acquired	-	-	-	-	-	-	3,029	3,029
Dividends paid to non-controlling interests	-	-	-	-	-	-	(282)	(282)
Issue of share capital	143,601	-	-	-	-	143,601	-	143,601
Transaction costs on issue of share capital	(5,106)	-	-	-	-	(5,106)	-	(5,106)
Exercise of warrants	12,572	-	-	-	-	12,572	-	12,572
Exercise of share options	256	-	-	-	-	256	-	256
As at June 30, 2012	**$323,235**	**$29,033**	**$(1,329)**	**$(166,563)**	**$(2,161)**	**$182,215**	**$2,897**	**$185,112**

The accompanying notes form part of the consolidated financial statements

In thousands of US dollars unless otherwise stated

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, 2012. 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, 2012 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 August 8, 2013.

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, 2012, other than to the fair value of the contingent consideration payable to the former owners of Muzak (note 14).

4. Summary of significant accounting policies

New standards, interpretations and amendments adopted

The Company adopted the following standards on January 1, 2013:

IFRS 10, Consolidated Financial Statements

IFRS 10 replaced the portion of IAS 27, Consolidated and Separate Financial Statements that addressed 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 requires 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. There has been no impact to the Company's interim consolidated financial statements following the adoption of this standard.

IFRS 11, Joint Arrangements

IFRS 11 replaced 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. There has been no impact to the Company's interim consolidated financial statements following the adoption of this standard.

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. The amendment has had no impact on the presentation or 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. The standard has had no impact on the Company's financial position or performance.

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.

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 annual periods commencing on or after January 1, 2014, with earlier application permitted. The amendment affects presentation only and the Company will continue to assess any impact on the Company's financial position 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 annual periods beginning on or after January 1, 2014. Earlier application is permitted for periods when the entity has already applied IFRS 13. The Company will continue to assess any impact on the Company's financial position or performance.

In thousands of US dollars unless otherwise stated

4. Summary of significant accounting policies (continued)

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 standard is effective for annual periods beginning on or after January 1, 2015. 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.

In thousands of US dollars unless otherwise stated

5. Revenue

The composition of revenue is as follows:

	Three months ended		Six months ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Sale of goods	$36,155	$17,308	$74,881	$34,104
Rendering of services	89,112	90,363	178,456	156,430
Royalties	1,001	173	2,018	1,392
	$126,268	**$107,844**	**$255,355**	**$191,926**

6. Other expenses

	Three months ended		Six months ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Transaction costs	$4,248	$3,855	$7,278	$11,121
Restructuring and integration costs	3,668	1,790	6,532	5,200
	$7,916	**$5,645**	**$13,810**	**$16,321**

Transaction costs incurred during the three and six months ended June 30, 2013 primarily relate to the Company's strategic and operational review. Transactions costs consist of legal and professional fees of $1,439 for the three months and $2,562 for the six months ended June 30, 2013 ($3,412 for the six months ended June 30, 2012), Consultants' fees of $1,106 for the three months and $2,197 for the six months ended June 30, 2013 ($2,010 for the six months ended June 30, 2012), employee bonuses related to the transactions of $nil for the three months and $nil for the six months ended June 30, 2013 ($2,700 for the six months ended June 30, 2012), and other transaction costs of $1,703 for the three months and $2,519 for the six months ended June 30, 2013 ($2,999 for the six months ended June 30, 2012). Other transaction costs include recognition of $948 in respect of Technomedia earn-out which has been accounted for as compensation. Transaction costs incurred during the three and six months ended June, 30 2012 were associated with the acquisition of 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") and DMX Holdings, Inc. ("DMX").

Restructuring and integration costs for the three and six months ended June 30, 2013 consist of severance costs of $2,030 for the three months and $4,427 for the six months ended June 30, 2013 ($1,482 for the six months ended June 30, 2012) and other integration costs of $1,638 for the three months and $2,105 for the six months ended June 30, 2013 ($3,718 for the six months ended June 30, 2012) 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.

In thousands of US dollars unless otherwise stated

7. Finance costs, net

	Three months ended		Six months ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Interest expense	$13,227	$10,205	$26,027	$20,396
Change in fair value of financial instruments (i)	2,619	(2,954)	(1,216)	1,226
Change in fair value of deferred and contingent consideration (ii)	(1,026)	429	(16,510)	853
Other finance costs, net (iii)	1,150	1,593	2,193	3,029
	$15,970	**$9,273**	**$10,494**	**$25,504**

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

	Three months ended		Six months ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Cross-currency interest rate swap (a)	$448	$(2,524)	$(699)	$(1,916)
Interest rate floor (b)	(2,301)	2,797	(3,039)	1,072
Interest rate cap (c)	1	87	6	211
Prepayment option (d)	4,471	-	2,516	-
Compensation warrants	-	(3,314)	-	1,859
	$2,619	**$(2,954)**	**$(1,216)**	**$1,226**

(a) The Company entered into a cross-currency interest rate swap on December 31, 2010, which matured on June 4, 2013. The cross-currency interest rate swap had a historical notional amount of $32,375 and 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 from April 1, 2013 to maturity on June 4, 2013 was a loss of $448 and from January 1, 2013 to maturity on June 4, 2013 was a gain of $699 (three months ended June 30, 2012 a gain of $2,524 and six months ended June 30, 2012 a gain of $1,916), which has been recognized within finance costs, net in the interim consolidated statements of income (loss). The fair value on maturity was $1,578, which was settled on June 4, 2013 (note 14).

(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 interim consolidated statements of income (loss). The change in the fair value during the three months ended June 30, 2013 was a gain of $2,301 and the six months ended June 30, 2013 was a gain of $3,039 (three months ended June 30, 2012 a loss of $2,797 and the six months ended June 30, 2012 a loss of $1,072) (note 14).

7. Finance costs, net (continued)

(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 interim consolidated statements of income (loss). The change in the fair value during the three months ended June 30, 2013 was a loss of $1 and during the six months ended June 30, 2013 was a loss of $6 (three months ended June 30, 2012 was a loss of $87 and the six months ended June 30, 2012 was a loss of $211) (note 14).

(d) 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 $3,200 and is recorded within other financial assets in the interim consolidated statements of financial position. On initial recognition, the carrying value of the Notes was increased by the same amount, which is amortized over the term of the Notes (note 14).

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 income (loss). The change in fair value of the prepayment option during the three months ended June 30, 2013 was a loss of $4,471 and during the six months ended June 30, 2013 was a loss of $2,516 (three months ended June 30, 2012 was $nil and the six months ended June 30, 2012 was $nil) (note 14).

(ii) Change in fair value of deferred and contingent consideration consists of the change in fair value of the deferred consideration for the acquisition of ICI and the change in fair value of the contingent consideration for the acquisition of Muzak.

The change in fair value of the ICI deferred consideration was $179 for the three months ended June 30, 2013 and during the six months ended June 30, 2013 was $352 (three months ended June 30, 2012 $nil and during the six months ended June 30, 2013 $nil) (note 14).

The change in fair value of the Muzak contingent consideration was a credit of $1,205 for the three months ended June 30, 2013 and was a credit of $16,862 during the six months ended June 30, 2013 (three months ended June 30, 2012 was a charge of $429 and during the six months ended June 30, 2012 was a charge of $853) (note 14).

In thousands of US dollars unless otherwise stated

7. Finance costs, net (continued)

(iii) Other finance costs, net consist of 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 amortization of the debt premium arising from the prepayment option. For the three months ended June 30, 2013, accretion interest in respect of the convertible debentures was $392 for the three months ended June 30, 2013 and for the six months ending June 30, 2013, was $781 (three months ended June 30, 2012 was $412 and for the six months ending June 30, 2013, was $819) (note 13); accretion of the credit facilities was $300 for the three months ended June 30, 2013 and $600 for the six months ended June 30, 2013 ($586 for three months ended June 30, 2012 and $1,175 for the six months ended June 30, 2012) (note 13); accretion of the unsecured notes was $275 for the three months ended June 30, 2013 and $550 for the six months ended June 30, 2013 ($nil for the three months ended June 30, 2012 and $nil for the six months ended June 30, 2012) (note 13); accretion of debt related to the interest rate floor was $223 for the three months ended June 30, 2013 and $445 for the six months ended June 30, 2013 ($470 for the three months ended June 30, 2012 and $939 for the six months ended June 30, 2012); and amortization of the debt premium arising from the prepayment option was a credit of $99 for the three months ended June 30, 2013 and a credit of $218 for the six months ended June 30, 2013 ($nil for the three months ended June 30, 2012 and $nil for the six months ended June 30, 2012) (note 13).

The remaining charge of $59 for the three months ended June 30, 2013 and $35 for the six months ended June 30, 2013 within other Finance costs, net (three months ended June 30, 2012 was a charge of $125 and the six months ended June 30, 2012 was a charge of $96) represents fees associated with the Company's Credit Facilities, interest income and share of profits from associates.

8. Income tax

	Three months ended		Six months ended	
	June 30, 2013	**June 30, 2012**	**June 30, 2013**	**June 30, 2012**
Current tax expense				
Current tax on loss for the period	$1,655	$(118)	$2,451	$580
Total current tax charge (credit)	**1,655**	**(118)**	**2,451**	**580**
Deferred tax expense				
Origination and reversal of temporary differences	(1,156)	(1,037)	4,440	(2,332)
Recognition of previously unrecognized deferred tax assets	-	-	-	(16,200)
Total deferred tax charge (credit)	**(1,156)**	**(1,037)**	**4,440**	**(18,532)**
Total income tax charge (credit)	**$499**	**$(1,155)**	**$6,891**	**$(17,952)**

In thousands of US dollars unless otherwise stated

9. Earnings (loss) per share

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

	Three months ended		Six months ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Weighted and diluted average common shares (000s)	171,640	165,337	171,640	148,882
Total operations				
Basic EPS	$(0.12)	$(0.18)	$(0.17)	$(0.28)
Diluted EPS	(0.12)	(0.18)	(0.17)	(0.28)
Continuing operations				
Basic EPS	$(0.05)	$(0.04)	$(0.08)	$(0.04)
Diluted EPS	(0.05)	(0.04)	(0.08)	(0.04)
Discontinued operations				
Basic EPS	$(0.07)	$(0.14)	$(0.09)	$(0.24)
Diluted EPS	(0.07)	(0.14)	(0.09)	(0.24)

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.

10. 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 and 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.

The Technomedia sale and purchase agreement contains a working capital adjustment, which resulted in an additional payment of $525.

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.

The ICI sale and purchase agreement contains a working capital adjustment, which resulted in an additional payment of $1,822.

The valuation of intangible assets and certain other assets and liabilities for ICI and Technomedia have not yet been completed; therefore, the allocation of the ICI and Technomedia purchase prices are based on management’s best estimates and are currently considered preliminary.

On May 31, 2012, the Company acquired 100% of the issued and outstanding shares of 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, 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 that DMX will complement its core in-store media business.

In thousands of US dollars unless otherwise stated

10. Business combinations (continued)

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

	DMX	BIS	ICI	Technomedia
Assets				
Cash	$1,930	$533	$-	$1,019
Trade receivables and prepaid expenses	17,880	10,251	4,134	9,319
Inventories	2,974	3,455	718	289
Property and equipment	3,168	1,748	2,874	302
Intangible assets	52,486	12,893	15,324	12,139
	78,438	**28,880**	**23,050**	**23,068**
Liabilities				
Trade and other payables	27,590	9,042	1,054	5,292
Deferred revenue	3,309	2,911	1,788	1,566
Loans to former DMX debtholders	32,267	-	-	-
Deferred tax liabilities	19,277	3,223	-	-
	82,443	**15,176**	**2,842**	**6,858**
Total identifiable net assets (liabilities) at fair value	(4,005)	13,704	20,208	16,210
Non-controlling interests	(1,597)	-	-	-
Goodwill arising on acquisition	56,067	14,417	8,908	7,121
Purchase consideration transferred	**50,465**	**28,121**	**29,116**	**23,331**
Fair value analysis of purchase consideration transferred:				
Cash	50,465	28,121	24,116	23,331
Deferred consideration	-	-	5,000	-
Total purchase consideration	**50,465**	**28,121**	**29,116**	**23,331**
Analysis of cash flows on acquisition:				
Net cash acquired	1,930	533	-	1,019
Cash paid	(50,465)	(28,121)	(24,116)	(23,331)
Net cash outflow	**$(48,535)**	**$(27,588)**	**$(24,116)**	**$(22,312)**

In thousands of US dollars unless otherwise stated

11. Intangible assets

	Customer relationships	Music library	Technology platforms and software	Brands	Total
Cost					
As at January 1, 2012	**$201,931**	**$29,232**	**$65,596**	**$33,927**	**$330,686**
Additions	-	-	7,593	-	7,593
Acquisitions	73,382	-	13,481	5,979	92,842
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	**255,406**	**23,026**	**82,962**	**40,252**	**401,646**
Additions	-	-	2,838	-	2,838
Exchange differences	(932)	(343)	(1,248)	(339)	(2,862)
As at June 30, 2013	**254,474**	**22,683**	**84,552**	**39,913**	**401,622**
Amortization					
As at January 1, 2012	**$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**
Amortization	10,187	1,088	6,897	2,476	20,648
Exchange differences	(214)	(98)	(248)	(62)	(622)
As at June 30, 2013	**41,117**	**6,678**	**28,636**	**4,009**	**80,440**
Net book value					
As at June 30, 2013	**$213,357**	**$16,005**	**$55,916**	**$35,904**	**$321,182**
As at December 31, 2012	224,262	17,338	60,975	38,657	341,232

Total amortization recognized was $10,435 for the three months ended June 30, 2013 and $20,648 for the six months ended June 30, 2013 (three months ended June 30, 2012 was $7,422 and $14,922 for the six months ended June 30, 2012), which forms part of depreciation and amortization in the interim consolidated statements of income (loss).

Internally generated intangible assets with a net book value of $6,444 (December 31, 2012 was $6,712) have been included within technology platforms and software as at June 30, 2013.

In thousands of US dollars unless otherwise stated

12. Goodwill

	June 30, 2013	December 31, 2012
Cost, beginning of period	**$335,150**	**$252,041**
Goodwill arising on acquisitions	2,347	84,166
Discontinued operations	-	(4,845)
Net exchange differences	(2,570)	3,788
Cost, end of period	**334,927**	**335,150**
Accumulated impairment losses, beginning and end of period	**(5,418)**	**(5,418)**
Net book value, end of period	**$329,509**	**$329,732**

Goodwill arising on acquisitions of $2,347 relates to working capital adjustments in ICI of $1,822 and Technomedia of $525 (note 10).

Goodwill of $1,559 was reclassified to intangible assets in respect of the Technomedia purchase price allocation. In addition, goodwill has been increased to reflect a $2,000 sales tax liability related to a prior acquisition. These have been reflected in the comparative figures above.

In thousands of US dollars unless otherwise stated

13. Loans and borrowings

	Prescribed interest rate	June 30, 2013	December 31, 2012
Due in less than one year:			
Credit facility iv)	7.0%	**$2,132**	**$2,132**
Due in more than one year:			
Senior unsecured notes i)	9.25%	350,000	350,000
Unamortized discount – financing costs ii)		(8,169)	(8,719)
Unamortized premium – prepayment option iii)		2,902	3,120
		344,733	**344,401**
Credit facility iv)	7.0%	206,831	207,897
Unamortized discount – financing costs v)		(5,717)	(6,317)
Unamortized discount – interest rate floor vi)		(4,302)	(4,747)
		196,812	**196,833**
10% Unsecured convertible debentures vii)	10.0%	45,730	44,949
		587,275	**586,183**
Total loans and borrowings		**$589,407**	**$588,315**

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 the Company'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.

13. 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. During the three months ended June 30, 2013, accretion expense was $275, during the six months ended June 30, 2013, accretion expense was $550 (three months ended June 30, 2012 was $nil and the six months ended June 30, 2012, was $nil), which is included in Finance costs, net in the interim consolidated statements of income (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 option has been treated as an embedded derivative financial instrument in the interim consolidated statements of financial position and was valued at $3,200 on October 19, 2012. The prepayment option is measured at fair value at each reporting date and included in other financial assets, with any change recorded in the interim consolidated statements of income (loss). The Notes include the premium for the fair value as at inception of this embedded derivative. The amortization of the debt premium arising from the prepayment option which is included within finance costs, net for the three months ended June 30, 2013, in the interim consolidated statements of income (loss) was a credit of $99 and for the six months ended June 30, 2013, a credit of $218 (three months ended June 30, 2012 was $nil and six months ended June 30, 2012 was $nil) (note 7).

Credit facility

iv) In May 2011, the Company entered into credit facilities with Credit Suisse Securities AG (“Credit Suisse”), as agent, consisting of a $20,000, five-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 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 June 30, 2013, the Company had $21,300 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 June 30, 2013.

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 8.02%. During the three months ended June 30, 2013, a repayment of $533 was made on the first lien term loan, during the six months ended June 30, 2013, repayments were $1,066.

In thousands of US dollars unless otherwise stated

13. Loans and borrowings (continued)

On August 2, 2011, the Company purchased an interest rate cap for $619 in conjunction with the requirements of the credit facilities agreement. This derivative financial instrument is fair valued at each reporting date with any change in fair value recorded within the interim consolidated statements of income (loss). As at June 30, 2013, the fair value of the interest rate cap was $4 (December 31, 2012 - $10). This is shown within other financial assets in the interim consolidated statements of financial position. The change in fair value of $1 for the three months ended June 30, 2013 and $6 for the six months ended June 30, 2013 is included in Finance costs, net in the interim consolidated statements of income (loss) (note 7).

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 expenses associated with the Credit Facilities for the three months ended June 30, 2013 were $300 and for the six months ended June 30, 2013 was $600 (three months ended June 30, 2012 was $586 and for the six months ended June 30, 2012 was $1,175) (note 7).

Unamortized finance costs as at June 30, 2013 were $5,717 (December 31, 2012 - $6,317).

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 interim 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 for the three months ended June 30, 2013 was $223 and for the six months ended June 30, 2013 was $445 (three months ended June 30, 2012 was $470 and for the six months ended June 30, 2012 was $939) (note 7).

Unrecognized debt accretion as at June 30, 2013 was $4,302 (December 31, 2012 - $4,747).

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 costs have been pro-rated against the debt and equity components. As at June 30, 2013, the carrying value of the debt component was $28,623 (December 31, 2012 - $28,024), which is net of unamortized financing costs of $932 (December 31, 2012 - $1,140).

In thousands of US dollars unless otherwise stated

13. 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 June 30, 2013, the carrying value of the debt component was $4,449 (December 31, 2012 - $4,408).

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 June 30, 2013, the carrying value of the debt component was $12,658 (December 31, 2012 - $12,517). 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 three months ended June 30, 2013, total accretion interest in respect of all convertible debentures was $392 and for the six months ended June 30, 2013, was $781 (three months ended June 30, 2012 was $412 and six months ended June 30, 2012 was $819), which is included within Finance costs, net in the interim consolidated statements of income (loss) (note 7). During the three and six months ended June 30, 2013, no debentures were converted (three and six months ended June 30, 2012 - $nil) (note 7).

In thousands of US dollars unless otherwise stated

14. Other financial assets and financial liabilities

Other financial assets

	June 30, 2013	December 31, 2012
Interest rate cap	$4	$10
Prepayment option	684	3,200
Total other financial assets	**$688**	**$3,210**

Interest rate cap

On August 2, 2011, in accordance with the Company's credit agreement, the Company entered into an arrangement whereby 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 recognized in the interim consolidated statements of income (loss) within Finance costs, net. The change in the fair value during the three months ended June 30, 2013 was a loss of $1 and during the six months ended June 30, 2013 was a loss of $6 (three months ended June 30, 2012 was a loss of $87 and the six months ended June 30, 2012 was a loss of $211) (note 7).

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 $3,200, which is recorded within other financial assets in the interim 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 prepayment option is fair valued at each reporting date and any change in the fair value is recognized in the interim consolidated statements of income (loss) within Finance costs, net. The change in fair value of the prepayment option for the three months ended June 30, 2013 was $4,471 and the six months ended June 30, 2012 was $2,516 (three months and six months ended June 30, 2012 was $nil) (note 7).

In thousands of US dollars unless otherwise stated

14. Other financial assets and financial liabilities (continued)

Other financial liabilities

	June 30, 2013	**December 31, 2012**
Cross-currency interest rate swap	$-	$2,277
Finance leases	2,269	3,047
Deferred and contingent consideration	6,618	23,128
Interest rate floor	6,754	9,793
Total other financial liabilities	**15,641**	**38,245**
Due in less than one year	7,500	8,788
Due in more than one year	8,141	29,457
Total other financial liabilities	**$15,641**	**$38,245**

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 is presented in Finance costs, net in the interim consolidated statements of income (loss).

The change in the fair value from April 1, 2013 to maturity on June 4, 2013 was a loss of $448 and from January 1, 2013 to maturity on June 4, 2013 was a gain of $699 (three months ended June 30, 2012 a gain of $2,524 and six months ended June 30, 2012 was a gain of $1,916), which has been recognized within the Finance costs, net in the interim consolidated statements of income (loss) (note 7).

The fair value on maturity was $1,578, which was settled on June 4, 2013.

14. 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 $5,352 as at June 30, 2013 (December 31, 2012 - $5,000). The change in fair value of the ICI deferred consideration was $179 for the three months ended June 30, 2013 and $352 for the six months ended June 30, 2013 (three months ended June 30, 2012 $nil and $nil for the six months ended June 30, 2013) (note 7).

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 $1,266 as at June 30, 2013 (December 31, 2012 - $18,128). 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 change in fair value of the Muzak contingent consideration was a credit of $1,205 for the three months ended June 30, 2013 and during the six months ended June 30, 2013 was a credit of $16,862 (three months ended June 30, 2012 was $429 and during the six months ended June 30, 2012 was $853) (note 7).

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 interim consolidated statements of income (loss) in Finance costs, net. The change in fair value for the three months ended June 30, 2013 was a gain of $2,301 and six months ended June 30, 2013 was a gain of $3,039 (three months ended June 30, 2012 was a loss $2,797 and during the six months ended June 30, 2012 was a loss of $1,072)(note 7). The fair value of the interest rate floor as at June 30, 2013 was $6,754 (December 31, 2012 - $9,793). Fair value is determined by reference to mark-to-market valuations performed by financial institutions at each reporting date.

In thousands of US dollars unless otherwise stated

15. Shareholders' equity

Share capital

Share capital represents the number of common shares outstanding.

As at June 30, 2013, 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, 2012	**127,937,063**	**$171,912**
Common shares issued, net of issue costs	38,589,000	138,174
Warrants exercised	4,100,000	12,308
Options exercised	867,000	560
Conversion of convertible debentures	146,500	364
Balance as at December 31, 2012 and June 30, 2013	**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.

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.

In thousands of US dollars unless otherwise stated

16. 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 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.

The expense recognized relating to equity-settled share option transactions for employees was $325 for the three months ended June 30, 2013 and $688 for the six months ended June 30, 2013 (three months ended June 30, 2012 was $942 and $1,829 for the six months ended June 30, 2012).

In thousands of US dollars unless otherwise stated

16. Share-based compensation (continued)

Changes in the number of options, with their weighted average exercise prices for the six months ended June 30, 2013 and 2012, are summarized below:

		June 30, 2013		June 30, 2012
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at beginning of period	**15,465,800**	**$1.92**	**15,250,300**	**$1.82**
Exercised during the period	-	-	(217,000)	1.18
Forfeited/expired during the period	(337,500)	2.81	(75,000)	2.64
Granted during the period	-	-	930,000	2.91
Outstanding at end of period	**15,128,300**	**1.90**	**15,888,300**	**1.89**
Exercisable at end of period	**10,129,550**	**$1.48**	**7,627,050**	**$1.21**

The following information relates to share options that were outstanding as at June 30, 2013:

Range of exercise prices	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price
$0.00-$0.30	3,600,000	5	$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	7,505,000	8	3.00
	15,128,300	**6**	**$1.90**

Warrants

The following warrants were outstanding as at June 30, 2013:

	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

17. Commitments and contingencies

Operating leases

Future minimum rental payments under non-cancellable operating leases as at June 30, 2013 and December 31, 2012 are as follows:

	June 30, 2013	December 31, 2012
Within one year	$16,522	$16,410
After one year but not more than five years	37,176	40,512
More than five years	4,064	4,901
	$57,762	**$61,823**

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:

	June 30, 2013		December 31, 2012	
	Minimum payments	Present value	Minimum payments	Present value
Within one year	$1,423	$ 1,331	$2,051	$1,920
After one year but not more than five years	1,386	649	1,536	719
Total minimum lease payments	2,809	1,980	3,587	2,639
Less amounts representing finance charges	(540)	(540)	(540)	(540)
Present value of minimum lease payments	**$2,269**	**$1,440**	**$3,047**	**$2,099**

17. Commitments and contingencies (continued)

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 believes the claims to be without merit however it will continue to consult with its legal counsel to vigorously defend its position.

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.

In thousands of US dollars unless otherwise stated

18. Financial instruments

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 June 30, 2013, with the exception of the Convertible Debentures. The book value of the Convertible Debentures outstanding was $45,730 (December 31, 2012 - $44,949) and the fair value was $45,120 (December 31, 2012 - $52,549).

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

		Fair value as at June 30, 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	$(6,754)	$-	$(6,754)	$-
Interest rate cap	4	-	4	-
Prepayment option	684	-	684	-

		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 floor	(9,793)	-	(9,793)	-
Interest rate cap	10	-	10	-
Prepayment option	3,200	-	3,200	-

During the three and six months ended June 30, 2013, 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 or financial liability that subsequently resulted in a different classification of that asset or liability.

In thousands of US dollars unless otherwise stated

19. Segment information

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:

	Three months ended		Six months ended	
	June 30, 2013	**June 30, 2012**	**June 30, 2013**	**June 30, 2012**
US	$80,641	$68,479	$157,475	$118,237
Canada	1,458	1,607	2,882	1,941
Netherlands	17,784	7,661	36,449	11,635
France	7,582	10,390	15,701	20,070
Other international	18,803	19,707	42,848	40,043
Total revenue	**$126,268**	**$107,844**	**$255,355**	**$191,926**

Non-current assets

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

	June 30, 2013	**December 31, 2012**
US	$446,485	$457,957
Canada	8,223	8,235
International	261,720	274,850
Total non-current assets	**$716,428**	**$741,042**

In thousands of US dollars unless otherwise stated

20. 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 Mood Media Entertainment for proceeds of $2,000. As part of the disposition, the Company is exiting any residual activities, the costs of which are still to be finalized. These costs have been estimated and recorded as at June 30, 2013 and are included in the statements shown below.

The results of MME are presented below:

	Three months ended		**Six months ended**	
	June 30, 2013	**June 30, 2012**	**June 30, 2013**	**June 30, 2012**
Revenue	$3,573	$2,226	$10,117	$8,903
Expenses	7,163	9,862	16,675	22,737
Operating loss	**(3,590)**	**(7,636)**	**(6,558)**	**(13,834)**
Loss on sale	7,394	-	7,394	-
Impairment	-	16,721	784	21,566
Loss before taxes from discontinued operations	**(10,984)**	**(24,357)**	**(14,736)**	**(35,400)**
Income tax charge (credit)	-	(594)	-	616
Loss after taxes from discontinued operations	**$(10,984)**	**$(23,763)**	**$(14,736)**	**$(36,016)**

During the six months ended June 30, 2013, the Company impaired property and equipment of $784 (impairment of $4,845 for goodwill and $16,721 for intangible assets for the six months ended June 30, 2012).

The net cash flows incurred by MME are as follows:

	Three months ended		**Six months ended**	
	June 30, 2013	**June 30, 2012**	**June 30, 2013**	**June 30, 2012**
Operating activities	$(3,930)	$(9,196)	$(4,431)	$(5,664)
Investing activities	-	(54)	(784)	(1,217)
Financing activities	2,000	-	2,000	-
Net cash outflow	**$(1,930)**	**$(9,250)**	**$(3,215)**	**$(6,881)**

MME is no longer disclosed as a separate reportable segment in note 19.