Interim Condensed Consolidated Financial Statements

Mood Media Corporation

Unaudited

For the three and six months ended June 30, 2016

Mood Media Corporation

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
Unaudited

In thousands of US dollars, unless otherwise stated

	Notes	June 30, 2016	December 31, 2015
ASSETS			
Current assets			
Cash		$12,369	$17,326
Restricted cash		817	817
Trade and other receivables, net		85,495	94,063
Income taxes recoverable		514	682
Inventory		23,354	25,749
Prepayments and other assets		13,418	11,738
Deferred costs		8,138	8,706
Total current assets		**144,105**	**159,081**
Non-current assets			
Deferred costs		8,805	8,958
Property and equipment, net		44,903	47,812
Other assets		598	839
Intangible assets		205,810	223,847
Goodwill	14	214,237	213,979
Total assets		**618,458**	**654,516**
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables		87,170	100,320
Income taxes payable		1,373	1,305
Deferred revenue		17,470	16,106
Other financial liabilities	10	4,899	6,848
Current portion of long-term debt	9	8,350	8,350
Total current liabilities		**119,262**	**132,929**
Non-current liabilities			
Deferred revenue		5,577	5,998
Deferred tax liabilities		22,013	23,682
Other financial liabilities	10	4,184	3,083
Long-term debt	9	612,292	612,310
Total liabilities		**763,328**	**778,002**
Equity			
Share capital	13	328,807	328,807
Contributed surplus		40,453	40,333
Foreign exchange translation reserve		6,631	6,765
Deficit		(520,989)	(499,640)
Equity attributable to owners of the parent		**(145,098)**	**(123,735)**
Non-controlling interests		228	249
Total equity		**(144,870)**	**(123,486)**
Total liabilities and equity		**$618,458**	**$654,516**

The accompanying notes form part of the interim consolidated financial statements

Mood Media Corporation

INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
Unaudited

In thousands of US dollars, except per share information and weighted average number of shares

		Three months ended		Six months ended	
	Notes	**June 30, 2016**	**June 30, 2015**	**June 30, 2016**	**June 30, 2015**
Revenue	5	**$119,670**	**$117,668**	**$231,005**	**$231,923**
Expenses					
Cost of sales		57,758	56,517	109,721	110,761
Operating expenses		37,018	36,650	74,570	72,541
Depreciation and amortization		16,217	16,870	32,784	33,619
Share-based compensation	11	92	235	120	451
Other expenses	6	133	1,691	6,197	2,588
Foreign exchange loss (gain) on financing transactions	10	5,525	(4,196)	(1,086)	14,807
Finance costs, net	7	14,489	13,694	30,334	27,774
Loss for the period before income taxes		**(11,562)**	**(3,793)**	**(21,635)**	**(30,618)**
Income tax charge (recovery)	8	317	(1,596)	(325)	(1,450)
Loss for the period		**(11,879)**	**(2,197)**	**(21,310)**	**(29,168)**
Net loss attributable to:					
Owners of the parent		(11,921)	(2,185)	(21,349)	(29,153)
Non-controlling interests		42	(12)	39	(15)
		(11,879)	**(2,197)**	**(21,310)**	**(29,168)**
Net loss per share attributable to shareholders					
Basic and diluted		$(0.06)	$(0.01)	$(0.12)	$(0.16)
Weighted average number of shares outstanding – basic		184,767	182,067	184,289	181,101
Weighted average number of shares outstanding – diluted		186,702	182,067	186,223	181,101
Loss for the period		**$(11,879)**	**$(2,197)**	**$(21,310)**	**$(29,168)**
Items that may be reclassified subsequently to the loss for the period:					
Exchange gain (loss) on translation of foreign operations		2,400	(1,025)	(134)	2,267
Other comprehensive income (loss) for the period, net of tax		**2,400**	**(1,025)**	**(134)**	**2,267**
Total comprehensive loss for the period, net of tax		**(9,479)**	**(3,222)**	**(21,444)**	**(26,901)**
Comprehensive loss attributable to:					
Owners of the parent		(9,521)	(3,210)	(21,483)	(26,886)
Non-controlling interests		42	(12)	39	(15)
		$(9,479)	**$(3,222)**	**$(21,444)**	**$(26,901)**

The accompanying notes form part of the interim consolidated financial statements

Mood Media Corporation

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
Unaudited

In thousands of US dollars, unless otherwise stated

		Three months ended		Six months ended	
	Notes	**June 30, 2016**	**June 30, 2015**	**June 30, 2016**	**June 30, 2015**
Operating activities					
Loss for the period before income taxes		**$(11,562)**	**$(3,793)**	**$(21,635)**	**$(30,618)**
Reconciling adjustments					
Depreciation and amortization of property and equipment and intangible assets		16,217	16,870	32,784	33,619
(Gain) loss on disposal of property and equipment		(5)	36	(1)	45
Share-based compensation	11	92	235	120	451
Shares issued in lieu of severance or consideration		-	-	-	1,123
Foreign exchange loss (gain) on financing transactions	10	5,525	(4,196)	(1,086)	14,807
Finance costs, net		14,489	13,694	30,334	27,774
Loss on disposal of speaker business	6	-	-	3,708	-
Working capital adjustments					
Decrease in trade and other receivables		5,370	5,000	7,238	710
Decrease (increase) in inventory		1,779	(839)	806	3,681
Decrease in trade and other payables		(5,050)	(109)	(14,764)	(15,077)
(Decrease) increase in deferred revenue		(4,069)	(991)	920	3,588
		22,786	**25,907**	**38,424**	**40,103**
Income taxes (paid) recovered		(1,024)	358	(1,083)	267
Interest received		7	9	12	15
Net cash flows from operating activities		**21,769**	**26,274**	**37,353**	**40,385**
Investing activities					
Purchase of property and equipment and intangible assets		(7,418)	(7,836)	(14,160)	(15,621)
Proceeds from disposal of speaker business, net		-	-	741	-
Proceeds from disposal of property, equipment and other assets		3	22	66	32
Net cash flows used in investing activities		**(7,415)**	**(7,814)**	**(13,353)**	**(15,589)**
Financing activities					
Repayment of borrowings		(587)	(587)	(1,175)	(1,175)
Finance lease payments		(377)	(303)	(691)	(617)
Interest paid		(23,058)	(23,056)	(27,502)	(27,213)
Settlement of forward contracts		(54)	395	(54)	395
Dividends paid to non-controlling interest		(37)	(50)	(37)	(50)
Dividends received from associates		37	-	331	-
Net cash flows used in financing activities		**(24,076)**	**(23,601)**	**(29,128)**	**(28,660)**
Net decrease in cash		**(9,722)**	**(5,141)**	**(5,128)**	**(3,864)**
Net foreign exchange (loss) gain on cash balances		**(217)**	**219**	**171**	**(914)**
Cash at beginning of period		**22,308**	**25,717**	**17,326**	**25,573**
Cash at end of period		**$12,369**	**$20,795**	**$12,369**	**$20,795**

The accompanying notes form part of the interim consolidated financial statements

Mood Media Corporation

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Unaudited

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, 2016		**$328,807**	**$40,333**	**$6,765**	**$(499,640)**	**$(123,735)**	**$249**	**(123,486)**
(Loss) income for the period		-	-	-	(21,349)	**(21,349)**	39	(21,310)
Translation of foreign operations		-	-	(134)	-	**(134)**	-	(134)
Total comprehensive income (loss)		**-**	**-**	**(134)**	**(21,349)**	**(21,483)**	**39**	**(21,444)**
Share-based compensation		-	120	-	-	**120**	-	120
Dividends to non-controlling interest		-	-	-	-	**-**	(60)	(60)
As at June 30, 2016		**$328,807**	**$40,453**	**$6,631**	**$(520,989)**	**$(145,098)**	**$228**	**$(144,870)**

	Notes	Share Capital	Contributed Surplus	Foreign Exchange Translation Reserve	Deficit	Total	Non-controlling Interests	Total Equity
As at January 1, 2015		**$326,956**	**$34,373**	**$2,264**	**$(419,618)**	**$(56,025)**	**$230**	**$(55,795)**
Loss for the period		-	-	-	(29,153)	**(29,153)**	(15)	**(29,168)**
Translation of foreign operations		-	-	2,267	-	**2,267**	-	**2,267**
Total comprehensive income (loss)		**-**	**-**	**2,267**	**(29,153)**	**(26,886)**	**(15)**	**(26,901)**
Share-based compensation		-	451	-	-	**451**	-	**451**
Dividends to non-controlling interest		-	-	-	-	**-**	(40)	**(40)**
Issue of share capital		1,123	-	-	-	**1,123**	-	**1,123**
As at June 30, 2015		**$328,079**	**$34,824**	**$4,531**	**$(448,771)**	**$(81,337)**	**$175**	**$(81,162)**

The accompanying notes form part of the interim consolidated financial statements

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Unaudited
For the three and six months ended June 30, 2016

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 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, mobile, voice, drive-thru, commercial TV, social and scent marketing solutions to a range of businesses including specialist retailers, department stores, supermarkets, financial institutions and fitness clubs, as well as hotels, car dealerships 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 condensed 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 consolidated financial statements and notes for the year ended December 31, 2015. These interim condensed consolidated financial statements do not include all of the information and disclosures required by International Financial Reporting Standards ("IFRS") for annual consolidated financial statements. Accordingly, these interim condensed consolidated financial statements should be read in conjunction with the Company's annual consolidated financial statements as at and for the year ended December 31, 2015 and the accompanying notes.

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

These interim condensed consolidated financial statements of the Company were approved by the Audit Committee and authorized for issue on August 10, 2016.

3. Summary of estimates, judgments and assumptions

The preparation of the Company's interim condensed 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 condensed 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, 2015.

In thousands of US dollars, unless otherwise stated

4. Summary of significant accounting policies

Basis of measurement and principles of consolidation

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

These interim condensed consolidated financial statements were prepared on a going concern basis under the historical cost method except for certain financial assets and liabilities which are measured at fair value. Management assesses the Company's ability to continue as a going concern at each reporting date, using quantitative and qualitative information available.

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 condensed 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 2, *Share-based Payment*

In June 2016, the IASB issued final amendments to IFRS 2, clarifying how to account for certain types of share-based payment transactions. The amendments, which were developed through the IFRS Interpretations Committee, provide requirements on the accounting for: (i) the effect of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; (ii) share-based payment transactions with a net settlement feature for withholding tax obligations; and (iii) a modification to the terms and conditions of a share-based payment that changes the classifications of the transaction from cash-settled to equity-settled. The Company intends to adopt the amendments to IFRS 2 in the consolidated financial statements for the annual period beginning January 1, 2018.

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, *Financial Instruments: Recognition and Measurement*, and applies to the classification and measurement of financial assets and financial liabilities as defined in IAS 39. The effective date for this standard is for reporting periods beginning on or after January 1, 2018, with earlier application permitted. 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 its financial liabilities.

In thousands of US dollars, unless otherwise stated

4. Summary of significant accounting policies (continued)

IFRS 15, *Revenue from Contracts with Customers*

On May 28, 2014, the IASB issued IFRS 15, which outlines a single comprehensive model for entities to use in accounting for revenue from customers. The standard outlines the principles an entity must apply to measure and recognize revenue relating to contracts with customers. The core principle is that an entity will recognize revenue when it transfers promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services.

IFRS 15 also significantly expands the current disclosure requirements about revenue recognition.

The IASB has decided to defer the effective date of this standard by one year. As a result, IFRS 15 will be effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted. The Company has commenced a review process to assess any impact on its current revenue recognition policies and reporting processes.

IFRS 16, *Leases*

On January 13, 2016, the IASB issued IFRS 16, which outlines requirements for lessees to recognize assets and liabilities for most leases. Lessees are required to recognize the lease liability for the obligations to make lease payments and a right-of-use asset for the right to use the underlying asset for the lease term. Lease liability is measured at the present value of lease payments to be made over the term of the lease. The right-of-use asset is initially measured at the amount of the lease liability and adjusted for prepayments, direct costs and incentives received.

The new standard will be effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted, provided the new revenue standard, IFRS 15, has been applied or is applied at the same date as IFRS 16. The Company has commenced a review process to assess the impact on its current lease recognition policies.

5. Revenue

The composition of revenue is as follows:

	Three months ended		Six months ended	
	June 30, 2016	**June 30, 2015**	**June 30, 2016**	**June 30, 2015**
Recurring	$62,258	$62,224	$123,227	$124,760
Equipment	37,010	35,029	70,639	68,709
Installation and services	13,714	13,312	24,073	25,187
Other	6,688	7,103	13,066	13,267
	$119,670	**$117,668**	**$231,005**	**$231,923**

In thousands of US dollars, unless otherwise stated

6. Other expenses

	Three months ended		Six months ended	
	June 30, 2016	**June 30, 2015**	**June 30, 2016**	**June 30, 2015**
Transaction costs (i)	$(940)	$428	$(727)	$568
Restructuring and integration costs (ii)	1,073	1,348	3,216	2,242
Settlements and resolutions	-	23	-	(114)
Net (gain) loss on disposal of certain assets (iii)	-	(108)	3,708	(108)
	$133	**$1,691**	**$6,197**	**$2,588**

(i) Transaction costs incurred during the three and six months ended June 30, 2016 and June 30, 2015 primarily relate to costs associated with prior acquisitions.

	Three months ended		Six months ended	
	June 30, 2016	**June 30, 2015**	**June 30, 2016**	**June 30, 2015**
Legal, professional, and consultant fees	$17	$162	$149	$302
Technomedia contingent consideration and related expenses (a)	(957)	266	(876)	266
	$(940)	**$428**	**$(727)**	**$568**

(a) The amended Technomedia contingent consideration earn-out and related expenses incurred are in connection with the amendment of the securities purchase agreement for Technomedia on October 7, 2014. Contingent consideration is discussed further in note 10.

(ii) Restructuring and integration costs consist of severance costs, information technology integration, relocation expenses, real estate consolidation, and other integration and transition activities. These restructuring and integration activities are a result of integrating various businesses and acquisitions.

	Three months ended		Six months ended	
	June 30, 2016	**June 30, 2015**	**June 30, 2016**	**June 30, 2015**
Severance costs	$578	$421	$1,982	$560
Other integration costs	495	927	1,234	1,682
	$1,073	**$1,348**	**$3,216**	**$2,242**

(iii) On March 30, 2016, the Company completed the sale of assets related to its speaker business. The $3,708 loss recognized included goodwill and intangibles attributed to the assets sold totaling $210 and $1,659, respectively. The Company agreed to an inventory purchase commitment totaling €2,700 over a period of three years with a minimum purchase of €800 during each year, consistent with past purchase volumes and future expected inventory requirements.

In thousands of US dollars, unless otherwise stated

7. Finance costs, net

	Three months ended		Six months ended	
	June 30, 2016	**June 30, 2015**	**June 30, 2016**	**June 30, 2015**
Interest expense	$13,768	$13,723	$27,637	$27,027
Change in fair value of financial instruments (i)	(28)	(867)	1,214	(923)
Other finance costs, net (ii)	749	838	1,483	1,670
	$14,489	**$13,694**	**$30,334**	**$27,774**

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

	Three months ended		Six months ended	
	June 30, 2016	**June 30, 2015**	**June 30, 2016**	**June 30, 2015**
Interest rate floor under 2014 First Lien Credit Facilities (a)	$78	$(808)	$1,144	$(499)
Euro forward contracts (b)	-	(59)	-	(396)
USD forward contracts (c)	(106)	-	70	-
Prepayment option on 9.25% Senior Unsecured Notes (d)	-	-	-	(28)
	$(28)	**$(867)**	**$1,214**	**$(923)**

(a) The 2014 First Lien credit agreement includes an interest rate floor that is considered to be an embedded derivative.

(b) During the three months ended March 31, 2015, the Company entered into a Euro forward contract as further described in note 10.

(c) During the three months ended March 31, 2016, the Company entered into two USD forward contracts as further described in note 10.

(d) The Company has the right to prepay the 9.25% Senior Unsecured Notes. The prepayment option is considered an embedded derivative under IFRS.

All financial instruments are fair valued at each reporting date with the change in fair value recognized within finance costs, net.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Unaudited
For the three and six months ended June 30, 2016

In thousands of US dollars, unless otherwise stated

7. Finance costs, net (continued)

(ii) Other finance costs, net consist of:

	Three months ended		Six months ended	
	June 30, 2016	**June 30, 2015**	**June 30, 2016**	**June 30, 2015**
Accretion interest on convertible debentures	$-	$478	$-	$950
Accretion of 9.25% Senior Unsecured Notes	278	277	555	554
Accretion of debt related to MMG Notes	312	-	615	-
Accretion of debt related to 2014 interest rate floor	190	191	381	383
Amortization of debt premium arising from prepayment options	(103)	(99)	(206)	(198)
Other	72	(9)	138	(19)
	$749	**$838**	**$1,483**	**$1,670**

8. Income taxes

	Three months ended		Six months ended	
	June 30, 2016	**June 30, 2015**	**June 30, 2016**	**June 30, 2015**
Current tax expense (recovery)				
Current taxes on income for the period	$844	$(322)	$1,331	$342
Total current taxes	**844**	**(322)**	**1,331**	**342**
Deferred tax expense				
Origination and reversal of temporary differences	(527)	(1,274)	(1,656)	(1,792)
Total deferred tax recovery	**(527)**	**(1,274)**	**(1,656)**	**(1,792)**
Total income tax charge (recovery)	**$317**	**$(1,596)**	**$(325)**	**$(1,450)**

In thousands of US dollars, unless otherwise stated

9. Loans and borrowings

	June 30, 2016	December 31, 2015
Due in less than one year:		
2014 First Lien Credit Facilities	$2,350	$2,350
2014 First Lien Revolving Facility	6,000	6,000
	8,350	**8,350**
Due in more than one year:		
9.25% Senior Unsecured Notes	350,000	350,000
Unamortized discount – financing costs	(4,854)	(5,409)
Unamortized premium – prepayment option	1,712	1,910
	346,858	**346,501**
MMG Notes (i)	50,000	50,000
Unamortized discount – financing costs	(9,845)	(10,268)
Unamortized premium – prepayment option	108	113
	40,263	**39,845**
2014 First Lien Credit Facilities	227,364	228,538
Unamortized discount – 2014 interest rate floor	(2,193)	(2,574)
	225,171	**225,964**
	612,292	**612,310**
Total loans and borrowings	**$620,642**	**$620,660**

Loans and borrowing terms:	MMG Notes	2014 First Lien Credit Facilities	9.25% Senior Unsecured Notes
Closing date	August 6, 2015	May 1, 2014	October 19, 2012
Maturity date	August 6, 2023	May 1, 2019	October 15, 2020
Interest rate	10%	7%	9.25%
Effective interest rate	12.52%	7.74%	9.46%

As at June 30, 2016, the Company had available $7,510 under the 2014 Revolving Credit Facility and outstanding letters of credit of $1,490. The 2014 First Lien Credit Facilities are subject to the maintenance of financial covenants and the Company was in compliance with its covenants as at June 30, 2016.

(i) Private Placement of 10% Senior Unsecured Notes by Mood Media Group S.A. ("MMG")

In connection with the issuance of the MMG Notes, the Company is subject to certain covenants including, but not limited to, restrictions on mergers and sales of assets, restricted payments and restrictions on debt and lien incurrence. In addition, selected consolidation information for MMG and its subsidiaries is presented below to comply with certain disclosure requirements of the MMG Notes indenture. This information has been extracted from the MMG consolidated financial statements that have been prepared in accordance with IFRS and following accounting policies consistent with the Company's accounting policies. MMG's consolidated financial statements do not include adjustments related to the Company's purchase price allocation related to the Company's acquisition of MMG or its subsidiaries.

In thousands of US dollars, unless otherwise stated

9. Loans and borrowings (continued)

MMG's Consolidated Statement of Financial Position

	Six months ended June 30, 2016
ASSETS	
Net intercompany trade balances	$2,020
Current assets	62,292
Property and equipment, net	10,824
Goodwill and intangible assets	74,657
Other long-term assets	7,917
Total assets	**157,710**
LIABILITIES AND EQUITY	
Other current liabilities	53,532
Long-term debt	40,263
Intercompany long-term debt	145,178
Other long-term liabilities	3,094
Non-controlling interests	228
Equity attributable to owners of MMG (i)	(84,585)
Total liabilities and equity	**$157,710**

(i) Equity attributable to owners of MMG is prepared in accordance with IFRS and does not equate to the aggregate of the legal entities' stated share capital or equity within MMG.

MMG's Consolidated Statement of Loss

	Six months ended June 30, 2016
Revenue	**$86,176**
Expenses	
Cost of sales	41,230
Operating expenses	34,062
Depreciation and amortization	4,124
Other expenses	3,461
Foreign exchange gain on financing transactions	(707)
Finance costs, net	7,647
Loss on sale of operations	2,760
Income tax charge	1,071
Loss for the period	**(7,472)**
Segment profit (i)	**$10,884**

In thousands of US dollars, unless otherwise stated

9. Loans and borrowings (continued)

(i) Segment profit is a non-IFRS metric internally referred to by management 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. It is calculated by reducing revenue by cost of sales and operating expenses. The non-IFRS measure does not have a standardized meaning, and therefore is unlikely to be comparable to similarly titled measures reported by other companies. MMG's segment profit is substantially the same as the collective segment profit of In-store media International and BIS operating segments excluding inter-group revenue and expenses and certain subsidiaries, individually and in the aggregate considered to be immaterial, that are not MMG subsidiaries. Except for finance costs, net, foreign exchange gain or loss on financing transactions and inter-group management charges that are included in other expenses, there are no significant inter-group transactions that have a significant net impact on segment profit in MMG's consolidated statement of loss.

Reconciliation of segment profit to loss for the period:

	Six months ended June 30, 2016
Segment Profit	**$10,884**
Depreciation and amortization	4,124
Other expenses	3,461
Foreign exchange gain on financing transactions	(707)
Finance costs, net	7,647
Loss on sale of operations	2,760
Income tax charge	1,071
Loss for the period	**$(7,472)**

MMG's Consolidated Statement of Cash Flows

	Six months ended June 30, 2016
Net cash flows from operating activities	$1,885
Net cash flows used in investing activities	(2,328)
Net cash flows used in financing activities	(2,290)
Net decrease in cash	**(2,733)**
Net foreign exchange gain on cash balances	**171**
Cash at beginning of period	**9,427**
Cash at end of period	**$6,865**

In thousands of US dollars, unless otherwise stated

10. Other financial assets and financial liabilities

	June 30, 2016	December 31, 2015
Other financial assets		
Prepayment option – MMG Notes	$3	$3
Total other financial assets	**$3**	**$3**
Due in more than one year	$3	$3
Total other financial assets	**$3**	**$3**
Other financial liabilities		
Finance leases	$3,181	$3,413
Forward contracts	15	-
2014 interest rate floor	2,438	1,294
Technomedia contingent consideration (i)	3,449	5,224
Total other financial liabilities	**$9,083**	**$9,931**
Due in less than one year	$4,899	$6,848
Due in more than one year	4,184	3,083
Total other financial liabilities	**$9,083**	**$9,931**

(i) On October 7, 2014, the Company amended the securities purchase agreement for Technomedia. The amendment revised the existing contingent consideration earn-out by stipulating that for the calendar year 2014 and each of the following three years, a cash payment equal to a percentage of the Technomedia's earnings would be payable in the event that Technomedia achieves certain performance thresholds. The Company records this potential contingent consideration at its fair value at each reporting period by using the probability of expected outcomes. The change in fair value of the Technomedia contingent consideration earn-out is included within other expenses in the interim consolidated statements of loss (note 6).

Currency risk

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

The most significant currency exposure arises from the Euro currency. Certain of the Company's foreign subsidiaries hold intercompany loans denominated in US dollars rather than their functional currencies. For the three and six months ended June 30, 2016, the amount recognized in foreign exchange loss (gain) on financing transactions was a loss of $5,525 and gain of $(1,086), respectively (a $(4,196) gain and $14,807 loss for the three months and six months ended June 30, 2015, respectively). A 1% movement in the EUR/USD exchange rate applied to balances outstanding at June 30, 2016 would, all else being equal, result in a change to the foreign exchange gain or loss on intercompany financing transactions of approximately $1,400.

In thousands of US dollars, unless otherwise stated

10. Other financial assets and financial liabilities (continued)

During the three months ended March 31, 2016, a subsidiary of the Company with the functional currency of British Pounds entered into two USD forward contracts with a notional amount equal to the interest payments related to the MMG Notes. During the three months ended March 31, 2015, the Company entered into a series of Euro and AUD average rate forward contracts, as well as into a Euro forward contract. The 2016 and 2015 contracts are not designated as hedges for accounting purposes; they are measured at fair value at each reporting date by reference to prices provided by counterparties.

2016 currency contracts

The following is a table of the USD forward contracts of the Company. The changes in fair value and settled loss are included within finance costs, net. For the three and six months ended June 30, 2016, the amount reflected in finance costs was a credit of $(106) and charge of $70, respectively.

Forward date	**April 25, 2016**	**October 25, 2016**
Reference currency	USD	USD
Notional	$2,500	$2,500
Forward rate	1.098	1.1033

2015 currency contracts

The following is a table of the Euro and AUD average rate forward contracts of the Company. The changes in fair value and settled gains were included within operating costs. For the three and six months ended June 30, 2015, the amount reflected in operating costs was a charge of $504 and credit of $(781), respectively.

Forward date	**March 31, 2015**		**June 30, 2015**		**September 30, 2015**		**December 31, 2015**	
Reference currency	EUR	AUD	EUR	AUD	EUR	AUD	EUR	AUD
Notional	€3,700	$700	€4,000	$700	€3,800	$700	€5,200	$700
Forward rate	1.1593	0.8002	1.1589	0.7952	1.1598	0.7892	1.1612	0.7822

The following Euro cash remittance forward contract is reflected as a change in fair value included within finance costs, net. The gain reflected for the three and six months ended June 30, 2015 was $(59) and $(396), respectively.

Forward date	**April 14, 2015**
Reference currency	EUR
Notional	€4,000
Forward rate	1.1585

Fair value

The book values of the Company's financial assets and financial liabilities approximate the fair values of such items as at June 30, 2016, with the following exceptions summarized below:

	June 30, 2016	**December 31, 2015**
9.25% Senior Unsecured Notes		
Book value	$346,858	$346,501
Fair value	$243,250	$227,500

In thousands of US dollars, unless otherwise stated

10. Other financial assets and financial liabilities (continued)

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 June 30, 2016	Total	Level 1 Quoted prices in active markets for identical assets	Level 2 Significant other observable inputs	Level 3 Significant unobservable inputs
2014 interest rate floor	$(2,438)	$-	$(2,438)	$-
Prepayment option – MMG Notes	3	-	3	-
USD forward contracts	(15)	-	(15)	-

Fair value as at December 31, 2015	Total	Level 1 Quoted prices in active markets for identical assets	Level 2 Significant other observable inputs	Level 3 Significant unobservable inputs
2014 interest rate floor	$(1,294)	$-	$(1,294)	$-
Prepayment option – MMG Notes	3	-	3	-

There have been no transfers between any levels of the fair value hierarchy during the three and six months ended June 30, 2016 or during the comparative period. There were also no changes in the purpose of any financial asset or liability that subsequently resulted in a different classification of that asset or liability.

11. Share-based compensation

Equity-settled share options

The Company has a share option 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 2014 option plan vest at the rate of 33.3% on each of the three 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 five years after the grant date. With the adoption of the Company's 2014 share option plan, on May 13, 2014, no further grants of options were made pursuant to the former option plans. Options previously granted under former plans will continue to vest. The Company uses the Black-Scholes option pricing model to determine the fair value of options issued.

The expense recognized for the three and six months ended June 30, 2016 relating to equity-settled share and option transactions for employees, was a credit of $(8) and $(84), respectively (three months ended June 30, 2015 was a charge of $235 and six months ended June 30, 2015 was a charge of $451).

In thousands of US dollars, unless otherwise stated

11. Share-based compensation (continued)

Changes in the number of options, with their weighted average exercise prices, are summarized below:

	June 30, 2016		June 30, 2015	
	Number	**price**	**Number**	**price**
Outstanding at beginning of year	**14,143,300**	**$1.22**	**15,333,300**	**$1.32**
Granted during the period	-	-	60,000	0.62
Forfeited/cancelled during the period	(4,338,333)	2.15	(245,000)	1.29
Outstanding at end of period	**9,804,967**	**0.80**	**15,148,300**	**1.32**
Exercisable at end of period	**6,534,139**	**$0.90**	**8,573,300**	**$1.88**

The following information relates to share options that were outstanding as at June 30, 2016:

Range of exercise prices	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price
$0.00-$0.30	100,000	2.43	$0.21
$0.31-$1.50	9,079,967	4.54	0.72
$1.51-$2.50	425,000	4.26	1.76
$2.51-$3.50	200,000	5.40	2.96
	9,804,967	**4.52**	**$0.80**

Deferred Share Units

Effective May 7, 2015, the Company adopted a Deferred Share Unit ("DSU") plan for directors and employees of the Company and its subsidiaries. The issuance of DSUs is determined by the Board of Directors of the Company. The aggregate number of DSUs that may be issued under the DSU plan together with the Option plan is limited to 10% of the total number of common shares issued and outstanding of the Company. DSUs issued specifically to non-employee directors have additional limitations. The number of DSUs that a non-employee director is entitled to receive in a fiscal year is based upon the percentage of their annual retainer that the participant has elected to receive in DSUs multiplied by the portion of their annual retainer divided by the share price.

A DSU is equal in value to one common share of the Company. The shares are issued on the basis of the volume weighted average trading price of the common shares on the Toronto Stock Exchange for the five consecutive trading days immediately preceding the date of issue. Additional DSUs are credited to reflect dividends paid on common shares. The Company uses the Black-Scholes option pricing model with market related inputs to determine the fair value of DSUs granted. DSUs granted to employees of the Company vest and are payable at the rate of 33.3% on each of the three subsequent anniversaries of the grant date and are subject to the participant remaining employed with the Company. DSUs granted to non-employee directors vest immediately and are payable upon the participant ceasing to hold any position as a director or employee.

In thousands of US dollars, unless otherwise stated

11. Share-based compensation (continued)

Non-U.S. participants are entitled to redeem their DSUs for (a) common shares, net of withholdings, (b) as a cash payment equal to the fair market value of the equivalent number of common shares, net of withholdings, or (c) a percentage of each. For DSUs granted to Non-U.S. participants that are non-employee directors, a liability and an operating expense are recorded in the year DSUs are granted at fair market value and changes in the fair market value of outstanding DSUs at each reporting date are recorded as an operating expense in the period that they occur. DSUs granted to Non-U.S. participants that are employees of the Company are expensed using the straight-line method for each individual tranche over the vesting period to operating expense. The offsetting entry to operating expense is an increase to liabilities in trade and other payables within the interim consolidated statement of financial position. The liability is measured initially, and subsequently fair valued at each reporting date through operating expenses until the liability is redeemed.

U.S. participants are only entitled to receive their DSUs in the form of a cash payment equal to the fair market value of the equivalent number of common shares, net of withholdings, however, the Company may elect to make all or any portion of such payment in the form of common shares. DSUs granted at fair market value to U.S. participants that are non-employee directors are expensed immediately to share-based compensation expense with the offset to contributed surplus. DSUs granted at fair market value to US participants that are employees of the Company are expensed using the straight-line method for each individual tranche over the vesting period to share-based compensation expense. The offsetting entry to share-based compensation expense is an increase to contributed surplus. Any changes to fair market value at the time of redemption are also recorded as share-based compensation.

The operating expense recognized for the three and six months ended June 30, 2016 relating to DSU transactions, was $7 and $2, respectively (three and six months ended June 30, 2015 was nil). The share-based compensation expense recognized for the three and six months ended June 30, 2016 relating to DSU transactions, was $100 and $204, respectively (three and six months ended June 30, 2015 was nil).

A summary of DSU transactions during the period are as follows:

	June 30, 2016 Number	June 30, 2015 Number
Outstanding at beginning of the year	**3,542,284**	**-**
Redeemed during the period	(85,799)	-
Cancelled during the period	(113,477)	-
Outstanding at end of period	**3,343,008**	**-**
Vested at end of period	**1,235,424**	**-**

As at June 30, 2016, the 3,343,008 units outstanding consisted of 324,698 liability awards valued at $22 and 3,018,310 equity awards (June 30, 2015 – no units were outstanding).

In thousands of US dollars, unless otherwise stated

11. Share-based compensation (continued)

Warrants

The following warrants were outstanding as at June 30, 2016:

	Number	Exercise price	Expiry date
MMG Warrants	21,700,000	CAD $0.80	August 2023

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.

12. 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 the claims to be without merit and will consult with its legal counsel to vigorously defend its position. The aggregate provision for various claims at June 30, 2016 was immaterial.

On April 2, 2015, SoundExchange filed suit against Muzak LLC in the U.S. District Court for the District of Columbia alleging that Muzak underpaid royalties for its consumer residential music channels for satellite and cable television subscribers. On March 8, 2016, the court granted Muzak's motion to dismiss and dismissed the case; however, SoundExchange filed a notice appealing the court's ruling on April 5, 2016. Mood Media believes that SoundExchange's position is without merit, and Mood Media will vigorously defend itself in this matter.

13. Shareholders' equity

Share capital

Share capital represents the number of common shares outstanding.

As at June 30, 2016, 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 December 31, 2015 and June 30, 2016	**183,694,082**	**$328,807**

Deficit

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

In thousands of US dollars, unless otherwise stated

14. Goodwill

Balance as at January 1, 2015	**$245,543**
Impairment	(25,000)
Net foreign exchange differences	(6,564)
Balance as at December 31, 2015	**$213,979**
Sale of assets	(210)
Net foreign exchange differences	468
Balance as at June 30, 2016	**$214,237**

In 2015, the Company recognized an impairment charge of $25,000 on the goodwill allocated to Mood International.

In 2016, the decrease in goodwill relates to the Company’s sale of assets related to its speaker business. In connection with the sale, goodwill was reduced by $210, the amount attributed to the assets sold.

15. Segment information

In-store media - North America

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

In-store media - International

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

BIS

BIS is the Company’s large-scale audio-visual design and integration subsidiary that focuses on corporate and commercial applications. BIS’s operations are based in Europe.

Other

The Company’s other reportable segment includes its corporate activities and Technomedia, which do not fit in the three reportable segments described above. Technomedia provides audio-visual technology and design for large-scale commercial applications as well as advertising content creation and production solutions. Technomedia is based in the United States.

In thousands of US dollars, unless otherwise stated

15. Segment information (continued)

Three months ended June 30, 2016

	In-store media North America	In-store media International	BIS	Other	Consolidated Group
Revenue	$64,753	$30,534	$13,734	$10,649	$119,670
Expenses					
Cost of sales	28,302	13,530	8,109	7,817	57,758
Operating expenses	16,432	12,255	4,729	3,602	37,018
Segment profit (loss) (i)	**$20,019**	**$4,749**	**$896**	**$(770)**	**$24,894**

Three months ended June 30, 2015

	In-store media North America	In-store media International	BIS	Other	Consolidated Group
Revenue	$63,727	$27,147	$13,454	$13,340	$117,668
Expenses					
Cost of sales	27,748	10,875	8,189	9,705	56,517
Operating expenses	16,167	12,155	4,396	3,932	36,650
Segment profit (loss) (i)	**$19,812**	**$4,117**	**$869**	**$(297)**	**$24,501**

Six months ended June 30, 2016

	In-store media North America	In-store media International	BIS	Other	Consolidated Group
Revenue	$127,365	$58,443	$27,033	$18,164	$231,005
Expenses					
Cost of sales	55,751	24,862	15,849	13,259	109,721
Operating expenses	33,121	24,628	9,470	7,351	74,570
Segment profit (i)	**$38,493**	**$8,953**	**$1,714**	**$(2,446)**	**$46,714**

Six months ended June 30, 2015

	In-store media North America	In-store media International	BIS	Other	Consolidated Group
Revenue	$128,923	$55,078	$26,512	$21,410	$231,923
Expenses					
Cost of sales	56,770	22,387	15,998	15,606	110,761
Operating expenses	32,743	24,987	8,938	5,873	72,541
Segment profit (loss) (i)	**$39,410**	**$7,704**	**$1,576**	**$(69)**	**$48,621**

In thousands of US dollars, unless otherwise stated

15. Segment information (continued)

Reconciliation of segment profit to Consolidated Group loss for the period before income taxes

	Three months ended		Six months ended	
	June 30, 2016	**June 30, 2015**	**June 30, 2016**	**June 30, 2015**
Segment profit (i)	**$24,894**	**$24,501**	**$46,714**	**$48,621**
Depreciation and amortization	16,217	16,870	32,784	33,619
Share-based compensation	92	235	120	451
Other expenses	133	1,691	6,197	2,588
Foreign exchange loss (gain) on financing transactions	5,525	(4,196)	(1,086)	14,807
Finance costs, net	14,489	13,694	30,334	27,774
Loss for the period before income taxes	**$(11,562)**	**$(3,793)**	**$(21,635)**	**$(30,618)**

(i) Segment profit is a non-IFRS metric internally referred to by management 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. It is calculated by reducing revenue by cost of sales and operating expenses. The non-IFRS measure does not have a standardized meaning, and therefore unlikely to be comparable to similarly titled measures reported by other companies.

Geographic areas

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

	Three months ended		Six months ended	
	June 30, 2016	**June 30, 2015**	**June 30, 2016**	**June 30, 2015**
US	$73,341	$74,497	$142,870	$146,088
Canada	539	101	865	182
Netherlands	12,419	12,413	24,364	23,607
Other international	33,371	30,657	62,906	62,046
Total revenue	**$119,670**	**$117,668**	**$231,005**	**$231,923**

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, 2016	**December 31, 2015**
US	$370,953	$376,916
International	103,400	118,519
Total non-current assets	**$474,353**	**$495,435**