Interim Consolidated Financial Statements

Mood Media Corporation

Unaudited

For the three and nine months ended September 30, 2013

Mood Media Corporation
INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at September 30, 2013

In thousands of US dollars unless otherwise stated

	Notes	September 30, 2013	December 31, 2012
ASSETS			
Current assets			
Cash		$27,673	$46,384
Restricted cash		715	2,675
Trade and other receivables		95,103	96,511
Income tax receivable		514	-
Inventory		37,663	30,938
Prepaid expenses		10,478	9,329
Deferred costs		8,262	7,135
		180,408	**192,972**
Assets classified as held for sale	20	-	15,767
Total current assets		**180,408**	**208,739**
Non-current assets			
Deferred costs		8,529	8,591
Property and equipment		54,708	57,656
Other financial assets	14	174	3,210
Investment in associates		674	621
Intangible assets	11	316,769	341,232
Goodwill	12	260,203	329,732
Total assets		**821,465**	**949,781**
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables		116,160	103,016
Income tax payable		3,604	1,217
Deferred revenue		17,679	12,814
Other financial liabilities	14	6,696	8,788
Current portion of long-term debt	13	2,132	2,132
		146,271	**127,967**
Liabilities directly associated with assets classified as held for sale	20	-	9,645
Total current liabilities		**146,271**	**137,612**
Non-current liabilities			
Deferred revenue		6,847	7,249
Deferred tax liabilities		38,179	34,431
Other financial liabilities	14	7,605	29,457
Long-term debt	13	587,835	586,183
Total liabilities		**786,737**	**794,932**
Equity			
Share capital	15	323,318	323,318
Contributed surplus		32,794	30,934
Foreign exchange translation reserve	15	3,010	2,163
Deficit	15	(324,636)	(204,669)
Reserve of discontinued operations		-	1,510
Equity attributable to owners of the parent		**34,486**	**153,256**
Non-controlling interests		242	1,593
Total equity		**34,728**	**154,849**
Total liabilities and equity		**$821,465**	**$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 nine months ended September 30, 2013

In thousands of US dollars unless otherwise stated

		Three months ended		Nine months ended	
	Notes	**September 30, 2013**	**September 30, 2012**	**September 30, 2013**	**September 30, 2012**
Continuing operations					
Revenue	5,19	**$125,662**	**$119,951**	**$381,017**	**$311,877**
Expenses					
Cost of sales (excludes depreciation and amortization)		57,471	50,301	170,634	122,714
Operating expenses		42,272	37,599	130,844	105,480
Depreciation and amortization		16,925	14,043	51,145	40,017
Impairment to goodwill	12,21	75,000	-	75,000	-
Share-based compensation	16	1,172	1,063	1,860	2,892
Other expenses	6	11,460	8,047	25,270	24,368
Foreign exchange (gain) loss on financing transactions		(6,634)	(2,601)	(4,777)	2,767
Finance costs, net	7	13,866	16,012	24,360	41,516
Loss for the period before taxes		**(85,870)**	**(4,513)**	**(93,319)**	**(27,877)**
Income tax charge (credit)	8	(16)	1,295	6,875	(16,657)
Loss for the period from continuing operations		**(85,854)**	**(5,808)**	**(100,194)**	**(11,220)**
Discontinued operations					
Loss after tax from discontinued operations	20	(1,751)	(4,848)	(16,487)	(40,864)
Loss for the period		**(87,605)**	**(10,656)**	**(116,681)**	**(52,084)**
Attributable to					
Owners of the parent		(87,695)	(10,815)	(117,009)	(52,211)
Non-controlling interests		90	159	328	127
		$(87,605)	**$(10,656)**	**$(116,681)**	**$(52,084)**
Net loss per share					
Basic and diluted	9	$(0.51)	$(0.06)	$(0.68)	$(0.33)
Basic and diluted from continuing operations	9	(0.50)	(0.03)	(0.58)	(0.07)
Basic and diluted from discontinued operations	9	(0.01)	(0.03)	(0.10)	(0.26)

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 nine months ended September 30, 2013

In thousands of US dollars unless otherwise stated

	Three months ended		Nine months ended	
	September 30, 2013	**September 30, 2012**	**September 30, 2013**	**September 30, 2012**
Loss for the period	**$(87,605)**	**$ (10,656)**	**$(116,681)**	**$(52,084)**
Items that may be reclassified subsequently to the loss for the period				
Exchange differences on translation of foreign operations	3,470	5,089	855	821
Amounts recognized through the interim consolidated statements of income (loss)	-	-	(1,510)	-
Other comprehensive loss for the period, net of tax	**3,470**	**5,089**	**(655)**	**821**
Total comprehensive loss for the period, net of tax	**(84,135)**	**(5,567)**	**(117,336)**	**(51,263)**
Attributable to:				
Owners of the parent	(84,235)	(5,732)	(117,672)	(51,424)
Non-controlling interests	100	165	336	161
	$(84,135)	**$(5,567)**	**$(117,336)**	**$(51,263)**

The accompanying notes form part of the interim consolidated financial statements

Mood Media Corporation
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three and nine months ended September 30, 2013

In thousands of US dollars unless otherwise stated

	Notes	Three months ended		Nine months ended	
		September 30, 2013	**September 30, 2012**	**September 30, 2013**	**September 30, 2012**
Operating activities					
Loss for the period before taxes - continuing operations		$(85,870)	$(4,513)	$(93,319)	$(27,877)
Loss for the period before taxes - discontinued operations	20	(1,751)	(4,848)	(16,487)	(40,248)
		(87,621)	**(9,361)**	**(109,806)**	**(68,125)**
Non-cash adjustment to reconcile income (loss) for the period before taxes to net cash flows					
Depreciation and impairment of property and equipment		6,718	11,132	21,084	24,827
Amortization and impairment of intangible assets and goodwill	11,12,21	85,234	7,218	105,882	43,647
Share-based compensation	16	1,172	1,063	1,860	2,892
Loss on disposal of discontinued operations	20	1,751	-	9,145	-
Finance costs, net and foreign exchange from financing		7,237	11,422	22,128	42,644
Working capital adjustments					
(Increase) decrease in trade and other receivables		(4,005)	6,496	7,716	(2,101)
(Increase) decrease in inventories		(3,417)	(5,665)	(6,063)	(10,466)
Increase (decrease) in trade and other payables		7,054	(15,379)	(10,782)	(19,876)
Increase (decrease) in deferred revenue		(157)	(3,046)	4,210	(1,633)
		13,966	3,880	45,374	11,809
Income tax paid		(825)	(899)	(2,201)	(4,895)
Interest received		17	81	69	112
Net cash flows from operating activities		**13,158**	**3,062**	**43,242**	**7,026**
Investing activities					
Purchase of property and equipment and intangible assets		(7,600)	(7,665)	(23,440)	(25,194)
Acquisition of businesses, net of cash acquired	10,12	-	-	(2,347)	(73,986)
Net cash flows used in investing activities		**(7,600)**	**(7,665)**	**(25,787)**	**(99,180)**
Financing activities					
Repayment of borrowings	13	(533)	(888)	(1,599)	(2,663)
Transaction costs on issue of common shares		-	(321)	-	(5,427)
Proceeds from debt facilities		-	10,000	-	10,000
Proceeds from private placement		-	-	-	143,601
Proceeds from exercise of share options		-	-	-	256
Finance lease payments		(354)	(1,078)	(1,208)	(1,937)
Interest paid		(3,909)	(9,003)	(29,822)	(29,436)
Proceeds from exercise of warrants		-	-	-	6,500
Cost of settlement of interest rate swap	7	-	-	(1,578)	-
Dividends paid to non-controlling interest		(645)	-	(645)	(282)
Proceeds from disposal of discontinued operations		-	-	2,000	-
Proceeds from disposal of property and equipment		-	951	97	1,163
Repayment of loans to former DMX debt holders		-	-	-	(32,267)
Acquisition of non-controlling interest	10	(4,000)	-	(4,000)	-
Net cash flows (used in) from financing activities		**(9,441)**	**(339)**	**(36,755)**	**89,508**
Net decrease in cash		(3,883)	(4,942)	(19,300)	(2,646)
Net foreign exchange gain		747	323	589	20
Cash at beginning of period		30,809	17,699	46,384	15,706
Cash at end of period		**$27,673**	**$13,080**	**$27,673**	**$13,080**

The accompanying notes form part of the interim consolidated financial statements

Mood Media Corporation
INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the three and nine months ended September 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		-	-	-	(117,009)	-	(117,009)	328	(116,681)
Translation of foreign operations		-	-	847	-	-	847	8	855
Discontinued operations		-	-	-	-	(1,510)	(1,510)	-	(1,510)
Total comprehensive income (loss)		**-**	**-**	**847**	**(117,009)**	**(1,510)**	**(117,672)**	**336**	**(117,336)**
Share-based compensation	16	-	1,860	-	-	-	1,860	-	1,860
Dividends paid to non-controlling interests		-	-	-	-	-	-	(645)	(645)
Acquisition of non-controlling interest	10	-	-	-	(2,958)	-	(2,958)	(1,042)	(4,000)
As at September 30, 2013		**$323,318**	**$32,794**	**$3,010**	**$(324,636)**	**$-**	**$34,486**	**$242**	**$34,728**

The accompanying notes form part of the interim consolidated financial statements

Mood Media Corporation
INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the three and nine months ended September 30, 2012

In thousands of US dollars unless otherwise stated

	Notes	Share Capital	Contributed Surplus	Foreign Exchange Translation Reserve	Deficit	Discontinued Operations	Total	Non-Controlling Interests	Total Equity
As at January 1, 2012		**$171,912**	**$27,204**	**$806**	**$(125,167)**	**-**	**$74,755**	**$154**	**$74,909**
Income (loss) for the period		-	-	-	(52,211)	-	(52,211)	127	(52,084)
Translation of foreign currency operations		-	-	787	-	-	787	34	821
Discontinued operations		-	-	1,522	-	(1,522)	-	-	-
Total comprehensive income (loss)		**-**	**-**	**(2,309)**	**(52,211)**	**(1,522)**	**(51,424)**	**161**	**(51,263)**
Share-based compensation	16	-	2,892	-	-	-	2,892	-	2,892
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		(5,427)	-	-	-	-	(5,427)	-	(5,427)
Conversion of debentures		293	(39)	-	-	-	254	-	254
Exercise of warrants		12,572	-	-	-	-	12,572	-	12,572
Exercise of share options		256	-	-	-	-	256	-	256
As at September 30, 2012		**$323,207**	**$30,057**	**$3,115**	**$(177,378)**	**$(1,522)**	**$177,479**	**$3,062**	**$180,541**

The accompanying notes form part of the interim 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 November 13, 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). Management updated the critical assumption used in performing its impairment test. See note 21 for the critical assumptions used.

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 require management to exercise significant judgment to determine which entities are controlled and, therefore are required to be consolidated by a parent, compared with the requirements of IAS 27. 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, 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.

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		Nine months ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Sale of goods	$34,742	$35,088	$109,623	$69,192
Rendering of services	89,935	83,729	268,391	240,159
Royalties	985	1,134	3,003	2,526
	$125,662	**$119,951**	**$381,017**	**$311,877**

6. Other expenses

	Three months ended		Nine months ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Transaction costs (i)	$2,802	$3,329	$10,080	$14,450
Restructuring and integration costs (ii)	8,658	4,718	15,190	9,918
	$11,460	**$8,047**	**$25,270**	**$24,368**

(i) Transaction costs incurred during the three and nine months ended September 30, 2013 primarily relate to the Company's strategic and operational review. Transaction costs incurred during the three and nine months ended September, 30 2012 were associated with acquisitions (note 10).

	Three months ended		Nine months ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Legal and professional fees	$1,485	$1,436	$4,047	$4,848
Consultant fees	473	903	2,670	2,913
Employee bonuses	-	495	-	3,195
Other transaction costs (a)	844	495	3,363	3,494
	$2,802	**$3,329**	**$10,080**	**$14,450**

(a) Other transaction costs include recognition of Technomedia earn-out, which has been accounted for as compensation. During the three months ended September 30, 2013 the expense in respect of the Technomedia earn-out was $473 and during the nine months ended September 30, 2013 was $1,421.

(ii) Restructuring and integration costs consist of severance costs of $3,775 for the three months ended September 30, 2013 and $8,202 for the nine months ended September 30, 2013 ($4,018 for the nine months ended September 30, 2012) and integration costs of $4,883 for the three months and $6,988 for the nine months ended September 30, 2013 ($5,900 for the nine months ended September 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. Other integration costs also includes $3,500 for a settlement included in affiliate arrangements that were revised to resolve matters arising from integrating various acquired businesses.

	Three months ended		Nine months ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Severance costs	$3,775	$2,536	$8,202	$4,018
Other integration costs	4,883	2,182	6,988	5,900
	$8,658	**$4,718**	**$15,190**	**$9,918**

In thousands of US dollars unless otherwise stated

7. Finance costs, net

	Three months ended		Nine months ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Interest expense	$13,421	$10,253	$39,448	$30,649
Change in fair value of financial instruments (i)	539	3,691	(677)	4,917
Change in fair value of deferred and contingent consideration (ii)	(1,081)	709	(17,591)	1,562
Other finance costs, net (iii)	987	1,359	3,180	4,388
	$13,866	**$16,012**	**$24,360**	**$41,516**

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

	Three months ended		Nine months ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Cross-currency interest rate swap (a)	$-	$797	$(699)	$(1,119)
Interest rate floor (b)	25	2,868	(3,014)	3,940
Interest rate cap (c)	3	26	9	237
Prepayment option (d)	511	-	3,027	-
Compensation warrants	-	-	-	1,859
	$539	**$3,691**	**$(677)**	**$4,917**

(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 that converted Euros into US dollars at a foreign exchange rate of 1.2350 and converted floating interest to a fixed rate of 8.312%. The change in the fair value from January 1, 2013 to maturity on June 4, 2013 was a gain of $699, 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 September 30, 2013 was a loss of $25 and the nine months ended September 30, 2013 was a gain of $3,014 (three months ended September 30, 2012 was a loss of $2,868 and the nine months ended September 30, 2012 was a loss of $3,940) (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 September 30, 2013 was a loss of $3 and during the nine months ended September 30, 2013 was a loss of $9 (three months ended September 30, 2012 was a loss of $26 and the nine months ended September 30, 2012 was a loss of $237) (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 (note 14). On initial recognition, the carrying value of the Notes was increased by the same amount, which is amortized over the term of the Notes.

The prepayment option is fair valued at each reporting date and any change in the fair value is recognized within finance costs, net in the interim consolidated statements of income (loss). The change in fair value of the prepayment option during the three months ended September 30, 2013 was a loss of $511 and during the nine months ended September 30, 2013 was a loss of $3,027 (three months ended September 30, 2012 was $nil and the nine months ended September 30, 2012 was $nil) (note 14).

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

	Three months ended		Nine months ended	
	September 30, 2013	**September 30, 2012**	**September 30, 2013**	**September 30, 2012**
ICI deferred consideration	$185	$-	$537	$-
Muzak contingent consideration	(1,266)	709	(18,128)	1,562
	$(1,081)	**$709**	**$(17,591)**	**$1,562**

In thousands of US dollars unless otherwise stated

7. Finance costs, net (continued)

(iii) Other finance costs, net consist of:

	Three months ended		**Nine months ended**	
	September 30, 2013	**September 30, 2012**	**September 30, 2013**	**September 30, 2012**
Accretion interest on convertible debentures	$396	$416	$1,177	$1,235
Accretion of the credit facilities	298	588	898	1,763
Accretion of the unsecured notes	275	-	825	-
Accretion of debt related to the interest rate floor	223	469	668	1,408
Amortization of the debt premium arising from the prepayment option	(99)	-	(317)	-
Other (a)	(106)	(114)	(71)	(18)
	$987	**$1,359**	**$3,180**	**$4,388**

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

In thousands of US dollars unless otherwise stated

8. Income tax

	Three months ended		Nine months ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Current tax expense				
Current tax on loss for the period	$1,191	$1,690	$3,642	$2,270
Total current tax charge	**1,191**	**1,690**	**3,642**	**2,270**
Deferred tax expense				
Origination and reversal of temporary differences	(1,207)	(395)	3,233	(2,727)
Recognition of previously unrecognized deferred tax assets	-	-	-	(16,200)
Total deferred tax charge (credit)	**(1,207)**	**(395)**	**3,233**	**(18,927)**
Total income tax charge (credit)	**$(16)**	**$1,295**	**$6,875**	**$(16,657)**

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		Nine months ended	
	September 30, 2013	**September 30, 2012**	**September 30, 2013**	**September 30, 2012**
Weighted and diluted average common shares (000s)	171,640	170,920	171,640	156,282
Total operations				
Basic EPS	$(0.51)	$(0.06)	$(0.68)	$(0.33)
Diluted EPS	(0.51)	(0.06)	(0.68)	(0.33)
Continuing operations				
Basic EPS	$(0.50)	$(0.03)	$(0.58)	$(0.07)
Diluted EPS	(0.50)	(0.03)	(0.58)	(0.07)
Discontinued operations				
Basic EPS	$(0.01)	$(0.03)	$(0.10)	$(0.26)
Diluted EPS	(0.01)	(0.03)	(0.10)	(0.26)

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

In thousands of US dollars unless otherwise stated

10. Business combinations

Acquisitions of DMX, BIS, ICI and Technomedia

On August 14, 2013 the Company acquired the remaining 30.84% non-controlling interest of one of DMX's subsidiaries, AEI Collingham Holdings Company Ltd, for $4,000. The difference of $2,958 between the consideration and the carrying value of the additional interest acquired has been recognized as part of retained deficit within equity.

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 in 2013.

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 in 2013.

The valuation of intangible assets and certain other assets and liabilities for Technomedia has not yet been completed; therefore, the allocation of the Technomedia purchase price is based on management's best estimates and is 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 that 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, BIS and ICI and the preliminary fair value of 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	-	-	4,399	-	4,399
Exchange differences	993	503	1,153	256	2,905
As at September 30, 2013	**256,399**	**23,529**	**88,514**	**40,508**	**408,950**
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	15,392	1,666	10,082	3,739	30,879
Exchange differences	337	155	396	-	888
As at September 30, 2013	**46,873**	**7,509**	**32,465**	**5,334**	**92,181**
Net book value					
As at September 30, 2013	**$209,526**	**$16,020**	**$56,049**	**$35,174**	**$316,769**
As at December 31, 2012	224,262	17,338	60,975	38,657	341,232

Total amortization recognized for the three months ended September 30, 2013 was $10,231 and for the nine months ended September 30, 2013 was $30,879 (three months ended September 30, 2012 was $7,221 and nine months ended September 30, 2012 was $21,931), which forms part of depreciation and amortization in the interim consolidated statements of income (loss).

Internally generated intangible assets as at September 30, 2013 with a net book value of $5,920 (December 31, 2012 was $6,712) have been included within technology platforms and software.

In thousands of US dollars unless otherwise stated

12. Goodwill

	September 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	3,124	3,788
Cost, end of period	**340,621**	**335,150**
Accumulated impairment losses, beginning of period	**(5,418)**	**(5,418)**
Impairment during the period	(75,000)	-
Accumulated impairment losses, end of period	**(80,418)**	**(5,418)**
Net book value, end of period	**$260,203**	**$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.

Management has identified indicators for impairment as at September 30, 2013. As a result, the Company has recognized an impairment charge of $75,000 during the three months ended September 30, 2013, which has been presented separately in the interim consolidated statements of income (loss) (note 21).

13. Loans and borrowings

	Prescribed interest rate	September 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)		(7,894)	(8,719)
Unamortized premium – prepayment option iii)		2,803	3,120
		344,909	**344,401**
Credit facility iv)	7.0%	206,298	207,897
Unamortized discount – financing costs v)		(5,419)	(6,317)
Unamortized discount – interest rate floor vi)		(4,079)	(4,747)
		196,800	**196,833**
10% Unsecured convertible debentures vii)	10.0%	46,126	44,949
		587,835	**586,183**
Total loans and borrowings		**$589,967**	**$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 US 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: (a) permit the incurrence of the debt represented by the Notes; (b) revise the financial maintenance covenants contained therein, including: removing the maximum total leverage ratio financial maintenance covenant, adding a maximum senior secured leverage ratio financial maintenance covenant, reducing the minimum interest coverage ratio financial maintenance covenant and providing for customary equity cure rights related to financial maintenance compliance; and (c) increase the size of the Company’s first lien revolving credit facility from $20,000 to $25,000.

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 September 30, 2013, accretion expense was $275, and during the nine months ended September 30, 2013, accretion expense was $825 (three months ended September 30, 2012 was $nil and nine months ended September 30, 2012, was $nil), which is included within 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 prepayment option has been treated as an embedded derivative financial instrument in the interim consolidated statements of financial position and at inception was valued at $3,200 (October 19, 2012). The prepayment option is measured at fair value at each reporting date and included in other financial assets (note 14), with any change recorded within finance costs, net in the interim consolidated statements of income (loss).

The amortization of the debt premium arising from the prepayment option for the three months ended September 30, 2013 was a credit of $99 and for the nine months ended September 30, 2013 was a credit of $317 (three months ended September 30, 2012 was $nil and nine months ended September 30, 2012 was $nil) (note 7).

Credit facility

iv) On May 6, 2011 the Company entered into credit facilities with Credit Suisse Securities AG ("Credit Suisse"), as agent, consisting of a $20,000 five-year 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 September 30, 2013, the Company had $21,300 available under the revolving credit facility and outstanding letters of credit of $3,700. 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 September 30, 2013.

13. Loans and borrowings (continued)

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 September 30, 2013 a repayment of $533 was made on the first lien term loan and during the nine months ended September 30, 2013, repayments were $1,599.

On August 2, 2011, in accordance with the Company's credit facilities agreement, the Company purchased an interest rate cap for $619, which matures on August 4, 2014. The interest rate cap is measured at fair value at each reporting date and included in other financial assets (note 14), with any change recorded within finance costs, net in the interim consolidated statements of income (loss).

The movement in fair value for the three months ended September 30, 2013 was a loss of $3 and for the nine months ended September 30, 2013, a loss of $9 (three months ended September 30, 2012 was a loss of $26 and nine months ended September 30, 2012 was a loss of $237) (note 7).

The fair value of the interest rate cap was $1 as at September 30, 2013 (December 31, 2012 - $10). This has been included within other financial assets in the interim consolidated statements of financial position (note 14).

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 September 30, 2013 was $298 and for the nine months ended September 30, 2013 was $898 (three months ended September 30, 2012 was $588 and for the nine months ended September 30, 2012 was $1,763) (note 7).

Unamortized finance costs as at September 30, 2013 were $5,419 (December 31, 2012 - $6,317).

vi) The credit facilities contain an interest rate floor which the Company has treated as an embedded derivative. This non-cash liability is recorded within other financial liabilities in the interim consolidated statements of financial position. On initial recognition, the interest rate floor was ascribed a fair value of $13,234. 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 September 30, 2013 was $223 and for the nine months ended September 30, 2013 was $668 (three months ended September 30, 2012 was $469 and for the nine months ended September 30, 2012 was $1,408) (note 7).

Unrecognized debt accretion as at September 30, 2013 was $4,079 (December 31, 2012 - $4,747).

In thousands of US dollars unless otherwise stated

13. Loans and borrowings (continued)

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 the 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 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 New Debentures have characteristics of both debt and equity. Accordingly, on issuance, $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 New 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 September 30, 2013, the carrying value of the debt component was $28,929 (December 31, 2012 - $28,024), which is net of unamortized financing costs of $829 (December 31, 2012 - $1,140).

During the three and nine months ended September 30, 2013, no New Debentures were converted (nine months ended September 30, 2012 - $nil).

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 and market transactions of the Consideration Debentures.

As at September 30, 2013, the carrying value of the debt component was $4,469 (December 31, 2012 - $4,408).

During the three and nine months ended September 30, 2013, no Consideration Debentures were converted. In 2012, holders of the Consideration Debentures elected to convert $364 of Consideration Debentures into common shares at the conversion price of $2.43 per common share, resulting in the issue of 146,502 common shares. The carrying value of the converted Consideration Debentures was $356 at the date of conversion split between a debt component of $336 and an equity component of $28.

In thousands of US dollars unless otherwise stated

13. Loans and borrowings (continued)

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 September 30, 2013, the carrying value of the debt component was $12,728 (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.

During the three and nine months ended September 30, 2013, no Convertible Debentures were converted (three and nine months ended September 30, 2012 - $nil).

For the three months ended September 30, 2013, total accretion interest in respect of all Convertible Debentures was $396 and for the nine months ended September 30, 2013, was $1,177 (three months ended September 30, 2012 was $416 and nine months ended September 30, 2012 was $1,235), which is included within finance costs, net in the interim consolidated statements of income (loss) (note 7).

In thousands of US dollars unless otherwise stated

14. Other financial assets and financial liabilities

Other financial assets

	September 30, 2013	December 31, 2012
Interest rate cap (i)	$1	$10
Prepayment option (ii)	173	3,200
Total other financial assets	**$174**	**$3,210**
Due in more than one year	$174	$3,210
Total other financial assets	**$174**	**$3,210**

Interest rate cap

(i) On August 2, 2011, in accordance with the Company's credit facilities agreement, the Company purchased an interest rate cap for $619, which matures on August 4, 2014. The arrangement capped LIBOR at 3.5% for 50% of the Company's 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 September 30, 2013 was a loss of $3 and during the nine months ended September 30, 2013 was a loss of $9 (three months ended September 30, 2012 was a loss of $26 and the nine months ended September 30, 2012 was a loss of $237) (note 7).

Prepayment option

(ii) 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 and recorded at fair value 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. On initial recognition, the prepayment option was ascribed a fair value of $3,200. 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 September 30, 2013 was $511 and for the nine months ended September 30, 2013 was $3,027 (three months and nine months ended September 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

	September 30, 2013	December 31, 2012
Cross-currency interest rate swap (i)	$-	$2,277
Finance leases	1,985	3,047
Deferred and contingent consideration (ii)	5,537	23,128
Interest rate floor (iii)	6,779	9,793
Total other financial liabilities	**14,301**	**38,245**
Due in less than one year	6,696	8,788
Due in more than one year	7,605	29,457
Total other financial liabilities	**$14,301**	**$38,245**

Cross-currency interest rate swap

(i) 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 January 1, 2013 to maturity on June 4, 2013 was a gain of $699, 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 7).

14. Other financial assets and financial liabilities (continued)

Deferred and contingent consideration

(ii) The consideration for the acquisition of ICI contains deferred consideration of $5,600, which was settled on October 20, 2013. The fair value of the ICI deferred consideration was $5,537 as at September 30, 2013 (December 31, 2012 - $5,000). The change in fair value of the ICI deferred consideration was an accretion expense of $185 for the three months ended September 30, 2013 and an accretion expense of $537 for the nine months ended September 30, 2013 (three months ended September 30, 2012 was $nil and nine months ended September 30, 2012 was $nil) (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 $nil as at September 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 gain of $1,266 for the three months ended September 30, 2013 and for the nine months ended September 30, 2013 was a gain of $18,128 (three months ended September 30, 2012 was a loss of $709 and the nine months ended September 30, 2012 was a loss of $1,562) (note 7).

Interest rate floor

(iii) The credit facilities contain an interest rate floor of 150 basis points, which the Company has treated as an embedded derivative as the floor rate exceeded actual LIBOR at the time that the debt was incurred. The interest rate floor is required to be separated from the carrying value of Credit Facilities and accounted for as a separate financial liability measured at fair value through the interim consolidated statements of income (loss) within finance costs, net. Fair value is determined by reference to mark-to-market valuations performed by financial institutions at each reporting date.

The change in fair value for the three months ended September 30, 2013 was a loss of $25 and for the nine months ended September 30, 2013 was a gain of $3,014 (three months ended September 30, 2012 was a loss of $2,868 and for the nine months ended September 30, 2012 was a loss of $3,940) (note 7).

The fair value of the interest rate floor as at September 30, 2013 was $6,779 (December 31, 2012 - $9,793).

15. Shareholders' equity

Share capital

Share capital represents the number of common shares outstanding.

As at September 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 September 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.

Deficit

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

During the three months ended September 30, 2013 $2,958, representing the difference between the $4,000 consideration paid for the non-controlling interest and its carrying value, has been reported within the Company's deficit in the interim consolidated statements of financial position (note 10).

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 September 17, 2008, no further grants of options were made pursuant to the former 2005 plan. Options previously granted under the 2005 plan will continue to vest. The Company uses the Black-Scholes option pricing model to determine the fair value of options issued.

On September 25, 2013, 2,000,000 share options were granted with an exercise price of CDN$0.65.

The expense recognized relating to equity-settled share option transactions for employees for the three months ended September 30, 2013 was $1,172 and for the nine months ended September 30, 2013 $1,860 (three months ended September 30, 2012 was $1,063 and nine months ended September 30, 2012 was $2,892).

16. Share-based compensation (continued)

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

	September 30, 2013		September 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	(155,000)	2.22
Granted during the period	2,000,000	0.63	930,000	2.91
Outstanding at end of period	**17,128,300**	**1.75**	**15,808,300**	**1.89**
Exercisable at end of period	**10,233,300**	**$1.48**	**7,770,800**	**$1.22**

The following information relates to share options that were outstanding as at September 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	4,458,300	7	0.88
$1.51-$2.50	1,565,000	4	1.78
$2.51-$3.50	7,505,000	8	3.00
	17,128,300	**6**	**$1.75**

Warrants

The following warrants were outstanding as at September 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 are affected by the Company's share price as well as assumptions regarding a number of subjective variables.

17. Commitments and contingencies

Operating leases

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

	September 30, 2013	December 31, 2012
Within one year	$16,517	$16,410
After one year but not more than five years	36,916	40,512
More than five years	4,109	4,901
	$57,542	**$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:

	September 30, 2013		December 31, 2012	
	Minimum payments	Present value	Minimum payments	Present value
Within one year	$1,643	$1,538	$2,051	$1,920
After one year but not more than five years	826	387	1,536	719
Total minimum lease payments	2,469	1,925	3,587	2,639
Less amounts representing finance charges	(484)	(484)	(540)	(540)
Present value of minimum lease payments	**$1,985**	**$1,441**	**$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 September 30, 2013 with the exception of the Convertible Debentures. The book value of the Convertible Debentures outstanding was $46,126 (December 31, 2012 - $44,949) and the fair value was $41,508 (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 September 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	(6,779)	$-	(6,779)	$-
Interest rate cap	1	-	1	-
Prepayment option	173	-	173	-

		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 nine months ended September 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		Nine months ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
US	$76,378	$66,169	$233,853	$184,406
Canada	1,505	1,826	4,387	3,767
Netherlands	18,865	19,393	55,314	31,027
France	8,235	9,849	23,936	29,919
Other international	20,679	22,714	63,527	62,758
Total revenue	**$125,662**	**$119,951**	**$381,017**	**$311,877**

Non-current assets

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

	September 30, 2013	December 31, 2012
US	$440,211	$457,957
Canada	7,762	8,235
International	193,084	274,850
Total non-current assets	**$641,057**	**$741,042**

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 Company is currently finalising the costs of exit and the closing working capital accounts. The costs of exit have been estimated and recorded as at September 30, 2013 and are included in the statements shown below.

The results of MME are presented below:

	Three months ended		**Nine months ended**	
	September 30, 2013	**September 30, 2012**	**September 30, 2013**	**September 30, 2012**
Revenue	$-	$9,291	$10,117	$18,194
Expenses	-	10,139	16,675	32,726
Operating loss	**-**	**(848)**	**(6,558)**	**(14,532)**
Loss on sale	1,751	-	9,145	-
Impairment	-	4,000	784	25,716
Loss before taxes from discontinued operations	**(1,751)**	**(4,848)**	**(16,487)**	**(40,248)**
Income tax charge	-	-	-	616
Loss after taxes from discontinued operations	**$(1,751)**	**$(4,848)**	**$(16,487)**	**$(40,864)**

During the nine months ended September 30, 2013, the Company impaired property and equipment of $784 (impairment of $4,845 for goodwill, $16,871 for intangible assets and $4,000 for property and equipment for the nine months ended September 30, 2012).

The net cash flows incurred by MME are as follows:

	Three months ended		**Nine months ended**	
	September 30, 2013	**September 30, 2012**	**September 30, 2013**	**September 30, 2012**
Operating activities	$1,525	$(6,102)	$(2,906)	$(11,766)
Investing activities	-	(355)	(784)	(1,572)
Financing activities	-	-	2,000	-
Net cash outflow	**$1,525**	**$(6,457)**	**$(1,690)**	**$(13,338)**

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

In thousands of US dollars unless otherwise stated

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

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

- Mood Europe
- Mood North America

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

	Mood Europe		Mood North America	
	September 30, 2013	December 31, 2012	September 30, 2013	December 31, 2012
Goodwill	$72,560	$144,436	$187,643	$185,296
Brands	14,642	13,980	-	-

Valuation

Management has identified indicators for impairment at September 30, 2013. The Company considers the relationship between its market capitalization and its book value, amongst other factors, when reviewing for indicators of impairment.

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

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

Key assumptions used in FVLCS calculations

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

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

Discount rates – Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Company and its operating segments and is derived from its weighted average cost of capital ("WACC"). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Company's investors. The cost of debt is based on the interest-bearing borrowings the Company is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data. The discount rates applied to cash flow projections are between 13% - 16% depending on the CGU.

Growth rate estimates – Rates are based on published industry research and do not exceed the long-term average growth rate for the industry. The growth rates used to extrapolate the cash flows beyond the budgeted period for the Mood North America and Mood Europe CGUs are between 2% - 5%.

As a result of the analysis performed by management the Company recognized an impairment charge of $75,000 to Mood Europe during the three months ended September 30, 2013 (note 12).