Interim Condensed Consolidated Financial Statements

Mood Media Corporation

Unaudited

For the three and nine months ended September 30, 2016

Mood Media Corporation

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
Unaudited

In thousands of US dollars, unless otherwise stated

	Notes	September 30, 2016	December 31, 2015
ASSETS			
Current assets			
Cash		$21,301	$17,326
Restricted cash		817	817
Trade and other receivables, net		80,192	94,063
Income taxes recoverable		512	682
Inventory		25,546	25,749
Prepayments and other assets		13,291	11,738
Deferred costs		8,111	8,706
Total current assets		**149,770**	**159,081**
Non-current assets			
Deferred costs		8,571	8,958
Property and equipment, net		43,396	47,812
Other assets		606	839
Intangible assets		198,409	223,847
Goodwill	14	214,615	213,979
Total assets		**615,367**	**654,516**
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables		95,248	100,320
Income taxes payable		1,107	1,305
Deferred revenue		16,398	16,106
Other financial liabilities	10	4,991	6,848
Current portion of long-term debt	9	8,350	8,350
Total current liabilities		**126,094**	**132,929**
Non-current liabilities			
Deferred revenue		5,865	5,998
Deferred tax liabilities		21,027	23,682
Other financial liabilities	10	2,659	3,083
Long-term debt	9	612,262	612,310
Total liabilities		**767,907**	**778,002**
Equity			
Share capital	13	328,807	328,807
Contributed surplus		40,655	40,333
Foreign exchange translation reserve		6,234	6,765
Deficit		(528,495)	(499,640)
Equity attributable to owners of the parent		**(152,799)**	**(123,735)**
Non-controlling interests		259	249
Total equity		**(152,540)**	**(123,486)**
Total liabilities and equity		**$615,367**	**$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		Nine months ended	
	Notes	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Revenue	5	**$113,915**	**$118,159**	**$344,920**	**$350,082**
Expenses					
Cost of sales		54,977	56,782	164,698	167,543
Operating expenses		36,622	35,625	111,192	108,166
Depreciation and amortization		15,434	16,237	48,218	49,856
Share-based compensation		202	417	322	868
Other expenses	6	2,367	3,924	8,564	6,512
Foreign exchange (gain) loss on financing transactions	10	(1,279)	(553)	(2,365)	14,254
Finance costs, net	7	13,760	15,983	44,094	43,757
Loss for the period before income taxes		**(8,168)**	**(10,256)**	**(29,803)**	**(40,874)**
Income tax recovery	8	(693)	(449)	(1,018)	(1,899)
Loss for the period		**(7,475)**	**(9,807)**	**(28,785)**	**(38,975)**
Loss attributable to:					
Owners of the parent		(7,506)	(9,858)	(28,855)	(39,011)
Non-controlling interests		31	51	70	36
		(7,475)	**(9,807)**	**(28,785)**	**(38,975)**
Loss per share attributable to shareholders					
Basic and diluted		$(0.04)	$(0.05)	$(0.16)	$(0.21)
Weighted average number of shares outstanding – basic		184,778	183,092	184,453	181,772
Weighted average number of shares outstanding – diluted		186,712	185,994	186,388	184,674
Loss for the period		**$(7,475)**	**$(9,807)**	**$(28,785)**	**$(38,975)**
Items that may be reclassified subsequently to the loss for the period:					
Exchange (loss) gain on translation of foreign operations		(397)	468	(531)	2,735
Other comprehensive (loss) income for the period, net of tax		**(397)**	**468**	**(531)**	**2,735**
Total comprehensive loss for the period, net of tax		**(7,872)**	**(9,339)**	**(29,316)**	**(36,240)**
Comprehensive loss attributable to:					
Owners of the parent		(7,903)	(9,390)	(29,386)	(36,276)
Non-controlling interests		31	51	70	36
		$(7,872)	**$(9,339)**	**$(29,316)**	**$(36,240)**

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		Nine months ended	
	Notes	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Operating activities					
Loss for the period before income taxes		**$(8,168)**	**$(10,256)**	**$(29,803)**	**$(40,874)**
Reconciling adjustments					
Depreciation and amortization		15,434	16,237	48,218	49,856
Gain on disposal of property and equipment		(13)	(1,481)	(14)	(1,436)
Share-based compensation		202	417	322	868
Shares issued in lieu of severance or consideration		-	-	-	1,123
Foreign exchange (gain) loss on financing transactions	10	(1,279)	(553)	(2,365)	14,254
Finance costs, net	7	13,760	15,983	44,094	43,757
Loss on disposal of speaker business		-	-	3,708	-
Working capital adjustments					
Decrease in trade and other receivables		6,049	3,355	13,287	4,065
(Increase) decrease in inventory		(2,173)	(2,674)	(1,367)	1,007
Decrease in trade and other payables		(1,629)	(6,091)	(16,393)	(21,168)
(Decrease) increase in deferred revenue		(765)	(1,908)	155	1,680
		21,418	**13,029**	**59,842**	**53,132**
Income taxes (paid) credited		(641)	15	(1,724)	282
Interest received		8	94	20	109
Net cash flows from operating activities		**20,785**	**13,138**	**58,138**	**53,523**
Investing activities					
Purchase of property and equipment and intangible assets		(6,639)	(10,090)	(20,799)	(25,711)
Proceeds from disposal of speaker business, net		-	-	741	-
Proceeds from disposal of property, equipment and other assets		6	1,485	72	1,517
Net cash flows used in investing activities		**(6,633)**	**(8,605)**	**(19,986)**	**(24,194)**
Financing activities					
Repayment of borrowings		(588)	(588)	(1,763)	(1,763)
Proceeds from 2014 Revolving Credit Facility		-	6,000	-	6,000
Proceeds from MMG Notes		-	31,552	-	31,552
Restricted cash in connection with MMG Notes		-	(31,552)	-	(31,552)
Financing costs paid		-	(5,668)	-	(5,668)
Finance lease payments		(301)	(69)	(992)	(686)
Interest paid		(4,447)	(4,407)	(31,949)	(31,620)
Dividends paid to non-controlling interest		(1)	-	(38)	(50)
Dividends received from associates		(2)	-	329	-
Settlement of forward contracts		-	-	(54)	395
Net cash flows used in financing activities		**(5,339)**	**(4,732)**	**(34,467)**	**(33,392)**
Net increase (decrease) increase in cash		**8,813**	**(199)**	**3,685**	**(4,063)**
Net foreign exchange gain (loss) on cash balances		**119**	**122**	**290**	**(792)**
Cash at beginning of period		**12,369**	**20,795**	**17,326**	**25,573**
Cash at end of period		**$21,301**	**$20,718**	**$21,301**	**$20,718**

The accompanying notes form part of the interim consolidated financial statements

Mood Media Corporation

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
Unaudited

In thousands of US dollars, unless otherwise stated

	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	-	-	-	(28,855)	**(28,855)**	70	**(28,785)**
Loss on translation of foreign operations	-	-	(531)	-	**(531)**	-	**(531)**
Total comprehensive (loss) income	**-**	**-**	**(531)**	**(28,855)**	**(29,386)**	**70**	**(29,316)**
Share-based compensation	-	322	-	-	**322**	-	**322**
Dividends to non-controlling interest	-	-	-	-	**-**	(60)	**(60)**
As at September 30, 2016	**$328,807**	**$40,655**	**$6,234**	**$(528,495)**	**$(152,799)**	**$259**	**$(152,540)**

	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) income for the period	-	-	-	(39,011)	**(39,011)**	36	**(38,975)**
Gain on translation of foreign operations	-	-	2,735	-	**2,735**	-	**2,735**
Total comprehensive income (loss)	**-**	**-**	**2,735**	**(39,011)**	**(36,276)**	**36**	**(36,240)**
Share-based compensation	-	868	-	-	**868**	-	**868**
Dividends to non-controlling interest	-	-	-	-	**-**	(41)	**(41)**
Issue of share capital	1,851	-	-	-	**1,851**	-	**1,851**
Exercise of share options	-	4,696	-	-	**4,696**	-	**4,696**
As at September 30, 2015	**$328,807**	**$39,937**	**$4,999**	**$(458,629)**	**$(84,886)**	**$225**	**$(84,661)**

The accompanying notes form part of the interim consolidated financial statements

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Unaudited
For the three and nine months ended September 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 November 9, 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. 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. The Company is working to enhance its operating cushion under the debt covenants in its debt agreements and to strengthen its capital structure. There can be no assurance that such resolution will be obtained. Management assesses the Company's ability to continue as a going concern at each reporting date, using quantitative and qualitative information available, however, uncertainty about these estimates, judgments and assumptions, including management's efforts to enhance its operating cushion under the Company's debt agreements, 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 condensed consolidated statements of loss and comprehensive loss and within equity in the interim consolidated statements of financial position.

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 effective date for this standard is for reporting periods beginning on or after January 1, 2018, with earlier application permitted. The Company has commenced a review process to assess the impact and application of the aforementioned amendments.

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 plans to adopt the new standard on the required effective date using the modified retrospective method and is continuing to review and assess the 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 reporting 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		**Nine months ended**	
	September 30, 2016	**September 30, 2015**	**September 30, 2016**	**September 30, 2015**
Recurring	$60,434	$60,844	$183,661	$185,604
Equipment	36,286	37,173	106,925	105,882
Installation and services	9,245	10,805	33,318	35,992
Other	7,950	9,337	21,016	22,604
	$113,915	**$118,159**	**$344,920**	**$350,082**

In thousands of US dollars, unless otherwise stated

6. Other expenses

	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Transaction costs (i)	$100	$175	$(627)	$743
Integration costs (ii)	2,267	3,679	5,483	5,807
Net loss (gain) on disposal of certain assets (iii)	-	70	3,708	(38)
	$2,367	**$3,924**	**$8,564**	**$6,512**

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

	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Legal, professional, and consultant fees	$38	$67	$187	$369
Technomedia contingent consideration and related expenses (a)	62	108	(814)	374
	$100	**$175**	**$(627)**	**$743**

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

	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Severance costs	$324	$306	$2,306	$866
Other integration costs (a)	1,943	3,373	3,177	4,941
	$2,267	**$3,679**	**$5,483**	**$5,807**

(a) During the three months ended September 30, 2015, the Company recorded $2,300 representing management's best estimate for a settlement of a dispute with various counterparties over the interpretation of certain contractual arrangements.

(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.

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

In thousands of US dollars, unless otherwise stated

7. Finance costs, net

	Three months ended		Nine months ended	
	September 30, 2016	**September 30, 2015**	**September 30, 2016**	**September 30, 2015**
Interest expense	$13,837	$14,249	$41,474	$41,276
Change in fair value of financial instruments (i)	(1,239)	683	(25)	(240)
Other finance costs, net (ii)	1,162	1,051	2,645	2,721
	$13,760	**$15,983**	**$44,094**	**$43,757**

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

	Three months ended		Nine months ended	
	September 30, 2016	**September 30, 2015**	**September 30, 2016**	**September 30, 2015**
Interest rate floor under 2014 First Lien Credit Facilities (a)	$(1,271)	$648	$(127)	$149
Euro forward contracts (b)	-	-	-	(396)
USD forward contracts (c)	32	-	102	-
Prepayment option on 9.25% Senior Unsecured Notes (d)	-	35	-	7
	$(1,239)	**$683**	**$(25)**	**$(240)**

(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.

In thousands of US dollars, unless otherwise stated

7. Finance costs, net (continued)

(ii) Other finance costs, net consist of:

	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Accretion interest on convertible debentures	$-	$551	$-	$1,501
Accretion of 9.25% Senior Unsecured Notes	278	277	833	831
Accretion of debt related to MMG Notes	310	176	925	176
Accretion of debt related to 2014 interest rate floor	189	191	570	574
Amortization of debt premium arising from prepayment options	(102)	(99)	(308)	(297)
Other	487	(45)	625	(64)
	$1,162	**$1,051**	**$2,645**	**$2,721**

8. Income taxes

	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Current tax expense				
Current taxes on income for the period	$337	$668	$1,668	$1,010
Total current taxes	**337**	**668**	**1,668**	**1,010**
Deferred tax expense				
Origination and reversal of temporary differences	(1,030)	(1,117)	(2,686)	(2,909)
Total deferred tax recovery	**(1,030)**	**(1,117)**	**(2,686)**	**(2,909)**
Total income tax recovery	**$(693)**	**$(449)**	**$(1,018)**	**$(1,899)**

In thousands of US dollars, unless otherwise stated

9. Loans and borrowings

	September 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	(4,576)	(5,409)
Unamortized premium – prepayment option	1,613	1,910
	347,037	**346,501**
MMG Notes (i)	50,000	50,000
Unamortized discount – financing costs	(9,654)	(10,268)
Unamortized discount – prepayment option	106	113
	40,452	**39,845**
2014 First Lien Credit Facilities	226,776	228,538
Unamortized discount – 2014 interest rate floor	(2,003)	(2,574)
	224,773	**225,964**
	612,262	**612,310**
Total loans and borrowings	**$620,612**	**$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 September 30, 2016, the Company had available $8,010 under the 2014 Revolving Credit Facility and outstanding letters of credit of $990. 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 September 30, 2016.

In thousands of US dollars, unless otherwise stated

9. Loans and borrowings (continued)

(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.

MMG's Consolidated Statement of Financial Position

	September 30, 2016
ASSETS	
Net intercompany trade balances	$712
Current assets	63,724
Property and equipment, net	10,493
Goodwill and intangible assets	74,537
Other long-term assets	8,392
Total assets	**157,858**
LIABILITIES AND EQUITY	
Other current liabilities	53,312
Long-term debt	40,453
Intercompany long-term debt	147,320
Other long-term liabilities	3,200
Non-controlling interests	259
Equity attributable to owners of MMG (i)	(86,686)
Total liabilities and equity	**$157,858**

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

In thousands of US dollars, unless otherwise stated

9. Loans and borrowings (continued)

MMG's Consolidated Statement of Loss

	Nine months ended September 30, 2016
Revenue	**$125,452**
Expenses	
Cost of sales	59,592
Operating expenses	50,807
Depreciation and amortization	5,948
Other expenses	4,432
Foreign exchange gain on financing transactions	(2,168)
Finance costs, net	11,579
Loss on sale of operations	2,760
Income tax charge	1,052
Loss for the period	**(8,550)**
Segment profit (i)	**$15,053**

(i) Segment profit is a non-IFRS measure and 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 prepared on a consistent basis and 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:

	Nine months ended September 30, 2016
Segment profit	**$15,053**
Depreciation and amortization	5,948
Other expenses	4,432
Foreign exchange gain on financing transactions	(2,168)
Finance costs, net	11,579
Loss on sale of operation	2,760
Income tax charge	1,052
Loss for the period	**$(8,550)**

In thousands of US dollars, unless otherwise stated

9. Loans and borrowings (continued)

MMG's Consolidated Statement of Cash Flows

	Nine months ended September 30, 2016
Net cash flows from operating activities	$6,004
Net cash flows used in investing activities	(3,744)
Net cash flows used in financing activities	(2,292)
Net decrease in cash	**(32)**
Net foreign exchange gain on cash balances	**290**
Cash at beginning of period	**9,427**
Cash at end of period	**$9,685**

10. Other financial assets and financial liabilities

	September 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	$2,925	$3,413
Forward contracts	47	-
2014 interest rate floor	1,167	1,294
Technomedia contingent consideration (i)	3,511	5,224
Total other financial liabilities	**$7,650**	**$9,931**
Due in less than one year	$4,991	$6,848
Due in more than one year	2,659	3,083
Total other financial liabilities	**$7,650**	**$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 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).

In thousands of US dollars, unless otherwise stated

10. Other financial assets and financial liabilities (continued)

Currency risk

The functional currency of the parent 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.

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 nine months ended September 30, 2016, the amount recognized in foreign exchange (gain) loss on financing transactions was a gain of $(1,279) and $(2,365), respectively (a $(553) gain and $14,254 loss for the three months and nine months ended September 30, 2015, respectively). A 1% movement in the EUR/USD exchange rate applied to balances outstanding at September 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.

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 nine months ended September 30, 2016, the amount reflected in finance costs was a charge of $32 and $102, 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 expenses. For the three and nine months ended September 30, 2015, the amount reflected in operating expenses was a credit of $83 and credit of $864, 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

In thousands of US dollars, unless otherwise stated

10. Other financial assets and financial liabilities (continued)

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 nine months ended September 30, 2015 was nil 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 September 30, 2016 and December 31, 2015, with the following exceptions summarized below:

	September 30, 2016	**December 31, 2015**
9.25% Senior Unsecured Notes		
Book value	$347,037	$346,501
Fair value	$273,875	$227,500

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, 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	$(1,167)	$-	$(1,167)	$-
USD forward contracts	(47)	-	(47)	-
Prepayment option – MMG Notes	3	-	3	-

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 nine months ended September 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.

In thousands of US dollars, unless otherwise stated

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 share option 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 share 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 share-based compensation expense recognized for the three and nine months ended September 30, 2016 relating to equity-settled share and option transactions was $91 and $8, respectively (three months ended September 30, 2015 was $308 and nine months ended September 30, 2015 was $759).

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

	September 30, 2016		September 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	(4,790,000)	2.04	(298,334)	1.16
Outstanding at end of period	**9,353,300**	**0.80**	**15,094,966**	**1.33**
Exercisable at end of period	**6,932,472**	**$0.86**	**9,473,293**	**$1.75**

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

Range of exercise prices	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price
$0.31-$1.50	8,878,300	4.25	$0.72
$1.51-$2.50	275,000	4.86	1.72
$2.51-$3.50	200,000	5.15	2.96
	9,353,300	**4.29**	**$0.80**

11. Share-based compensation (continued)

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 share 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 any 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.

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 expenses. The offsetting entry to operating expenses 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.

In thousands of US dollars, unless otherwise stated

11. Share-based compensation (continued)

The operating expense recognized for the three and nine months ended September 30, 2016 relating to DSU transactions was $14 and $17, respectively (three and nine months ended September 30, 2015 was $42). The share-based compensation expense recognized for the three and nine months ended September 30, 2016 relating to DSU transactions was $111 and $314, respectively (three and nine months ended September 30, 2015 was $109).

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

	September 30, 2016 Number	September 30, 2015 Number
Outstanding at beginning of year	**3,542,284**	**-**
Granted during the period	-	3,586,310
Redeemed during the period	(85,799)	-
Cancelled during the period	(113,477)	(44,026)
Outstanding at end of period	**3,343,008**	**3,542,284**
Vested at end of period	**1,235,424**	**210,693**

As at September 30, 2016, the 3,343,008 units outstanding consisted of 324,698 liability awards valued at $45 and 3,018,310 equity awards (as at September 30, 2015, there were 523,974 liability awards valued at $125 and 3,018,310 equity awards).

Warrants

The following warrants were outstanding as at September 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 September 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.

In thousands of US dollars, unless otherwise stated

12. Contingencies (continued)

The Company received notice of recording of a default judgment in Orange County, Florida, on or about October 29, 2016. The original judgment was rendered in the Superior Court of Washington State against two of the Company's subsidiaries, Technomedia Solutions, LLC and ServiceNET EXP, LLC (both of which are considered immaterial or non-significant subsidiaries under the Company's debt agreements). The underlying action involved claims arising out of the termination of an employment relationship that occurred prior to Mood Media's acquisition of Technomedia Solutions, LLC and ServiceNET EXP, LLC. The Company on behalf of its subsidiaries intends to challenge the default judgment and concurrently oppose all enforcement proceedings. The Company believes the claims in the underlying action are without merit, will vigorously defend its subsidiaries in this matter, and believes the probability of the payout for this judgment is remote.

13. Shareholders' equity

Share capital

Share capital represents the number of common shares outstanding.

As at September 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 September 30, 2016	**183,694,082**	**$328,807**

Deficit

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

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	846
Balance as at September 30, 2016	**$214,615**

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.

In thousands of US dollars, unless otherwise stated

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.

Three months ended September 30, 2016

	In-store media North America	In-store media International	BIS	Other	Consolidated Group
Revenue	$64,681	$25,019	$13,743	$10,472	$113,915
Expenses					
Cost of sales	29,655	9,679	8,237	7,406	54,977
Operating expenses	16,533	11,903	4,731	3,455	36,622
Segment profit (loss) (i)	**$18,493**	**$3,437**	**$775**	**$(389)**	**$22,316**

Three months ended September 30, 2015

	In-store media North America	In-store media International	BIS	Other	Consolidated Group
Revenue	$63,032	$29,119	$14,223	$11,785	$118,159
Expenses					
Cost of sales	27,442	12,797	8,985	7,558	56,782
Operating expenses	15,691	12,580	4,496	2,858	35,625
Segment profit (i)	**$19,899**	**$3,742**	**$742**	**$1,369**	**$25,752**

In thousands of US dollars, unless otherwise stated

15. Segment information (continued)

Nine months ended September 30, 2016

	In-store media North America	In-store media International	BIS	Other	Consolidated Group
Revenue	$192,046	$83,462	$40,776	$28,636	$344,920
Expenses					
Cost of sales	85,406	34,541	24,086	20,665	164,698
Operating expenses	49,654	36,531	14,201	10,806	111,192
Segment profit (loss) (i)	**$56,986**	**$12,390**	**$2,489**	**$(2,835)**	**$69,030**

Nine months ended September 30, 2015

	In-store media North America	In-store media International	BIS	Other	Consolidated Group
Revenue	$191,955	$84,197	$40,735	$33,195	$350,082
Expenses					
Cost of sales	84,212	35,184	24,983	23,164	167,543
Operating expenses	48,434	37,567	13,434	8,731	108,166
Segment profit (i)	**$59,309**	**$11,446**	**$2,318**	**$1,300**	**$74,373**

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

	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Segment profit (i)	**$22,316**	**$25,752**	**$69,030**	**$74,373**
Depreciation and amortization	15,434	16,237	48,218	49,856
Share-based compensation	202	417	322	868
Other expenses	2,367	3,924	8,564	6,512
Foreign exchange (gain) loss on financing transactions	(1,279)	(553)	(2,365)	14,254
Finance costs, net	13,760	15,983	44,094	43,757
Loss for the period before income taxes	**$(8,168)**	**$(10,256)**	**$(29,803)**	**$(40,874)**

(i) Segment profit is a non-IFRS measure and 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 prepared on a consistent basis and 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.

In thousands of US dollars, unless otherwise stated

15. Segment information (continued)

Geographic areas

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

	Three months ended		Nine months ended	
	September 30, 2016	**September 30, 2015**	**September 30, 2016**	**September 30, 2015**
US	$74,031	$71,709	$216,901	$217,797
Canada	264	56	1,129	238
Netherlands	12,039	13,086	36,403	36,693
Other international	27,581	33,308	90,487	95,354
Total revenue	**$113,915**	**$118,159**	**$344,920**	**$350,082**

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, 2016	**December 31, 2015**
US	$364,050	$376,916
International	101,547	118,519
Total non-current assets	**$465,597**	**$495,435**