Interim Condensed Consolidated Financial Statements

Mood Media Corporation

Unaudited

For the three months ended March 31, 2017

Mood Media Corporation

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
Unaudited

In thousands of US dollars, unless otherwise stated

	Notes	March 31, 2017	December 31, 2016
ASSETS			
Current assets			
Cash		$20,742	$16,978
Restricted cash		817	817
Trade and other receivables, net		75,117	84,781
Income taxes recoverable		89	127
Inventory		25,043	22,040
Prepayments and other assets		16,087	13,253
Deferred costs		8,786	8,949
Total current assets		**146,681**	**146,945**
Non-current assets			
Deferred costs		7,576	7,898
Property and equipment, net		40,681	42,096
Other assets		602	596
Intangible assets		180,385	187,287
Goodwill	14	209,258	208,851
Total assets		**585,183**	**593,673**
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables		94,697	96,340
Income taxes payable		1,178	887
Deferred revenue		20,666	16,928
Other financial liabilities	10	4,830	4,729
Current portion of long-term debt	9	8,350	8,350
Total current liabilities		**129,721**	**127,234**
Non-current liabilities			
Deferred revenue		5,164	5,890
Deferred tax liabilities		23,026	22,784
Other payables and financial liabilities		1,762	1,915
Long-term debt	9	611,159	610,982
Total liabilities		**770,832**	**768,805**
Equity			
Share capital	13	328,807	328,807
Contributed surplus		40,980	40,811
Foreign exchange translation reserve		11,179	12,383
Deficit		(566,891)	(557,426)
Equity attributable to owners of the parent		**(185,925)**	**(175,425)**
Non-controlling interests		276	293
Total equity		**(185,649)**	**(175,132)**
Total liabilities and equity		**$585,183**	**$593,673**

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

	Notes	Three months ended March 31, 2017	Three months ended March 31, 2016
Revenue	5	**$110,243**	**$111,335**
Expenses			
Cost of sales		53,348	51,963
Operating expenses		36,324	37,552
Depreciation and amortization		15,102	16,567
Share-based compensation		169	28
Other expenses	6	1,903	6,064
Foreign exchange gain on financing transactions	10	(2,463)	(6,611)
Finance costs, net	7	14,757	15,845
Loss for the period before income taxes		**(8,897)**	**(10,073)**
Income tax charge (recovery)	8	585	(642)
Loss for the period		**(9,482)**	**(9,431)**
Loss attributable to:			
Owners of the parent		(9,465)	(9,428)
Non-controlling interests		(17)	(3)
		$(9,482)	**$(9,431)**
Loss per share attributable to shareholders			
Basic and diluted		$(0.05)	$(0.05)
Weighted average number of shares outstanding – basic and diluted		184,778	183,810
Loss for the period		**$(9,482)**	**$(9,431)**
Item that may be reclassified subsequently to the loss for the period:			
Exchange loss on translation of foreign operations		(1,204)	(2,534)
Other comprehensive loss for the period, net of tax		**(1,204)**	**(2,534)**
Total comprehensive loss for the period, net of tax		**(10,686)**	**(11,965)**
Comprehensive loss attributable to:			
Owners of the parent		(10,669)	(11,962)
Non-controlling interests		(17)	(3)
		$(10,686)	**$(11,965)**

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

	Notes	Three months ended March 31, 2017	Three months ended March 31, 2016
Operating activities			
Loss for the period before income taxes		**$(8,897)**	**$(10,073)**
Reconciling adjustments			
Depreciation and amortization		15,102	16,567
(Gain) loss on disposal of property and equipment		(6)	4
Share-based compensation		169	28
Foreign exchange gain on financing transactions		(2,463)	(6,611)
Finance costs, net	7	14,757	15,845
Loss on disposal of asset sales	6	-	3,708
Working capital adjustments			
Decrease in trade and other receivables		7,733	1,868
Increase in inventory		(3,003)	(973)
Decrease in trade and other payables		(10,968)	(9,714)
Increase in deferred revenue		3,011	4,989
		15,435	**15,638**
Income taxes paid		(119)	(59)
Interest received		6	5
Net cash flows from operating activities		**15,322**	**15,584**
Investing activities			
Purchase of property, equipment and intangible assets		(6,481)	(6,742)
Proceeds from disposal of asset sales		-	741
Proceeds from disposal of property, equipment and other assets		19	63
Net cash flows used in investing activities		**(6,462)**	**(5,938)**
Financing activities			
Repayment of borrowings		(588)	(588)
Dividends received from associates		-	294
Finance lease payments		(261)	(314)
Interest paid		(4,371)	(4,444)
Net cash flows used in financing activities		**(5,220)**	**(5,052)**
Net increase in cash		**3,640**	**4,594**
Net foreign exchange gain on cash balances		**124**	**388**
Cash at beginning of period		**16,978**	**17,326**
Cash at end of period		**$20,742**	**$22,308**

The accompanying notes form part of the interim consolidated financial statements

Mood Media Corporation

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Unaudited
For the three months ended March 31, 2017

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, 2017	**$328,807**	**$40,811**	**$12,383**	**$(557,426)**	**$(175,425)**	**$293**	**$(175,132)**
Loss for the period	-	-	-	(9,465)	(9,465)	(17)	**(9,482)**
Loss on translation of foreign operations	-	-	(1,204)	-	(1,204)	-	**(1,204)**
Total comprehensive loss	**-**	**-**	**(1,204)**	**(9,465)**	**(10,669)**	**(17)**	**(10,686)**
Share-based compensation	-	169	-	-	169	-	**169**
As at March 31, 2017	**$328,807**	**$40,980**	**$11,179**	**$(566,891)**	**$(185,925)**	**$276**	**$(185,649)**

	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 for the period	-	-	-	(9,428)	(9,428)	(3)	**(9,431)**
Loss on translation of foreign operations	-	-	(2,534)	-	(2,534)	-	**(2,534)**
Total comprehensive loss	**-**	**-**	**(2,534)**	**(9,428)**	**(11,962)**	**(3)**	**(11,965)**
Share-based compensation	-	28	-	-	28	-	**28**
As at March 31, 2016	**$328,807**	**$40,361**	**$4,231**	**$(509,068)**	**$(135,669)**	**$246**	**$(135,423)**

The accompanying notes form part of the interim consolidated financial statements

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Unaudited
For the three months ended March 31, 2017

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 globally, 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, 2016. 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, 2016 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 May 10, 2017.

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. 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, 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, 2016.

4. Summary of significant accounting policies

Basis of measurement and principles of consolidation

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

New standards, interpretations and amendments thereof not yet effective

New standards and interpretations 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 ("IFRS 2")*

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 completed the review process to assess the impact and application of the aforementioned amendments and has determined it will have no impact on the Company.

IFRS 9, *Financial Instruments: Classification and Measurement ("IFRS 9")*

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39, *Financial Instruments: Recognition and Measurement ("IAS 39")*, 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 ("IFRS 15")*

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 concerning revenue recognition.

IFRS 15 will be effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted. The Company will not be early adopting IFRS 15. The Company has elected to adopt IFRS 15 using the modified retrospective approach. Under this approach, the Company will recognize transitional adjustments in retained earnings on the date of initial application. Although the Company has made progress in the implementation of IFRS 15, it is not yet possible to make a reliable estimate of the full impact of the new standard of our financial statements as the Company is required to implement changes to processes across the organization in order to collect the new data requirements. The Company is continuing to review and assess the impact on its current revenue recognition policies and reporting processes.

IFRS 16, *Leases ("IFRS 16")*

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. Lessor accounting under IFRS 16 is substantially unchanged from current accounting under IAS 17. Lessors will continue to classify all leases using the same classification principles.

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 not yet determined the impact on its current lease recognition policies.

5. Revenue

The composition of revenue is as follows:

	Three months ended March 31, 2017	Three months ended March 31, 2016
Recurring	$58,765	$60,969
Equipment	35,406	33,630
Installation and services	10,484	10,358
Other	5,588	6,378
	$110,243	**$111,335**

In thousands of US dollars, unless otherwise stated

6. Other expenses

	Three months ended March 31, 2017	Three months ended March 31, 2016
Transaction costs (i)	$130	$213
Integration costs (ii)	1,273	2,143
Settlements and resolutions	500	-
Net loss on disposal of certain assets (iii)	-	3,708
	$1,903	**$6,064**

(i) Transaction costs incurred during the three months ended March 31, 2017 and March 31, 2016 primarily relate to costs associated with prior acquisitions.

	Three months ended March 31, 2017	Three months ended March 31, 2016
Legal, professional, and consultant fees	$-	$132
Technomedia contingent consideration and other expenses (a)	130	81
	$130	**$213**

(a) The amended Technomedia contingent consideration earn-out and other 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 March 31, 2017	Three months ended March 31, 2016
Severance costs	$971	$1,404
Other integration costs	302	739
	$1,273	**$2,143**

(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.

7. Finance costs, net

	Three months ended March 31, 2017	Three months ended March 31, 2016
Interest expense	$13,715	$13,870
Change in fair value of financial instruments (i)	118	1,242
Other finance costs, net (ii)	924	733
	$14,757	**$15,845**

In thousands of US dollars, unless otherwise stated

7. Finance costs, net (continued)

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

	Three months ended March 31, 2017	Three months ended March 31, 2016
Interest rate floor under 2014 First Lien Credit Facilities (a)	$96	$1,066
USD forward contracts (b)	22	176
	$118	**$1,242**

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

(b) In 2016, the Company entered into a series of Euro to USD forward contracts as further described in note 10.

The above financial instruments are fair valued at each reporting date with the change in fair value recognized within finance costs, net in the interim consolidated statements of loss and comprehensive loss.

(ii) Other finance costs, net consist of:

	Three months ended March 31, 2017	Three months ended March 31, 2016
Accretion of the 9.25% Senior Unsecured Notes	$280	$278
Accretion of debt related to the MMG Notes	302	303
Accretion of debt related to the 2014 First Lien Credit Facilities	394	190
Amortization of the debt premium from prepayment options	(102)	(103)
Other	50	65
	$924	**$733**

8. Income taxes

	Three months ended March 31, 2017	Three months ended March 31, 2016
Current tax charge		
Current taxes on income for the period	$432	$487
Total current tax charge	**432**	**487**
Deferred tax charge (recovery)		
Origination and reversal of temporary differences	153	(1,129)
Total deferred tax charge (recovery)	**153**	**(1,129)**
Total income tax charge (recovery)	**$585**	**$(642)**

In thousands of US dollars, unless otherwise stated

9. Loans and borrowings

	March 31, 2017	December 31, 2016
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	(4,016)	(4,296)
Unamortized premium – prepayment option	1,415	1,514
	347,399	**347,218**
MMG Notes (i)	50,000	50,000
Unamortized discount – financing costs	(8,547)	(8,740)
Unamortized premium – prepayment option	92	95
	41,545	**41,355**
2014 First Lien Credit Facilities	225,600	226,188
Unamortized discount – 2014 interest rate floor and financing costs	(3,385)	(3,779)
	222,215	**222,409**
	611,159	**610,982**
Total loans and borrowings	**$619,509**	**$619,332**

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	12.99%	7.69%	9.46%

As at March 31, 2017, the Company had available $8,050 under the 2014 Revolving Credit Facility and outstanding letters of credit of $950. 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 March 31, 2017.

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

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

In thousands of US dollars, unless otherwise stated

9. Loans and borrowings (continued)

MMG's Consolidated Statement of Financial Position

	March 31, 2017
ASSETS	
Current assets	$60,526
Property and equipment, net	9,271
Goodwill and intangible assets	61,010
Other long-term assets	7,735
Total assets	**138,542**
LIABILITIES AND EQUITY	
Net intercompany trade balances	583
Other current liabilities	52,043
Long-term debt	41,544
Intercompany long-term debt	149,673
Other long-term liabilities	3,035
Non-controlling interest	276
Equity attributable to owners of MMG (i)	(108,612)
Total liabilities and equity	**$138,542**

(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.

MMG's Consolidated Statement of Loss

	Three months ended March 31, 2017
Revenue	**$38,223**
Expenses	
Cost of sales	18,069
Operating expenses	16,426
Depreciation and amortization	1,708
Other expenses	819
Foreign exchange gain on financing transactions	(761)
Finance costs, net	5,357
Income tax charge	448
Loss for the period	**$(3,843)**
Consolidated EBITDA (i)	**$3,728**

(i) Consolidated EBITDA is calculated by reducing revenue by cost of sales and operating expenses of MMG and its subsidiaries. This measure of consolidated EBITDA is in accordance with the MMG indenture and therefore is not comparable to similarly titled measures reported by other companies.

In thousands of US dollars, unless otherwise stated

9. Loans and borrowings (continued)

MMG's Consolidated Statement of Cash Flows

	Three months ended March 31, 2017
Net cash flows from operating activities	$398
Net cash flows used in investing activities	(998)
Net cash flows used in financing activities	(1)
Net decrease in cash	**(601)**
Net foreign exchange gain on cash balances	**124**
Cash at beginning of period	**9,962**
Cash at end of period	**$9,485**

10. Other financial liabilities

	March 31, 2017	**December 31, 2016**
Other financial liabilities		
Finance leases	$2,383	$2,662
Forward contracts	25	3
2014 interest rate floor	442	346
Technomedia contingent consideration (i)	3,699	3,633
Total other financial liabilities	**$6,549**	**$6,644**
Due in less than one year	$4,830	$4,729
Due in more than one year	1,719	1,915
Total other financial liabilities	**$6,549**	**$6,644**

(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 and comprehensive loss (note 6).

Currency risk

The functional currency of the parent Company is the US dollar. 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.

In thousands of US dollars, unless otherwise stated

10. Other financial liabilities (continued)

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 months ended March 31, 2017, the amount recognized in foreign exchange gain on financing transactions was $2,463 (a $6,611 gain for the three months ended March 31, 2016). A 1% movement in the EUR/USD exchange rate applied to balances outstanding as at March 31, 2017 would, all else being equal, result in a change to the foreign exchange gain or loss on intercompany financing transactions of approximately $1,500.

In 2016, a subsidiary of the Company with the functional currency of British Pounds entered into a series of Euro to USD forward contracts with a notional amount equal to the USD interest payments related to the MMG Notes. The 2016 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 Euro to USD forward contracts of the Company. The changes in fair value and settled loss are included within finance costs, net (note 7). For the three months ended March 31, 2017, the amount reflected in finance costs was a charge of $22 (three months ended March 31, 2016 - $176).

Forward date	**April 25, 2016**	**October 25, 2016**	**April 25, 2017**	**October 25, 2017**
Reference currency	USD	USD	USD	USD
Notional	$2,500	$2,500	$2,500	$2,500
Forward rate	1.098	1.1033	1.0604	1.0649

Fair value

The book values of the Company's financial assets and financial liabilities approximate the fair values of such items as at March 31, 2017, with the following exceptions summarized below:

	March 31, 2017	**December 31, 2016**
9.25% Senior Unsecured Notes		
Book value	$347,399	$347,218
Fair value	$239,750	$208,460

The following table presents information about the Company's financial 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 March 31, 2017	**Total**	**Level 1 Quoted prices in active markets for identical assets**	**Level 2 Significant other observable inputs**	**Level 3 Significant unobservable inputs**
2014 First Lien Interest rate floor	$(442)	$-	$(442)	$-
USD forward contracts	(25)	-	(25)	-
Fair value as at December 31, 2016				
2014 First Lien Interest rate floor	$(346)	$-	$(346)	$-
USD forward contracts	(3)	-	(3)	-

In thousands of US dollars, unless otherwise stated

10. Other financial liabilities (continued)

There have been no transfers between any levels of the fair value hierarchy during the three months ended March 31, 2017 or during the comparative period. There were also no changes in the purpose of any liability that subsequently resulted in a different classification of that liability.

11. Share-based compensation

Equity-settled share options

The Company has a share option plan for its employees, directors and consultants, whereby share options may be granted subject to certain terms and conditions. The issuance of share options is determined by the Board of Directors of the Company. The aggregate number of shares of the Company that may be issued under the 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 value of the common shares on the date that the option is granted. Share options issued under the 2014 option plan vest at the rate of 33.3% on each of the three subsequent anniversaries of the grant date and are subject to the recipient remaining employed with the Company. All of the vested share options must be exercised no later than five years after the grant date. With the adoption of the Company's 2014 share option plan, on May 13, 2014, no further grants of options were made pursuant to the former option plans. Options previously granted under former plans will continue to vest. The Company uses the Black-Scholes option pricing model to determine the fair value of options issued.

The share-based compensation expense recognized for the three months ended March 31, 2017 relating to equity-settled share and option transactions was $95 (three months ended March 31, 2016 was a credit of $76).

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

	March 31, 2017		March 31, 2016	
	Number	**Price**	**Number**	**Price**
Outstanding at beginning of year	**9,353,300**	**$0.80**	**14,143,300**	**$1.22**
Forfeited / cancelled during the period	(50,000)	0.56	(3,400,000)	2.56
Outstanding at end of period	**9,303,300**	**0.80**	**10,743,300**	**0.79**
Exercisable at end of period	**7,409,140**	**$0.85**	**6,560,793**	**$0.90**

The following information relates to share options that were outstanding as at March 31, 2017:

Range of exercise prices	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price
$0.31-$1.50	8,828,300	3.75	$0.72
$1.51-$2.50	275,000	4.36	1.72
$2.51-$3.50	200,000	4.65	2.96
	9,303,300	**3.78**	**$0.80**

In thousands of US dollars, unless otherwise stated

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 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-US participants are entitled to redeem their DSUs for (a) common shares, net of withholdings, (b) as a cash payment equal to the fair value of the equivalent number of common shares, net of withholdings, or (c) a percentage of each. For DSUs granted to Non-US participants that are non-employee directors, a liability and an operating expense are recorded in the year DSUs are granted at fair value and changes in the fair value of outstanding DSUs at each reporting date are recorded as an operating expense in the period that they occur. DSUs granted to Non-US 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 statements of financial position. The liability is measured initially and subsequently fair valued at each reporting date through operating expenses until the liability is redeemed.

US participants are only entitled to receive their DSUs in the form of a cash payment equal to the fair 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 value to US participants that are non-employee directors are expensed immediately to share-based compensation expense with the offset to contributed surplus. DSUs granted at fair 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 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 months ended March 31, 2017 relating to DSU transactions was $3 (three months ended March 31, 2016 was a credit of $5). The share-based compensation expense recognized for the three months ended March 31, 2017 relating to DSU transactions was $74 (three months ended March 31, 2016 was $104).

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

	March 31, 2017 Number	March 31, 2016 Number
Outstanding at beginning of the year	**3,343,008**	**3,542,284**
Cancelled during the period	(64,468)	-
Outstanding at end of period	**3,278,540**	**3,542,284**
Vested at end of period	**1,235,424**	**210,693**

As at March 31, 2017, the 3,278,540 units outstanding consisted of 3,018,310 equity awards and 260,230 liability awards valued at $13 (March 31, 2016 – the 3,542,284 units outstanding consisted of 3,018,310 equity awards and 523,974 liability awards valued at $26).

Warrants

The following warrants were outstanding as at March 31, 2017:

	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 as at March 31, 2017 was immaterial.

In thousands of US dollars, unless otherwise stated

12. Contingencies (continued)

On April 2, 2015, SoundExchange filed suit against Muzak LLC ("Muzak") in the U.S. District Court for the District of Columbia (the "District Court") alleging that Muzak underpaid royalties for certain of its consumer residential music channels for satellite and cable television subscribers. SoundExchange argues that Muzak is not entitled to pay the royalty rate for "preexisting subscription services" ("PSS") for those transmissions. On March 8, 2016, the District Court granted Muzak's motion to dismiss the case, holding that Muzak was entitled to the PSS rate and therefore that it had not underpaid. SoundExchange appealed, and on April 25, 2017, the United States Court of Appeals for the District of Columbia Circuit (the "Appeals Court") reversed the District Court's ruling and held that certain transmissions by Muzak, which began in May 2014 and in respect of which a lower royalty rate was paid, may be ineligible for such lower royalty rate. SoundExchange had claimed damages against Muzak corresponding to the amount of the underpayment of royalties and late fees, which amount could exceed $10 million. No provision for any liability has been made in these financial statements as the Company does not believe the threshold for recording a liability in accordance with IAS 37, *Provisions, contingent liabilities and contingent assets*, has been met. The Company will continue to vigorously defend itself in this matter.

13. Shareholders' equity

Share capital

Share capital represents the number of common shares outstanding. As at March 31, 2017, an unlimited number of common shares with no par value were authorized. Share capital for the periods were as follows:

	Number of Shares	Amount
Balance as at December 31, 2016 and March 31, 2017	**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, 2016	**$213,979**
Sale of assets	(210)
Impairment	(3,575)
Net foreign exchange differences	(1,343)
Balance as at December 31, 2016	**208,851**
Net foreign exchange differences	407
Balance as at March 31, 2017	**$209,258**

In 2016, goodwill decreased by $210, which was the amount attributed to the assets sold in connection with the Company's sale of assets related to its speaker business. Additionally in 2016, the Company recognized an impairment charge of $3,575 on the goodwill allocated to Technomedia.

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 March 31, 2017

	In-store media North America	In-store media International	BIS	Other	Consolidated Group
Revenue	$62,059	$23,359	$13,996	$10,829	$110,243
Expenses					
Cost of sales	27,807	9,107	8,436	7,998	53,348
Operating expenses	16,525	11,342	4,815	3,642	36,324
Segment profit (loss) (i)	**$17,727**	**$2,910**	**$745**	**$(811)**	**$20,571**

Three months ended March 31, 2016

	In-store media North America	In-store media International	BIS	Other	Consolidated Group
Revenue	$62,612	$27,909	$13,299	$7,515	$111,335
Expenses					
Cost of sales	27,449	11,332	7,740	5,442	51,963
Operating expenses	16,689	12,373	4,741	3,749	37,552
Segment profit (loss) (i)	**$18,474**	**$4,204**	**$818**	**$(1,676)**	**$21,820**

In thousands of US dollars, unless otherwise stated

15. Segment information (continued)

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

	Three months ended March 31, 2017	Three months ended March 31, 2016
Segment profit (i)	**$20,571**	**$21,820**
Depreciation and amortization	15,102	16,567
Share-based compensation	169	28
Other expenses	1,903	6,064
Foreign exchange gain on financing transactions	(2,463)	(6,611)
Finance costs, net	14,757	15,845
Loss for the period before income taxes	**$(8,897)**	**$(10,073)**

(i) Segment profit 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.

Geographic areas

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

	Three months ended March 31, 2017	Three months ended March 31, 2016
US	$72,097	$69,529
Canada	182	326
Netherlands	12,063	11,945
Other international	25,901	29,535
Total revenue	**$110,243**	**$111,335**

Non-current assets

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

	March 31, 2017	December 31, 2016
US	$348,118	$354,720
International	90,384	92,008
Total non-current assets	**$438,502**	**$446,728**

In thousands of US dollars, unless otherwise stated

16. Subsequent events

On April 13, 2017, Mood Media announced that it entered into an arrangement agreement with affiliates of several key stakeholders, including an affiliate of certain funds managed by affiliates of Apollo Global Management, LLC (“Apollo”) (NYSE:APO) and funds advised or sub-advised by GSO Capital Partners LP or its affiliates (“GSO”) to effect a comprehensive transaction pursuant to which all of the issued and outstanding common shares of Mood Media will be acquired for C$0.17 in cash per share (the “Share Acquisition”) and certain of the Company’s significant debt obligations will be refinanced, restructured or redeemed. The C$0.17 cash price per common share represents a 162% premium over the closing price of the common shares of Mood Media on the Toronto Stock Exchange (the “TSX”) on April 12, 2017, and a 149% premium over the 20-day volume weighted average trading price on the TSX for the period prior to and including such date.

In connection with the Transaction, the Company’s US$350 million aggregate principal amount of 9.25% Senior Unsecured Notes, which are due 2020, will be exchanged for consideration, per US$1,000 principal amount, consisting of US$500 principal amount of newly issued second lien notes of the Company and up to 175 new common shares of the Company, as well as additional consideration, to the extent applicable, in connection with a new equity issuance. In addition, the Company will refinance its existing US$250 million 2014 First Lien Credit Facilities with a new US$315 million first lien credit facility to be provided by funds and accounts managed by HPS Investment Partners, LLC. The proceeds of the new credit facility will also be used to redeem the US$50 million aggregate principal amount MMG Notes due in 2023, in accordance with the indenture governing their terms. As part of the transaction, the Company will be redomiciled from Canada to Delaware. All such transactions, including the Share Acquisition, are collectively referred to as the “Transaction”.

Following completion of the Transaction, the Board will be comprised of directors nominated by an affiliate of funds affiliated with Apollo and certain funds advised or sub-advised by GSO, as well as Steve Richards, President and Chief Executive Officer of the Company. It is also anticipated that, following the completion of the Transaction, the Company will cease to be a reporting issuer under applicable Canadian securities laws and its securities will be delisted from the TSX. The Transaction is expected to close in June 2017.

Given the fact that the transaction close date is still pending and that the conditions of this event arose after the reporting period, the Company has deemed this a “non-adjusting” event. The accounting entries for this Transaction have not yet been determined and the Company’s provisional assessment of the changes in financial position will be completed in Q2 2017.

On May 2, 2017, the Company publicly announced the agreement to sell Audio Visual Solutions Holding B.V., Aplusk B.V., BIS Bedrijfs Informatie Systemen B.V., and BIS Business Information Systems N.V. (collectively, “BIS”) to Econocom Financial Services International B.V. for €18,554,212 in cash less escrow and fees. The sale of BIS represents the entirety of the Company’s BIS reportable segment as of March 31, 2017 referenced in note 15. Completion of the transaction is expected to occur at or around the beginning of June and is subject to regulatory approval and other customary conditions.