Consolidated Financial Statements

Mood Media Corporation

For the year ended December 31, 2013

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Mood Media Corporation

We have audited the accompanying consolidated financial statements of **Mood Media Corporation**, which comprise the consolidated statements of financial position as at December 31, 2013 and 2012, and the consolidated statements of loss, comprehensive loss, cash flows and changes in equity for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Mood Media Corporation** as at December 31, 2013 and 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Toronto, Canada
March 5, 2014

/s/ Ernst & Young LLP
Chartered Accountants
Licensed Public Accountants

Mood Media Corporation
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at December 31, 2013

In thousands of US dollars unless otherwise stated

	Notes	2013	2012
ASSETS			
Current assets			
Cash		$22,410	$46,384
Restricted cash		713	2,675
Trade and other receivables	18	97,974	96,511
Income tax receivable		1,418	-
Inventory	11	31,033	30,938
Prepaid expenses		11,924	9,329
Deferred costs		8,198	7,135
		173,670	**192,972**
Assets classified as held for sale	3,4,22	-	15,767
Total current assets		**173,670**	**208,739**
Non-current assets			
Deferred costs		8,623	8,591
Property and equipment	12	53,318	57,656
Other financial assets	17	97	3,210
Investment in associates		724	621
Intangible assets	13	311,261	341,232
Goodwill	14	264,142	330,982
Total assets		**811,835**	**951,031**
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	18	115,038	104,016
Income tax payable		3,219	1,217
Deferred revenue		15,432	13,064
Other financial liabilities	17	1,091	8,788
Current portion of long-term debt	16	2,132	2,132
		136,912	**129,217**
Liabilities directly associated with assets classified as held for sale	3,4,22	-	9,645
Total current liabilities		**136,912**	**138,862**
Non-current liabilities			
Deferred revenue		7,253	7,249
Deferred tax liabilities	19	38,735	34,431
Other financial liabilities	17	6,638	29,457
Long-term debt	16	597,062	586,183
Total liabilities		**786,600**	**796,182**
Equity			
Share capital	21	323,318	323,318
Contributed surplus		33,209	30,934
Foreign exchange translation reserve		5,656	2,163
Deficit		(337,176)	(204,669)
Reserves of a disposal group held for sale		-	1,510
Equity attributable to owners of the parent		**25,007**	**153,256**
Non-controlling interests		228	1,593
Total equity		**25,235**	**154,849**
Total liabilities and equity		**$811,835**	**$951,031**
Commitments and contingencies	24		

The accompanying notes form part of the consolidated financial statements

On behalf of the Board of Directors*:*

Steve Richards
CEO, President and Director

Harvey Solursh
Director and Audit Committee Chairman

Mood Media Corporation
CONSOLIDATED STATEMENTS OF INCOME (LOSS)

For the year ended December 31, 2013

In thousands of US dollars unless otherwise stated

	Notes	2013	2012
Continuing operations			
Revenue	5	**$513,270**	**$443,823**
Expenses			
Cost of sales (excludes depreciation and amortization)		233,877	183,759
Operating expenses		175,891	148,404
Depreciation and amortization	12,13	69,182	57,856
Impairment of goodwill	15	75,000	-
Share-based compensation	20	2,275	3,758
Other expenses	6	30,791	39,812
Foreign exchange gain on financing transactions		(6,979)	(1,428)
Finance costs, net	7	38,279	51,045
Loss for the year before taxes		**(105,046)**	**(39,383)**
Income tax charge (credit)	9	7,773	(14,219)
Loss for the year from continuing operations		**(112,819)**	**(25,164)**
Discontinued operations			
Loss after tax from discontinued operations	22	(16,419)	(54,067)
Loss for the year		**(129,238)**	**(79,231)**
Attributable to:			
Owners of the parent		(129,549)	(79,502)
Non-controlling interests		311	271
		$(129,238)	**$(79,231)**
Net earnings (loss) per share			
Basic and diluted	10	$(0.75)	$(0.50)
Basic and diluted from continuing operations	10	(0.66)	(0.16)
Basic and diluted from discontinued operations	10	(0.10)	(0.34)

The accompanying notes form part of the consolidated financial statements

Mood Media Corporation
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the year ended December 31, 2013

In thousands of US dollars unless otherwise stated

	2013	2012
Loss for the year	**$(129,238)**	**$(79,231)**
Items that may be reclassified subsequently to the loss for the year		
Exchange differences on translation of foreign operations	3,504	2,905
Amounts recognized through the consolidated statements of income (loss)	(1,510)	-
Other comprehensive income for the year, net of tax	**1,994**	**2,905**
Total comprehensive loss for the year, net of tax	**(127,244)**	**(76,326)**
Attributable to:		
Owners of the parent	(127,566)	(76,635)
Non-controlling interests	322	309
	$(127,244)	**$(76,326)**

The accompanying notes form part of the consolidated financial statements

Mood Media Corporation
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the year ended December 31, 2013

In thousands of US dollars unless otherwise stated

	Notes	2013	2012
Operating activities			
Loss for the year before taxes - continuing operations		$(105,046)	$(39,383)
Loss for the year before taxes - discontinued operations	22	(16,419)	(53,353)
		(121,465)	**(92,736)**
Non-cash adjustment to reconcile loss for the year before taxes to net cash flows			
Depreciation and impairment of property and equipment	12	28,009	38,284
Amortization and impairment of intangible assets and goodwill	13,14	117,093	55,608
Profit on disposal of property and equipment		-	(1,233)
Share-based compensation	20	2,275	3,758
Loss on disposal of discontinued operations	22	9,078	-
Finance costs, net and foreign exchange from financing		33,842	48,829
Working capital adjustments			
Decrease (increase) in trade and other receivables		3,367	(4,809)
Decrease (increase) in inventories		508	(3,895)
Decrease in trade and other payables		(3,160)	(9,726)
Decrease (increase) in deferred revenue		2,148	(5,703)
		71,695	**28,377**
Income tax paid		(3,919)	(7,301)
Interest received		51	144
Net cash flows from operating activities		**67,827**	**21,220**
Investing activities			
Purchase of property and equipment and intangible assets		(32,689)	(37,958)
Acquisition of businesses, net of cash acquired		(7,921)	(120,204)
Proceeds from disposal of discontinued operations		2,000	-
Proceeds from disposal of property and equipment		156	1,111
Net cash flows used in investing activities		**(38,454)**	**(157,051)**
Financing activities			
Repayment of borrowings		(2,132)	(243,197)
Transaction costs on issue of common shares	21	-	(5,427)
Proceeds from debt facilities	16	10,000	350,000
Proceeds from private placement	21	-	143,601
Proceeds from exercise of share options	21	-	560
Finance lease payments		(1,553)	(1,623)
Financing costs paid		(1,360)	(8,942)
Cost of settlement of credit facilities	7	-	(4,800)
Interest paid		(52,499)	(37,442)
Proceeds from exercise of warrants	17	-	6,500
Cost of settlement of interest rate swap	7	(1,577)	-
Dividends paid to non-controlling interest		(645)	(467)
Repayment of loans to former DMX shareholders and debtholders	23	-	(32,267)
Acquisition of non-controlling interest	21	(4,000)	-
Net cash flows from (used in) financing activities		**(53,766)**	**166,496**
Net increase (decrease) in cash		**(24,393)**	**30,665**
Net foreign exchange gain		**419**	**13**
Cash at beginning of year		**46,384**	**15,706**
Cash at end of year		**$22,410**	**$46,384**

The accompanying notes form part of the consolidated financial statements

Mood Media Corporation
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the year ended December 31, 2013

In thousands of US dollars unless otherwise stated

	Notes	Share Capital	Contributed Surplus	Foreign Exchange Translation Reserve	Deficit	Discontinued Operations	Total	Non-Controlling Interests	Total Equity
As at January 1, 2013		**$323,318**	**$30,934**	**$2,163**	**$(204,669)**	**$1,510**	**$153,256**	**$1,593**	**$154,849**
Income (loss) for the period		-	-	-	(129,549)	-	(129,549)	311	(129,238)
Translation of foreign operations		-	-	3,493	-	-	3,493	11	3,504
Discontinued operations		-	-	-	-	(1,510)	(1,510)	-	(1,510)
Total comprehensive income (loss)		**-**	**-**	**3,493**	**(129,549)**	**(1,510)**	**(127,566)**	**322**	**(127,244)**
Share-based compensation	20	-	2,275	-	-	-	2,275	-	2,275
Dividends paid to non-controlling interests		-	-	-	-	-	-	(645)	(645)
Acquisition of non-controlling interest	23	-	-	-	(2,958)	-	(2,958)	(1,042)	(4,000)
As at December 31, 2013		**$323,318**	**$33,209**	**$5,656**	**$(337,176)**	**$ -**	**$25,007**	**$228**	**$25,235**

The accompanying notes form part of the consolidated financial statements

Mood Media Corporation
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the year ended December 31, 2012

In thousands of US dollars unless otherwise stated

	Notes	Share Capital	Contributed Surplus	Foreign Exchange Translation Reserve	Deficit	Discontinued operations	Total	Non-Controlling Interests	Total Equity
As at January 1, 2012		**$171,912**	**$27,204**	**$806**	**$(125,167)**	**$-**	**$74,755**	**$154**	**$74,909**
Income (loss) for the year		-	-	-	(79,502)	-	(79,502)	271	(79,231)
Translation of foreign operations		-	-	2,867	-	-	2,867	38	2,905
Discontinued operations		-	-	(1,510)	-	1,510	-	-	-
Total comprehensive income (loss)		**-**	**-**	**1,357**	**(79,502)**	**1,510**	**(76,635)**	**309**	**(76,326)**
Share-based compensation	20	-	3,758	-	-	-	3,758	-	3,758
Fair value of non-controlling interests acquired	23	-	-	-	-	-	-	1,597	1,597
Dividends paid to non-controlling interests		-	-	-	-	-	-	(467)	(467)
Issue of share capital	20	143,601	-	-	-	-	143,601	-	143,601
Transaction costs on issue of share capital	20	(5,427)	-	-	-	-	(5,427)	-	(5,427)
Exercise of warrants	20	12,308	-	-	-	-	12,308	-	12,308
Exercise of share options	20,21	560	-	-	-	-	560	-	560
Conversion of debentures	20	364	(28)	-	-	-	336	-	336
As at December 31, 2012		**$323,318**	**$30,934**	**$2,163**	**$(204,669)**	**$1,510**	**$153,256**	**$1,593**	**$154,849**

The accompanying notes form part of the consolidated financial statements

In thousands of US dollars unless otherwise stated

1. Corporate information

Mood Media Corporation ("Mood Media" or the "Company") is a publicly traded company on the Toronto Stock Exchange and the London Alternative Investment Market and is domiciled and incorporated in Canada. The Company's registered office is located at 199 Bay Street, Toronto, Ontario, Canada.

The Company provides in-store audio, visual and scent marketing solutions to a range of businesses including specialist retailers, department stores, supermarkets, financial institutions and fitness clubs, as well as hotels and restaurants. Proprietary technology and software are used to deploy music from a compiled music library to client sites. This library comes from a diverse network of producers including major labels and independent and emerging artists.

2. Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations issued and effective or issued and early adopted as at the date of these consolidated financial statements. The policies set out below have been consistently applied to all the periods presented.

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

These consolidated financial statements of the Company were approved by the Board of Directors and authorized for issue on March 5, 2014.

3. Summary of estimates, judgments and assumptions

The preparation of the Company's 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 consolidated financial statements. However, uncertainty about these estimates, judgments and assumptions could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below. The Company based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes will be reflected in the assumptions when they occur.

In thousands of US dollars unless otherwise stated

3. Summary of estimates, judgments and assumptions (continued)

Goodwill and indefinite-lived intangible assets

The Company performs asset impairment assessments for indefinite-lived intangible assets and goodwill on an annual basis or on a more frequent basis when circumstances indicate impairment may have occurred. Under IFRS, the Company selected October 1 as the date when it performs its annual impairment analysis. Impairment calculations under IFRS are done at a cash generating unit ("CGU") group level. Calculations use a discounted cash flow method under a one step approach and consider the relationship between the Company's market capitalization and its book value. Goodwill is allocated and tested in conjunction with its related CGU or group of CGUs that benefit from collective synergies. The assessments used to test for impairment are based on discounted cash flow projections that include assumptions about growth rates and other future events. Industry information is used to estimate appropriate discount rates used in the calculation of discounted cash flows.

The fair value less costs to sell ("FVLCS") calculation is based on a discounted cash flow model. The cash flows are derived from a five year forecast based on growth rate assumptions and discount rates appropriate to the calculation. The recoverable amount is sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different CGUs or groups of CGUs are disclosed and further explained in note 15.

Property and equipment

The Company has estimated the useful lives of the components of all of its property and equipment based on past experience and industry norms, and is depreciating these assets over their estimated useful lives. Management assesses these estimates on a periodic basis and makes adjustments when appropriate. Rental equipment installed at customer premises includes costs directly attributable to the installation process. Judgment is required in determining which costs are considered directly attributable to the installation process and the percentage capitalized is estimated based on work order hours for the year.

Impairment of long-lived assets

Long-lived assets primarily include property and equipment and intangible assets. An impairment loss is recognized when the carrying value of the CGU, which is defined as a unit that has independent cash inflows to which the asset relates, exceeds the CGU's fair value, which is determined using a discounted cash flow method. The Company tests the recoverability of its long-lived assets when events or circumstances indicate that the carrying values may not be recoverable. While the Company believes that no provision for impairment is required, management must make certain estimates regarding the Company's profit projections that include assumptions about growth rates and other future events. Changes in certain assumptions could result in charging future results with an impairment loss.

3. Summary of estimates, judgments and assumptions (continued)

Fair value of share-based compensation

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date on which they are granted. Estimating fair value for share-based compensation transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility, dividend yield and forfeiture rates and making assumptions about them. The assumptions and models used for estimating fair value for share-based compensation transactions are disclosed in note 20.

Fair value of financial instruments

When the fair value of financial assets and financial liabilities recorded in the consolidated statements of financial position cannot be derived from active markets, the fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible. Where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include consideration of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Contingencies

Contingencies, by their nature, are subject to measurement uncertainty as the financial impact will only be confirmed by the outcome of a future event. The assessment of contingencies involves a significant amount of judgment including assessing whether a present obligation exists and providing a reliable estimate of the amount of cash outflow required in settling the obligation. The uncertainty involved with the timing and amount at which a contingency will be settled may have a material impact on the consolidated financial statements of future periods to the extent that the amount provided for differs from the actual outcome.

Fair value measurement of contingent consideration

Contingent consideration resulting from business combinations is valued at fair value at the acquisition date as part of the business combination. When the contingent consideration is considered a financial liability, it is subsequently remeasured to fair value at each reporting date. The determination of the fair value is based on discounted cash flows. The key assumptions take into consideration the probability of meeting each performance target and the discount factor. Throughout the year, the Company updated the assumptions on the contingent consideration payable to the former owners of Muzak (note 17).

3. Summary of estimates, judgments and assumptions (continued)

Inventory obsolescence

The Company's obsolescence provision is determined at each reporting period and the changes recorded in the consolidated statements of income (loss). This calculation requires the use of estimates and forecasts of future sales. Qualitative factors including market presence and trends, strength of customer relationships as well as other factors, are considered when making assumptions with regard to recoverability. A change in any of the significant assumptions or estimates used could result in a material change to the provision.

Leases

The determination of whether an arrangement with a customer is, or contains, a lease is based on the substance of the arrangement at the inception date, whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset even if that right is not explicitly specified in an arrangement.

Income taxes

Tax regulations and legislation and the interpretations thereof in the various jurisdictions in which the Company operates are subject to change. As such, income taxes are subject to measurement uncertainty. Deferred tax assets are recognized to the extent that it is probable that the deductible temporary differences will be recoverable in future periods. The recoverability assessment involves a significant amount of estimation including an evaluation of when the temporary differences will reverse, an analysis of the amount of future taxable earnings, the availability of cash flow to offset the tax assets when the reversal occurs and the application of tax laws. To the extent that the assumptions used in the recoverability assessment change, there may be a significant impact on the consolidated financial statements of future periods.

Discontinued operations

During March 2012, the Company decided to dispose of Mood Media Entertainment Limited ("MME"). On May 31, 2013, the Company sold substantially all the assets of MME for proceeds of $2,000. As part of the disposition, the Company is exiting any residual activities (note 22).

In the consolidated statements of income (loss), revenue and expenses from discontinued operations are reported separately from revenue and expenses from continuing operations, down to the level of loss after taxes. The resulting loss after taxes is reported separately in the consolidated statements of income (loss).

In thousands of US dollars unless otherwise stated

4. Summary of significant accounting policies

Basis of measurement and principles of consolidation

The 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 consolidated statements of income (loss) and within equity in the consolidated statements of financial position.

The consolidated financial statements have been prepared on a historical cost basis except for derivative financial instruments, compensation warrants and contingent consideration, which are measured at fair value as detailed in the accounting policies set out below.

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at the acquisition date fair value, and the amount of any non-controlling interest in the acquiree. Acquisition costs incurred are expensed and included in other expenses in the consolidated statements of income (loss). When the Company acquires a business, it assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions at the acquisition date. Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability will be recognized in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*, either in the consolidated statements of income (loss) or as a charge to other comprehensive income.

In thousands of US dollars unless otherwise stated

4. Summary of significant accounting policies (continued)

Foreign currency translation

The consolidated financial statements are presented in US dollars, which is the Company's functional currency. Each subsidiary consolidated by the Company determines its own functional currency based on the primary economic environment in which the subsidiary operates.

Transactions in foreign currencies are initially recorded by subsidiaries in their respective functional currency on the date of the transaction. Monetary assets and liabilities denominated in a foreign currency are translated at the exchange rate in effect at the date of the consolidated financial statements. Other non-monetary assets and liabilities are translated at their historical exchange rates. Revenue and expenses are translated at average exchange rates prevailing during the year. Gains and losses resulting from foreign currency transactions are recorded in the consolidated statements of income (loss).

Assets and liabilities of subsidiaries with functional currencies other than US dollars are translated at the exchange rate in effect at the date of the consolidated financial statements. Revenue and expense items are translated at the average rate of exchange during the period date of the consolidated financial statements. Exchange gains or losses arising from the translation of these subsidiaries are included as part of other comprehensive income (loss).

Cash and restricted cash

Cash includes cash on hand and balances with banks. Restricted cash is used to collateralize outstanding letters of credit which serve as collateral for various bonds ranging from performance bonds to wage bonds.

Trade receivables

Trade receivables are carried at amounts due, net of a provision for amounts estimated to be uncollectible.

Inventory

Inventory is valued at the lower of cost and net realizable value. Equipment for resale is valued at weighted average cost. Finished goods and components are valued at the standard cost of inventory, which approximates the first-in, first-out basis net of an allocation of volume rebates and other payments received from suppliers. Provisions are made for slow moving and obsolete inventory. Reversals of previous write-downs to net realizable value are required when there is a subsequent increase in the value of the inventory.

In thousands of US dollars unless otherwise stated

4. Summary of significant accounting policies (continued)

Property and equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the remaining estimated useful lives of the assets as outlined below:

Furniture, fittings and leasehold improvements	2 – 5 years
Rental equipment	3 – 5 years
Computer and other equipment	1 – 3 years
Vehicles	3 years

Leasehold improvements are amortized on a straight-line basis over the remaining terms of the leases. Depreciation only commences once the asset is in use.

The useful lives, method of depreciation and the assets' residual values are reviewed at least annually and the depreciation charge is adjusted prospectively, if appropriate.

Intangible assets

Intangible assets are assets acquired that lack physical substance and that meet the specified criteria for recognition apart from goodwill. Intangible assets acquired mainly consist of brands, customer relationships, music library and technology platforms and software. Intangible assets are amortized on a straight-line basis as outlined below:

Customer relationships	5 – 15 years
Music library	5 – 10 years
Technology platforms and software	3 – 10 years
Brands	5 years – Indefinite

Residual values and useful lives are reviewed at least annually and are adjusted, if appropriate.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired business or equity method investee at the date of acquisition. If this consideration is lower than the fair value of the net assets acquired, the difference is recognized in the consolidated statements of income (loss). After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's CGUs or group of CGUs that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

4. Summary of significant accounting policies (continued)

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statements of income (loss), net of any reimbursement.

Deferred revenue and deferred cost of goods sold

The Company may invoice certain subscribers in advance for contracted music services. Amounts received in advance of the service period are deferred and recognized as revenue in the period services are provided.

The Company recognizes revenue and related deferred cost of sales from proprietary equipment sales over the life of the related contract.

Customer acquisition costs

The Company incurs direct and incremental sales commissions in connection with acquiring new customers. As the Company obtains recurring contracts from new customers, the sales commissions are capitalized as part of deferred costs and amortized as a component of operating expenses over the term of the related contract. If a contract is terminated early, any remaining deferred sales commissions are expensed to reflect the termination of the customer contract.

Company as a lessee

Finance leases that transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item are capitalized at the commencement of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs, net in the consolidated statements of income (loss). A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognized as an operating expense in the consolidated statements of income (loss) on a straight-line basis over the lease term.

In thousands of US dollars unless otherwise stated

4. Summary of significant accounting policies (continued)

Financial assets and financial liabilities

The Company classifies its financial assets and liabilities into the following categories:

- Financial assets and financial liabilities at fair value through profit or loss;
- Loans and receivables; and
- Other financial assets and other financial liabilities.

The Company has not classified any financial instruments as available for sale. Appropriate classification of financial assets and financial liabilities is determined at the time of initial recognition or when reclassified on the consolidated statements of financial position. Financial instruments classified as fair value through profit or loss are recognized on the trade date, which is the date that the Company commits to purchase or sell the asset or liability.

i) Financial assets and financial liabilities at fair value through profit or loss

The Company classifies certain financial assets and financial liabilities as either held for trading or designated at fair value through profit or loss. Assets and liabilities in this category include derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships and compensation warrants. Financial assets and financial liabilities at fair value through profit or loss are carried at fair value. Related realized and unrealized gains and losses are included in the consolidated statements of income (loss).

ii) Loans and receivables

Loans and receivables include originated and purchased non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Assets in this category include trade receivables and are classified as current assets on the consolidated statements of financial position.

Loans and receivables are initially recognized at fair value plus transaction costs. They are subsequently measured at amortized cost using the effective interest rate method less any impairment. Receivables are reduced by provisions for estimated bad debts.

iii) Other financial liabilities

Other financial liabilities include trade and other payables and long-term debt instruments, including convertible debentures, and are measured at amortized cost using the effective interest rate method. Long-term debt instruments are initially measured at fair value, which is the consideration received, net of transaction costs incurred. Transaction costs related to the long-term debt instruments are netted against the carrying value of the instruments and amortized using the effective interest rate method.

4. Summary of significant accounting policies (continued)

Determination of fair value

The Company categorizes its fair value measurements according to a three-level hierarchy. The hierarchy prioritizes the inputs used by the Company's valuation techniques. A level is assigned to each fair value measurement based on the lowest level input significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are defined as follows:

Level 1 - Unadjusted quoted prices at the measurement date for identical assets or liabilities in active markets.

Level 2 - Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 - Significant unobservable inputs that are supported by little or no market activity.

Derivatives and hedges

Derivative instruments are recorded in the consolidated statements of financial position at fair value unless exempted from derivative treatment as a normal purchase and sale. Changes in the fair value are recorded in the consolidated statements of income (loss) unless cash flow hedge accounting is used, in which case changes in fair value are recorded in the consolidated statements of comprehensive income (loss).

Revenue recognition

Revenues are derived from the sale of goods, the rendering of services and from royalty income. The sale of goods includes the sale of proprietary and non-proprietary equipment. Rendering of services primarily relates to the provision of music and visual content, messaging, maintenance and installation services and the rental of proprietary equipment. Royalty income is earned from the music libraries that are owned by the Company.

Revenue is recognized when persuasive evidence of an arrangement exists, prices are fixed or determinable, collectability is reasonably assured and services have been rendered. Revenue from music and messaging services is recognized during the period that the service is provided based on the contract terms. As part of its arrangements for in-store media, the Company provides customers with a proprietary media player that is integral and essential to the related services. This equipment may be sold or leased to customers. Revenue from proprietary equipment sales is deferred and recognized over the contract term. Revenue for equipment sales of non-proprietary equipment is recognized upon installation. Contracts are typically for a multi-year, non-cancellable period. Royalty revenue is recognized on an accrual basis when collection is reasonably assured. Installation revenue relating to proprietary equipment is deferred and recognized over the term of the contract.

In thousands of US dollars unless otherwise stated

4. Summary of significant accounting policies (continued)

Revenue recognition (continued)

Revenue for media solution projects for which costs can be reasonably estimated and/or the duration of the underlying project is longer than one accounting period are recognized using the percentage of completion method. This method involves the ongoing recognition of revenue and income related to longer-term projects so that a portion from a project can properly be recorded in every accounting period. For these projects, revenue recognized corresponds to the total contract revenue multiplied by the actual completion rate based on the proportion of total contract costs incurred to date and the estimated costs to complete.

Share-based compensation

The Company accounts for share-based awards that require the Company to measure and recognize compensation expense for all share-based compensation awards made to employees, consultants and directors based on estimated fair values. The fair value of share-based compensation is determined using the Black-Scholes option pricing model, which is affected by the Company's share price as well as assumptions regarding a number of variables on the date of grant.

A forfeiture rate is incorporated into the Company's share-based assumptions. Forfeitures are estimated at the time of grant and are based on historical experience. To the extent that the actual forfeiture rate is different from our estimate, share-based compensation related to these awards will be different from our expectation and forfeiture rates for subsequent periods are revised.

Employee share-based compensation is expensed using the straight-line method for each individual tranche over the vesting period. The offsetting entry to the share-based compensation expense is an increase to contributed surplus. Where applicable, non-employee share-based compensation is measured at the earlier of completion of performance, when a performance commitment is reached or when the options have vested. Non-employee share-based compensation is expensed in the same manner and in the same period as if the Company had paid cash for the services.

Earnings (loss) per share

Earnings (loss) per share amounts are calculated by dividing the net earnings (loss) for the year attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share amounts are calculated by dividing the net results attributable to common shareholders of the Company (after adjusting for interest on the convertible debentures) by the weighted average number of common shares outstanding during the year plus the weighted average number of common shares that would be issued on conversion of all the dilutive potential common shares into common shares.

In thousands of US dollars unless otherwise stated

4. Summary of significant accounting policies (continued)

Impairment of non-financial assets

Assets that have an indefinite useful life (for example, goodwill) are not subject to amortization and are tested annually for impairment or more frequently when conditions indicating impairment exist.

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash inflows (CGUs). An impairment loss is recognized for the amount by which the asset or CGU's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset or CGU's fair value less costs to sell and value in use. Value in use is determined by discounting estimated future cash flows using a pre-tax discount rate that reflects the current market assessment of the time value of money and the specific risks of the asset.

In determining fair value less costs to sell, recent market transactions are taken into account, if available.

If no such transactions can be identified, an appropriate valuation model has to be used. The recoverable amount of assets that do not generate independent cash inflows is determined based on the CGU to which the asset belongs.

The Company bases its impairment calculation on detailed budgets, forecast calculations, quoted market prices or other valuation techniques, or a combination thereof, necessitating management to make subjective judgments and assumptions.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses, for assets other than goodwill, may no longer exist or may have decreased.

Goodwill is allocated to CGUs or a group of CGUs for the purpose of impairment testing based on the level at which management monitors it, which is not larger than an operating segment. Impairment losses relating to goodwill cannot be reversed in future periods.

4. Summary of significant accounting policies (continued)

Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the receivables or a group of receivables is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Taxation

Current income tax assets and liabilities in the consolidated financial statements are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statements of income (loss). Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and at the time of the transaction affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries and associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

In thousands of US dollars unless otherwise stated

4. Summary of significant accounting policies (continued)

Taxation (continued)

Deferred tax assets are recognized for all deductible temporary differences and carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized, except where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

In respect of deductible temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year in which the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income (loss) or directly in equity. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognized subsequently if new information about facts and circumstances change. The adjustment would either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it is incurred during the measurement period or in profit or loss.

In thousands of US dollars unless otherwise stated

4. Summary of significant accounting policies (continued)

Discontinued operations

In the consolidated statements of income (loss), revenue and expenses from discontinued operations are reported separately from revenue and expenses from continuing operations, down to the level of income (loss) after taxes. The resulting income or loss (after taxes) is reported separately in the consolidated statements of income (loss).

The consolidated statements of cash flows have been presented inclusive of all cash flows from both continuing and discontinued operations. Amounts relating solely to discontinued operations' operating and investing activities are disclosed in note 22.

4. Summary of significant accounting policies (continued)

New standards, interpretations and amendments adopted

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

IAS 1, Presentation of Financial Statements

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that would be reclassified (or recycled) to profit or loss at a future point in time are to be presented separately from items that will never be reclassified.

IFRS 10, Consolidated Financial Statements

IFRS 10 replaced the portion of IAS 27, *Consolidated and Separate Financial Statements* that addressed the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 *Consolidation - Special Purpose Entities*. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 require management to exercise significant judgment to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements of IAS 27. There has been no impact to the Company's consolidated financial statements following the adoption of this standard.

IFRS 11, Joint Arrangements

IFRS 11 replaced IAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly-controlled Entities - Non-monetary Contributions by Ventures*. IFRS 11 removes the option to account for jointly controlled entities ("JCEs") using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. There has been no impact to the Company's consolidated financial statements following the adoption of this standard.

IFRS 12, Disclosure of Involvement with Other Entities

IFRS 12 includes all of the disclosures that were previously included in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31, IAS 28, SIC-12 and SIC-13. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The amendment has had no impact on the presentation or the Company's financial position or performance.

IFRS 13, Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The standard has had no impact on the Company's financial position or performance.

4. Summary of significant accounting policies (continued)

IAS 28, Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates.

Amendments to IAS 32, Offsetting Financial Assets and Financial Liabilities; and IFRS 7, Financial Instruments: Disclosures

The amendments in IAS 32 clarify certain items regarding offsetting financial assets and financial liabilities and IFRS 7 addresses common disclosure requirements. The amendments are to be applied retrospectively and will be effective for annual periods commencing on or after January 1, 2013 for IFRS 7 and January 1, 2014 for IAS 32, with earlier application permitted. The amendment affects presentation only and has no impact on the Company's financial position or performance.

New standards, interpretations and amendments thereof not yet effective

Standards issued but not yet effective up to the date of issuance of the Company's consolidated financial statements are listed below. This listing of standards and interpretations issued are those that the Company reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date.

The Company intends to adopt these standards when they become effective.

Amendments to IAS 32, Offsetting Financial Assets and Financial Liabilities

The amendments in IAS 32 clarify certain items regarding offsetting financial assets and financial liabilities. The amendments are to be applied retrospectively and will be effective for annual periods commencing on or after January 1, 2014 with earlier application permitted. The amendment affects presentation only and will have no impact on the Company's financial position or performance.

Amendments to IAS 36, Impairment of Assets

These narrow-scope amendments to IAS 36 address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The amendments are to be applied retrospectively for annual periods beginning on or after January 1, 2014. Earlier application is permitted for periods when the entity has already applied IFRS 13. The Company will continue to assess any impact on its financial position or performance.

4. Summary of significant accounting policies (continued)

IFRS 9, Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the International Accounting Standards Board's work on the replacement of IAS 39 and applies to the classification and measurement of financial assets and financial liabilities as defined in IAS 39. The mandatory date of adoption for this standard has not been set. The Company will continue to assess any impact on the classification and measurement of the Company's financial assets, as well as any impact on the classification and measurement of financial liabilities.

In thousands of US dollars unless otherwise stated

5. Revenue

The composition of revenue is as follows:

	2013	**2012**
Rendering of services	$357,197	$328,979
Sale of goods	153,482	111,172
Royalties	2,591	3,672
	$513,270	**$443,823**

In thousands of US dollars unless otherwise stated

6. Other expenses

	2013	2012
Transaction costs (i)	$11,106	$20,402
Restructuring and integration costs (ii)	19,685	19,410
	$30,791	**$39,812**

(i) Transaction costs incurred during 2013 primarily relate to the Company's strategic and operational review. Transaction costs incurred during 2012 were associated with acquisitions. During 2012 the Company acquired DMX, BIS, ICI and Technomedia and in 2013 the Company acquired the remaining non-controlling interests of one of DMX's subsidiaries (note 23).

	2013	2012
Legal and professional fees	$4,928	$6,255
Consultant fees	3,217	5,477
Employee bonuses	-	3,195
Other transaction costs (a)	2,961	5,475
	$11,106	**$20,402**

(a) Other transaction costs include travel related to the strategic and operational review in addition to miscellaneous expenses incurred during and after our acquisitions.

(ii) Restructuring and integration costs consist of severance costs, information technology integration, relocation expenses, rebranding and other integration and transition activities. These restructuring and integration activities are as a result of integrating various businesses, primarily Muzak, DMX and Mood Europe. Other integration costs in 2013 also include $3,970, for a settlement of independent affiliate arrangements that were revised to resolve matters arising from integrating various acquired businesses.

	2013	2012
Severance costs	$9,455	$14,564
Other integration costs	10,230	4,846
	$19,685	**$19,410**

In thousands of US dollars unless otherwise stated

7. Finance costs, net

	2013	2012
Interest expense	$52,863	$44,047
Change in fair value of financial instruments (i)	(1,314)	(8,186)
Change in fair value of deferred and contingent consideration (ii)	(17,554)	(7,865)
Cost of settlement of credit facility (iii)	-	17,745
Other finance costs, net (iv)	4,284	5,304
	$38,279	**$51,045**

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

	2013	2012
Cross-currency interest rate swap (a)	$ (699)	$(630)
Interest rate floor (b)	(3,727)	(9,395)
Interest rate cap (c)	9	244
Prepayment option (d)	3,103	-
Compensation warrants	-	1,595
	($1,314)	**$(8,186)**

(a) The Company entered into a cross-currency interest rate swap on June 4, 2010, which matured on June 4, 2013. The cross-currency interest rate swap had a historical notional amount of $32,375 that converted Euros into US dollars at a foreign exchange rate of 1.2350 and converted floating interest to a fixed rate of 8.312%. The change in the fair value from January 1, 2013 to maturity on June 4, 2013 was a gain of $699, which has been recognized within finance costs, net in the consolidated statements of income (loss). The fair value on maturity was $1,577, which was settled on June 4, 2013 (note 17).

(b) In accordance with the Company's First Lien credit agreement, the Company entered into an arrangement whereby LIBOR would have a minimum floor of 1.50%. However, at the time of entering this credit agreement, LIBOR was 0.25%. Under IFRS, the interest rate floor is considered an embedded derivative and is fair valued at the date of issuance and at each subsequent reporting period. Any change in fair value is included within finance costs, net in the consolidated statements of income (loss). The change in the fair value during the year ended December 31, 2013 was a credit of $3,727 (2012 - credit of $9,395) (note 17).

(c) In accordance with the Company's First Lien credit agreement, the Company has entered into an arrangement where the Company capped LIBOR at 3.5% for 50% of the credit facility. Any changes in fair value in the interest rate cap are recorded as finance costs, net in the consolidated statements of income (loss). The change in the fair value during the year ended December 31, 2013 was $9 (2012 - $244) (note 17).

In thousands of US dollars unless otherwise stated

7. Finance costs, net (continued)

(d) The Company has the right to prepay the 9.25% Senior Unsecured Notes early, but will incur a penalty depending on the date of settlement. The prepayment option has been treated as an embedded derivative financial instrument under IFRS. On initial recognition, the prepayment option was ascribed a fair value of $3,200 and is recorded within other financial assets in the consolidated statements of financial position (note 17). On initial recognition, the carrying value of the Notes was increased by the same amount, which is amortized over the term of the Notes.

The prepayment option is fair valued at each reporting date and any change in the fair value is recognized within finance costs, net in the consolidated statements of income (loss). The change in the fair value during the year ended December 31, 2013 was $3,103 (2012 - $nil).

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

	2013	**2012**
ICI deferred consideration	$574	$-
Muzak contingent consideration	(18,128)	(7,865)
	($17,554)	**$(7,865)**

(iii) Cost of settlement of credit facility consists of:

	2013	**2012**
Accelerated discount for deferred financing costs	$-	$7,427
Non-cash discount for the interest rate floor	-	5,518
Early settlement fee	-	4,800
	$-	**$17,745**

The 2012 cost of settlement are a result of the repayments made to the First and Second Lien term loans following the closing of the 9.25% Senior Unsecured Notes (note 16).

(iv) Other finance costs, net consist of:

	2013	**2012**
Accretion interest on convertible debentures	$1,576	$1,432
Accretion of the First Lien credit facilities	1,222	2,117
Accretion of the 9.25% Senior Unsecured Notes	1,101	223
Accretion of debt related to the interest rate floor	888	1,711
Amortization of the debt premium arising from the prepayment option	(417)	(80)
Other (a)	(86)	(99)
	$4,284	**$5,304**

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

In thousands of US dollars unless otherwise stated

8. Employee benefits expenses

	2013	2012
Wages and salaries	$88,228	$83,019
Benefits	17,684	20,038
	$105,912	**$103,057**

In thousands of US dollars unless otherwise stated

9. Income tax

	2013	2012
Current tax expense		
Current tax on income for the year	$4,503	$5,240
Total current tax	**$4,503**	**$5,240**
Deferred tax expense		
Origination and reversal of temporary differences	$3,270	$(1,338)
Recognition of previously unrecognized deferred tax assets (a)	-	(18,121)
Total deferred tax credit (note 19)	**$3,270**	**$(19,459)**
Total income tax (credit) charge	**$7,773**	**$(14,219)**

(a) In 2012 the Company acquired the shares of DMX, BIS and Technomedia. As part of the allocation of the purchase price, a deferred tax liability was recognized in respect of DMX of $19,277 and BIS of $3,223. The Company recognized the benefit of previous years' tax losses in the same jurisdiction in the same amount for the DMX deferred tax liability.

Corporation tax in the United States applied to loss for the year is as follows:

	2013	2012
Loss for the year before taxes from continuing operations	**$ (105,046)**	**$(39,383)**
Expected tax charge: based on the standard United States domestic corporation tax rate of 40% (2012 - 40%)	(42,018)	(15,753)
Expenses not deductible for tax purposes	4,703	8,979
Change in estimate for under (over) provision in previous years	503	(100)
Different tax rates applied in overseas jurisdictions	426	(992)
Recognition of previously unrecognized deferred tax asset	-	(20,143)
Unprovided deferred tax movement	15,258	12,921
Goodwill write-down disallowable for tax purposes	30,000	-
Losses utilized	(939)	-
US State and other	(160)	869
Total income tax (credit) charge from continuing operations	**$7,773**	**$(14,219)**

The Company is resident in Canada for the purposes of the Tax Act and it believes that it is, and will continue to be, treated as a domestic corporation in the United States under the Internal Revenue Code of 1986 (United States). As a result, the Company (but not the Company's subsidiaries) is generally taxable on its worldwide income in both Canada and the United States (subject to the availability of any tax credits or deductions in either or both jurisdictions in respect of foreign taxes paid by the Company). Management of the Company is of the view that the status of the Company as taxable both in Canada and the United States has not given rise to any material adverse consequences as of the date hereof. Management of the Company is also of the view that such status is not likely to give rise to any material adverse consequences.

10. Earnings (loss) per share

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

	2013	**2012**
Weighted and diluted average common shares (000s)	**171,640**	**160,106**
Total operations		
Basic EPS	$(0.75)	$(0.50)
Diluted EPS	(0.75)	(0.50)
Continuing operations		
Basic EPS	(0.66)	(0.16)
Diluted EPS	(0.66)	(0.16)
Discontinued operations		
Basic EPS	(0.10)	(0.34)
Diluted EPS	(0.10)	(0.34)

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

In thousands of US dollars unless otherwise stated

11. Inventory

	2013	2012
Finished goods	$25,844	$25,673
Components	5,189	5,265
	$31,033	**$30,938**

Inventory is held at the lower of cost and net realizable value.

Mood Media Corporation
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In thousands of US dollars unless otherwise stated

12. Property and equipment

	Furniture, fittings and leasehold improvements	Rental equipment	Computer and other equipment	Vehicles	Assets not in use	Total
Cost						
As at January 1, 2012	**$6,102**	**$47,798**	**$40,237**	**$2,749**	**$4,632**	**$101,518**
Additions	1,803	21,462	4,317	3,867	715	32,164
Acquisitions	1,914	4,648	1,250	280	-	8,092
Disposals	(88)	(1,139)	(149)	(2,325)	-	(3,701)
Discontinued operations	(3,051)	(6,997)	(5,176)	-	(5,456)	(20,680)
Exchange differences	446	1,526	253	19	109	2,353
As at December 31, 2012	**7,126**	**67,298**	**40,732**	**4,590**	**-**	**119,746**
Additions	1,949	19,213	2,352	210	-	23,724
Disposals	(56)	(2,125)	(218)	(483)	-	(2,882)
Exchange differences	858	2,109	475	16	-	3,458
As at December 31, 2013	**9,877**	**86,495**	**43,341**	**4,333**	**-**	**144,046**
Depreciation						
As at January 1, 2012	**3,208**	**15,640**	**26,701**	**1,287**	**-**	**46,836**
Depreciation	1,454	18,659	5,646	1,723	-	27,482
Disposals	(13)	(1,029)	(109)	(1,859)	-	(3,010)
Discontinued operations	(2,274)	(4,665)	(3,995)	-	-	(10,934)
Exchange differences	331	1,310	63	12	-	1,716
As at December 31, 2012	**2,706**	**29,915**	**28,306**	**1,163**	**-**	**62,090**
Depreciation	1,508	19,597	4,812	2,024	-	27,941
Disposals	(56)	(1,899)	(148)	(454)	-	(2,557)
Exchange differences	897	1,940	395	22	-	3,254
As at December 31, 2013	**5,055**	**49,553**	**33,365**	**2,755**	**-**	**90,728**
Net book value						
As at December 31, 2013	**$4,822**	**$36,942**	**$9,976**	**$1,578**	**$-**	**$53,318**
As at December 31, 2012	4,420	37,383	12,426	3,427	-	57,656

In thousands of US dollars unless otherwise stated

13. Intangible assets

	Customer relationships	Music library	Technology platforms and software	Brands	Total
Cost					
As at January 1, 2012	**$201,931**	**$29,232**	**$65,596**	**$33,927**	**$330,686**
Additions	-	-	7,593	-	7,593
Acquisitions	73,382	-	13,481	5,979	92,842
Discontinued operations	(21,439)	(6,634)	(5,133)	-	(33,206)
Exchange differences	1,532	428	1,425	346	3,731
As at December 31, 2012	**255,406**	**23,026**	**82,962**	**40,252**	**401,646**
Additions	-	-	8,215	-	8,215
Exchange differences	1,902	909	2,162	612	5,585
As at December 31, 2013	**257,308**	**23,935**	**93,339**	**40,864**	**415,446**
Amortization					
As at January 1, 2012	**$22,798**	**$6,140**	**$13,194**	**$-**	**$42,132**
Amortization	18,298	2,531	11,468	1,595	33,892
Discontinued operations	(10,188)	(3,110)	(3,037)	-	(16,335)
Exchange differences	236	127	362	-	725
As at December 31, 2012	**31,144**	**5,688**	**21,987**	**1,595**	**60,414**
Amortization	20,631	2,255	14,142	5,065	42,093
Exchange differences	632	291	728	27	1,678
As at December 31, 2013	**52,407**	**8,234**	**36,857**	**6,687**	**104,185**
Net book value					
As at December 31, 2013	**$204,901**	**$15,701**	**$56,482**	**$34,177**	**$311,261**
As at December 31, 2012	224,262	17,338	60,975	38,657	341,232

Total amortization recognized for the year ended December 31, 2013 was $42,093 (2012 - $33,892), which forms part of depreciation and amortization in the consolidated statements of income (loss).

Internally generated intangible assets with a net book value of $6,979 (2012 - $6,712) have been included within technology platforms and software as at December 31, 2013.

In thousands of US dollars unless otherwise stated

14. Goodwill

	2013	2012
Cost, beginning of year	**$336,400**	**$252,041**
Goodwill arising on acquisitions	2,347	85,416
Discontinued operations	-	(4,845)
Net exchange differences	5,813	3,788
Cost, end of year	**344,560**	**336,400**
Accumulated impairment losses, beginning of year	(5,418)	(5,418)
Impairment during the year	(75,000)	-
Accumulated impairment losses, end of year	**(80,418)**	**(5,418)**
Net book value, end of year	**$264,142**	**$330,982**

Goodwill arising on acquisitions of $2,347 relates to working capital adjustments in ICI of $1,822 and Technomedia of $525 (note 23).

During 2013, the Technomedia purchase price allocation was finalized, which resulted in an increase to goodwill of $1,250 for certain other liabilities and a reclassification of $1,559 from goodwill to intangible assets at December 31, 2012.

In addition, goodwill has been increased to reflect a $2,000 tax liability related to the acquisition of Mood Europe. These transactions have been reflected in the comparative figures above.

Management identified indicators for impairment as at September 30, 2013. As a result, the Company recognized an impairment charge of $75,000 which has been presented separately in the consolidated statements of income (loss) (note 15).

In thousands of US dollars unless otherwise stated

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

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

- Mood International
- Mood North America
- Technomedia

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

	Mood International		Mood North America		Technomedia	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
Goodwill	$75,249	$144,436	$180,522	$178,700	$8,371	$7,846
Brands	14,530	13,980	-	-	-	-

Valuation

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

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

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

Key assumptions used in FVLCS calculations

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

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

Discount rates – Discount rates represent the current market assessment of the risks specific to each group of CGUs, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Company and its operating segments and is derived from its weighted average cost of capital ("WACC"). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Company's investors. The cost of debt is based on the interest bearing borrowings that the Company is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data. The discount rates applied to cash flow projections are between 12% - 16% depending on the CGU.

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

As a result of the analysis performed by management, the Company recognized an impairment charge of $75,000 in Mood International during 2013 (note 14).

In thousands of US dollars unless otherwise stated

16. Loans and borrowings

	Prescribed interest rate	2013	2012
Due in less than one year:			
First Lien credit facility iv)	7.00 %	**$2,132**	**$2,132**
Due in more than one year:			
9.25% Senior Unsecured Notes i)	9.25%	350,000	350,000
Unamortized discount – financing costs ii)		(7,618)	(8,719)
Unamortized premium – prepayment option iii)		2,703	3,120
		345,085	**344,401**
First Lien credit facility iv)	7.00 - 7.75%	215,765	207,897
Unamortized discount – financing costs v)		(6,455)	(6,317)
Unamortized discount – interest rate floor vi)		(3,858)	(4,747)
		205,452	**196,833**
10% Unsecured convertible debentures vii)	10.00%	46,525	44,949
		597,062	**586,183**
Total loans and borrowings		**$599,194**	**$588,315**

16. Loans and borrowings (continued)

9.25% Senior Unsecured Notes

i) On October 19, 2012, the Company closed its offering of $350,000 aggregate principal amount of 9.25% Senior Unsecured Notes (the "Notes") by way of a private placement. The Notes are guaranteed by all of Mood Media's existing U.S. subsidiaries (other than Mood Media Entertainment Inc. and Muzak Heart & Soul Foundation). The guarantee is an unsecured obligation. The Notes are due October 15, 2020 and bear interest at an annual rate of 9.25%. The effective interest rate on the Notes is 9.46%.

In connection with the Notes, amendments were made to the Company's existing First Lien credit facility. The First Lien credit facility was amended to, among other things: (a) permit the incurrence of the debt represented by the Notes; (b) revise the financial maintenance covenants contained therein, including: removing the maximum total leverage ratio financial maintenance covenant, adding a maximum senior secured leverage ratio financial maintenance covenant, reducing the minimum interest coverage ratio financial maintenance covenant and providing for customary equity cure rights related to financial maintenance compliance; and (c) increase the size of the Company's First Lien revolving credit facility from $20,000 to $25,000.

ii) The total costs associated with the Notes of $8,942 were recorded as finance costs and deducted from the Notes. The Notes will be accreted back to their principal amount over the term of the Notes. Unamortized finance costs as at December 31, 2013 were $7,618 (2012 - $8,719).

During 2013, accretion expense was $1,101, (2012 - $223), which is included within finance costs, net in the consolidated statements of income (loss) (note 7).

iii) The Notes contain an option to repay the entire amount prior to October 15, 2020 at a set repayment fee. This prepayment option has been treated as an embedded derivative financial instrument in the consolidated statements of financial position and at inception was valued at $3,200 (October 19, 2012). The prepayment option is measured at fair value at each reporting date and included in other financial assets (note 18), with any change recorded within finance costs, net in the consolidated statements of income (loss).

The amortization of the debt premium arising from the prepayment option for 2013 was a credit of $417, (2012 - credit of $80) (note 7).

First Lien credit facility

iv) On May 6, 2011 the Company entered into credit facilities with Credit Suisse Securities AG ("Credit Suisse"), as agent, consisting of a $20,000 five-year First Lien revolving credit facility, a $355,000 7-year First Lien term loan and a $100,000 7.5-year Second Lien term loan (collectively the "Credit Facilities").

In thousands of US dollars unless otherwise stated

16. Loans and borrowings (continued)

First Lien credit facility (continued)

The Company used the net proceeds of the Notes to repay $140,000 of its First Lien term loan and the Second Lien term loan in its entirety. Credit Suisse on behalf of the lenders under the First Lien credit facility has security over substantially all the property and assets based in the United States (other than Mood Media Entertainment Inc.).

On October 9, 2013, the Company drew down $10,000 on the First Lien revolving credit facility. As at December 31, 2013, the Company had $11,300 available under the First Lien revolving credit facility, including outstanding letters of credit of $3,700. The First Lien credit facilities are subject to the maintenance of financial covenants and on December 4, 2013, the Company amended the First Lien credit facility to modify certain defined terms and financial covenants. The Company was in compliance with its covenants as at December 31, 2013.

The First Lien term loan is repayable at $533 per quarter, with the remainder repayable on May 6, 2018. Interest on the First Lien term loan accrues at a rate of adjusted LIBOR plus 5.50% per annum or the alternate base rate plus 4.50% per annum, as applicable. The effective interest rate on the First Lien credit facilities is 8.17%. During 2013 repayments of $2,132 were made on the First Lien term loan, (2012 - $3,196).

On August 2, 2011, in accordance with the Company’s First Lien credit facilities agreement, the Company purchased an interest rate cap for $619, which matures on August 4, 2014. The interest rate cap is measured at fair value at each reporting date and included in other financial assets (note 18).

v) The total costs associated with the First Lien credit facilities of $18,786, which include the fee for the 2013 amendment, were recorded as finance costs and are accreted over the term of the First Lien credit facilities using the effective interest rate method. In conjunction with the repayment of the First and Second Lien term loans in 2012, $7,427 of deferred financing costs were accelerated (note 7). Accretion expenses associated with the First Lien credit facilities for 2013 was $1,222 (2012 - $2,117), which is included within finance costs, net in the consolidated statements of income (loss) (note 7).

Unamortized finance costs as at December 31, 2013 were $6,455 (2012 - $6,317).

vi) The First Lien credit facilities contain an interest rate floor, which the Company has treated as an embedded derivative. This non-cash liability is recorded within other financial liabilities in the consolidated statements of financial position. On initial recognition, the interest rate floor was ascribed a fair value of $13,234. The carrying value of the debt was reduced by the same amount, which is accreted over the term of the debt.

16. Loans and borrowings (continued)

First Lien credit facility (continued)

The accretion of debt related to the interest rate floor for 2013 was $888, (2012 - $1,711), which is included within finance costs, net in the consolidated statements of income (loss) (note 7).

Unrecognized debt accretion as at December 31, 2013 was $3,858 (December 31, 2012 - $4,747).

Convertible debentures

vii) On October 1, 2010, the Company issued new debentures (the "New Debentures") with a principal amount of $31,690. As part of the transaction the Company also issued, as partial payment of the underwriters' fee, an additional $1,078 in New Debentures for a total of $32,768 aggregate principal amount of New Debentures. The New Debentures have a maturity date of October 31, 2015 and bear interest at a rate of 10% per annum, payable semi-annually. They are convertible at any time at the option of the holders into common shares at an initial conversion price of $2.43 per common share.

The New Debentures have characteristics of both debt and equity. Accordingly, on issuance, $28,112 of the fair value was ascribed to the debt component and $4,656 was ascribed to the equity component. Fair value was determined by reference to similar debt instruments and market transactions of the New Debentures. Costs associated with the New Debentures have been recorded as finance costs for the convertible debentures and are recognized over the term of the related facilities. These costs have been prorated against the debt and equity components.

As at December 31, 2013, the carrying value of the debt component was $29,236 (2012 - $28,024), which is net of unamortized financing costs of $725 (2012 - $1,140).

During the 2013, no New Debentures were converted (2012 - nil).

On May 6, 2011, the Company issued new debentures (the "Consideration Debentures") with a principal amount of $5,000 as part of the consideration for the acquisition of Muzak. The Consideration Debentures have a maturity date of October 31, 2015 and bear interest at a rate of 10% per annum, payable semi-annually. They are convertible at any time at the option of the holders into common shares at an initial conversion price of $2.43 per common share.

The Consideration Debentures have characteristics of both equity and debt. Accordingly, on issuance, $4,602 of the fair value was ascribed to the debt component and $398 was ascribed to the equity component. Fair value was determined by reference to similar debt instruments and market transactions of the Consideration Debentures.

As at December 31, 2013, the carrying value of the debt component was $4,490 (2012 - $4,408).

In thousands of US dollars unless otherwise stated

16. Loans and borrowings (continued)

Convertible debentures (continued)

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

On May 27, 2011, the Company completed a private placement of debentures (the "Convertible Debentures") with a principal amount of $13,500. The Convertible Debentures were issued for a subscription price of $0.9875 per $1 principal amount, resulting in gross proceeds of $13,331. The Convertible Debentures have a maturity date of October 31, 2015 and bear interest at a rate of 10% per annum, payable semi-annually. They are convertible at any time at the option of the holders into common shares at an initial conversion price of $2.80 per common share.

The Convertible Debentures have characteristics of both equity and debt. Accordingly, on issuance, $12,085 of the fair value was ascribed to the debt component and $1,246 was ascribed to the equity component. Fair value was determined by reference to similar debt instruments. A deferred tax liability of $658 was recorded on the equity component of Convertible Debentures issued in 2011. The corresponding entry was a reduction to contributed surplus.

As at December 31, 2013, the carrying value of the debt component was $12,799 (2012 - $12,517).

During 2013, no Convertible Debentures were converted (2012 - nil).

For 2013, total accretion interest in respect of all Convertible Debentures was $1,576 (2012 - $1,432), which is included within finance costs, net in the consolidated statements of income (loss) (note 7).

The carrying value of the debt and equity component and the principal outstanding for the Convertible Debentures:

As at December 31, 2013	Principal Outstanding	Debt Component	Equity Component
New Debentures	$32,122	$29,236	$4,571
Consideration Debentures	4,644	4,490	370
Convertible Debentures	13,500	12,799	1,246
	$ 50,266	**$46,525**	**$6,187**

In thousands of US dollars unless otherwise stated

17. Other financial assets and financial liabilities

Other financial assets

	2013	2012
Interest rate cap (i)	$-	$10
Prepayment option (ii)	97	3,200
Total other financial assets	**97**	**3,210**
Due in less than one year	-	-
Due in more than one year	97	3,210
Total other financial assets	**$97**	**$3,210**

Interest rate cap

(i) On August 2, 2011, in accordance with the Company's First Lien credit facilities agreement, the Company purchased an interest rate cap for $619, which matures on August 4, 2014. The arrangement capped LIBOR at 3.5% for 50% of the Company's First Lien credit facility. This derivative financial instrument is fair valued at each reporting date and any change in fair value is recognized in the consolidated statements of income (loss) within finance costs, net.

The change in the fair value during 2013 was a loss of $10 (2012 - $244), which is included within finance costs, net in the consolidated statements of income (loss) (note 7).

Prepayment option

(ii) The Company has the right to prepay the Notes early, but will incur a penalty depending on the date of settlement. The prepayment option has been treated as an embedded derivative financial instrument and recorded at fair value within other financial assets in the consolidated statements of financial position. On initial recognition the carrying value of the Notes was increased by the same amount, which is amortized over the term of the Notes. On initial recognition, the prepayment option was ascribed a fair value of $3,200. The prepayment option is fair valued at each reporting date and any change in the fair value is recognized in the consolidated statements of income (loss) within finance costs, net.

The change in fair value of the prepayment option during 2013 was a loss of $3,103 (2012 - $nil), which is included within finance costs, net in the consolidated statements of income (loss) (note 7).

In thousands of US dollars unless otherwise stated

17. Other financial assets and financial liabilities (continued)

Other financial liabilities

	2013	2012
Cross-currency interest rate swap (i)	$-	$2,277
Finance leases	1,663	3,047
Deferred and contingent consideration (ii)	-	23,128
Interest rate floor (iii)	6,066	9,793
Total other financial liabilities	**7,729**	**38,245**
Due in less than one year	1,091	8,788
Due in more than one year	6,638	29,457
Total other financial liabilities	**$7,729**	**$38,245**

17. Other financial assets and financial liabilities (continued)

Cross-currency interest rate swap

(i) The Company entered into a cross-currency interest rate swap on June 4, 2010, which matured on June 4, 2013. The cross-currency interest rate swap had a historical notional amount of $32,375 and converted Euros into US dollars at a foreign exchange rate of 1.2350 and converted floating interest to a fixed rate of 8.312%. The change in the fair value from January 1, 2013 to maturity on June 4, 2013 was a gain of $699 (2012 – $630), which has been recognized within finance costs, net in the consolidated statements of income (loss). The fair value on maturity was $1,577, which was settled on June 4, 2013 (note 7).

Deferred and contingent consideration

(ii) The consideration for the acquisition of ICI contains deferred consideration of $5,574, which was settled on October 20, 2013. The fair value of the ICI deferred consideration was nil as at December 31, 2013 (2012 - $5,000). The change in fair value of the ICI deferred consideration was an accretion expense of $574 for 2013, (2012 - nil), which is included within finance costs, net in the consolidated statements of income (loss) (note 7).

As part of the consideration for the acquisition of Muzak, a maximum of $30,000 cash may be paid in the three years following closing in the event that the Company achieves minimum earnings before interest, tax and depreciation (“EBITDA”) targets. The fair value of the Muzak contingent consideration was nil as at December 31, 2013 (2012 - $18,128). The Company records this potential contingent consideration at the established fair value at each reporting period end. Fair value is established using the probability of expected outcomes. The change in fair value of the Muzak contingent consideration for 2013 was a gain of $18,128 (2012 - $7,865), which is included within finance costs, net in the consolidated statements of income (loss) (note 7).

Interest rate floor

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

The change in fair value for 2013 was a gain of $3,727 (2012 – $9,395 gain), which is included within finance costs, net in the consolidated statements of income (loss) (note 7).

The fair value of the interest rate floor as at December 31, 2013 was $6,066 (2012 - $9,793).

17. Other financial assets and financial liabilities (continued)

Compensation warrants

The lenders of a prior financing of the Company, known as the Mezzanine Facilities, received compensation warrants (the "Compensation Warrants") which can be exercised for 4,100,000 common shares of the Company at an exercise price of CDN$1.60 per common share for a period of 42 months from the date of issuance.

Upon issuance, the Compensation Warrants were classified as a non-cash financial liability and ascribed a fair value of $2,262 and included within other financial liabilities in the consolidated statements of financial position. The Compensation Warrants are fair valued at each reporting period and any change in fair value is recorded in finance costs in the consolidated statements of income (loss).

On May 17, 2012, the Compensation Warrants were exercised with proceeds of CDN$6,560, which was equivalent to $6,500. On the exercise date, the fair value of the Compensation Warrants was $5,808. Fair value was determined based on the Black-Scholes option pricing model. The change in fair value from January 1, 2012 until the exercise date was a loss of $1,595, which is shown within finance costs, net in the consolidated statements of income (loss) (note 7).

Upon exercise, the fair value of the exercised Compensation Warrants, along with any issuance proceeds, was classified as share capital. The total amount classified as share capital attributable to the Compensation Warrants in 2012 was $12,308.

18. Financial instruments

Risk management

The Company is exposed to a variety of financial risks including market risk (including currency risk and interest rate risk), liquidity risk and credit risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

Currency risk

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

The most significant translation exposure arises from the Euro currency. The Company is required to revalue the Euro-denominated net assets of the European subsidiaries at the end of each period with the foreign currency translation gain or loss recorded in other comprehensive income (loss). Based on the European subsidiaries' net assets as at December 31, 2013, fluctuations of plus or minus $0.05/€ would, everything else being equal, affect other comprehensive income (loss) for the year ended December 31, 2013 by approximately plus or minus $4,200. The Company does not currently hedge translation exposures.

Interest rate risk

The Company's interest rate risk arises on a debt drawn under the First Lien credit facilities, which bear interest at a floating rate. The level of interest rate risk is mitigated by the fact that the First Lien credit facilities carry an interest rate floor which currently exceeds LIBOR. The Company also purchased an interest rate cap during the year ended December 31, 2011 (note 17).

18. Financial instruments (continued)

Liquidity risk

Liquidity risk arises through excess of financial obligations over available financial assets due at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. The Company achieves this by maintaining sufficient cash and through the availability of funding from the committed First Lien credit facilities. As at December 31, 2013, the Company had cash of $22,410 and $11,300 available under the First Lien revolving credit facility. Cash at banks earns interest at floating rates based on daily bank deposit rates.

Credit risk

Credit risk arises from cash held with banks and credit exposure to customers on outstanding trade receivable balances. The maximum exposure to credit risk is equal to the carrying value of the financial assets. The objective of managing counterparty credit risk is to prevent losses in financial assets. The Company assesses the credit quality of the counterparties, taking into account their financial position, past experience and other factors. Management also monitors payment performance and the utilization of credit limits of customers. The carrying amount of accounts receivable is reduced through the use of an allowance for doubtful accounts and the amount of the loss is recognized in the consolidated statements of income (loss) in operating expenses. When a receivable balance is considered uncollectible, it is written off against the allowance for doubtful accounts. Subsequent recoveries of amounts previously written off are credited against operating expenses in the consolidated statements of income (loss).

In thousands of US dollars unless otherwise stated

18. Financial instruments (continued)

The following table sets forth details of the age of receivables and an allowance for doubtful accounts:

	2013	2012
Trade and other receivables, before allowances	$103,139	$102,744
Less:		
Allowance for doubtful accounts	(5,165)	(6,233)
Trade and other receivables, net	**$97,974**	**$96,511**
Analysis		
Current	$53,988	$57,081
Past due 1-30 days	22,350	21,147
Past due 31-60 days	8,723	7,193
Past due 61+ days	18,078	17,323
Less:		
Allowance for doubtful accounts	(5,165)	(6,233)
Trade and other receivables, net	**$97,974**	**$96,511**

The movement in the allowance for doubtful accounts is shown below:

	2013	2012
Allowance for doubtful accounts, beginning of year	$6,233	$4,724
Allowance acquired	-	1,533
Reduction in allowance, net	(1,068)	(24)
Allowance for doubtful accounts, end of year	**$5,165**	**$6,233**

Trade and other receivables are non-interest bearing and are generally on 30-90 day terms.

In thousands of US dollars unless otherwise stated

18. Financial instruments (continued)

Financial assets and financial liabilities – classification and measurement

As at December 31, 2013	Cash and receivables	Other financial liabilities	Financial assets and liabilities at fair value through profit or loss	Total
Current financial assets				
Cash	$22,410	$-	$-	$22,410
Trade and other receivables, net	97,974	-	-	97,974
	120,384	**-**	**-**	**120,384**
Non-current financial assets				
Prepayment option	-	-	97	97
	-	**-**	**97**	**97**
Current financial liabilities				
Trade and other payables	-	115,038	-	115,038
First Lien credit facility	-	2,132	-	2,132
	-	**117,170**	**-**	**117,170**
Non-current financial liabilities				
First Lien credit facility	-	205,452	-	205,452
9.25% Senior Unsecured Notes	-	345,085	-	345,085
Convertible debentures	-	46,525	-	46,525
Interest rate floor	-	-	6,066	6,066
	$-	**$597,062**	**$6,066**	**$603,128**

In thousands of US dollars unless otherwise stated

18. Financial instruments (continued)

Financial assets and financial liabilities – classification and measurement

As at December 31, 2012	Cash and receivables	Other financial liabilities	Financial assets and liabilities at fair value through profit or loss	Total
Current financial assets				
Cash	$46,384	$-	$-	$46,384
Trade and other receivables, net	96,511	-	-	96,511
	142,895	**-**	**-**	**142,895**
Non-current financial assets				
Interest rate cap	-	-	10	10
Prepayment option	-	-	3,200	3,200
	-	**-**	**3,210**	**3,210**
Current financial liabilities				
Trade and other payables	-	104,016	-	104,016
First Lien credit facility	-	2,132	-	2,132
Cross-currency interest rate swap	-	-	2,277	2,277
	-	**106,148**	**2,277**	**108,245**
Non-current financial liabilities				
First Lien credit facility	-	196,833	-	196,833
9.25% Senior Unsecured Notes	-	344,401	-	344,401
Convertible debentures	-	44,949	-	44,949
Interest rate floor	-	-	9,793	9,793
	$-	**$586,183**	**$9,793**	**$595,976**

In thousands of US dollars unless otherwise stated

18. Financial instruments (continued)

Contractual obligations

The following table outlines the Company's contractual obligations as at December 31, 2013:

Description	Total	Less than one year	One to three years	Beyond three years
First Lien credit facility	$217,897	$2,132	$14,265	$201,500
First Lien credit facility interest	62,805	14,698	28,981	19,126
9.25% Senior Unsecured Notes	350,000	-	-	350,000
9.25% Senior Unsecured Notes interest	226,625	32,375	64,750	129,500
Convertible debentures	50,266	-	50,266	-
Convertible debenture interest	10,192	5,096	5,096	-
Operating leases	53,962	16,470	24,359	13,133
Finance leases	1,663	1,091	572	-
Trade and other payables	115,038	115,038	-	-
Total	**$1,088,448**	**$186,900**	**$188,289**	**$713,259**

In thousands of US dollars unless otherwise stated

18. Financial instruments (continued)

Fair value of financial instruments

The book values of the Company's financial assets and financial liabilities approximate the fair values of such items as at December 31, 2013, with the exception of the convertible debentures and the 9.25% Senior Unsecured Notes. The book value of the convertible debentures outstanding was $46,525 (2012 - $44,949) and the fair value was $43,670 (2012 - $52,549). The book value of the 9.25% Senior Unsecured Notes was $345,085 (2012 - $344,401) and the fair value was $309,056 (2012 – $373,865).

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

		Fair value as at December 31, 2013		
Description	Total	Level 1 Quoted prices in active markets for identical assets	Level 2 Significant other observable inputs	Level 3 Significant unobservable inputs
Interest rate floor	$(6,066)	$-	$(6,066)	$-
Prepayment option	97	-	97	-

		Fair value as at December 31, 2012		
Description	Total	Level 1 Quoted prices in active markets for identical assets	Level 2 Significant other observable inputs	Level 3 Significant unobservable inputs
Cross-currency interest rate swap	$(2,277)	$-	$(2,277)	$-
Interest rate cap	10	-	10	-
Interest rate floor	(9,793)	-	(9,793)	-
Prepayment option	3,200	-	3,200	-

During the year ended December 31, 2013, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements. No transfers between any levels of the fair value hierarchy took place in the equivalent comparative year. There were also no changes in the purpose of any financial asset/liability that subsequently resulted in a different classification of that asset/liability.

In thousands of US dollars unless otherwise stated

19. Deferred tax assets and liabilities

	2013	2012
Balance, at beginning of year	**$(34,431)**	**$(30,312)**
Recognized on acquisitions	-	(22,500)
Tax charge (credit) recognized in consolidated statements of income (loss) – continuing operations (note 9)	(3,270)	19,459
Net foreign exchange differences and other movements	(1,034)	(811)
Transferred to discontinued operations	-	(267)
Balance, at end of year	**$(38,735)**	**$(34,431)**

Deferred tax assets have been recognized in respect of all tax losses and other temporary differences giving rise to deferred tax assets where management believes it is probable that these assets will be recovered.

The movements in deferred tax assets and liabilities (prior to the offsetting of balances within the same jurisdiction as permitted by IAS 12) during the year are shown below.

Details of the deferred tax asset (liability) amounts recognized in the consolidated statements of income (loss) and amounts recognized in equity in the consolidated statements financial position are as follows:

	Asset 2013	Liability 2013	Net 2013	Credited (charged) to profit or loss	Foreign exchange movement (charged) credited to other comprehensive income (loss)
Property and equipment	$321	$(50)	$271	$(31)	$-
Operating losses carried forward	17,410	-	17,410	(1,368)	-
Goodwill	-	(10,832)	(10,832)	(6,745)	-
Identifiable intangible assets	-	(44,083)	(44,083)	5,988	(1,174)
Other temporary and deductible differences	1,712	(3,213)	(1,501)	(1,114)	140
Deferred tax assets (liabilities)	**$19,443**	**($58,178)**	**($38,735)**	**($3,270)**	**($1,034)**

In thousands of US dollars unless otherwise stated

19. Deferred tax asset and liabilities (continued)

	Asset 2012	Liability 2012	Net 2012	Credited (charged) to profit or loss	Foreign exchange movement (charged) credited to other comprehensive income (loss)	Asset (liability) recognized on acquisition
Property and equipment	$302	$-	$302	$(271)	$-	$-
Operating losses carried forward	18,778	-	18,778	15,426	-	-
Goodwill	-	(4,087)	(4,087)	(4,087)	-	-
Identifiable intangible assets	-	(48,897)	(48,897)	10,216	(794)	(22,500)
Other temporary and deductible differences	2,232	(2,759)	(527)	(1,825)	(17)	-
Deferred tax assets (liabilities)	**$21,312**	**$(55,743)**	**$(34,431)**	**$19,459**	**$(811)**	**$(22,500)**

A deferred tax asset has not been set up for the following:

	2013	2012
Deductible temporary differences	$22,700	$35,355
Unused tax losses	152,689	128,413
	$175,389	**$163,768**

As at December 31, 2013, there was nil recognized as deferred tax liability (2012 - nil) for taxes that would be payable on the unremitted earnings of the Company's subsidiaries. The Company has determined that undistributed profits of its subsidiaries will not be distributed in the foreseeable future. The unused tax losses and deductible timing differences can be carried forward for 20 years. As a result of the Company's dual residence status, there are also losses available to carry forward at December 31, 2013 in Canada of approximately $128,000.

In thousands of US dollars unless otherwise stated

20. Share-based compensation

Equity-settled share options

The Company has a share option plan (the "Plan") for its employees, directors and consultants, whereby share options may be granted subject to certain terms and conditions. The issuance of share options is determined by the Board of Directors of the Company. The aggregate number of shares of the Company that may be issued under the Plan is limited to 10% of the number of issued and outstanding common shares at the time. The exercise price of share options must not be less than the fair market value of the common shares on the date that the option is granted. Share options issued under the Plan vest at the rate of 25% on each of the four subsequent anniversaries of the grant date and are subject to the recipient remaining employed with the Company. All of the vested share options must be exercised no later than 10 years after the grant date. With the adoption of the Company's 2008 share option plan, no further grants of options were made pursuant to the former 2005 plan. On June 14, 2011, the Company received reapproval for the 2008 option plan, hereafter known as the 2011 option plan, in accordance with the Toronto Stock Exchange ("TSX") rules requiring reapproval of option plans every three years. Options previously granted under the 2005 and 2008 plan will continue to vest. The Company uses the Black-Scholes option pricing model to determine the fair value of options issued.

During the year ended December 31, 2013, the following assumptions were used: weighted average volatility of 70% (2012 - 57%) based on historic information, expected dividend yield of nil, weighted average expected life of 6.25 years (2012 - 6.25 years), weighted average interest rate of 1.87% (2012 - 1.87%) and a forfeiture rate of 15.39% (2012 - nil) based on historic information.. The weighted average fair value of the options granted during the year ended December 31, 2013 was $0.35 (2012 - $1.28) per share.

On December 6, 2013, 525,000 share options were granted with an exercise price of CDN$0.61. On November 18, 2013, 1,200,000 share options were granted with an exercise price of CDN$0.50. On October 4, 2013, 450,000 share options were granted with an exercise price of CDN$0.63. On September 25, 2013, 2,000,000 share options were granted with an exercise price of CDN$0.65.

On December 24, 2012, 125,000 share options were granted with an exercise price of CDN$1.77. On December 6, 2012, 625,000 share options were granted with an exercise price of CDN$1.71. On November 9, 2012, 200,000 share options were granted with an exercise price of CDN$2.24. On June 7, 2012, 930,000, share options were granted with an exercise price of CDN$3.01.

The expense recognized for the year ended December 31, 2013 relating to equity-settled share-option transactions for employees was $2,275 (2012 - $3,758).

In thousands of US dollars unless otherwise stated

20. Share-based compensation (continued)

Changes in the number of options, with their weighted average exercise prices for the years ended December 31, 2013 and 2012, are summarized below:

	2013		2012	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at beginning of year	**15,590,800**	**$1.92**	**15,250,300**	**$1.82**
Granted during the year	4,175,000	0.58	1,880,000	2.41
Exercised during the year	-	-	(867,000)	0.65
Forfeited/expired during the year	(947,500)	2.72	(672,500)	2.67
Outstanding at end of year	**18,818,300**	**1.58**	**15,590,800**	**1.92**
Exercisable at end of year	**10,370,800**	**$1.49**	**8,334,550**	**$1.17**

The following information relates to share options that were outstanding as at December 31, 2013:

Range of exercise prices	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price
$0.00-$0.30	3,600,000	5	$0.21
$0.31-$1.50	6,633,300	8	0.76
$1.51-$2.50	1,477,500	4	1.74
$2.51-$3.50	7,107,500	7	3.01
	18,818,300	**7**	**$1.58**

Warrants

The following warrants were outstanding as at December 31, 2013:

	Number	Exercise price	Expiry date
Muzak acquisition warrants	4,407,543	$3.50	May 2016

Warrants are recorded at the time of the grant for an amount based on the Black-Scholes option pricing model, which is affected by the Company's share price as well as assumptions regarding a number of subjective variables.

In thousands of US dollars unless otherwise stated

21. Shareholders' equity

Share capital

Share capital represents the number of common shares outstanding.

As of December 31, 2013, an unlimited number of common shares with no par value were authorized. During 2013, there were no new shares issued, no warrants or share options were exercised and there were no conversions of convertible debentures.

Changes to share capital were as follows:

	Number of Shares	Amount
Balance as at January 1, 2012	**127,937,063**	**$171,912**
Common shares issued, net of issue costs	38,589,000	138,174
Warrants exercised	4,100,000	12,308
Options exercised	867,000	560
Conversion of convertible debentures	146,500	364
Balance as at December 31, 2012	**171,639,563**	**$323,318**
Balance as at December 31, 2013	**171,639,563**	**$323,318**

On April 26, 2012, the Company entered into an agreement pursuant to which the underwriters agreed to purchase 6,675,000 common shares of the Company on a bought deal private placement basis at a price of CDN$4.12 per common share. The offering closed on May 17, 2012 with a further 114,000 common shares purchased under the over-allotment option. Total gross proceeds were $27,717 and net proceeds after expenses were $26,562.

On March 20, 2012, in connection with the closing of the acquisition of DMX, the Company completed the private placement of 31,800,000 common shares at a subscription price of CDN$3.60 per common share for gross proceeds of $115,884 and net proceeds after expenses of $111,612.

Deficit

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

During 2013, $2,958, representing the difference between the $4,000 consideration paid for the non-controlling interest and its carrying value, has been reported within the Company's deficit in the consolidated statements of financial position (note 23).

In thousands of US dollars unless otherwise stated

22. Discontinued operations

During March 2012, the Company decided to dispose of Mood Media Entertainment ("MME"). On May 31, 2013, the Company sold substantially all the assets of MME for proceeds of $2,000. As part of the disposition, the Company is exiting any residual activities. The Company is currently finalizing the costs of exit and the closing working capital accounts. The costs of exit have been estimated and recorded as of December 31, 2013 and are included in the statements shown below.

The results of MME are as follows:

	2013	**2012**
Revenue	$10,117	$29,747
Expenses	16,674	49,605
Operating loss	**(6,557)**	**(19,858)**
Loss on sale	9,078	-
Impairment	784	33,495
Loss before taxes from discontinued operations	**(16,419)**	**(53,353)**
Income tax charge	-	714
Loss after taxes from discontinued operations	**$(16,419)**	**$ (54,067)**

During the 2013, the Company impaired property and equipment of $784 (2012 – impairment; $4,845 goodwill, $16,871 intangible assets and $4,000 property and equipment).

The net cash flows incurred by MME are as follows:

	2013	**2012**
Operating activities	($2,451)	$(11,076)
Investing activities	1,216	(3,200)
Net cash outflow	**$(1,235)**	**$(14,276)**

MME is no longer disclosed as a separate reportable segment in note 27.

During the year ended December 31, 2012, the Company determined that MME was a discontinued operation and wrote off goodwill of $4,845, intangible assets of $16,871 and property and equipment of $11,779.

As at December 31, 2012, MME remained classified as a disposal group held for sale and as a discontinued operation.

23. Business combinations

Acquisitions of DMX, BIS, ICI and Technomedia

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

On December 24, 2012, the Company acquired 100% of the issued and outstanding shares of the following private entities: Technomedia NY, LLC; Technomedia Solutions; LLC, ServiceNET Exp, LLC and Convergence, LLC (collectively "Technomedia"). Technomedia provides advanced media and technology innovations for multiple industries, including retail, hospitality, theme parks, performing arts, museums, special venue and education. The Company believes that the acquisition of Technomedia will support the growth of the Company's visual business.

The Technomedia sale and purchase agreement contains a working capital adjustment, which resulted in an additional payment of $525 in 2013.

On October 19, 2012, Muzak, a subsidiary of the Company, acquired certain assets and liabilities of Independent Communications Inc. ("ICI"), one of its largest franchisees. ICI offers a range of in-store audio, visual and scent solutions and operates in the mid-Atlantic region of the United States.

The ICI sale and purchase agreement contains a working capital adjustment, which resulted in an additional payment of $1,822 in 2013.

On May 31, 2012, the Company acquired 100% of the issued and outstanding shares of the following private entities: Aplusk B.V., BIS Bedrijfs Informatie Systemen B.V., BIS Business Information Systems N.V., Avimotion Holding B.V. and BIS Elecktrotechniek B.V. (collectively, ''BIS''). BIS provides the design, installation and supply of audio and visual solutions to private and public sector organizations in the Benelux region. The Company believes that the acquisition of BIS will support the growth of the Company's visual business.

On March 20, 2012, the Company acquired 100% of the issued and outstanding shares of DMX, a private company that provides brand enhancing in-store media services in North America. The non-controlling interest of one of DMX's subsidiaries was not acquired. The Company elected to measure the non-controlling interest in the subsidiary at the proportionate share of its interest in the identifiable net assets. The Company believes that DMX will complement its core in-store media business.

In thousands of US dollars unless otherwise stated

23. Business combinations (continued)

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

	DMX	BIS	ICI	Technomedia
Assets				
Cash	$1,930	$533	$-	$1,019
Trade receivables and prepaid expenses	17,880	10,251	4,134	9,319
Inventories	2,974	3,455	718	289
Property and equipment	3,168	1,748	2,874	302
Intangible assets	52,486	12,893	15,324	12,139
	78,438	**28,880**	**23,050**	**23,068**
Liabilities				
Trade and other payables	27,590	9,042	1,054	6,292
Deferred revenue	3,309	2,911	1,788	1,816
Loans to former DMX debtholders	32,267	-	-	-
Deferred tax liabilities	19,277	3,223	-	-
	82,443	**15,176**	**2,842**	**8,108**
Total identifiable net assets (liabilities) at fair value	(4,005)	13,704	20,208	14,960
Non-controlling interests	(1,597)	-	-	-
Goodwill arising on acquisition	56,067	14,417	8,908	8,371
Purchase consideration transferred	**50,465**	**28,121**	**29,116**	**23,331**
Fair value analysis of purchase consideration transferred:				
Cash	50,465	28,121	24,116	23,331
Deferred consideration	-	-	5,000	-
Total purchase consideration	**50,465**	**28,121**	**29,116**	**23,331**
Analysis of cash flows on acquisition:				
Net cash acquired	1,930	533	-	1,019
Cash paid	(50,465)	(28,121)	(24,116)	(23,331)
Net cash outflow	**$(48,535)**	**$(27,588)**	**$(24,116)**	**$(22,312)**

The fair value of trade and other receivables was equivalent to the book value.

The allocation of the purchase price was based on the fair value of identifiable assets, including assets acquired and liabilities assumed at the effective date of the acquisition, with the excess of the purchase price over the fair values being allocated to goodwill. Management engaged an independent valuator to determine the fair value allocated to intangible assets. The goodwill recognized above is attributed to the expected synergies and other benefits from combining the assets of the acquisitions with those of the Company.

In thousands of US dollars unless otherwise stated

24. Commitments and contingencies

Operating leases

Future minimum rental payments under non-cancellable operating leases as at December 31 are as follows:

	2013	2012
Within one year	$16,470	$16,410
After one year but not more than five years	33,840	40,512
More than five years	3,652	4,901
	$53,962	**$61,823**

Finance leases

The Company has finance leases for various items of equipment. These leases have terms of renewal but no purchase options and escalation clauses. Renewals are at the option of the specific entity that holds the lease. Future minimum lease payments under finance leases, together with the present value of the net minimum lease payments, are as follows:

	2013		2012	
	Minimum payments	Present value	Minimum payments	Present value
Within one year	$1,468	$1,374	$2,051	$1,920
After one year but not more than five years	573	268	1,536	719
Total minimum lease payments	2,041	1,642	3,587	2,639
Less amounts representing finance charges	(378)	(378)	(540)	(540)
Present value of minimum lease payments	**$1,663**	**$1,264**	**$3,047**	**$2,099**

In thousands of US dollars unless otherwise stated

24. Commitments and contingencies (continued)

Contingencies

From time to time, the Company encounters disputes and is sometimes subject to claims from third parties in relation to its normal course of operations. The Company 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 December 31, 2013 was immaterial.

PFH litigation

In August 2008, the Company received notification that PFH Investments Limited ("PFH") had filed a complaint with the Ontario Superior Court of Justice against the Company and certain officers under Section 238 of the Canada Business Corporations Act ("CBCA") alleging that the Company, when negotiating amendments to convertible debentures first issued to PFH in 2006, withheld data related to the issuance of share options at a strike price of $0.30 per share, such conversion price to which PFH was then entitled. In addition to damages of $35,000 and among other things, PFH is seeking a declaration that the amendments to the original debenture agreement are void and that the original debenture be reinstated. The Company believes it acted properly and in accordance with the original and amended debenture agreements when it fully repaid the debenture in the amount of $1,620 on June 19, 2008 and has responded accordingly. On July 2, 2009, the Company extended a confidential settlement offer to PFH. Among the various proposed obligations of the parties under the offer, pursuant thereto, but subject to regulatory approval, the Company would have issued to PFH 3,333,333, shares at $0.30 per share. This offer has since expired. Mood Media continues to consult with legal counsel and intends to continue to vigorously defend the claim, which it believes to be without merit.

License arrangements

During the year ended December 31, 2012, in the normal course of operating the business, the Company renegotiated the rates for certain licenses. As a result of finalizing these negotiations, the Company received a fiscal 2012 benefit of approximately $4,600.

In thousands of US dollars unless otherwise stated

25. Management of capital

The Company's objective in managing its capital structure is to ensure a sufficient liquidity position to finance its strategic growth plans, operating expenses, financial obligations as they become due, working capital and capital expenditures. The Company's capital comprises shareholders' equity, convertible debentures, First Lien credit facilities and 9.25% Senior Unsecured Notes. There have been no changes to the components of the Company's capital structure during the year. Total managed capital was as follows:

	2013	2012
Shareholders' equity	$25,007	$153,256
Convertible debentures	50,266	50,266
First Lien credit facilities	217,897	210,029
9.25% Senior Unsecured Notes	350,000	350,000
Total Debt (contractual amounts due)	618,163	610,295
Total Capital	**$643,170**	**$763,551**

The Company manages its capital structure and makes adjustments to it in accordance with its stated objectives with consideration given to changes in economic conditions and the risk characteristics of the underlying assets. Since inception, the Company has issued common shares, convertible debentures and promissory notes to finance its activities. The Company has historically not paid dividends to its shareholders and instead retains cash for future growth and acquisitions.

In thousands of US dollars unless otherwise stated

26. Related party disclosures

Compensation of key management personnel

	2013	2012
Salaries and bonuses	$3,794	$6,967
Relocation and termination benefits	4,926	-
Share-based compensation	1,877	2,618
	$10,597	**$9,585**

The amounts disclosed in the table are the amounts recognized as an expense during the reporting period relating to those considered to be key management personnel. Key management personnel are those having authority and responsibility at any time during the year for planning, directing and controlling the activities of the Company, including senior management and members of the Board. The total number of key management personnel was 12 during 2013 (2012 - 10), with the increase in 2013 relating to the timing of the change in key management personnel.

In thousands of US dollars unless otherwise stated

27. Segment information

The Company reports its continuing operations in three reportable segments, “In-store media - International” and “In-store media - North America” based on the significant business activity of the Company and its subsidiaries and “Other” for the purposes of reconciliation to the Company’s financial statements.

During 2013, there was a change in the Company’s operating and reportable segments. The 2012 comparatives have been restated to align to the current presentation.

The Company’s chief operating decision maker monitors the operating result of these business units separately for the purposes of assessing performance and allocating resources.

In-store media

The Company provides multi-sensory in-store media and marketing solutions to a wide range of customer-facing businesses in the retail, financial services, hospitality, restaurant and leisure industries internationally. Revenue is derived predominantly from the provision of audio, visual, messaging and maintenance services and the sale and lease of proprietary and non-proprietary equipment.

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.

Other

The Company’s other segment includes the Company’s corporate activities and Technomedia, which do not fit in the two segments described above.

In thousands of US dollars unless otherwise stated

Segment information 2013

	In-store media North America	In-store media International	Other	Consolidated Group
Revenue	$291,050	$184,573	$37,647	$513,270
Expenses				
Cost of sales	128,567	78,141	27,169	233,877
Operating expenses	77,835	83,187	14,869	175,891
Segment profit (loss) (i)	**$84,648**	**$23,245**	**$(4,391)**	**$103,502**

Segment information 2012

	In-store media North America	In-store media International	Other	Consolidated Group
Revenue	$272,410	$170,268	$1,145	$443,823
Expenses				
Cost of sales	112,679	70,108	972	183,759
Operating expenses	74,230	66,390	7,784	148,404
Segment profit (loss) (i)	**$85,501**	**$33,770**	**$(7,611)**	**$111,660**

Reconciliation of segment profit to Consolidated Group loss for the year before taxes from continuing operations

	2013	2012
Segment profit (loss) (i)	**$103,502**	**$111,660**
Depreciation and amortization	69,182	57,856
Impairment to goodwill	75,000	-
Share-based compensation	2,275	3,758
Other expenses	30,791	39,812
Foreign exchange gain on financing transactions	(6,979)	(1,428)
Finance costs, net	38,279	51,045
Loss for the year before taxes from continuing operations	**$(105,046)**	**$(39,383)**

(i) Segment profit is management's non-GAAP metric referred to as Adjusted EBITDA.

In thousands of US dollars unless otherwise stated

Geographical areas

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

	2013	2012
US	$313,565	$263,800
Canada	5,877	5,525
Netherlands	76,513	45,479
Other International	117,315	129,019
Total revenue	**$513,270**	**$443,823**

Non-current assets

Non-current assets (excluding deferred tax assets) are derived from the following geographic areas based on the location of the individual subsidiaries of the Company:

	2013	2012
US	$414,112	$459,207
Canada	7,689	8,235
International	216,364	274,850
Total non-current assets	**$638,165**	**$742,292**

28. Subsequent Events

On January 10, 2014, the Company sold its residential Latin American operations for total consideration of up to $16,300 including an initial payment of $10,000 in cash and an offset of contractual payments by the Company of $1,400. The Company will receive the remainder of the consideration over a period of eighteen months upon the Latin American operations' achievement of certain key performance indicators and this will be recognizable in the consolidated financial statements when earned. Based on the Company's initial estimates, the sale will result in a pre-tax gain.