Consolidated Financial Statements

Mood Media Corporation

For the year ended December 31, 2014

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, 2014 and 2013, 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, 2014 and 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Toronto, Canada	/s/ Ernst & Young LLP
March 12 , 2015	Chartered Professional Accountants
	Licensed Public Accountants

Mood Media Corporation
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at December 31, 2014

In thousands of US dollars unless otherwise stated

	Notes	2014	2013
ASSETS			
Current assets			
Cash		$25,573	$22,410
Restricted cash		405	713
Trade and other receivables, net	18	97,258	97,974
Income taxes receivable		2,280	1,418
Inventory	11	30,503	31,033
Prepaid expenses		11,578	11,924
Deferred costs		8,346	8,198
Total current assets		**175,943**	**173,670**
Non-current assets			
Deferred costs		9,103	8,623
Property and equipment	12	45,755	53,318
Other assets		768	821
Intangible assets	13	263,255	311,261
Goodwill	14	245,543	264,142
Total assets		**740,367**	**811,835**
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	18	109,631	115,038
Income taxes payable		1,127	3,219
Deferred revenue		15,822	15,432
Other financial liabilities	17	6,151	1,091
Current portion of long-term debt	16	51,001	2,132
Total current liabilities		**183,732**	**136,912**
Non-current liabilities			
Deferred revenue		6,536	7,253
Deferred tax liabilities	19	29,624	38,735
Other financial liabilities	17	2,931	6,638
Long-term debt	16	573,339	597,062
Total liabilities		**796,162**	**786,600**
Equity			
Share capital	21	326,956	323,318
Contributed surplus		34,373	33,209
Foreign exchange translation reserve		2,264	5,656
Deficit		(419,618)	(337,176)
Equity attributable to owners of the parent		**(56,025)**	**25,007**
Non-controlling interests		230	228
Total equity		**(55,795)**	**25,235**
Total liabilities and equity		**$740,367**	**$811,835**
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 LOSS

For the year ended December 31, 2014

In thousands of US dollars unless otherwise stated

	Notes	2014	2013
Continuing operations			
Revenue	5	**$494,060**	**$513,270**
Expenses			
Cost of sales		227,888	233,877
Operating expenses		163,575	175,891
Depreciation and amortization	12, 13	72,263	69,182
Impairment of goodwill	15	-	75,000
Share-based compensation	20	1,392	2,275
Other expenses	6	28,229	30,791
Foreign exchange loss (gain) on financing transactions		17,097	(6,979)
Finance costs, net	7	70,057	38,279
Loss for the year before taxes		**(86,441)**	**(105,046)**
Income tax (credit) charge	9	(4,067)	7,773
Loss for the year from continuing operations		**(82,374)**	**(112,819)**
Discontinued operations			
Loss after taxes from discontinued operations	22	-	(16,419)
Loss for the year		**(82,374)**	**(129,238)**
Attributable to:			
Owners of the parent		(82,442)	(129,549)
Non-controlling interests		68	311
		$(82,374)	**$(129,238)**
Net loss per share			
Basic and diluted	10	$(0.46)	$(0.76)
Basic and diluted from continuing operations	10	(0.46)	(0.66)
Basic and diluted from discontinued operations	10	-	(0.10)

The accompanying notes form part of the consolidated financial statements

Mood Media Corporation
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

For the year ended December 31, 2014

In thousands of US dollars unless otherwise stated

	2014	2013
Loss for the year	**$(82,374)**	**$(129,238)**
Items that may be reclassified subsequently to the loss for the year		
Exchange differences on translation of foreign operations	(3,392)	3,504
Amounts recognized through the consolidated statements of loss	-	(1,510)
Other comprehensive income (loss) for the year, net of tax	**(3,392)**	**1,994**
Total comprehensive loss for the year, net of tax	**(85,766)**	**(127,244)**
Attributable to:		
Owners of the parent	(85,834)	(127,566)
Non-controlling interests	68	322
	$(85,766)	**$(127,244)**

The accompanying notes form part of the consolidated financial statements

Mood Media Corporation
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the year ended December 31, 2014

In thousands of US dollars unless otherwise stated

	Notes	2014	2013
Operating activities			
Loss for the year before taxes - continuing operations		$(86,441)	$(105,046)
Loss for the year before taxes - discontinued operations	22	-	(16,419)
		(86,441)	**(121,465)**
Reconciling adjustments			
Depreciation and impairment of property and equipment	12	25,247	28,009
Amortization and impairment of intangible assets and goodwill	13, 14	47,016	117,093
Gain on disposal of property and equipment		(413)	-
Share-based compensation	20	1,392	2,275
Shares issued in lieu of severance or consideration		2,588	-
Loss on disposal of discontinued operations	22	-	9,078
Foreign exchange loss (gain) on financing transactions		17,097	(4,437)
Finance costs, net	7	70,057	38,279
Gain on disposal of Latin America and DMX Canada assets	6	(5,650)	-
Working capital adjustments			
Decrease in trade and other receivables		3,106	3,367
Decrease in inventories		369	508
Decrease in trade and other payables		(2,447)	(3,160)
Increase (decrease) in deferred revenue		(445)	2,148
		71,476	**71,695**
Income taxes paid		(5,078)	(3,919)
Interest received		78	51
Net cash flows from operating activities		**66,476**	**67,827**
Investing activities			
Purchase of property and equipment and intangible assets		(34,015)	(32,689)
Acquisition of businesses, net of cash acquired		-	(7,921)
Proceeds from disposal of discontinued operations		-	2,000
Proceeds from disposal of Latin America and DMX Canada assets		19,515	-
Proceeds from disposal of property, equipment and other assets		1,165	156
Net cash flows used in investing activities		**(13,335)**	**(38,454)**
Financing activities			
Repayment of borrowings		(219,660)	(2,132)
Proceeds from First Lien Credit Facilities	16	235,000	10,000
Proceeds from exercise of share options		818	-
Finance lease payments		(1,195)	(1,553)
Financing costs paid		(9,373)	(1,360)
Interest paid		(54,327)	(52,499)
Cost of extinguishment of interest rate swap	7	-	(1,577)
Dividends paid to non-controlling interest		-	(645)
Acquisition of non-controlling interest	23	-	(4,000)
Net cash flows used in financing activities		**(48,737)**	**(53,766)**
Net increase (decrease) in cash		**4,404**	**(24,393)**
Net foreign exchange gain (loss)		**(1,241)**	**419**
Cash at beginning of year		**22,410**	**46,384**
Cash at end of year		**$25,573**	**$22,410**

The accompanying notes form part of the consolidated financial statements

Mood Media Corporation
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2014

In thousands of US dollars unless otherwise stated

	Notes	Share Capital	Contributed Surplus	Foreign Exchange Translation Reserve	Deficit	Total	Non-Controlling Interests	Total Equity
As at January 1, 2014		**$323,318**	**$33,209**	**$5,656**	**$(337,176)**	**$25,007**	**$228**	**$25,235**
Income (loss) for the year		-	-	-	(82,442)	(82,442)	68	(82,374)
Translation of foreign operations		-	-	(3,392)	-	(3,392)	-	(3,392)
Total comprehensive income (loss)		**-**	**-**	**(3,392)**	**(82,442)**	**(85,834)**	**68**	**(85,766)**
Share-based compensation	20	-	1,164	-	-	1,164	-	1,164
Dividends to non-controlling interest		-	-	-	-	-	(66)	(66)
Issue of share capital	21	2,820	-	-	-	2,820	-	2,820
Exercise of share options	21	818	-	-	-	818	-	818
As at December 31, 2014		**$326,956**	**$34,373**	**$2,264**	**$(419,618)**	**$(56,025)**	**$230**	**$(55,795)**

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 to non-controlling interest		-	-	-	-	-	-	(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

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. On January 30, 2015 we announced that trading of our common shares on the AIM will be cancelled on March 2, 2015, but the last trading day will be February 27, 2015. The Company's registered office is located at 199 Bay Street, Toronto, Ontario, Canada.

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

2. Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). 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 12, 2015.

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.

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. Goodwill is allocated to a cash generating unit ("CGU") or group of CGUs for the purposes of impairment testing based on the level at which senior management monitors it, which is not larger than an operating segment. The identification of an operating segment involves judgment and is based on the lowest level at which senior management monitors goodwill.

The testing for impairment of either an intangible asset or goodwill is to compare the recoverable amount of the asset, CGU or group of CGU's to the carrying amount. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets, in which case the asset is assessed as part of the CGU or group of CGU's of which it belongs. The recoverable amount calculations use a discounted cash flow model derived from a five year forecast. The recoverable amount is sensitive to the discount rate used for the 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 at least at each financial year-end and, if there is a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the useful life is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. 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 cash flow projections that include assumptions about growth rates and other future events. Changes in certain assumptions could result in an impairment loss being charged in future periods.

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 and Technomedia (note 17).

In thousands of US dollars unless otherwise stated

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.

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.

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, warrants and contingent consideration, which are measured at fair value as detailed in the accounting policies set out below.

In thousands of US dollars unless otherwise stated

4. Summary of significant accounting policies

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 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 (loss).

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Company re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in the consolidated statements of income (loss).

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 expense items 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 average exchange rates prevailing during the year. Exchange gains or losses arising from the translation of these subsidiaries are included as part of other comprehensive income (loss).

In thousands of US dollars unless otherwise stated

4. Summary of significant accounting policies (continued)

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.

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.

In thousands of US dollars unless otherwise stated

4. Summary of significant accounting policies (continued)

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. The group of CGUs is not larger than the level at which management monitors goodwill or the Company's operating segments.

Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative fair value of the operation disposed of and the portion of the CGU retained.

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.

In thousands of US dollars unless otherwise stated

4. Summary of significant accounting policies (continued)

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 cost of goods sold 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.

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.

4. Summary of significant accounting policies (continued)

Financial assets and financial liabilities (continued)

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 at 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 warrants. Financial assets and financial liabilities designated 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.

In thousands of US dollars unless otherwise stated

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.

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 the Company's estimate, share-based compensation related to these awards will be different from the Company's 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 earnings (loss) 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.

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.

In thousands of US dollars unless otherwise stated

4. Summary of significant accounting policies (continued)

Impairment of non-financial assets (continued)

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's 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 is 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.

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 of entering 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.

In thousands of US dollars unless otherwise stated

4. Summary of significant accounting policies (continued)

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.

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.

In thousands of US dollars unless otherwise stated

4. Summary of significant accounting policies (continued)

Taxation (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period 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.

Discontinued operations

In the consolidated statements of income (loss), net 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.

The Company adopted the following standards on January 1, 2014:

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 periods commencing on or after January 1, 2014 with earlier application permitted. The amendment has had no impact on the Company's financial presentation or performance.

In thousands of US dollars unless otherwise stated

4. Summary of significant accounting policies (continued)

New standards, interpretations and amendments adopted (continued)

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 periods beginning on or after January 1, 2014. Earlier application is permitted for periods when the entity has already applied IFRS 13. The standard has had no impact on the Company's financial disclosures.

IFRIC Interpretation 21, Levies

The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be recognized before the specified minimum threshold is reached. The standard had no significant impact on the Company's financial position or performance.

New standards, interpretations and amendments issued but not yet effective

New standards and interpretations 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 its disclosures, financial position or performance when applied at a future date.

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

IFRS 9, Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to the classification and measurement of financial assets and financial liabilities as defined in IAS 39. The effective date for this standard is for reporting periods beginning on or after January 1, 2018 with earlier application permitted. The Company will continue to assess any impact on the classification and measurement of the Company's financial assets, as well as any impact on the classification and measurement of its financial liabilities.

In thousands of US dollars unless otherwise stated

4. Summary of significant accounting policies (continued)

New standards, interpretations and amendments issued but not yet effective (continued)

IFRS 15, Revenue from Contracts with Customers

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

IFRS 15 also significantly expands the current disclosure requirements about revenue recognition. The effective date for this standard is for reporting periods beginning on or after January 1, 2017 with earlier application permitted. The Company has commenced a review process to assess any impact on its current revenue recognition policies and reporting processes.

5. Revenue

The composition of revenue is as follows:

	2014	2013
Rendering of services	$336,653	$357,197
Sale of goods	154,407	153,482
Royalties	3,000	2,591
	$494,060	**$513,270**

6. Other expenses

	2014	2013
Transaction costs (i)	$7,417	$10,406
Restructuring and integration costs (ii)	21,898	15,715
Settlements and resolutions (iii)	4,626	4,670
Net gain on disposal of certain assets (iv)	(5,712)	-
	$28,229	**$30,791**

In thousands of US dollars unless otherwise stated

6. Other expenses (continued)

(i) Transaction costs incurred during 2014 and 2013 primarily relate to the Company's strategic review, as well as costs associated with prior acquisitions.

	2014	2013
Legal and professional fees	$802	$4,928
Consultant fees	614	3,217
Technomedia contingent consideration and related expenses (a)	6,001	275
Other transaction costs	-	1,986
	$7,417	**$10,406**

(a) The amended Technomedia contingent consideration earn-out and related expenses incurred are in connection with the amendment of the securities purchase agreement for Technomedia on October 7, 2014. Contingent consideration is discussed further in note 17.

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

	2014	2013
Severance costs	$5,287	$9,455
Arrangements that have no further utility (a)	9,585	-
Other integration costs	7,026	6,260
	$21,898	**$15,715**

(a) Integration costs during 2014 include onerous leases as a result of various real estate consolidations and $3,100 for a contract that has no further utility.

(iii) The 2014 is comprised of the costs and related expenses for various settlements, resolutions and contract terminations related to DMX, Muzak and Mood Media Corporation. No individual amount is considered significant to the consolidated financial statements. Settlements and resolutions in the comparative 2013 period include $3,970 for a settlement involving certain terms of our Company's arrangements with independent affiliates that were revised to resolve matters related to the acquired businesses.

(iv) The Company recognized gains from various sales and disposals of assets during the year ended December 31, 2014. The primary gains recognized from these sales and disposals include the sale of its residential Latin America music operations on January 10, 2014 and its DMX Canadian commercial account portfolio on June 27, 2014. The gain recognized on each transaction was $3,880 and $1,770, respectively. The final gain calculation includes an estimate of the fair value of consideration to be recorded depending on the outcome of certain future performance criteria.

In thousands of US dollars unless otherwise stated

7. Finance costs, net

	2014	**2013**
Interest expense	$54,131	$52,863
Change in fair value of financial instruments (i)	(1,428)	(1,314)
Change in fair value of deferred and contingent consideration (ii)	-	(17,554)
Cost of settlement of 2011 First Lien Credit Facilities (iii)	13,512	-
Other finance costs, net (iv)	3,842	4,284
	$70,057	**$38,279**

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

	2014	**2013**
Cross-currency interest rate swap (a)	$-	$(699)
Interest rate floor under 2011 First Lien Credit Facilities (b)	(584)	(3,727)
Interest rate floor under 2014 First Lien Credit Facilities (b)	(927)	-
Interest rate cap (c)	-	9
Prepayment option (d)	83	3,103
	$(1,428)	**$(1,314)**

(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 has been recognized within finance costs, net in the consolidated statements of loss. The fair value on maturity was $1,577, which was settled on June 4, 2013.

(b) In connection with the extinguishment of the Company's 2011 First Lien Credit Facilities (as defined in note 16) on May 1, 2014, the Company extinguished the liability related to the 2011 interest rate floor embedded derivative and recognized a 2014 interest rate floor in accordance with the terms of the new 2014 First Lien Credit Facilities.

The 2014 First Lien credit agreement includes an arrangement whereby LIBOR would have a minimum floor of 1.00%. However, at the time of entering this credit agreement, LIBOR was 0.22%. Under IFRS, the 2014 interest rate floor is considered an embedded derivative and was ascribed a fair value at the date of issuance of a $3,852 liability. At each subsequent reporting period, any change in fair value is included within finance costs, net in the consolidated statements of loss.

(c) On August 2, 2011, in accordance with the Company's 2011 First Lien Credit Facilities, the Company entered into an arrangement where the Company capped LIBOR at 3.5% for 50% of the Credit Facility. This interest rate cap matured on August 4, 2014. Any changes in fair value in the interest rate cap are recorded as finance costs, net in the consolidated statements of loss.

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 asset and is recorded within other financial assets in the consolidated statements of financial position (note 16). 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 loss.

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

	2014	**2013**
ICI deferred consideration	$-	$574
Muzak contingent consideration	-	(18,128)
	$-	**$(17,554)**

As part of the consideration for the acquisition of Muzak, a maximum of $30,000 cash may be paid in the three years following the closing in the event that the Company achieves minimum earnings before interest, tax and depreciation ("EBITDA") targets. The Company recorded this potential contingent consideration at the established fair value at each reporting period by using the probability of expected outcomes. The Company finalized its contingent obligation during 2014 resulting in no additional consideration required.

(iii) The 2014 cost of settlement is the result of the extinguishment of the 2011 First Lien Credit Facilities (note 16).

Cost of settlement of the 2011 First Lien Credit Facilities consists of:

	2014	**2013**
Accelerated deferred financing costs	$6,074	$-
Non-cash discount for the 2011 interest rate floor	3,636	-
Early extinguishment fee (a)	2,074	-
Other expenses incurred on extinguishment (a)	7,210	-
Extinguishment of 2011 interest rate floor	(5,482)	-
	$13,512	**$-**

(a) Other expenses incurred on extinguishment include legal fees, credit rating fees and fees to Credit Suisse acting as an agent. The early extinguishment fee of $2,074 and other expenses incurred on extinguishment of $7,210 were cash payments related to the extinguishment of the 2011 First Lien Credit Facilities.

In thousands of US dollars unless otherwise stated

7. Finance costs, net (continued)

(iv) Other finance costs, net consist of:

	2014	2013
Accretion interest on convertible debentures	$2,126	$1,576
Accretion of the 2011 First Lien Credit Facilities	376	1,222
Accretion of the 9.25% Senior Unsecured Notes	1,104	1,101
Accretion of debt related to the 2011 interest rate floor	221	888
Accretion of debt related to the 2014 interest rate floor	513	-
Amortization of the debt premium arising from the prepayment option	(397)	(417)
Other	(101)	(86)
	$3,842	**$4,284**

8. Employee benefits expenses

	2014	2013
Wages and salaries	$78,896	$84,555
Benefits	18,089	21,357
	$96,985	**$105,912**

In thousands of US dollars unless otherwise stated

9. Income tax

	2014	2013
Current tax expense		
Current tax on income for the year	$2,874	$4,503
Total current tax	**2,874**	**4,503**
Deferred tax expense		
Origination and reversal of temporary differences	$(5,585)	$3,270
Recognition of previously unrecognized deferred tax assets	(1,356)	-
Total deferred tax (credit) charge (note 19)	**$(6,941)**	**$3,270**
Total income tax (credit) charge	**$(4,067)**	**$7,773**

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

	2014	2013
Loss for the year before taxes from continuing operations	**$(86,441)**	**$ (105,046)**
Expected tax credit: based on the standard United States domestic corporation tax rate of 40% (2013 - 40%)	$(34,577)	$(42,018)
Expenses not deductible for tax purposes	655	4,703
Change in estimate for under (over) provision in previous years	(1,426)	503
Different tax rates applied in overseas jurisdictions	5,992	426
Recognition of previously unrecognized deferred tax asset	(1,356)	-
Movement in unprovided deferred taxes	26,463	15,258
Goodwill write-down disallowable for tax purposes	-	30,000
Losses utilized	-	(939)
US State and other	182	(160)
Total income tax (credit) charge from continuing operations	**$(4,067)**	**$7,773**

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.

In thousands of US dollars unless otherwise stated

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.

	2014	**2013**
Weighted and diluted average number of common shares (000s)	**177,584**	**171,640**
Total operations		
Basic EPS	$(0.46)	$(0.76)
Diluted EPS	(0.46)	(0.76)
Continuing operations		
Basic EPS	$(0.46)	$(0.66)
Diluted EPS	(0.46)	(0.66)
Discontinued operations		
Basic EPS	$0.00	$(0.10)
Diluted EPS	0.00	(0.10)

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.

11. Inventory

	2014	**2013**
Finished goods	$25,774	$25,844
Components	4,729	5,189
	$30,503	**$31,033**

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

In thousands of US dollars unless otherwise stated

12. Property and equipment

	Furniture, fittings and leasehold improvements	Rental equipment	Computer and other equipment	Vehicles	Total
Cost					
As at January 1, 2013	**$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**
Additions	686	17,030	4,499	281	22,496
Disposals	(969)	(939)	(205)	(1,024)	(3,137)
Exchange differences	(1,320)	(3,351)	(4,841)	(100)	(9,612)
As at December 31, 2014	**8,274**	**99,235**	**42,794**	**3,490**	**153,793**
Depreciation					
As at January 1, 2013	**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**
Depreciation	1,356	20,388	3,771	1,141	26,656
Disposals	(419)	(805)	(165)	(980)	(2,369)
Exchange differences	(931)	(1,906)	(4,064)	(76)	(6,977)
As at December 31, 2014	**5,061**	**67,230**	**32,907**	**2,840**	**108,038**
Net book value					
As at December 31, 2014	**$3,213**	**$32,005**	**$9,887**	**$650**	**$45,755**
As at December 31, 2013	4,822	36,942	9,976	1,578	53,318

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, 2013	**$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**
Additions	-	-	12,037	501	12,538
Dispositions	(4,129)	-	-	-	(4,129)
Exchange differences	(8,128)	(2,608)	(6,320)	(932)	(17,988)
As at December 31, 2014	**245,051**	**21,327**	**99,056**	**40,433**	**405,867**
Amortization					
As at January 1, 2013	**$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**
Amortization	22,785	2,218	16,980	5,106	47,089
Dispositions	(856)	-	-	-	(856)
Exchange differences	(4,613)	(929)	(1,753)	(511)	(7,806)
As at December 31, 2014	**69,723**	**9,523**	**52,084**	**11,282**	**142,612**
Net book value					
As at December 31, 2014	**$175,328**	**$11,804**	**$46,972**	**$29,151**	**$263,255**
As at December 31, 2013	204,901	15,701	56,482	34,177	311,261

Total amortization recognized for the year ended December 31, 2014 was $47,089 (2013 - $42,093), which forms part of depreciation and amortization in the consolidated statements of loss.

Internally generated intangible assets with a net book value of $8,331 (2013 - $6,979) have been included within technology platforms and software as at December 31, 2014.

In thousands of US dollars unless otherwise stated

14. Goodwill

	2014	2013
Balance beginning of year	**$264,142**	**$330,982**
Goodwill arising on acquisitions	-	2,347
Sale of operations	(10,129)	-
Impairment during the year	-	(75,000)
Net exchange differences	(8,470)	5,813
Balance end of year	**$245,543**	**$264,142**

The decrease in goodwill from the sale of operations of $10,129 relates to the Company's sale of its residential Latin America music operations in the amount of $6,011 and its DMX Canadian commercial account business in the amount of $4,118.

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. 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). During the year ended December 31, 2013, goodwill arising on acquisitions of $2,347 relate to working capital adjustments in ICI of $1,822 and Technomedia of $525.

Management identified indicators for impairment as at September 30, 2013. As a result, the Company recognized an impairment charge of $75,000 in Mood International (note 15).

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 four groups of CGUs for impairment testing as follows:

- Mood International
- Mood North America
- Technomedia
- BIS

In thousands of US dollars unless otherwise stated

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

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

	Mood International		Mood North America		Technomedia		BIS	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Goodwill (a)	$52,605	$75,249	$170,391	$180,522	$8,371	$8,371	$14,176	$-
Brands	$12,859	$14,530	$-	$-	$-	$-	$-	$-

(a) During 2014, the Company changed its operating segments (note 27). Goodwill impairment cannot be tested at a level larger than an operating segment. As a result, BIS CGU was allocated goodwill using the relative fair value of Mood International and BIS for impairment testing in the current year. In the comparative period, BIS CGU was included in Mood International.

Valuation

In 2013, the Company considered the relationship between its market capitalization and its book value, amongst other factors, when reviewing for indicators of impairment. As a result, the Company recognized an impairment charge of $75,000 in Mood International.

The recoverable amounts of the CGUs have been determined based on a fair value less costs to sell calculation using cash flow projections from financial budgets approved by senior management covering a one-year period.

Key assumptions used in recoverable amount calculations

The calculation of recoverable amount 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 13% - 16% depending on the CGU.

In thousands of US dollars unless otherwise stated

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

Key assumptions used in recoverable amount calculations (continued)

Growth rate estimates –The growth rates used to extrapolate the cash flows beyond the budgeted period for Mood International, Mood North America, Technomedia and BIS group CGUs are between 3% - 10%.

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).

16. Loans and borrowings

	Prescribed interest rate	2014	2013
Due in less than one year:			
2011 First Lien Credit Facilities (iv)	7.00%	**$-**	**$2,132**
2014 First Lien Credit Facilities (iv)	7.00%	2,350	-
10% Unsecured convertible debentures (vii)	10.00%	48,651	-
		$51,001	**$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)		(6,517)	(7,618)
Unamortized premium – prepayment option (iii)		2,306	2,703
		345,789	**345,085**
2011 First Lien Credit Facilities (iv)	7.00-7.75%	-	215,765
Unamortized discount – financing costs (v)		-	(6,455)
Unamortized discount – 2011 interest rate floor (vi)		-	(3,858)
		-	**205,452**
2014 First Lien Credit Facilities (iv)	7.00%	230,888	-
Unamortized discount – 2014 interest rate floor (vi)		(3,338)	-
		227,550	**-**
10% Unsecured convertible debentures (vii)	10.00%	-	46,525
		573,339	**597,062**
Total loans and borrowings		**$624,340**	**$599,194**

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. The guarantee is an unsecured obligation. The Notes are due on October 15, 2020 and bear interest at an annual rate of 9.25%. The effective interest rate on the Notes is 9.46% (2013 – 9.46%).

In thousands of US dollars unless otherwise stated

16. Loans and borrowings (continued)

9.25% Senior Unsecured Notes (continued)

(ii) The total costs associated with the Notes of $8,942 were recorded as finance costs and deducted from the Notes. The Notes will be accreted back to their principal amount over the term of the Notes. The accretion expense is included within finance costs, net in the consolidated statements of loss (note 7).

(iii) The Notes contain an option to repay the entire amount prior to October 15, 2020 at a set prepayment 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. The prepayment option is measured at fair value at each reporting date and included in other financial assets (note 17), with any change recorded within finance costs, net in the consolidated statements of loss (note 7).

The amortization of the debt premium arising from the prepayment option is included in finance costs, net (note 7).

2011 and 2014 First Lien Credit Facilities

(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 (collectively, the "2011 First Lien Credit Facilities") and a $100,000 7.5-year Second Lien Term Loan.

The 2011 First Lien Credit Facilities Term Loan was repayable at $533 per quarter, with the remainder repayable on May 6, 2018. Interest on the 2011 First Lien Credit Facilities Term Loan accrued 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 2011 First Lien Credit Facilities was 7.74% (2013 – 8.17%). In October 2012, the Company used the net proceeds of the $350,000 9.25% Notes to repay $140,000 of its 2011 First Lien Term Loan and the Second Lien Term Loan in its entirety.

On May 1, 2014, the Company completed the extinguishment of its 2011 First Lien Credit Facilities as it entered into a new credit agreement with Credit Suisse, as agent, consisting of a $15,000 5-year Senior Secured Revolving Credit Facility and a $235,000 Senior Secured 5-year Term Loan (collectively, the 2014 First Lien Credit Facilities). The terms and the lenders of the 2011 and 2014 Credit Facilities were substantially different and therefore this transaction has been accounted for as an extinguishment of the 2011 First Lien Credit Facilities. The 2014 facilities have more favorable financial covenants as well as provisions that permit the Company to use net asset sales proceeds, within defined limits, to repay unsecured debt.

The 2014 First Lien Term Loan is repayable at $588 per quarter, with the remainder repayable on May 1, 2019. Interest on the 2014 First Lien Term Loan accrues at a rate of adjusted LIBOR plus 6% per annum or the alternate base rate plus 5% per annum, as applicable. The effective interest rate on the 2014 First Lien Credit Facilities is 7.33%. During 2014, repayments of $2,296 were made on the 2014 First Lien Term Loan and the 2011 First Lien Term Loan (2013 - $2,132).

16. Loans and borrowings (continued)

2011 and 2014 First Lien Credit Facilities (continued)

Credit Suisse, on behalf of the lenders under the 2014 First Lien Credit Facilities, has security over substantially all of the properties and assets based in the United States. As at December 31, 2014, the Company had available $13,160 under the new Revolving Credit Facility and outstanding letters of credit of $1,840. The 2014 First Lien Credit Facilities are subject to the maintenance of financial covenants and the Company was in compliance with its covenants as at December 31, 2014.

The Company utilized proceeds from the 2014 First Lien Credit Facilities to repay the 2011 First Lien Credit Facilities, which consisted of $10,000 under the 2011 First Lien Revolving Credit Facility and $207,364 under the 2011 First Lien Term Loan. The settlement of the 2011 Credit Facilities was accounted for as an extinguishment and the unamortized costs related to the 2011 Credit Facilities were recognized as part of the loss on the extinguishment. The Company recognized a total loss on extinguishment of the 2011 First Lien Credit Facilities of $13,512 (note 7).

On August 2, 2011, in accordance with the terms of the Company's 2011 First Lien Credit Facilities agreement, the Company purchased an interest rate cap for $619, which matured on August 4, 2014. The interest rate cap was measured at fair value at each reporting date and included in other financial assets (note 17), with any change recorded within finance costs, net in the consolidated statements of loss (note 7).

(v) The total costs associated with the 2011 First Lien Credit Facilities of $18,786, which include the fee for the 2013 amendment, were recorded as finance costs and were accreted over the term of the 2011 First Lien Credit Facilities using the effective interest rate method. In connection with the repayment of the 2011 First Lien Credit Facilities, the Company accelerated the recognition of unamortized discount related to deferred financing costs and the 2011 interest rate floor of $9,710 relating to the 2011 First Lien Credit Facilities.

Accretion expenses associated with the 2011 First Lien Credit Facilities are included within finance costs, net in the consolidated statements of loss (note 7).

(vi) The 2011 First Lien Credit Facilities contained an interest rate floor, which was an embedded derivative. This non-cash liability was recorded within other financial liabilities in the consolidated statements of financial position. On initial recognition, the 2011 interest rate floor was ascribed a fair value of $13,234. The carrying value of the debt was reduced by the same amount, which was accreted over the term of the debt. The 2011 interest rate floor was measured at fair value at each reporting date and included in other financial liabilities (note 17).

In thousands of US dollars unless otherwise stated

16. Loans and borrowings (continued)

2011 and 2014 First Lien Credit Facilities (continued)

In connection with the extinguishment of the Company's 2011 First Lien Credit Facilities on May 1, 2014, the Company extinguished the liability related to the 2011 interest rate floor and recognized a new interest rate floor in accordance with the terms of the 2014 First Lien Credit Facilities. This non-cash liability is recorded within other financial liabilities in the consolidated statements of financial position. On initial recognition, the 2014 interest rate floor was ascribed a fair value of $3,852. The carrying value of the new debt was reduced by the same amount, which will be accreted over the term of the debt using the effective interest rate method. The 2014 interest rate floor is measured at fair value at each reporting date and included in other financial liabilities (note 17).

The change in fair value and the accretion of debt related to the 2011 and 2014 interest rate floors are included within finance costs, net in the consolidated statements of loss (note 7).

vii) The Company has issued three series of convertible debentures: the New Debentures, the Consideration Debentures and the Convertible Debentures (collectively, the "Mood Convertible Debentures"). Interest accrues on the Mood Convertible Debentures at the respective interest rate and it is payable semi-annually. The Mood Convertible Debentures are convertible at any time at the option of the holders into common shares at the respective conversion price.

	New Debentures	Consideration Debentures	Convertible Debentures
Date of issuance	October 1, 2010	May 6, 2011	May 27, 2011
Maturity date	October 31, 2015	October 31, 2015	October 31, 2015
Interest rate	10%	10%	10%
Conversion price	$2.43	$2.43	$2.80

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

	New Debentures	Consideration Debentures	Convertible Debentures	Total
Debt component	$28,112	$4,602	$12,085	$44,799
Equity component	4,656	398	1,246	6,300
Discount on issuance	-	-	169	169
Principal at issuance	**$32,768**	**$5,000**	**$13,500**	**$51,268**

In thousands of US dollars unless otherwise stated

16. Loans and borrowings (continued)

Convertible debentures

The Convertible Debentures were issued for a subscription price of $0.9875 per $1 principal amount. Costs associated with the issuance of the Mood Convertible Debentures have been recorded as finance costs and are recognized over the term of the related instruments. These costs have been prorated between the debt and equity components.

	New Debentures	Consideration Debentures	Convertible Debentures	Total
Principal at issuance	**$32,768**	**$5,000**	**$13,500**	**$51,268**
2011 Conversions	646	-	-	646
2012 Conversions	-	356	-	356
Principal as at December 31, 2014	**$32,122**	**$4,644**	**$13,500**	**$50,266**

Reconciliation of carrying value and principal outstanding as at December 31, 2014

	New Debentures	Consideration Debentures	Convertible Debentures	Total
Carrying value as at December 31, 2013	**$29,236**	**$4,490**	**$12,799**	**$46,525**
Accretion interest for the year	1,682	84	360	2,126
Carrying value as at December 31, 2014	**30,918**	**4,574**	**13,159**	**48,651**
Unamortized balance	1,204	70	341	1,615
Principal outstanding as at December 31, 2014	**$32,122**	**$4,644**	**$13,500**	**$50,266**

The unamortized balance for the New Debentures includes unamortized financing costs as at December 31, 2014 of $311 (2013 - $725).

Accretion interest is included within finance costs, net in the consolidated statements of loss (note 7).

17. Other financial assets and financial liabilities

Other financial assets

	December 31, 2014	December 31, 2013
Prepayment option (i)	$14	$97
Total other financial assets	**$14**	**$97**
Due in more than one year	$14	$97
Total other financial assets	**$14**	**$97**

In thousands of US dollars unless otherwise stated

17. Other financial assets and financial liabilities (continued)

Prepayment option

(i) 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 (note 16). The prepayment option is fair valued at each reporting date and any change in the fair value is recognized in the consolidated statements of loss within finance costs, net (note 7).

Other financial liabilities

	2014	2013
Finance leases	$657	$1,663
2011 First Lien Interest rate floor (i)	-	6,066
2014 First Lien Interest rate floor (i)	2,925	-
Contingent consideration (ii)	5,500	-
Total other financial liabilities	**$9,082**	**$7,729**
Due in less than one year	$6,151	$1,091
Due in more than one year	2,931	6,638
Total other financial liabilities	**$9,082**	**$7,729**

Interest rate floor

(i) The 2011 First Lien Credit Facilities contained an interest rate floor of 150 basis points, which was an embedded derivative as the floor rate exceeded actual LIBOR at the time that the debt was incurred. The 2011 First Lien interest rate floor was required to be separated from the carrying value of the 2011 First Lien Credit Facilities and accounted for as a separate financial liability measured at fair value through the consolidated statements of loss within finance costs, net.

In connection with the extinguishment of the Company's 2011 First Lien Credit Facilities on May 1, 2014, the Company extinguished the liability related to the 2011 First Lien interest rate floor and recognized a new interest rate floor in accordance with the terms of the 2014 First Lien Credit Facilities. The 2014 First Lien interest rate floor is an embedded derivative required to be separated from the carrying value of the 2014 First Lien Credit Facilities and accounted for as a separate financial liability measured at fair value through the consolidated statements of loss within finance costs, net. The change in fair value is determined by reference to mark-to-market valuations performed by financial institutions at each reporting date (notes 7 and 16).

17. Other financial assets and financial liabilities (continued)

Contingent consideration

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

The consideration for the acquisition of ICI contained deferred consideration of $5,574, which was settled on October 20, 2013. The change in fair value of the ICI deferred consideration is included within finance costs, net in the consolidated statements of 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 EBITDA targets. The Company recorded this potential contingent consideration at the established fair value at each reporting period by using the probability of expected outcomes. The Company finalized its contingent obligation during 2014 resulting in no additional consideration required. The change in fair value of the Muzak contingent consideration is included within finance costs, net in the consolidated statements of loss (note 7).

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 revenue, 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").

In thousands of US dollars unless otherwise stated

18. Financial instruments (continued)

Currency risk (continued)

The most significant currency exposure arises from the Euro currency. Certain of the Company's foreign subsidiaries hold intercompany loans denominated in US dollars rather than their functional currencies. Fluctuations of plus or minus $0.05/€ would have, everything else being equal, affected foreign exchange loss (gain) on financing transactions for the year ended December 31, 2014 by approximately plus or minus $5,900 for the largest of these intercompany loans. As at December 31, 2014 the Company did not hedge any translation exposures.

Interest rate risk

The Company's interest rate risk arises on a debt drawn under the 2014 First Lien Credit Facilities, which bears interest at a floating rate. The level of interest rate risk is mitigated by the fact that the 2014 First Lien Credit Facilities carry an interest rate floor which currently exceeds LIBOR.

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 2014 First Lien Credit Facilities. As at December 31, 2014, the Company had cash of $25,573 and $13,160 available under the First Lien Revolving Credit Facilities. Cash in some of our banks earn 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 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 loss.

In thousands of US dollars unless otherwise stated

18. Financial instruments (continued)

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

	2014	2013
Trade and other receivables, before allowance	$101,818	$103,139
Less:		
Allowance for doubtful accounts	(4,560)	(5,165)
Trade and other receivables, net	**$97,258**	**$97,974**
Analysis		
Current	$57,711	$53,988
Past due 1-30 days	18,197	22,350
Past due 31-60 days	6,702	8,723
Past due 61+ days	19,208	18,078
Less:		
Allowance for doubtful accounts	(4,560)	(5,165)
Trade and other receivables, net	**$97,258**	**$97,974**

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

	2014	2013
Allowance for doubtful accounts, beginning of year	$5,165	$6,233
Reduction in allowance, net	(605)	(1,068)
Allowance for doubtful accounts, end of year	**$4,560**	**$5,165**

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, 2014	Cash and receivables	Other financial liabilities	Financial assets and liabilities at fair value through profit or loss	Total
Current financial assets				
Cash	$25,573	$-	$-	$25,573
Trade and other receivables, net	97,258	-	-	97,258
	122,831	**-**	**-**	**122,831**
Non-current financial assets				
Prepayment option	-	-	14	14
	-	**-**	**14**	**14**
Current financial liabilities				
Trade and other payables	-	109,631	-	109,631
2014 First Lien Credit Facilities	-	2,350	-	2,350
Convertible debentures	-	48,651	-	48,651
	-	**160,632**	**-**	**160,632**
Non-current financial liabilities				
2014 First Lien Credit Facilities	-	227,550	-	227,550
9.25% Senior Unsecured Notes	-	345,789	-	345,789
2014 First Lien Interest rate floor	-	-	2,925	2,925
	$-	**$573,339**	**$2,925**	**$576,264**

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
2011 First Lien Credit Facilities	-	2,132	-	2,132
	-	**117,170**	**-**	**117,170**
Non-current financial liabilities				
2011 First Lien Credit Facilities	-	205,452	-	205,452
9.25% Senior Unsecured Notes	-	345,085	-	345,085
Convertible debentures	-	46,525	-	46,525
2011 First Lien Interest rate floor	-	-	6,066	6,066
	$-	**$597,062**	**$6,066**	**$603,128**

Contractual obligations

The following table outlines the Company's contractual obligations as at December 31, 2014:

Description	Total	Less than one year	Years two and three	Beyond three years
2014 First Lien Credit Facilities	$233,238	$2,350	$4,700	$226,188
2014 First Lien Credit Facilities interest	70,262	16,490	32,525	21,247
9.25% Senior Unsecured Notes	350,000	-	-	350,000
9.25% Senior Unsecured Notes interest	194,250	32,375	64,750	97,125
Convertible debentures	50,266	50,266	-	-
Convertible debenture interest	5,096	5,096	-	-
Operating leases	44,744	14,661	19,925	10,158
Finance leases	761	755	6	-
Trade and other payables	109,631	109,631	-	-
Total	**$1,058,248**	**$231,624**	**$121,906**	**$704,718**

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, 2014, with the exception of the convertible debentures and the 9.25% Senior Unsecured Notes. The book value of the convertible debentures outstanding was $48,651 (2013 - $46,525) and the fair value was $43,004 (2013 - $43,670). The book value of the 9.25% Senior Unsecured Notes was $345,789 (2013 - $345,085) and the fair value was $290,500 (2013 – $309,056).

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, 2014		
Description	**Total**	**Level 1 Quoted prices in active markets for identical assets**	**Level 2 Significant other observable inputs**	**Level 3 Significant unobservable inputs**
2014 First Lien Interest rate floor	$(2,925)	$-	$(2,925)	$-
Prepayment option	14	-	14	-

		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**
2011 First Lien Interest rate floor	$(6,066)	$-	$(6,066)	$-
Prepayment option	97	-	97	-

During the year ended December 31, 2014, 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)

	2014	2013
Balance, at beginning of year	**$(38,735)**	**$(34,431)**
Tax credit (charge) recognized in consolidated statements of loss – continuing operations (note 9)	6,941	(3,270)
Net foreign exchange differences and other movements	2,170	(1,034)
Balance, at end of year	**$(29,624)**	**$(38,735)**

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 loss and amounts recognized in equity in the consolidated statements financial position are as follows:

	Asset 2014	Liability 2014	Net 2014	Credited (charged) to profit or loss	Foreign exchange movement (charged) credited to other comprehensive income (loss)
Property and equipment	$458	$-	$458	$187	$-
Operating losses carried forward	17,718	-	17,718	584	(906)
Goodwill	-	(10,832)	(10,832)	-	-
Identifiable intangible assets	-	(35,344)	(35,344)	6,444	2,925
Other temporary and deductible differences	1,617	(3,241)	(1,624)	(274)	151
Deferred tax assets (liabilities)	**$19,793**	**$(49,417)**	**$(29,624)**	**$6,941**	**$2,170**

In thousands of US dollars unless otherwise stated

19. Deferred tax assets and (liabilities) (continued)

	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)**

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

	2014	2013
Deductible temporary differences	$45,480	$22,700
Unused tax losses	223,595	152,689
	$269,075	**$175,389**

As at December 31, 2014, there was no deferred tax liability (2013 - 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, 2014 in Canada of approximately $183,000, however there may be offsetting denial of US tax benefits under the US Dual Consolidated Loss rules.

In thousands of US dollars unless otherwise stated

20. Share-based compensation

The Company has a share option plan for its employees, directors and consultants, whereby share options may be granted subject to certain terms and conditions. The issuance of share options is determined by the Board of Directors of the Company. The aggregate number of shares of the Company that may be issued under the Plan is limited to 10% of the number of issued and outstanding common shares at the time. The exercise price of share options must not be less than the fair market value of the common shares on the date that the option is granted. On May 13, 2014, the Company received approval for its 2014 option plan, in accordance with the Toronto Stock Exchange ("TSX") rules requiring reapproval of option plans every three years. Two changes were made to the former option plan. Share options issued under the 2014 option plan vest at the rate of 33.3% on each of the three subsequent anniversaries of the grant date and are subject to the recipient remaining employed with the Company. Share options issued under the 2011 option plan vest at the rate of 25% on each of the four subsequent anniversaries of the grant date and are also subject to the recipient remaining employed with the Company. Under the 2014 option plan, all of the vested share options must be exercised no later than 5 years after the grant date. Under the 2011 option plan, all the vested share options must be exercised no later than 10 years after the grant date. With the adoption of the Company's 2014 share option plan, no further grants of options were made pursuant to the former option plans. Options previously granted under former plans will continue to vest. The Company uses the Black-Scholes option pricing model to determine the fair value of options issued.

During the year ended December 31, 2014, the following assumptions were used: weighted average volatility of 72% (2013 - 70%) based on historic information, expected dividend yield of nil, weighted average expected life of 4.49 years (2013 - 6.25 years), weighted average interest rate of 3.09% (2013 - 1.87%) and a forfeiture rate of 9.47% (2013 - 15.39%) based on historic information. The weighted average fair value of the options granted during the year ended December 31, 2014 was $0.34 (2013 - $0.35) per share.

The expense recognized for the year ended December 31, 2014 relating to equity-settled share and option transactions for employees was $1,392 (2013 – $2,275).

Changes in the number of options, with their weighted average exercise price for the years ended December 31, 2014 and 2013, are summarized below:

	2014		2013	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at beginning of year	**18,818,300**	**$1.58**	**15,590,800**	**$1.92**
Granted during the year	4,210,000	0.58	4,175,000	0.58
Exercised during the year	(3,600,000)	0.21	-	-
Forfeited or expired during the year	(4,095,000)	2.71	(947,500)	2.72
Outstanding at end of year	**15,333,300**	**1.32**	**18,818,300**	**1.58**
Exercisable at end of year	**6,904,550**	**$1.87**	**10,370,800**	**$1.49**

In thousands of US dollars unless otherwise stated

20. Share-based compensation (continued)

The following information relates to share options that were outstanding as at December 31, 2014:

Range of exercise prices	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price
$0.00-$0.30	100,000	3.93	$0.21
$0.31-$1.50	10,743,300	6.32	0.70
$1.51-$2.50	540,000	5.73	1.75
$2.51-$3.50	3,950,000	6.39	3.01
	15,333,300	**6.31**	**$1.32**

Warrants

The following warrants were outstanding as at December 31, 2014:

	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.

21. Shareholders' equity

Share capital

Share capital represents the number of common shares outstanding.

As at December 31, 2014, an unlimited number of common shares with no par value were authorized.

Changes to share capital were as follows:

	Number of Shares	Amount
Balance as at January 1, 2013 and December 31, 2013	**171,639,563**	**$323,318**
Balance as at January 1, 2014	**171,639,563**	**323,318**
Common shares issued, net of issue costs	4,527,556	2,820
Options exercised	3,600,000	818
Balance as at December 31, 2014	**179,767,119**	**$326,956**

In thousands of US dollars unless otherwise stated

21. Shareholders' equity (continued)

During March 2014, the Company entered into agreements with two former employees to issue a total of 367,440 common shares pursuant to their severance agreements. During April 2014, the Company negotiated a total issuance of 4,160,116 common shares in full satisfaction of the remaining obligations under a consulting agreement for the integration of DMX.

Deficit

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

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 exited any residual activities.

The results of MME are as follows:

	2014	2013
Revenue	$-	$10,117
Expenses	-	16,674
Operating loss	**-**	**(6,557)**
Loss on disposal	-	9,078
Impairment	-	784
Loss before and after taxes from discontinued operations	**$-**	**$(16,419)**

During 2013, the Company had no impairment of property and equipment (2013 – $784).

The net cash flows incurred by MME are as follows:

	2014	2013
Operating activities	$-	$(2,451)
Investing activities	-	1,216
Net cash outflow	**$-**	**$(1,235)**

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

In thousands of US dollars unless otherwise stated

23. Business combinations

Acquisitions of DMX, 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 deficit within equity.

For the three months ended June 30, 2013, the Company made additional payments of $525 and $1,822 in working capital adjustments relating to the sale and purchase agreements of Technomedia and ICI, respectively.

24. Commitments and contingencies

Operating leases

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

	2014	2013
Within one year	$14,661	$16,470
After one year but not more than five years	26,955	33,840
More than five years	3,128	3,652
	$44,744	**$53,962**

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:

	2014		2013	
	Minimum payments	**Present value**	**Minimum payments**	**Present value**
Within one year	$755	$722	$1,468	$1,374
After one year but not more than five years	6	3	573	268
Total minimum lease payments	761	725	2,041	1,642
Less amounts representing finance charges	(104)	(104)	(378)	(378)
Present value of minimum lease payments	**$657**	**$621**	**$1,663**	**$1,264**

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, 2014 was immaterial.

PFH litigation

The Company entered into Minutes of Settlement with PFH Investments Limited (“PFH”) on February 13, 2015. The Minutes resolve PFH’s 2008 complaint against the Company and certain former officers of the Company. In accordance with the terms of the settlement, the Company is in the process of issuing approximately 2,300,000 common shares of the Company, subject to a possible post-closing adjustment. The Company has recognized in Other Expenses an amount equivalent to the fair value of these common shares that the Company considers to be immaterial to the consolidated financial statements. The charge will be adjusted for any change in the share price at the date of issuance.

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 equity, convertible debentures, 2011 and 2014 First Lien Credit Facilities and 9.25% Senior Unsecured Notes. On May 1, 2014, the Company extinguished its 2011 First Lien Credit Facilities and entered into the 2014 First Lien Credit Facilities (note 7). Total managed capital was as follows:

	2014	**2013**
Equity	$(56,025)	$25,007
Convertible debentures	50,266	50,266
2011 and 2014 First Lien Credit Facilities	233,238	217,897
9.25% Senior Unsecured Notes	350,000	350,000
Total Debt (contractual amounts due)	633,504	618,163
Total Capital	**$577,479**	**$643,170**

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

	2014	2013
Salaries and bonuses	$3,195	$4,010
Relocation and termination benefits	340	4,926
Share-based compensation	857	1,877
	$4,392	**$10,813**

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 17 during 2014 (2013 - 13), with the increase in 2014 relating to the timing of the change in key management personnel, specifically the increase in members of the Board.

27. Segment information

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

During 2014, there was a change in the Company’s operating and reportable segments. The 2013 comparatives have been restated to align to the current presentation.

The Company’s chief operating decision maker monitors the operating results 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 thousands of US dollars unless otherwise stated

27. Segment information (continued)

In-store media - International

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

BIS

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

Other

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

Segment information 2014

	In-store media North America	In-store media International	BIS	Other	Consolidated Group
Revenue	$266,792	$124,733	$62,422	$40,113	$494,060
Expenses					
Cost of sales	117,117	44,482	36,469	29,820	227,888
Operating expenses	67,514	61,133	22,552	12,376	163,575
Segment profit (loss) (i)	**$82,161**	**$19,118**	**$3,401**	**$(2,083)**	**$102,597**

Segment information 2013

	In-store media North America	In-store media International	BIS	Other	Consolidated Group
Revenue	$291,050	$121,249	$63,324	$37,647	$513,270
Expenses					
Cost of sales	128,567	42,313	35,828	27,169	233,877
Operating expenses	77,835	61,078	22,109	14,869	175,891
Segment profit (loss) (i)	**$84,648**	**$17,858**	**$5,387**	**$(4,391)**	**$103,502**

In thousands of US dollars unless otherwise stated

27. Segment information (continued)

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

	2014	2013
Segment profit (i)	**$102,597**	**$103,502**
Depreciation and amortization	72,263	69,182
Impairment of goodwill	-	75,000
Share-based compensation	1,392	2,275
Other expenses	28,229	30,791
Foreign exchange loss (gain) on financing transactions	17,097	(6,979)
Finance costs, net	70,057	38,279
Loss for the year before taxes from continuing operations	**$(86,441)**	**$(105,046)**

(i) Segment profit is management's additional GAAP metric internally referred to as Adjusted EBITDA and is prepared on a consistent basis. Adjusted EBITDA is considered by executive management as one of the key drivers for the purpose of making decisions about performance assessment and resource allocation of each operating segment.

Geographical areas

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

	2014	2013
US	$297,896	$311,407
Canada	3,283	5,877
Netherlands	56,406	60,937
Other International	136,475	135,049
Total revenue	**$494,060**	**$513,270**

Non-current assets

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

	2014	2013
US	$403,219	$435,174
Canada	-	7,689
International	161,205	195,302
Total non-current assets	**$564,424**	**$638,165**