

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS**

The following management's discussion and analysis of financial condition and results of operations, dated May 8, 2014 of Mood Media Corporation ("Mood Media" or the "Company") should be read together with the attached unaudited interim consolidated financial statements and related notes for the three months ended March 31, 2014, the unaudited interim consolidated financial statements and the related notes for the three months ended March 31, 2013, and the Company's annual information form (the "AIF"). Additional information related to the Company, including the Company's AIF, can be found on SEDAR at www.sedar.com. Please also refer to the risk factors identified in the Company's AIF. The fiscal year of the Company ends on December 31. The Company's reporting currency is the US dollar and, unless otherwise noted, all amounts (including in the narrative) are in thousands of US dollars except for shares and per-share amounts. Per share amounts are calculated using the weighted average number of shares outstanding for the period ended March 31, 2014.

This discussion contains forward-looking statements. Please see "Forward-Looking Statements" for a discussion of the risks, uncertainties and assumptions relating to these statements.

As used in this management's discussion and analysis of financial condition and results of operation, the terms the "Company", "we", "us", "our" or other similar terms refer to Mood Media and its consolidated subsidiaries.

Overview

We are a leading global provider of in-store audio, visual and scent media and marketing solutions in North America and Europe to more than 500,000 commercial locations across a broad range of industries including retail, food retail, financial services and hospitality. We benefit from economies of scope and scale, generating revenue from multiple product and service offerings across 41 countries. Our acquisitive growth history has allowed us to substantially broaden our geographic footprint and significantly strengthen our product and service offerings. Our strategy of combining audio, visual and scent media has helped our clients enhance their branding, drive impulse purchases of their products and improve the shopping experience for their customers. The breadth and depth of our customizable offerings and the quality of our customer service has helped make us the preferred media and marketing solutions provider to more than 850 North American and international brands. We are viewed as an established distribution network by music producers, performance rights organizations and third-party advertisers.

By law the public performance of music in a commercial environment requires specific-use permissions from the relevant copyright owners. Each country has its own legal system and may have specific copyright rules making global and pan-European compliance a complex undertaking. Furthermore, penalties for infringement vary from country to country and can be significant for commercial enterprises that do not comply with the relevant rules. We have worldwide experience and extensive knowledge of the various licensing systems throughout the world. As a music content provider we understand licensing requirements and provide support to our customers to obtain the relevant licenses.

In-store audio, visual and scent media and marketing solutions create a communication channel between our clients' brand and their customers at the point-of-purchase. By enhancing the brand experience of our clients' consumers and establishing an emotional connection between our clients and their consumers, these products and services can have a impact on consumer purchasing decisions. We tailor both our media's content and delivery by scheduling specific content to be delivered at a specific time in order to target a specific audience. Our media is broadcast through customizable technology systems, supported by ongoing maintenance and technical support and integrated into our clients' existing IT infrastructure. The tailored content we deliver eliminates the need for our clients to select their own, often repetitive, background media.

In addition to designing and selling a variety of media forms for use in commercial environments, the Company is employing a strategy of deploying a series of revenue enhancement measures and integrating the businesses it has acquired into a cohesive unit that can serve premier brands across multiple geographies, as well as, serving local businesses with effective solutions. Its revenue enhancement measures include development of local sales channels, creation of new and compelling technology services and solutions, cross selling visual solutions to audio customers, and cross selling its flagship visual systems solutions with its in-store visual and audio services. The Company has also begun to implement a comprehensive integration program that it estimates will generate approximately \$9 million in annualized savings from "Wave 1", which are initiatives it implemented in the fourth quarter of 2013; and an additional \$8 - \$12 million in annualized savings from 2014 initiatives (Wave 2 and 3). These activities are focused on streamlining and simplifying the Company's infrastructure and processes on a global basis with associated benefits to its cost structure.

Our common shares are listed on the Toronto Stock Exchange ("TSX") and the AIM Market of the London Stock Exchange ("AIM") under the trading symbol "MM" and our 10% convertible unsecured subordinated debentures are listed on the TSX under the trading symbol "MM.DB.U."

Sale of Residential Latin America music operations

On January 10, 2014, the Company completed the sale of assets related to its residential Latin America music operations to independent affiliate Stingray Digital (“Stingray”). The assets were held by a subsidiary of DMX Holdings Inc. (“DMX”) and consisted primarily of customer contracts and residential receivables. Under the terms of the agreement, Mood Media received an initial cash payment of \$10,000 and extinguished a liability for royalties owed by Mood of \$1,400. Upon the residential Latin American operations' achievement of certain key performance indicators, Stingray will pay Mood Media an additional amount of up to \$4,900. As a result of the transaction, the Company recorded an initial gain on sale of \$3,541 including the estimated fair value of the contingent consideration and reduced goodwill by \$6,011 and intangible assets by \$1,341 to account for the goodwill and intangible assets associated with the disposed assets. The Company believes the transaction further advances its strategy to simplify its portfolio, integrate and streamline its operations.

Subsequent Event

On May 1, 2014, the Company refinanced its credit facilities with Credit Suisse, as agent. The new facilities consist of a \$15,000 5-year Senior Secured revolving credit facility and a \$235,000 Senior Secured 5-year term loan. Interest on the Senior Secured 5-year term loan accrues at a rate of adjusted LIBOR plus 6.00% per annum with a LIBOR floor of 1%. The new First Lien term loan is repayable at a rate 1% of the initial principal per annum at the rate of \$588 per quarter. The new facilities have more favorable financial covenants as well as provisions which permit the Company to use net asset sales proceeds, within defined limits, to repay unsecured debt.

Rebranding

During early 2013 we officially launched a rebranding effort to better communicate our position as the global leader in experience design and integrate our portfolio companies — Muzak, DMX and Mood Media — into a single global brand, Mood. The rebranding will enable us to provide a more powerful, integrated suite of experiential marketing solutions that meet the needs of a diverse clientele.

Board of Directors Committee and Management Changes

In September and October 2013, we implemented several changes to the senior management team, which included the appointment of Steve Richards as the President and Chief Executive Officer of Mood Media Corporation and Ken Eissing as the Chief Operating Officer for Mood North America. Mr. Steve Richards was also appointed to the Board of Directors of the Company. In January 2014, Thomas L. Garrett, Jr. was appointed as Chief Financial Officer and Executive Vice President of Mood Media Corporation and Claude Nahon as President for Mood International.

Effective January 1, 2014, Kevin Dalton was appointed to the Board of Directors and in February 2014, Mr. Dalton was appointed Lead Director of the Board. In addition, in January 2014 Gary Shenk and David Richards were appointed to the Board of Directors, with Lorne Abony and Justin Beckett stepping down.

In February 2014, the Board of Directors reconstituted its Compensation and Governance Committee appointing Mr. Kevin Dalton (Chair), Mr. David Richards and Mr. Harvey Solorsh as members of this committee. In March 2014, effective immediately following the release of the Company's audited consolidated financial statements for the year ended December 31, 2013, the Board of Directors reconstituted its Audit Committee appointing Mr. Harvey Solorsh (Chair), Mr. David Richards and Mr. Gary Shenk as members of this committee.

Summary of Quarterly Results

The following table presents a summary of our unaudited operating results on a quarterly basis. The financial information is presented in accordance with International Financial Reporting Standards (“IFRS”). The quarterly results have been prepared to show the results for Mood Entertainment classified as a discontinued operation.

Period	(Loss) income for the period attributable to owners of the parent				Basic and diluted EPS	
	Revenue Continuing operations	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations
Q1 – 2014 ⁷	\$122,990	\$(7,503)	\$-	\$(7,503)	\$(0.04)	\$(0.04)
Q4 – 2013	132,253	(12,625)	68	(12,557)	(0.07)	(0.00)
Q3 – 2013 ⁶	125,662	(85,944)	(1,751)	(85,695)	(0.50)	(0.01)
Q2 – 2013 ⁵	126,268	(9,492)	(10,984)	(20,476)	(0.05)	(0.07)
Q1 – 2013	129,087	(5,086)	(3,752)	(8,838)	(0.03)	(0.02)
Q4 – 2012 ^{3,4}	131,946	(14,088)	(13,203)	(27,291)	(0.08)	(0.08)
Q3 – 2012 ²	119,951	(5,967)	(4,848)	(10,815)	(0.03)	(0.03)
Q2 – 2012 ¹	107,844	(7,170)	(23,763)	(30,933)	(0.04)	(0.14)

1. The significant total loss for the period attributed to owners of the parent is as a result of impairment charges booked in respect of the discontinued operation.
2. The significant increase in revenue is the result of the BIS acquisition in May 2012.
3. The significant increase in revenue is primarily attributable to the acquisition of ICI in October 2012.
4. The significant loss for the period attributable to the owners of the parent is the result of the costs associated with the raising of the unsecured notes and subsequent repayment of part of the credit facilities and restructuring and integration costs incurred in the period.
5. The significant loss for the period attributable to owners of the parent is due to the recognition of the loss on sale of the discontinued operation
6. The significant loss for the period attributable to owners of the parent is due to the impairment of goodwill in the period.
7. The reduction in loss for the three months ended March 31, 2014 compared to the three months ended December 31, 2013 is primarily attributable to the gain on sale of the Residential Latin American music operations in addition to the Company realizing some of the effects of Wave 1 cost reduction efforts implemented at the end of 2013.

Selected Financial Information

	Three months ended March 31, 2014	Three months ended March 31, 2013
Continuing operations		
Revenue	\$122,990	\$129,087
Expenses:		
Cost of sales (excludes depreciation and amortization)	57,424	58,687
Operating expenses	42,216	44,438
Depreciation and amortization	18,514	17,724
Share-based compensation	816	363
Other expenses (income)	(635)	5,894
Foreign exchange (gain) loss on financing transactions	(1,006)	6,035
Finance costs, net	13,726	(5,476)
Loss for the period before taxes	(8,065)	1,422
Income tax charge (credit)	(569)	6,392
Loss for the period from continuing operations	(7,496)	(4,970)
Discontinued operations		
Profit (loss) after tax from discontinued operations	-	(3,752)
Loss for the period	(7,496)	(8,722)
Attributable to:		
Owners of the parent	(7,503)	(8,838)
Non-controlling interests	7	116
	\$(7,496)	\$(8,722)
Net loss per share:		
Basic and diluted	\$(0.04)	\$(0.05)
Basic and diluted from continuing operations	(0.04)	(0.03)
Basic and diluted from discontinued operations	-	(0.02)
	March 31, 2014	December 31, 2013
Total assets	\$807,059	\$811,835
Total non-current liabilities	648,723	649,688

Operating Results

Three months ended March 31, 2014 compared with the three months ended March 31, 2013

Revenue from continuing operations

We report our continuing operations as three reportable segments, “In-Store Media North America”, “In-Store Media International” and “Other” for the purposes of reconciliation to the Company’s financial statements.

Revenue from continuing operations for the three months ended March 31, 2014 and March 31, 2013 were as follows:

	3 months ended March 31, 2014	3 months ended March 31, 2013	% Change
In-Store Media North America	\$66,772	\$72,540	(8.0%)
In-Store Media International	47,749	46,050	3.7%
Other	8,469	10,497	(19.3%)
Total Consolidated Group	\$122,990	\$129,087	(4.7%)

Revenue is primarily derived from recurring monthly subscription fees for providing customized and tailored music, visual displays and messages through contracts ranging from 3-5 years. Revenue is also derived from equipment and installation fees.

In-store Media North America revenue decreased by \$5,768 for the three months ended March 31, 2014 compared to the three months ended March 31, 2013, primarily as a result of a decrease in recurring monthly revenue and a reduction in revenue derived from equipment and installation fees. In addition, the decrease is attributable to a decrease in revenues of \$1.1M for the three months ended March 31, 2013 for the sale of our residential Latin America music operations sold on January 10, 2014 that are no longer included in our consolidated revenue numbers for the three months ended March 31, 2014.

In-Store Media International revenue increased by \$1,699 for the three months ended March 31, 2014 compared to the three months three months ended March 31, 2013, primarily driven by the appreciation of the EURO against the US dollar compared to the comparative period, which impacts the translation of International revenues into US dollars. On a like for like currency basis, total In-Store Media International revenues for the three months ended March 31, 2014 would be in line with the prior period comparative.

The revenue from other segments decreased by \$2,028 due to a decrease in equipment revenue and timing of project based revenue in Technomedia.

Cost of sales from continuing operations

Cost of sales were \$57,424 for the three months ended March 31, 2014, a decrease of \$1,263 compared to \$58,687 for the three months ended March 31, 2013. Cost of sales as a percentage of revenue for the three months ended March 31, 2014 was 46.7%, compared with 45.5% for the three months ended March 31, 2013. The increase is primarily due to a reduction of revenues, specifically relating to the decrease in the recurring revenue mix which has a higher gross margin for our In-Store Media business.

Operating expenses from continuing operations

Operating expenses were \$42,216 for the three months ended March 31, 2014, a decrease of \$2,222 compared with \$44,438 for the three months ended March 31, 2013. The decrease is primarily the result of the Company realizing some of the effects of Wave 1 cost reduction efforts implemented at the end of 2013. Wave 1 business efficiency and integration synergy program focused on streamlining the Company's operating infrastructure resulting from acquisition activity to create efficiencies, and enhance profitability and position the Company to capture opportunities for growth across Local Audio, Visual Solutions and Mobile Services. The Company expects these improvements to deliver nearly \$9 million in annual cost savings in fiscal year 2014. Additionally, the Company has already completed a significant portion of its plans for Waves 2 and 3 that are expected to deliver substantial annualized savings in the range of \$8 to \$12 million once its implementation efforts are completed by June 30, 2014 for Wave 2 and December 31, 2014 for Wave 3 initiatives, respectively.

Depreciation and amortization from continuing operations

Depreciation and amortization was \$18,514 for the three months ended March 31, 2014; an increase of \$790, compared with \$17,724 for the three months ended March 31, 2013. The increase is primarily due to additional capital expenditures added throughout the remainder of 2013 that would result in a larger depreciable base for the three months ended March 31, 2014. The additional capital expenditures are part of our Wave 1 business efficiency and integration synergy program.

Share-based compensation from continuing operations

Share-based compensation expense was \$816 for the three months ended March 31, 2014; an increase of \$453 compared with \$363 for the three months ended March 31, 2013. The increase is due to shares issued pursuant to severance agreements to two former employees and new share awards issued to employees.

Other expenses (income) from continuing operations

Other expenses were an income of \$(635) for the three months ended March 31, 2014 compared to an expense of \$5,894 for the three months ended March 31, 2013. The change is primarily due to significant transaction costs incurred in the three months ended March 31, 2013 in respect of acquisitions and costs incurred in integrating the North American businesses. Other expenses for the three months ended March 31, 2014 additionally, include an initial gain on sale of \$3,541 including the estimated fair value of the contingent consideration.

Financing costs, net from continuing operations

Financing costs, net were \$13,726 for the three months ended March 31, 2014 compared with \$(5,476) for the three months ended March 31, 2013. The change is primarily due to the comparative period including a \$15 million change in the fair value relating to the Muzak contingent consideration.

Income tax from continuing operations

There was an income tax credit of \$569 for the three months ended March 31, 2014 compared to a charge of \$6,392 for the three months ended March 31, 2013. The change has arisen primarily as a result of a reduction in the deferred tax liability in the three months ended March 31, 2014.

Loss after tax from discontinued operations

The loss after tax from discontinued operations was nil for the three months ended March 31, 2014 a decrease of \$3,752 compared to a loss of \$3,572 for the three months ended March 31, 2013 as a result of accruing the cost to exit these operations in 2013.

Non-controlling interest from continuing operations

A charge of \$7 representing the element of profit of subsidiaries where the Company does not own 100% of the share capital has been taken in the three months ended March 31, 2014 compared to a charge of \$116 in the three months ended March 31, 2013.

Total assets

Total assets were \$807,059 as at March 31, 2014 compared to \$811,835 as at December 31, 2013. The decrease of \$4,776 is largely due to the reduction of goodwill and intangible assets in connection with the sale of the Latin America operations.

Non-current liabilities

Long term liabilities were \$648,723 as at March 31, 2014 compared to \$649,688 as at December 31, 2013. The decrease of \$965 is largely due to the reduction in the deferred tax liability during the three month period ended March 31, 2014, a reduction in other financial liabilities partially offset by an increase in long term debt and deferred revenue.

Liquidity and Capital Resources

During the three months ended March 31, 2014, cash increased by \$12,953.

Cash generated from operating activities for the three months ended March 31, 2014 was \$17,094 compared with \$10,212 in the three months ended March 31, 2013. The increase in cash generated from operating activities of \$6,882 was driven by higher operating profit before tax of \$2,374 (three month ended March 31, 2014 operating profit before tax of \$20,426 (adding back to pre-tax loss: depreciation, amortization, impairment, interest and other non-cash charges) compared to a three months ended March 31, 2013 operating profit before tax of \$18,052); a reduction in working capital additions of \$4,683 (an increase in working capital of \$1,965 for the three months ended March 31, 2014 compared to an increase of \$6,648 for the three months ended March 31, 2013) and higher cash taxes paid by \$162 (\$1,378 for three months ended March 31, 2014 compared to \$1,216 for three months ended March 31, 2013).

Cash provided by investing activities for the three months ended March 31, 2014 was \$594 compared with cash used in investing activities of \$7,839 in the three months ended March 31, 2013. The increase is primarily the result of the sale of residential Latin America music operations on January 10, 2014.

Cash used in financing activities for the three months ended March 31, 2014 was \$4,735 compared to cash generated of \$4,592 the three months ended March 31, 2013. The increase is primarily due to interest paid on the outstanding drawn balance of the First Lien revolving credit facility that was drawn in the fourth quarter of 2013.

As at March 31, 2014, the Company had cash of \$35,134 and available lines of credit of \$11,060. Management believes that the Company has sufficient liquidity in the form of its current cash balances, the cash generating capacity of its businesses and the ability to draw down on revolving credit facilities to meet its working capital and capital expenditure needs for the forthcoming year. On an ongoing basis management evaluates the sufficiency of its current liquidity, borrowing capacity and capital structure to assure its capital structure is optimally poised to meet the needs of its operating plans. The company monitors the debt and capital markets in order to be opportunistic in refinancings of upcoming maturities and to better match terms and pricing to the company's needs.

Contractual obligations

The following chart outlines the Company's contractual obligations as at March 31, 2014:

Description	Total	Less than one year	One to three years	Four to five years	Beyond five years
First Lien Credit facility	\$217,364	\$2,132	\$14,265	\$200,967	-
First Lien Credit facility interest	59,165	14,660	28,907	15,598	-
9.25% Senior Unsecured Notes	350,000	-	-	-	350,000
9.25% Senior Unsecured Notes interest	226,625	32,375	64,750	64,750	64,750
Convertible debentures	50,266	-	50,266	-	-
Convertible debenture interest	10,192	5,096	5,096	-	-
Operating leases	42,662	12,105	18,494	8,774	3,289
Finance leases	1,642	1,074	568	-	-
Trade and other payables	110,923	110,923	-	-	-
Total	\$1,068,840	\$178,365	\$182,346	\$290,090	\$418,039

Bank debt

In connection with the acquisition of Muzak on May 6 2011, we entered into credit facilities with Credit Suisse AG ("Credit Suisse"), as agent, consisting of a \$20,000 5-year revolving credit facility (the "First Lien Revolving Credit Facility"), a \$355,000 7-year First Lien term loan (the First Lien Term Loan, and together with the First Lien Revolving Credit Facility, the "First Lien Credit Facility") and a \$100,000 7.5-year Second Lien term loan (collectively the "Credit Facilities"). The First Lien Revolving Credit Facility matures on May 6, 2016, the First Lien Term Loan matures on May 6, 2018 and the Second Lien term loan had a maturity date of November 6, 2018, although it was repaid in its entirety in 2012.

On October 19, 2012, we closed an offering of \$350,000 aggregate principal amount of senior unsecured notes (the "Notes") by way of private placement. The Notes are due October 15, 2020 and bear interest at an annual rate of 9.25%. We used the net proceeds of the Notes to repay \$140,000 of the First Lien Term Loan and the Second Lien facility in its entirety.

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

On December 4, 2013, the Company made an additional amendment to the First Lien Credit Facility to modify certain defined terms and financial covenants.

The First Lien Term Loan is repayable at \$533 a quarter, with the remainder repayable on maturity. Interest on the First Lien Term Loan accrues at a rate of adjusted LIBOR plus 5.50% per annum or the alternate base rate plus 4.50% per annum, as applicable.

Convertible debentures

On October 1, 2010, we issued convertible unsecured subordinated debentures (the "New Debentures") with a principal amount of \$31,690. As part of the transaction, we also issued an additional \$1,078 in New Debentures, for a total of \$32,768 aggregate principal amount of New Debentures, as partial payment of the underwriter's fee.

The New Debentures have a maturity date of October 31, 2015 and bear interest at a rate of 10% per annum, payable semi-annually. They are convertible at any time at the option of the holders into common shares at an initial conversion price of \$2.43 per common share. \$646 of New Debentures were converted during 2011, resulting in the issuance of 265,843 common shares. There are a maximum of 13,218,930 of our common shares issuable upon conversion of the remaining New Debentures.

On May 6, 2011, we issued convertible unsecured subordinated debentures (the "Consideration Debentures") with a principal amount of \$5,000 as part of the consideration for the Muzak acquisition. The Consideration Debentures have a maturity date of October 31, 2015 and bear interest at a rate of 10% per annum, payable semi-annually. They are convertible at any time at the option of the holders into common shares at an initial conversion price of \$2.43 per common share. \$356 of Consideration Debentures were converted during 2012, resulting in the issue of 146,500 common shares. There are a maximum of 1,911,111 of our common shares issuable upon conversion of the remaining Consideration Debentures.

On May 27, 2011, we completed a private placement of convertible unsecured subordinated debentures (the "Convertible Debentures" with a principal amount of \$13,500. The Convertible Debentures were issued for a subscription price of \$0.9875 per \$1 principal amount, resulting in gross proceeds of \$13,331. The Convertible Debentures have a maturity date of October 31, 2015 and bear interest at a rate of 10% per annum, payable semi-annually. They are convertible at any time at the option of the holders into common shares at an initial conversion price of \$2.80 per common share. There are a maximum of 4,821,429 of our common shares issuable upon conversion of the New Debentures.

Trade and other payables

Trade and other payables arise in the normal course of business and are to be settled within one year of the end of the reporting period.

Lease commitments

Operating leases and finance leases are entered into primarily for the rental of premises and vehicles used for business activities.

Capitalization

Total managed capital was as follows:

	March 31, 2014	December 31, 2013
Shareholders' equity	\$17,574	\$25,007
Convertible debentures	50,266	50,266
First Lien Credit Facilities	217,364	217,897
9.25% Senior Unsecured Notes	350,000	350,000
Total Debt (contractual amounts due)	617,630	618,163
Total Capital	\$635,204	\$643,170

As at March 31, 2014 our capital structure included shareholders' equity in the amount of \$17,574. Our outstanding debt as at that date included convertible debentures of \$50,266, bank debt of \$217,364 and unsecured notes of \$350,000. As at December 31, 2013 our capital structure included shareholders' equity in the amount of \$25,007. Our outstanding debt as at that date included convertible debentures of \$50,266, bank debt of \$217,897 and unsecured notes of \$350,000.

The number of our outstanding common shares as at March 31, 2014 was 172,239,503. The company issued 367,440 shares as severance payments and 232,500 share options were exercised. This represents an increase of 599,940 to shares outstanding from March 31, 2013 of 171,639,563.

The following provides additional share information (in thousands of shares) on a fully diluted basis:

On March 10, 2014, 950,000 share options were granted with an exercise price of CDN\$0.88 (USD\$0.79).

There were no share options granted during the three month period ended March 31, 2013.

The following table provides additional share information (in thousands of shares) on a fully diluted basis:

	Outstanding as at May 8, 2014	Outstanding as at March 31, 2014
Common shares	179,181	172,240
Share options	16,260	19,041
Warrants	4,408	4,408
Convertible debentures	19,951	19,951

The increase of 6,941 in shares from March 31, 2014 to May 8, 2014 is driven by 2,781 in options being exercised and 4,160 shares granted in lieu of a cash payment pursuant to a consulting contract.

Risk management

We are exposed to a variety of financial risks including market risk (including foreign exchange and interest rate risks), liquidity risk and credit risk. Our overall risk management program focuses on the unpredictability of financial markets and seeks to evaluate potential adverse effects on the Company's financial performance.

Foreign currency exchange risk

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

The most significant translation exposure arises from the Euro currency. We are required to revalue the Euro denominated net assets of the European subsidiaries at the end of each period with the foreign currency translation gain or loss recorded in other comprehensive income. We do not currently hedge translation exposures. Since the financial statements of Muzak, DMX, ICI and Technomedia are denominated in US dollars, the impact associated with translation exposure has been reduced following these acquisitions.

Interest rate risk

Our interest rate risk arises on a debt drawn under the Credit Facilities, which bear interest at a floating rate. However, the level of interest rate risk is mitigated by the fact that the Credit Facilities carry an interest rate floor which currently exceeds LIBOR. The interest rate floor is treated for accounting purposes as a non-cash liability which is disclosed within other financial liabilities in the consolidated statement of financial position. We also purchased an interest rate cap in 2011 to protect against increasing LIBOR rates and this asset is recorded within other financial assets in the consolidated statement of financial position. The fair value of these instruments is determined by reference to mark to market valuations performed by financial institutions at each reporting date and any changes in fair value are recorded within finance costs within the consolidated statements of income. The total change in fair value for the period ended March 31, 2014 was a gain of \$584.

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. We achieve this by maintaining sufficient cash balances, generating cash through the operation of our businesses and management of working capital, and by maintaining availability of funding from the committed First Lien Credit Facility.

Credit risk

Credit risk arises from cash held with banks and credit exposure to customers on outstanding accounts 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. We assess 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.

Critical Accounting Estimates

Described below are 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. We based our 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 our control. Such changes are reflected in the assumptions when they occur.

Share-based compensation

We measure the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at 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 and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based compensation transactions are disclosed in note 20 of the Company's annual financial statements.

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 meets the definition of a derivative and, thus, a financial liability, it is subsequently remeasured to fair value at each reporting date. The determination of the fair value is based on probability of expected outcomes and discounted cash flows. The key assumptions take into consideration the probability of meeting each performance target and the discount factor.

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, their 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, but 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.

Income taxes

Tax regulations and legislation, and the interpretations thereof in the various jurisdictions in which we operate, 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.

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.

Inventory obsolescence

Our obsolescence provision is determined at each reporting period and the changes are 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.

Property and equipment

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

Impairment of long-lived assets

Long-lived assets primarily include property and equipment and intangible assets. An impairment loss is recognized when the carrying value of the cash-generating unit ("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. We test the recoverability of its long-lived assets when events or circumstances indicate that the carrying values may not be recoverable. While we believe that no provision for impairment is required, we must make certain estimates regarding profit projections that include assumptions about growth rates and other future events. Changes in certain assumptions could result in charging future results with an impairment loss.

Leases

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

Goodwill and indefinite-lived intangible assets

We perform 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, we selected October 1 as the date when to perform the annual impairment analysis. Impairment calculations under IFRS are done at a CGU group level. Calculations use a discounted cash flow method under a one-step approach and consider the relationship between the Company's market capitalization and its book value. Goodwill is allocated and tested in conjunction with its related CGU or group of CGUs that benefit from collective synergies. The assessments used to test for impairment are based on discounted cash flow projections that include assumptions about growth rates and other future events. Industry information is used to estimate appropriate discount rates used in the calculation of discounted cash flows.

Disclosure Controls and Internal Controls over Financial Reporting

The Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") are responsible for the design of the Company's Disclosure Controls and Procedures (as defined in National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109")). The CEO and CFO are also responsible for the design of the Company's Internal Controls over Financial Reporting (as defined by NI 52-109) to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The CEO and CFO have designed, or have caused to be designed, disclosure controls and procedures and internal controls over financial reporting. These controls have been evaluated and it has been determined that their design and operation provide reasonable assurance as to their adequacy and effectiveness as of, and for the three months ended March 31, 2014.

These controls were evaluated using the framework established in "Internal Control – Integrated Framework" (1992) published by The Committee of Sponsoring Organizations of the Treadway Commission (COSO Framework).

In designing such controls, it should be recognized that due to inherent limitations in any control system, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. Projections of any evaluations of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Additionally, management is required to use judgment in evaluating controls and procedures.

The Company did not make any changes to the Company's internal controls over financial reporting during the most recent reporting period that would have materially affected or would reasonably be likely to materially affect the Company's internal controls over financial reporting.

Risk Factors

The results of operations, business prospects and the financial condition of the Company are subject to a number of risks and uncertainties, and are affected by a number of factors outside the control of the Company's management. These risks are noted below.

Integration risks

Making strategic acquisitions and business combinations has been a significant part of our growth. Our ability to continue to expand in this manner depends in large part on our ability to identify suitable acquisition targets and compete successfully with other entities for these targets. We recently completed the acquisition of Technomedia in December 2012, ICI in October 2012, BIS in May 2012, DMX in March 2012, and Muzak in May 2011, with the expectation that these acquisitions would result in strategic benefits, economies of scale and synergies. These anticipated benefits, economies of scale and synergies will depend in part on whether the operations of Mood Media, Technomedia, ICI, BIS, DMX and Muzak can be integrated in an efficient and effective manner. It is possible that this may not occur as planned, or that the financial and other benefits may be less than anticipated. In addition, management believes that the integration will give rise to restructuring costs and charges, and these may be greater than currently anticipated. Furthermore, the contracts governing the Company's recent acquisitions do include, and the contracts governing the Company's future business combinations and/or acquisitions may include, post-closing purchase price adjustments that require it to make additional payments to the relevant selling party post-closing and such payments could be greater than anticipated. The integration of the Company's ERP systems presents a risk to the Company and requires resources to accomplish, including capital expenses and personal time.

We have been built via a series of acquisitions. Failure to properly integrate these acquisitions will leave the Company less able to operate as a consolidated whole and may lead to depressed revenue and margin performance. This integration is ongoing and requires dedication and substantial management effort, time and resources which may divert management's focus and resources from other strategic opportunities and from operational matters during this process. The integration process may result in loss of key employees and the disruption of the ongoing business, customer and employee relationships that may adversely affect our ability to achieve the anticipated benefits of the acquisitions. Further, the operating results and financial condition of the Company could be materially adversely impacted by the focus on integration.

Future business combinations and/or acquisitions could materially and adversely affect our business, financial condition and results of operations if it is unable to integrate the operations of the acquired companies. Completing business combinations and/or acquisitions could require use of a significant amount of our available cash. Furthermore, the Company may have to issue equity or equity linked securities to pay for future business combinations and/or acquisitions. Acquisitions and investments may also have negative effects on our reported results of operations due to acquisition-related charges, amortization of acquired technology and other intangibles, failure to retain key employees or customers of acquired companies and/or actual or potential liabilities, known and unknown, associated with the acquired businesses or joint ventures. Any of these acquisition-related risks or costs could materially and adversely affect the Company's business, financial condition and results of operations.

Costly and protracted litigation may be necessary to defend usage of intellectual property

The Company may become subject to legal proceedings and claims in relation to its business. In particular, while management believes that it has the rights to distribute the music recordings used in connection with our business, we may be subject to copyright infringement lawsuits for selling, performing or distributing music recordings if it does not have the rights to do so. Results of legal proceedings cannot be predicted with certainty. Regardless of their merits, litigation, arbitration and/or mediation of such claims may be both time-consuming and disruptive to our operations and cause significant expense and diversion of management attention. The Company is currently defending itself against a number of legal claims. While we believes these claims to be without merit, and is vigorously defending itself, the Company cannot guarantee that it will be successful or that it will reach commercially reasonable settlement terms. Should we fail to prevail in such proceedings and claims, its financial condition and operating results could be materially and adversely affected.

If the current owners with which the Company contracts do not have legal title to the digital rights they grant the Company, the Company's business may be adversely affected

The Company's acquisition and distribution agreements with content owners contain representations, warranties and indemnities with respect to the digital rights granted to us. If we were to acquire and make available for purchase music recordings from a person who did not actually own such rights and we were unable to enforce on the representations, warranties and indemnities made by such person, our business may be adversely affected.

The Company faces intense competition from our competitors that could negatively affect our results of operations

The market for acquiring exclusive digital rights from content owners is competitive, especially for the distribution of music catalogues owned by independent labels. The number of commercialized music recordings available for acquisition is large and many of the more desirable music recordings are already subject to digital distribution agreements or have been directly placed with digital entertainment services. We face competition in our pursuit to acquire additional content, which may reduce the amount of music content that it is able to acquire or license and may lead to higher acquisition prices. Our competitors may from time to time offer better terms of acquisition to content owners. Increased competition for the acquisition of digital rights to music recordings may result in a reduction in operating margins and may reduce our ability to distinguish itself from our competitors by virtue of our music library.

The Company has different competitors in its local geographies but very few that operate across international markets. Some of these local competitors offer services at a lower price than we offer in order to promote their services and gain share. If these competitors are able to leverage such price advantages, it could harm our ability to compete effectively in the marketplace. Furthermore, there is a threat of new entrants to the competitive landscape, including traditional advertisers and media providers as well as start-up companies. The growth of social media could facilitate other forms of new entry that will compete with the Company.

We also compete with companies that are not principally focused on providing business music services. Such competitors include Sirius XM Satellite Radio, webcasters and traditional radio broadcasters that encourage workplace listening, video services that provide business establishments with music videos or television programming, and performing rights societies that license business establishments to play sources such as CDs, tapes, MP3 files and satellite, terrestrial and internet radio.

We compete on the basis of service, the quality and variety of its music programs, the availability of its non-music services and, to a lesser extent, price. Management believes that the Company can compete effectively due to the breadth of its in-store media. While management believes that the Company competes effectively, the Company's competitors have established client bases and are continually seeking new ways to expand such client bases and revenue streams. As a result, competition may negatively impact the Company's ability to attract new clients and retain existing clients.

If the Company is unable to generate demand for managed media services, its financial results may suffer

The Company's current business plan contemplates deriving revenue from businesses that want a professional media service that is available for sale in-store or broadcast in-store. The Company's ability to generate such revenues depends on the market demand for its media content and its ability to provide a robust service that delivers a return on investment.

Our customers may choose to terminate their relationship with us or reduce their spending on our services, which could have a material adverse effect on its financial condition and results of operations. We depend on a large portion of our revenues being derived from the continued spending by its clients on in-store media services. Our top clients for such services typically have lengthy tenures. However, should clients decide to stop using or to reduce their expenditures on in-store media or decide to terminate their agreements with us and to use one of our competitors; we would lose subscription income which will have an adverse effect on our financial position.

The Company's success will depend, in part, on its ability to develop and sell new products and services

Our success depends in part on the ability of its personnel to develop leading-edge media products and services and the ability to cross sell visual media and scent marketing to existing clients. Our business and operating results will be harmed if it fails to cross sell its services and/or fails to develop products and services that achieve widespread market acceptance or that fails to generate significant revenues or gross profits to offset development and operating costs. We may not successfully identify, develop and market new products and service opportunities in a timely manner. We also may not be able to add new content as quickly or as efficiently as its competitors, or at all. If we introduce new products and services, they may not attain broad market acceptance or contribute meaningfully to its revenues or profitability. Competitive or technological developments may require us to make substantial, unanticipated investments in new products and technologies, and we may not have sufficient resources to make these investments.

The Company's use of open source and third party software could impose unanticipated conditions or restrictions on its ability to commercialize its solutions

While we have developed our own proprietary software and hardware for the delivery of its media solutions, we may be restricted under existing or future agreements from utilizing certain licensed technology in all of the jurisdictions and/or industry sectors in which it operates. Failure to comply with such restrictions may leave us open to proceedings by third parties and such restrictions may, if alternative technology is not available, affect our ability to deliver its services in such jurisdictions, in each case resulting in an adverse effect on our financial position.

The Company's suppliers may choose to terminate their relationship with the Company, which could have a material adverse effect on the Company's financial condition and results of operations

We have licensing arrangements with suppliers of satellite services which are used in the delivery of content to its customers. If such licensing arrangements were terminated and alternative arrangements were not available, this would affect our ability to deliver its services resulting in an adverse effect on its financial or trading position.

The imposition of the obligation to collect sales or other taxes on shipments into one or more states in the United States could create administrative burdens on the Company and decrease its future sales

We do not collect sales or other taxes on shipments by its foreign subsidiaries of most of its goods into most states in the United States. One or more states or foreign countries may seek to impose sales or other tax collection obligations on out-of-jurisdiction e-commerce companies. A successful assertion by one or more states or foreign countries that the Company should collect sales or other taxes on the sale of merchandise or services could result in substantial tax liabilities for past sales, decrease our ability to compete with traditional retailers, and otherwise harm its business.

Currently, U.S. Supreme Court decisions restrict the imposition of obligations to collect state and local sales and use taxes with respect to sales made over the internet. However, a number of states, as well as the U.S. Congress, have been considering initiatives that could limit or supersede the Supreme Court's position regarding sales and use taxes on internet sales. If any of these initiatives were successful, we could be required to collect sales and use taxes in additional states. The imposition by state and local governments of various taxes upon internet commerce could create administrative burdens for us, put it at a competitive disadvantage if they do not impose similar obligations on all of its online competitors and decrease its future sales.

The Company is taxable on its worldwide income both in Canada and the United States, which could, in certain circumstances, have a material adverse effect on the Company

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

As result of the Company being resident in both Canada and the United States, withholding taxes of both Canada and the United States will be relevant to the Company's securityholders and could, in certain circumstances, result in double taxation to certain investors and other consequences.

If the Company is unable to access additional equity or debt financing at a reasonable cost, it could affect our ability to grow

Given the sensitivity of capital markets worldwide, there is an increased risk that we may not be able to obtain additional equity or debt financing that it may require to consummate future acquisitions or to refinance its debt when it is due. While management believes that the Company possesses sufficient cash resources to execute the Company's business plan, an inability to access financing at a reasonable cost could affect its ability to grow. If the realization of various risk factors results in poor financial performance it may make capital markets more difficult to access or closed completely to the Company for debt and equity financing and the Company could go out of business.

Failure to continue to generate sufficient cash revenues could materially adversely affect Mood Media's business

The Company's ability to be profitable and to have positive cash flow is dependent upon its ability to maintain and locate new customers who will purchase its products and use its services, and our ability to continue to generate sufficient cash revenues. We presently generate the majority of its revenue in the United States and Europe, with customers concentrated in the retail and hospitality sectors. These sectors continue to be negatively affected by ongoing economic difficulties and our revenues could be affected by bankruptcies or rationalization of a portion of its existing client base. A material reduction in revenue would negatively impact our financial position.

If our revenue grows more slowly than anticipated, or if our operating expenses are higher than expected, it may not be able to sustain or increase profitability, in which case its financial condition will suffer and its value could decline. Failure to continue to generate sufficient cash revenues could also cause the Company to go out of business.

The Company may not have the financial or technological resources to adapt to changes in available technology and its clients' preferences, which may have a negative effect on the Company's revenue

Our product and service offerings compete in a market characterized by rapidly changing technologies, frequent innovations and evolving industry standards. There are numerous methods by which existing and future competitors can deliver programming, including various forms of recorded media, direct broadcast satellite services, wireless cable, fiber optic cable, digital compression over existing telephone lines, advanced television broadcast channels, digital audio radio service and the internet. Competitors may use different forms of delivery for the services that we offer, and clients may prefer these alternative delivery methods. We may not have the financial or technological resources to adapt to changes in available technology and our clients' preferences, which may have a negative effect on its revenue.

We cannot provide assurance that it will be able to use, or compete effectively with competitors that adopt, new delivery methods and technologies, or keep pace with discoveries or improvements in the communications, media and entertainment industries. We also cannot provide assurance that the technology it currently relies upon will not become obsolete.

The Company pays royalties to license music rights and may be adversely affected if such royalties are increased

We pay performance royalties to songwriters and publishers through contracts negotiated with performing rights societies such as The American Society of Composers Authors and Publishers (“ASCAP”) and Broadcast Music, Inc., and publishing or mechanical royalties to publishers and collectives that represent their interests, such as The Harry Fox Agency—a collective that represents publishers and collects royalties on their behalf.

If mechanical royalty rates for digital music are increased, there can be no assurance that the Company will be able to pass through such increased rates to its customers. As a result, our results of operations and financial condition may be adversely affected.

We also secure rights to music directly from songwriters. There is no assurance that it will be able to secure such rights, licenses and content in the future on commercially reasonable terms, if at all. Limitations on the availability of certain musical works may result in the discontinuance of certain programs, and as a result, may lead to increased client churn.

The Company depends upon suppliers for the manufacture of its proprietary media players, and the termination of its arrangements with these suppliers could materially affect its business

We rely on suppliers to manufacture its proprietary media players. In the event these agreements are terminated, management believes that we will be able to find alternative suppliers. If it is unable to obtain alternative suppliers on a timely basis, or at all, or if it experiences significant delays in shipment, we may be forced to suspend or cancel delivery of products and services to new accounts which may have a material adverse effect upon its business. If we are unable to obtain an adequate supply of components meeting its standards of reliability, accuracy and performance, the Company would be materially and adversely affected.

Possible infringement by third parties of intellectual property rights could have a material adverse effect on the Company’s business, financial condition and results of operations

We distribute digital music content to its business music consumers via its proprietary media players. We cannot be certain that the steps it has taken to protect its intellectual property rights will be adequate or that third parties will not infringe or misappropriate its proprietary rights. To protect its proprietary rights, we depend on a combination of patent, trademark, copyright and trade secret laws, confidentiality agreements with its employees and third parties and protective contractual provisions. These efforts to protect its intellectual property rights may not be effective in preventing misappropriation of its technology. These efforts also may not prevent the development and design by others of products or technologies similar to, competitive with or superior to those developed by the Company. Any of these results could reduce the value of the Company’s intellectual property. In addition, any infringement or misappropriation by third parties could have a material adverse effect on our business, financial condition and results of operations.

The Company may be liable if third parties misappropriate its users' and customers' personal information

Third parties may be able to hack into or otherwise compromise our network security or otherwise misappropriate its users' personal information or credit card information. If our network security is compromised, we could be subject to liability arising from claims related to, among other things, unauthorized purchases with credit card information, impersonation or other similar fraud claims or other misuse of personal information, such as claims for unauthorized marketing purposes. In such circumstances, we also could be liable for failing to provide timely notice of a data security breach affecting certain types of personal information in accordance with the growing number of notification statutes. Consumer protection privacy regulations could impair our ability to obtain information about its users, which could result in decreased advertising revenues.

Our network also uses "cookies" to track user behavior and preferences. A cookie is information keyed to a specific server, file pathway or directory location that is stored on a user's hard drive or browser, possibly without the user's knowledge, but is generally removable by the user. We use information gathered from cookies to tailor content to users of its network and such information may also be provided to advertisers on an aggregate basis. In addition, advertisers may themselves use cookies to track user behavior and preferences. A number of internet commentators, advocates and governmental bodies in the United States and other countries have urged the passage of laws directly or indirectly limiting or abolishing the use of cookies. Other tracking technologies, such as so-called "pixel tags" or "clear GIFs", are also coming under increasing scrutiny by legislators, regulators and consumers, imposing liability risks on our business. In addition, legal restrictions on cookies, pixel tags and other tracking technologies may make it more difficult for us to tailor content to its users, making our network less attractive to users. Similarly, the unavailability of cookies, pixel tags and other tracking technologies may restrict the use of targeted advertising, making our network less attractive to advertisers and causing it to lose significant advertising revenues.

Government regulation of the internet and e-commerce is evolving and unfavorable changes could harm our business

We are subject to general business regulations and laws, as well as regulations and laws specifically governing the internet and e-commerce. Existing and future laws and regulations may impede the growth of the internet or online services. These regulations and laws may cover taxation, privacy, data protection, pricing, content, copyrights, distribution, electronic contracts and other communications, consumer protection, and the characteristics and quality of products and services. It is not clear how existing laws governing issues such as property ownership, libel, and personal privacy apply to the internet and e-commerce. Unfavorable regulations and laws could diminish the demand for our products and services and increase its cost of doing business.

The locations of the Company's users expose it to foreign privacy and data security laws and may increase the Company's liability, subject it to non-uniform standards and require it to modify its practices

Our users are located in the United States and around the world. As a result, the Company collects and processes the personal data of individuals who live in many different countries. Privacy regulators in certain of those countries have publicly stated that foreign entities (including entities based in the United States) may render themselves subject to those countries' privacy laws and the jurisdiction of such regulators by collecting or processing the personal data of those countries' residents, even if such entities have no physical or legal presence there. Consequently, we may be obligated to comply with the privacy and data security laws of certain foreign countries.

Our exposure to Canadian, European and other foreign countries' privacy and data security laws impacts its ability to collect and use personal data, and increases its legal compliance costs and may expose the Company to liability. As such laws proliferate, there may be uncertainty regarding their application or interpretation, which consequently increases our potential liability. Even if a claim of non-compliance against the Company does not ultimately result in liability, investigating or responding to a claim may present a significant cost. Future legislation may also require changes in our data collection practices which may be expensive to implement.

In addition, enforcement of legislation prohibiting unsolicited e-mail marketing in the European Union without prior explicit consent is increasing in several European countries, including France, Germany and Italy, which activities could negatively affect the Company's business in Europe and create further costs for it.

Evolving industry

We sell digital music at prices which are based, to a large extent, on the price third party digital music retailers charge to consumers. The Company has limited ability to influence the pricing models of the digital entertainment services. While the major record labels were unsuccessful in their recent attempt to change the pricing structure, there is no assurance that they will not attempt to change the pricing structure in the future or that the digital music retailers will not initiate such a change that could result in lower pricing or tiered pricing that could reduce the amount of revenue we receive. In addition, the popularity of digital music retailers that offer digital music through subscription and other pricing models is increasing. The revenue we earn per individual music recording is generally less under these models than what it receives through sales of music outside of a subscription service. Additionally, digital music services at present generally accept all the music content that the Company and other distributors deliver to them. However, if the digital music services in the future decide to limit the types or amount of music recordings they will accept from content owners and distributors like the Company, or limit the number of music recordings they will post for sale, or change their current stocking plans, for instance by removing music recordings that do not meet minimum sales thresholds or other criteria, our revenue may be reduced.

Piracy is likely to continue to negatively impact the potential revenue of the Company

A portion of our revenue comes from the sale of its digital content over the Internet and wireless, cable and mobile networks, which is subject to unauthorized consumer copying and widespread dissemination without an economic return to the Company. Global piracy is a significant threat to the entertainment industry generally and to the Company. Unauthorized copies and piracy have contributed to the decrease in the volume of legitimate sales of music and video content and have put pressure on the price of legitimate sales. This may result in a reduction in our revenue.

The Company does not expect to pay dividends and there are potential adverse tax consequences from the payment of dividends on the Common Shares

The Company has not paid any cash dividends with respect to its Common Shares, and it is unlikely that we will pay any dividends on the Common Shares in the foreseeable future. However, dividends received by shareholders could be subject to applicable withholding taxes and the Company recommends that such shareholders seek the appropriate professional advice in this regard.

Litigation

We are currently defending itself against a number of legal claims. While we believe these claims to be without merit, and is vigorously defending ourselves, we cannot guarantee that it will be successful or that it will reach commercially reasonable settlement terms. A negative judgment or the costs of a protracted defense could materially affect the Company's earnings.

Reliance on debt facilities

A portion of our credit facilities bear interest at floating interest rates and, therefore, are subject to fluctuations in interest rates. Interest rate fluctuations are beyond our control and there can be no assurance that interest rates will not have a material adverse effect on the Company's financial performance. We have debt and owe money to creditors including banks and holders of convertible debentures and the Notes. Such debt is secured against the Company's assets or guaranteed by certain of our subsidiaries and is subject to certain covenants being met. These covenants could reduce our flexibility in conducting our operations and may create a risk of default on our debt if the Company cannot satisfy or continue to satisfy these covenants. Should we fail to satisfy or continue to satisfy our covenants and if our debt is accelerated or required to be redeemed, we will need to find new sources of finance or else cede ownership of some or all of our assets which may have a material adverse effect on the business of the Company. The Company may also issue Common Shares to refinance some of its indebtedness. Issuances of a substantial number of additional Common Shares may adversely affect prevailing market prices for the Common Shares. With any additional issuance of Common Shares, investors will suffer dilution to their voting power and the Company may experience dilution in its earnings per Common Share.

Foreign currency exchange risk

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

The most significant translation exposure arises from the Euro currency. We are required to revalue the Euro denominated net assets of the European subsidiaries at the end of each period with the foreign currency translation gain or loss recorded in other comprehensive income. The Company does not currently hedge translation exposures. Since the financial statements of Muzak and DMX are denominated in US dollars, the risk associated with translation exposures has reduced following the acquisition of Muzak and DMX. The most significant transaction exposure arises as a result of a significant level of US dollar transactions occurring within the Canadian operations.

Interest rate risk

Our interest rate risk arises on a debt drawn under the First Lien Credit Facility, which bears interest at a floating rate. However the level of interest rate risk is mitigated by the fact that the First Lien Credit Facility carries an interest rate floor which currently exceeds LIBOR. We also purchased an interest rate cap in 2011 to protect against increasing LIBOR rates.

Liquidity risk

Liquidity risk arises through excess of financial obligations over available financial assets due at any point in time. Our objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. We achieve this by maintaining sufficient cash and through the availability of funding from the committed First Lien Credit Facility.

Credit risk

Credit risk arises from cash held with banks and credit exposure to customers on outstanding accounts 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. We assess 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.

Further detail is provided in the “Risk Factors” section of the Company’s AIF, which can be found at www.sedar.com.

Forward-Looking Statements

Certain statements in this management’s discussion and analysis contains “forward-looking” statements that involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this management’s discussion and analysis, such statements use such words as “may,” “will,” “intend,” “should,” “expect,” “expect to,” “believe,” “plan,” “anticipate,” “estimate,” “predict,” “potential,” “continue,” the negative of these terms or other similar terminology. These statements reflect current expectations regarding future events and operating performance and speak only as of the date of this management’s discussion and analysis. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements, including, but not limited to, the impact of general market, industry, credit and economic conditions and other risks described herein and in the Company’s AIF, which can be found at www.sedar.com. These forward-looking statements are made as of the date of release of this management’s discussion and analysis, and the Company does not assume any obligation to update or revise them to reflect new events or circumstances.