

## 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 August 12, 2015 of Mood Media Corporation ("Mood Media", "Mood" or the "Company") should be read together with the attached unaudited interim condensed consolidated financial statements and related notes for the three and six months ended June 30, 2015, the unaudited interim condensed consolidated financial statements and the related notes for the three and six months ended June 30, 2014, the Company's audited consolidated financial statements and accompanying notes for the fiscal year ended December 31, 2014, and the Company's annual information form dated March 31, 2015 (the "AIF"). Additional information related to the Company, including the Company's AIF, can be found on SEDAR at [www.sedar.com](http://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 June 30, 2015.*

*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.*

*The presentation of any information identified as a non-International Financial Reporting Standards ("IFRS") measure throughout this document is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with IFRS, and it is presented with the sole purpose of providing readers of this document with relevant information to better assess the company's operating performance.*

### **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," or 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 as described in the Company's AIF, which can be found at [www.sedar.com](http://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. In addition, the Company does not provide financial outlooks or future-oriented financial information in this management's discussion and analysis and, accordingly, no forward-looking information or statements should be construed as such.

## Overview

We are a leading global provider of in-store audio, visual and other forms of 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 more than 40 countries. Our strategy of combining audio, visual and other forms of 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. Mood Media's strategy is to combine our media services into a single comprehensive experience solution comprising audio, visual, scent and interactive solutions, to increase penetration of newly developed services, such as visuals, Wi-Fi and mobile, by selling into our large existing client base, and to leverage our leading market positions and solutions portfolio to enhance financial returns.

Our audio solutions emphasize the use of music to create a distinct atmosphere within a commercial environment. 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. We are viewed as an established distribution network by music producers, performance rights organizations and third-party advertisers.

Our visual solutions deliver highly customized content management solutions with a scalable delivery platform to enable retailers to deliver "infotainment", product information and branding messages to their customers at the point-of-purchase. Our visual solutions range from relatively simple applications to large-scale, highly immersive consumer experiences.

Our mobile solutions provide an innovative means for our customers to connect interactively with their consumers via smartphone and other internet-connected devices. Our applications can detect the presence of consumers within the retail environment and deliver customized and specific content, promotions and coupons in order to incentivize purchasing behavior and provide product information. Mood Media's Wi-Fi solution enables retailers to provide broadband connectivity to their customers within the store on a cost-effective basis.

In-store audio, visual 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 an 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 deploying a series of revenue enhancement measures and integrating acquired businesses into a cohesive unit that can serve premier brands across multiple geographies, as well as, serve local businesses with effective solutions. Our revenue enhancement measures include development of local sales channels, creation of new and compelling technology services and solutions, offering new branded solutions via partnerships with recognized consumer brands, cross selling visual solutions to audio customers, cross selling flagship visual systems solutions with in-store visual and audio services and expanding into new territories with relatively low penetration of commercial audio and visual solutions.

In the fourth quarter of 2013, the Company began a comprehensive integration program focused on streamlining and simplifying the Company's infrastructure and processes on a global basis with associated benefits to its cost structure. Wave 1 initiatives generated approximately \$9 million in annualized savings. Wave 2 and 3 delivered in 2014 nearly \$9 million in annualized savings. Additionally, Wave 4 and 5 initiatives to be delivered in 2015 and 2016 are expected to deliver annualized savings of \$7-\$8 million.

Our common shares are listed on the Toronto Stock Exchange ("TSX") under the trading symbol "MM". Prior to March 2, 2015, our common shares were also listed on the AIM Market of the London Stock Exchange ("AIM"). After announcing our intention to de-list Mood Media's common shares from AIM, our common shares were de-listed effective March 2, 2015. Our 10% convertible unsecured subordinated debentures (the "Convertible Debentures") are listed on the TSX under the trading symbol "MM.DB.U."

#### **Sale of residential Latin America music operations and DMX Canada commercial accounts**

The Company completed the sale of its residential Latin America music operations on January 10, 2014 and its DMX Canadian commercial account portfolio on June 27, 2014 each to affiliates of Stingray Digital. The initial gain recognized on each transaction was \$3,541 and \$2,937, 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.

#### **Refinancing of 2011 First Lien Credit Facilities**

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 (collectively, the "2014 First Lien Credit Facilities"). The new facilities have more favorable financial covenants than the 2011 First Lien Credit Facilities (as such term is defined in the AIF) as well as provisions which permit the Company to use net asset sales proceeds, within defined limits, to repay its Senior Unsecured Notes or its Subordinated Convertible Debentures. In connection with the refinancing, the Company extinguished the liability under the 2011 First Lien Credit Facilities and recognized a loss on extinguishment of \$13,512 related to the write-off of deferred financing expenses and other unamortized costs related to the 2011 First Lien Credit Facilities and the fees and costs related to the 2014 First Lien Credit Facilities.

#### **Private Placement of 10% Senior Unsecured Notes by Mood Media Group S.A.**

On May 12, 2015, the Company announced a private placement (the "MMG Private Placement") of \$50,000 aggregate principal amount of 10% senior unsecured notes (the "MMG Notes") by its wholly owned subsidiary Mood Media Group S.A. ("MMG"). MMG is based in Luxembourg and holds Mood Media International's operations. The proceeds of the issuance of the MMG Notes will be used to repay the Convertible Debentures upon their maturity on October 31, 2015.

Subscriptions to the MMG Private Placement were completed during the initial subscription period and the closing date for the MMG private placement occurred on August 6, 2015. All parties subscribing to the MMG private placement received 0.434 Mood Media common share purchase warrants (the "MMG Warrants") for each \$1.00 of principal value of notes acquired. A total of 21,700,000 warrants were issued with an exercise price of CAD\$0.80 and a term of 8 years from date of issue.

## 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 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				Basic and diluted EPS	
	Revenue Continuing operations	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations
Q2 - 2015 <sup>7</sup>	\$117,668	\$(2,185)	\$-	\$(2,185)	\$(0.01)	\$0.00
Q1 - 2015 <sup>6</sup>	114,255	(26,968)	-	(26,968)	(0.15)	0.00
Q4 - 2014 <sup>5</sup>	127,052	(22,265)	-	(22,265)	(0.12)	0.00
Q3 - 2014 <sup>4</sup>	124,137	(20,004)	-	(20,004)	(0.11)	0.00
Q2 - 2014 <sup>3</sup>	119,881	(32,670)	-	(32,670)	(0.18)	0.00
Q1 - 2014 <sup>2</sup>	122,990	(7,503)	-	(7,503)	(0.04)	0.00
Q4 - 2013	132,253	(12,608)	68	(12,540)	(0.07)	0.00
Q3 - 2013 <sup>1</sup>	125,662	(85,944)	(1,751)	(87,695)	(0.50)	(0.01)

1. The significant loss for the period is due to the impairment of goodwill in the period.
2. The reduction in loss 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.
3. The increase in loss for the period is primarily attributable to the loss on extinguishment of the 2011 First Lien Credit Facilities, the fees and costs associated with the 2014 First Lien Credit Facilities required to be recognized as current period expense, and the negotiated and finalized settlements including other liabilities and legal matters related to DMX and Muzak.
4. The decrease in the loss compared to the prior quarter is due to prior quarter's recognition of the loss on extinguishment of the 2011 First Lien Credit Facility offset by fluctuating foreign exchange rates, primarily the weakening of the Euro on certain foreign subsidiaries' intercompany loans denominated in US dollars rather than their functional currencies.
5. The increase in loss compared to the prior quarter is a result of the recognition of the amended Technomedia contingent consideration earn-out related to the amendment of the applicable securities purchase agreement dated October 7, 2014 and a reduced tax credit in the current quarter, offset by higher equipment revenues in the current period.
6. The increase in loss compared to the previous quarter is driven by foreign currency exchange rate fluctuations, mainly on intercompany balances payable by foreign subsidiaries to parent company in US dollars, countered by a decrease in transaction and restructuring costs within other expenses.
7. The reduction in loss compared to the previous quarter is due to a positive foreign currency exchange rate fluctuation, mainly on intercompany balances payable by foreign subsidiaries to parent company in US dollars as a result of the strengthening of the Euro against the US Dollar versus the prior quarter end exchange rate. Adding to the reduction in loss for the period is the recognition of income tax credits in the period.

## Operating Results

### *Three months ended June 30, 2015 compared with the three months ended June 30, 2014*

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

Revenue for the three months ended June 30, 2015 and June 30, 2014 were as follows:

	3 months ended June 30, 2015	3 months ended June 30, 2014	Variance	% Change
In-Store Media North America	\$63,727	\$66,223	(2,496)	(3.8)%
In-Store Media International	27,147	30,396	(3,249)	(10.7)%
BIS	13,454	14,713	(1,259)	(8.6)%
Other	13,340	8,549	4,791	(56)%
<b>Total Consolidated Group</b>	<b>\$117,668</b>	<b>\$119,881</b>	<b>\$(2,213)</b>	<b>(1.8)%</b>

Revenue on a constant dollar basis (a):

	3 months ended June 30, 2015	3 months ended June 30, 2014	Variance	% Change
In-Store Media North America	\$63,727	\$66,223	(2,496)	(3.8)%
In-Store Media International	27,147	24,511	2,636	10.8%
BIS	13,454	11,838	1,616	13.7%
Other	13,340	8,549	4,791	56.0%
<b>Total Consolidated Group</b>	<b>\$117,668</b>	<b>\$111,121</b>	<b>\$6,574</b>	<b>5.9%</b>

(a) Revenue on a constant dollar basis is a non-IFRS financial measure. It is calculated by translating the comparative period figures denominated in foreign currency at the exchange rate in place in the current period.

Revenue is primarily derived from recurring monthly subscription fees for providing customized and tailored music, visual displays, messaging and other ancillary services through contracts ranging from 2-5 years. Revenue is also derived from equipment and installation fees and royalties.

In-Store Media North America revenue decreased as compared to the three months ended June 30, 2014. The reduction is attributable to a decrease of approximately \$2,103 in rendering of services revenues, which includes a decrease in revenues of \$1,100 for the sale of commercial accounts related to the Canadian portfolio sold on June 27, 2014 that are no longer included in our consolidated revenue numbers for the three months ended June 30, 2015.

In-Store Media International revenue decreased as compared to the three months ended June 30, 2014, primarily driven by the impact of foreign exchange rates as the Euro has weakened versus the US dollar. On a like for like currency basis, the In-Store Media International revenues for the three months ended June 30, 2015 increased \$2,636 as compared to the three months ended June 30, 2014 primarily due to an increase in visual equipment and installation revenues.

BIS revenue decreased as compared to the three months ended June 30, 2014, also primarily due to the impact of foreign exchange rates as the Euro has weakened versus the US dollar. On a like for like currency basis, BIS revenues for the three months ended June 30, 2015 increased \$1,616 as compared to the three months ended June 30, 2014 primarily due to an increase in sales activity compared to the prior year.

The revenue from the Other segment increased as compared to the three months ended June 30, 2014 due to prior quarter project timing delays at Technomedia and a greater number of project installations by Technomedia in the current period.

	Three months ended				Change
	June 30, 2015		June 30, 2014		
<b>Revenue</b>	<b>\$117,668</b>	<b>100.0%</b>	<b>\$119,881</b>	<b>100.0%</b>	<b>\$(2,213)</b>
Cost of sales	56,517	48.0%	53,346	44.5%	3,171
Operating expenses	36,650	31.1%	42,510	35.5%	(5,860)
Depreciation and amortization	16,870	14.3%	17,526	14.6%	(656)
Share-based compensation	235	0.2%	(204)	(0.2)%	439
Other (income) expenses	1,691	1.4%	9,974	8.3%	(8,283)
Foreign exchange (gain) loss on financing transactions	(4,196)	(3.6)%	1,766	1.5%	(5,962)
Finance costs, net	13,694	11.6%	27,794	23.2%	(14,100)
<b>Loss for the period before income taxes</b>	<b>(3,793)</b>	<b>(3.2)%</b>	<b>(32,831)</b>	<b>(27.4)%</b>	<b>29,038</b>
Income tax credit	(1,596)	(1.4)%	(197)	(0.2)%	(1,399)
<b>Loss for the period</b>	<b>(2,197)</b>	<b>(1.9)%</b>	<b>(32,634)</b>	<b>(27.2)%</b>	<b>30,437</b>
Net loss attributable to:					
Owners of the parent	(2,185)	(1.9)%	(32,670)	(27.3)%	30,485
Non-controlling interests	(12)	0.0%	36	0.0%	(48)
	<b>\$(2,197)</b>	<b>(1.9)%</b>	<b>\$(32,634)</b>	<b>(27.3)%</b>	<b>\$30,437</b>

*Cost of sales* as a percentage of revenue increased as compared to the three months ended June 30, 2014 by 3.5% primarily due to a reduction of revenue mix attributable to recurring revenues which have a higher gross margin than our overall In-Store Media business.

*Operating expenses* decreased as compared to the three months ended June 30, 2014 primarily as a result of the impact of foreign currency exchange on its international operating expenses (reduction of \$4,157) with the balance of the improvement primarily related to the Company's cost reduction efforts, although this was partially offset by a loss on foreign exchange contracts of \$504.

*Depreciation and amortization* decreased as compared to the three months ended June 30, 2014 primarily due to a smaller depreciable base for the three months ended June 30, 2015 compared to the same time last year and the impact in the change in useful lives on depreciable assets, which resulted in lower depreciation for the three months ended June 30, 2015 versus the comparative period.

*Share-based compensation expense* increased as compared to the three months ended June 30, 2014 due to share forfeitures and cancellations occurring in the three months ended June 30, 2014.

*Other expenses (income)* decreased as compared to the three months ended June 30, 2014 due to a reduction in the current period of transaction and restructuring and integration costs. This overall decrease would have been greater but is partially offset by prior year's comparative period recognizing a gain of \$2,937 for the sale of the company's DMX Canadian commercial accounts portfolio that is not included in the current period.

*Financing costs, net* decreased primarily due to the cost of extinguishment of the 2011 First Lien Credit Facility of \$13,345 included in the comparative period for the three month period June 30, 2014. In addition, the current period three months ended June 30, 2015 includes a gain of \$867 related to the change in fair value of financial instruments compared to a loss of \$181 in the comparative period.

*Income tax* has decreased primarily as a result of requiring a lower tax provision in the current three months ended June 30, 2015 compared to the same period in the prior year.

*Non-controlling interest* was a credit of \$12, which represents the element of profit of subsidiaries where the Company does not own 100% of the share capital, compared to a charge of \$36 in the three months ended June 30, 2014.

## Liquidity and Capital Resources

	Three months ended		Change
	June 30, 2015	June 30, 2014	
Total cash provided by (used in):			
Operating Activities	\$26,274	\$11,343	\$14,931
Investing Activities	(7,814)	2,388	(10,202)
Financing Activities	(23,601)	(14,648)	(8,953)
Effect of exchange rates on cash	219	98	121
<b>Increase (decrease) in cash equivalents</b>	<b>\$(4,922)</b>	<b>\$(819)</b>	<b>\$(4,103)</b>

The increase in cash generated from operating activities of \$14,931 as compared to the three months ended June 30, 2014 was driven by the change in the following components:

	Three months ended		Higher (Lower)
	June 30, 2015	June 30, 2014	
Operating cash flows before working capital adjustments (a)	\$22,846	\$13,269	\$9,577
Working capital reductions (additions)	3,061	(825)	3,886
Cash taxes credited (paid)	358	(1,109)	1,467
Interest received	9	8	1
<b>Increase (decrease) in cash from operating activities</b>	<b>\$26,274</b>	<b>\$11,343</b>	<b>\$14,931</b>

- (a) Operating cash flows before working capital adjustments is a non-IFRS financial measure and is calculated by adding back to pre-tax loss: depreciation, amortization, impairment, finance costs and other non-cash charges, essentially all line item amounts on the statement of cash flows within the operating activities section prior to working capital adjustments.

The increase in cash used in investing activities is primarily due to prior year proceeds received from the sale of the DMX Canadian commercial account portfolio on June 27, 2014.

The increase in cash used in financing activities compared to the prior period is primarily due to the prior period's inclusion of net increase in borrowings from 2014 First Lien financing versus the amounts repaid under the 2011 First Lien Credit Facilities in the three months ended June 30, 2014 offset by the costs to settle the 2011 First Lien Credit Facilities in the six months ended June 30, 2014.

***Six months ended June 30, 2015 compared with the six months ended June 30, 2014***

Revenue for the six months ended June 30, 2015 and June 30, 2014 were as follows:

	<b>6 months ended June 30, 2015</b>	<b>6 months ended June 30, 2014</b>	<b>Variance</b>	<b>% Change</b>
In-Store Media North America	\$128,923	\$132,995	(4,072)	(3.1)%
In-Store Media International	55,078	60,895	(5,817)	(9.6)%
BIS	26,512	31,963	(5,451)	(17.1)%
Other	21,410	17,018	4,392	25.8%
<b>Total Consolidated Group</b>	<b>\$231,923</b>	<b>\$242,871</b>	<b>\$(10,948)</b>	<b>(4.5)%</b>

Revenue on a constant dollar basis (a):

	<b>6 months ended June 30, 2015</b>	<b>6 months ended June 30, 2014</b>	<b>Variance</b>	<b>% Change</b>
In-Store Media North America	\$128,923	\$132,995	(4,072)	(3.1)%
In-Store Media International	55,078	49,624	5,454	11.0%
BIS	26,512	26,043	469	1.8%
Other	21,410	17,018	4,392	25.8%
<b>Total Consolidated Group</b>	<b>\$231,923</b>	<b>\$225,680</b>	<b>\$6,243</b>	<b>2.8%</b>

(a) Revenue on a constant dollar basis is a non-IFRS financial measure. It is calculated by translating the comparative period figures denominated in foreign currency at the exchange rate in place in the current period.

In-Store Media North America revenue decreased as compared to the six months ended June 30, 2014 is attributable to a decrease in rendering of services revenues of approximately \$4,187 which includes a decrease in revenues of \$2,200 for the sale of commercial accounts related to the Canadian portfolio sold on June 27, 2014 that are no longer included in our consolidated revenue numbers for the six months ended June 30, 2015.

In-Store Media International revenue decreased as compared to the six months ended June 30, 2014, primarily driven by the impact of foreign exchange rates as the Euro has weakened versus the US dollar. On a like for like currency basis, the In-Store Media International revenues for the six months ended June 30, 2015 increased by \$5,454 primarily due to an increase in visual equipment and installation revenues.

BIS revenue decreased as compared to the six months ended June 30, 2014, also primarily due to the impact of foreign exchange rates as the Euro has weakened versus the US dollar. On a like for like currency basis, BIS revenues for the six months ended June 30, 2015 increased by \$469 primarily due to an increase in sales activity compared to the prior year.

The revenue from the Other segment increased as compared to the six months ended June 30, 2015 due to an increase in sales and completion of the Technomedia projects pipeline when compared to prior year.



	Six months ended				Change
	June 30, 2015		June 30, 2014		
<b>Revenue</b>	<b>\$231,923</b>	<b>100.0%</b>	<b>\$242,871</b>	<b>100.0%</b>	<b>\$(10,948)</b>
Cost of sales	110,761	47.8%	110,770	45.6%	(9)
Operating expenses	72,541	31.3%	84,726	34.9%	(12,185)
Depreciation and amortization	33,619	14.5%	36,040	14.8%	(2,421)
Share-based compensation	451	0.2%	612	0.3%	(161)
Other expenses	2,588	1.1%	9,339	3.8%	(6,751)
Foreign exchange loss on financing	14,807	6.4%	760	0.3%	14,047
Finance costs, net	27,774	12.0%	41,520	17.1%	(13,746)
<b>Loss for the period before income taxes</b>	<b>(30,618)</b>	<b>(13.2)%</b>	<b>(40,896)</b>	<b>(16.8)%</b>	<b>10,278</b>
Income tax (credit) charge	(1,450)	(0.6)%	(766)	(0.3)%	(684)
<b>Loss for the period</b>	<b>(29,168)</b>	<b>(12.6)%</b>	<b>(40,130)</b>	<b>(16.5)%</b>	<b>10,962</b>
Net loss attributable to:					
Owners of the parent	(29,153)	(12.6)%	(40,173)	(16.5)%	11,020
Non-controlling interests	(15)	0.0%	43	0.0%	(58)
	<b>\$(29,168)</b>	<b>(12.6)%</b>	<b>\$(40,130)</b>	<b>(16.5)%</b>	<b>\$10,962</b>

Cost of sales as a percentage of revenue increased as compared to the six months ended June 30, 2014 by 2.2% due to a reduction of revenue mix attributable to recurring revenues, which have a higher gross margin than our overall In-Store Media business.

Operating expenses decreased as compared to the six months ended June 30, 2014 primarily as a result of the impact of foreign currency exchange on its international operating expenses (reduction of \$7,952), the recognition of a gain on foreign exchange contracts (recognized as a reduction of expense of \$781), with the balance of the improvement of \$3,452 primarily related to the Company's cost reduction efforts.

Depreciation and amortization decreased primarily due to a smaller depreciable base for the six months ended June 30, 2015 compared to the same time last year and the impact in the change in useful lives on depreciable assets, which resulted in lower depreciation for the six months ended June 30, 2015 versus the comparative period.

Share-based compensation expense decreased as compared to the six months ended June 30, 2014 due to the company recognizing an additional expense pursuant to a severance agreement in the prior year comparative period.

Other expenses (income) decreased as compared to the six months ended June 30, 2014 driven by a reduction of \$8,900 in transaction and restructuring costs. The overall decrease of \$6,751 would have been over \$13,000 but is partially offset by the inclusion in the comparative prior period of the initial gain on sale of the Company's residential Latin America music operations and DMX Canadian commercial accounts portfolio of \$3,541 and \$2,937, respectively.

Financing costs, net decreased as compared to the six months ended June 30, 2014 primarily due to the recognition of \$13,345 of costs related to the refinancing of the 2011 First Lien Credit Facility in the comparative period.

Income tax has decreased primarily as a result of requiring a lower tax provision in the current six months ended June 30, 2015 compared to the same period in the prior year.

Non-controlling interest was a credit of \$15, which represents the element of profit of subsidiaries where the Company does not own 100% of the share capital, in the six months ended June 30, 2015 compared to a charge of \$43 in the six months ended June 30, 2014.

	June 30, 2015	December 31, 2014	Change
Total assets	\$699,804	\$740,367	\$(40,563)
Total non-current liabilities	606,095	612,430	(6,335)

*Total assets* decreased as compared to the six months ended June 30, 2014 largely due to the scheduled amortization of intangible assets and depreciation on property plant and equipment as well as the impact of foreign exchange rates on goodwill and intangible assets denominated in foreign currency, primarily in Euro.

*Non-current liabilities* decreased largely due to lower deferred tax liabilities, which at December 31, 2014 were \$29,624 compared to \$26,565 at June 30, 2015 and a \$2,338 reduction in deferred revenue driven by the transfer of deferred revenues to current liabilities.

### Liquidity and Capital Resources

	Six months ended		Change
	June 30, 2015	June 30, 2014	
Total cash provided by (used in):			
Operating Activities	\$40,385	\$28,437	\$11,948
Investing Activities	(15,589)	2,982	(18,571)
Financing Activities	(28,660)	(19,383)	(9,277)
Effect of exchange rates on cash	(914)	(131)	(783)
<b>Increase (Decrease) in cash equivalents</b>	<b>\$(4,778)</b>	<b>\$(11,905)</b>	<b>\$(16,683)</b>

The increase in cash generated from operating activities of \$11,948 was driven by the change in the following components:

	Six months ended		Higher (Lower)
	June 30, 2015	June 30, 2014	
Operating cash flows before working capital adjustments (a)	\$47,201	\$33,667	\$13,534
Working capital additions	(7,098)	(2,762)	(4,336)
Cash taxes received (paid)	267	(2,487)	2,754
Interest received	15	19	(4)
<b>Increase (Decrease) in cash from operating activities</b>	<b>\$40,385</b>	<b>\$28,437</b>	<b>\$11,948</b>

(a) Operating cash flows before working capital adjustments is a non-IFRS financial measure and is calculated by adding back to pre-tax loss: depreciation, amortization, impairment, finance costs and other non-cash charges, essentially all line item amounts on the statement of cash flows within the operating activities section prior to working capital adjustments.

The decrease in cash used in investing activities is primarily due to the prior year \$19,515 in proceeds received from the sale of the Latin American residential business in January 10, 2014 and the DMX Canadian commercial account portfolio on June 27, 2014.

The increase in cash used in financing activities compared to the prior period is primarily due to the prior period's inclusion of net increase in borrowings from 2014 First Lien financing versus the amounts repaid under the 2011 First Lien Credit Facilities in the three months ended June 30, 2014 offset by the costs to settle the 2011 First Lien Credit Facilities in the six months ended June 30, 2014.

## Key Performance Indicators

In the three months ended June 30, 2015, the number of total Company-owned sites decreased by 1,084 relative to the prior quarter. The Company's site base declined in its North American business unit and increased in its International business unit. The Company grew its number of Visual sites in both its North American and International business units while the number of Audio sites declined in North America and rose in International.

Monthly churn was 1.0% in the three months ended June 30, 2015 compared with 1.3% in the prior quarter and 0.9% in the comparative quarter of 2014, with Audio churn of 0.9% and Visual churn of 1.3%. Churn improved in its International business unit for both its Audio and Visual solutions, while in North America Audio churn remained stable and Visual churn rose slightly as compared with the prior quarter. For the three months ended June 30, 2015 blended ARPU declined by 7.4% year over year, which is primarily related to the decline in the value of the Euro relative to the US dollar. On a constant currency basis, blended ARPU declined by 1.8% year-over-year in the three months ended June 30, 2015 with Audio ARPU declining by 2.6% year over year and Visual ARPU rising by 13.2% year over year.

	Q1 2014	Q2 2014	Q3 2014	Q4 2014	2014	Q1 2015	Q2 2015
Audio sites	423,796	418,513	406,139	408,457	408,457	402,690	401,428
Visual sites	12,997	13,821	13,558	14,061	14,061	12,872	13,050
Total sites	436,793	432,334	419,697	422,518	422,518	415,562	414,478
Audio ARPU	45.35	45.17	44.83	43.09	44.57	41.71	41.70
Visual ARPU	84.59	85.08	83.60	82.12	83.72	78.76	81.93
Blended ARPU	46.50	46.40	46.09	44.37	45.79	42.90	42.96
Audio gross additions	10,112	6,981	9,279	12,394	38,766	8,625	10,136
Visual gross additions	478	996	761	685	2,920	1,006	698
Total gross additions	10,590	7,977	10,040	13,079	41,686	9,631	10,834
Audio monthly churn	1.1%	1.0%	0.9%	0.8%	0.9%	1.2%	0.9%
Visual monthly churn	0.4%	0.4%	1.3%	0.4%	0.7%	5.2%	1.3%
Total monthly churn	1.1%	0.9%	0.9%	0.8%	0.9%	1.3%	1.0%

These key performance indicators represent non-IFRS measures that management evaluates and monitors when assessing the performance of the Company. A site is an individual location where a Mood service is provided. ARPU represents the monthly average revenue per site and is calculated by taking total quarterly subscription revenue and dividing it by the average number of sites in the quarter and dividing by three, for each month in the quarter. Churn represents the rate of monthly site disconnects and is calculated by taking the total number of disconnected sites in the quarter divided by the opening balance of sites in the quarter and dividing by, three for each month in the quarter.

## Contractual obligations

The following chart outlines the Company's contractual obligations as at June 30, 2015:

Description	Total	Less than one year	Years two and three	Years four and five	Beyond five years
2014 First Lien Credit facility	\$232,063	\$2,350	\$ 4,700	\$225,013	\$-
2014 First Lien Credit facility interest	62,071	16,453	32,315	13,303	-
9.25% Senior Unsecured Notes	350,000	-	-	-	350,000
9.25% Senior Unsecured Notes interest	178,063	32,375	64,750	64,750	16,188
Convertible debentures	50,266	50,266	-	-	-
Convertible debenture interest	2,569	2,569	-	-	-
Operating leases	38,815	13,557	17, 891	5,337	2,030
Finance leases	47	43	4	-	-
Trade and other payables	95,318	95,318	-	-	-
<b>Total</b>	<b>\$1,009,212</b>	<b>\$212,931</b>	<b>\$119,660</b>	<b>\$308,403</b>	<b>\$368,218</b>

### Bank debt and convertible debentures

	2014 First Lien Credit Facilities	9.25% Senior Unsecured Notes	New Debentures	Consideration Debentures	Convertible Debentures
Closing date	May 1, 2014	October 19, 2011	October 1, 2010	May 6, 2011	May 27, 2011
Maturity date	May 1, 2019	October 15, 2020	October 31, 2015	October 31, 2015	October 31, 2015
Interest rate	7%	9.25%	10%	10%	10%
Effective Interest rate	7.74%	9.46%	14.25%	11.84%	10.24%
Conversion price			\$2.43	\$2.43	\$2.80

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 consisting of 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:

	June 30, 2015	December 31, 2014
Equity	\$(81,337)	\$(56,025)
Unsecured convertible debentures	50,266	50,266
2014 First Lien Credit Facilities	232,063	233,238
9.25% Senior Unsecured Notes	350,000	350,000
Total Debt (contractual amounts due)	632,329	633,504
<b>Total Capital</b>	<b>\$550,992</b>	<b>\$577,479</b>

The number of our outstanding common shares as at June 30, 2015 was 182,067,119. In March, the Company issued 2,300,000 shares in satisfaction of a settlement of an outstanding litigation with PFH Investment Limited.

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

	3 months ended		6 months ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Basic and diluted net loss per share	\$(0.01)	\$(0.18)	\$(0.16)	\$(0.23)
<b>Outstanding as at August 12, 2015</b>				
Common shares			183,694	
Share options			15,148	
Muzak Warrants			4,408	
MMG Warrants			21,700	
Convertible debentures			19,951	

## 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 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. The company also has currency exposure to the extent to which its foreign currency denominated revenues and expenses are translated at fluctuating exchange rates. Foreign currency exchange risk exposure as at June 30, 2015 is discussed further below:

<b>Sensitivity Analysis / Comments</b>	
Segment profit <sup>(a)</sup> of Mood International and BIS	A \$0.05 change in the USD/Euro exchange rate would impact the three and six months ended June 30, 2015 net loss by +/- \$223 and +/- \$415, respectively, assuming all other variables remain the same.
USD denominated intercompany loan	A \$0.05 change in the USD/Euro exchange rate would impact the foreign exchange loss (gain) on financing transactions net loss for the largest intercompany loan by approximately plus or minus \$5,000 and \$11,600 for the three and six months ended June 30, 2015 respectively, assuming all other variables remain the same.

(a) Segment profit is a non- IFRS financial measure, internally known as adjusted EBITDA, a reconciliation of segment profit to loss before income taxes is presented in the Segment information footnote in the condensed consolidated financial statements.

During the six months ended June 30, 2015, the Company entered into a series of Euro and AUD average rate forward contracts, as well as, into a Euro forward contract. These contracts are not designated as hedges for accounting purposes; they are measured at fair value at each reporting date by reference to prices provided by counterparties. Factors used in the determination of fair value include the spot rate, forward rates, estimates of volatility, present value factor, strike prices, credit risk of the Company and credit risk of counterparties. Fair value estimates are subjective in nature, often involve uncertainties and the exercise of significant judgment, they are made at a specific point in time using available information about the financial instrument and may not reflect fair value in the future. The estimated fair value amounts may be materially affected by the use of different assumptions or methodologies.

The following is a table of the Euro and AUD average rate forward contracts the Company. The changes in fair value are included within operating costs. For the three and six months ended June 30, 2015, the amount reflected in operating costs was a charge of \$504 and a credit of \$(781), respectively.

Forward date	March 31, 2015		June 30, 2015		September 30, 2015		December 31, 2015	
	EUR	AUD	EUR	AUD	EUR	AUD	EUR	AUD
Reference currency	EUR	AUD	EUR	AUD	EUR	AUD	EUR	AUD
Notional	€3,700	\$700	€4,000	\$700	€3,800	\$700	€5,200	\$700
Forward rate	1.1593	0.8002	1.1589	0.7952	1.1598	0.7892	1.1612	0.7822

The following Euro cash remittance forward contract is reflected as a change in fair value included within finance costs, net. The gain reflected in the three and six months ended June 30, 2015 was \$58 and \$395 respectively.

Forward date	<b>April 14, 2015</b>
Reference currency	EUR
Notional	€4,000
Forward rate	1.1585

#### *Interest rate risk*

Our interest rate risk arises on amounts outstanding under the Credit Facilities which bear interest at a floating rate. The Credit Facilities carry an interest rate floor which currently exceeds LIBOR and is treated for accounting purposes as a non-cash liability which is disclosed within other financial liabilities in the consolidated statement of financial position. The fair value of the interest rate floor 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 loss.

Change in fair value	Three months ended		Six months ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
2014 Interest rate floor	\$ (808)	\$ (265)	\$ (499)	\$ (265)
2011 Interest rate floor	-	-	-	(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. Management believes that the Company has sufficient liquidity in the form of its current cash balances, the cash generating capacity of its businesses, its revolving credit facilities, access to capital markets and ongoing opportunities to divest non-core assets to meet its working capital, debt servicing, capital expenditure and other funding requirements 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 an effort to be opportunistic in refinancings of upcoming maturities and to better match terms and pricing to the Company's needs. The Company has implemented significant cash improvement initiatives that it believes will improve its ability to generate enhanced cash flow in the future, including the formation of a senior cash flow working group, implementation of enhanced controls and other key operational improvements. Further, Mood initiated an ongoing program to opportunistically divest non-core assets, commencing with the sale of its Latin American business in January 2014 followed by the sale of its DMX Canada accounts in June 2014.

### *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**

There have been no changes to the Company's significant accounting policies or critical accounting estimates from those described under "Critical Accounting Estimates" in the management's discussion and analysis of financial condition and results of operations of the Company for the fiscal year ended December 31, 2014.

### **Recently Issued Accounting Pronouncements**

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

IFRS 15 also significantly expands the current disclosure requirements about revenue recognition.

The IASB has decided to defer the effective date of this standard by one year. As a result, IFRS 15 will be effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted. The Company has commenced a review process to assess any impact on its current revenue recognition policies and reporting processes.

### **Disclosure Controls and Internal Controls over Financial Reporting**

During the three and six months ended June 30, 2015, no changes were made to the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.