CINEPLEX®

2017

ANNUAL REPORT

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Letter from the Chairman

Dear fellow shareholders,

I am proud of all that Cineplex has accomplished during this past year. The team reported strong results in many key performance metrics despite a challenging year at the box office. With our diversification efforts, we have continued to expand our core strengths into other entertainment and media offerings and are confident for the future.

Diversified strategic plan

One of the board's major responsibilities is to oversee the strategic direction of the company. The board has worked closely with senior management throughout the year to provide oversight and stewardship. We believe the diversified business plan that management has created is the right way to create sustainable growth and build Cineplex into a leading entertainment and media company in the future. We are confident that the foundation that has been laid will benefit the business, shareholders, customers and guests for years to come.

Commitment to good governance

As your board, we are committed to promoting outstanding corporate governance and adhering to the highest business standards. That commitment extends throughout the company's entire senior management team. We regularly meet with the CEO, COO and CFO at every Board Meeting in addition to separate strategy and corporate governance meetings. We review succession planning to ensure there is depth of management and the right people are in place to lead the company in the future and to execute its diversification strategy.

Strength of the board

We are proud to be one of the founding members of the 30% club, advocating that 30% of board seats are filled by women. Cineplex has met that standard for a number of years, in addition to supporting cultural diversification among our board. Remaining a diversified board with varied skills and experience is key to ensuring we have great bench strength to support Cineplex's future strategic goals. As such, we welcomed two new board members this year—Janice Fukakusa, retired CAO and CFO of Royal Bank of Canada and Nadir Mohamed, former CEO of Rogers Communications. We also said farewell and thank you to two long-standing retiring members, Bob Steacy and Anthony Munk. Together with Ellis Jacob, I am committed to working with this extraordinary board to continue to move this company forward in 2018 and beyond.

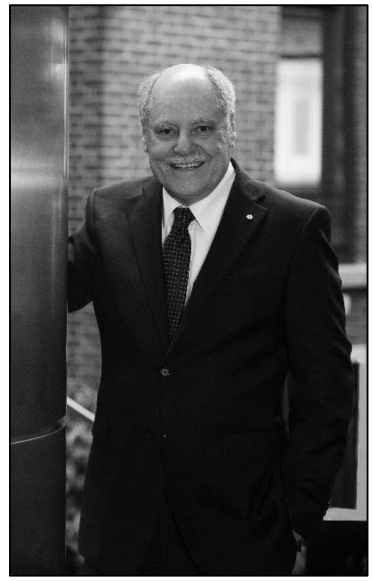
On behalf of the entire board, I would like to thank the management team and all of Cineplex's 13,000 employees across North America for their passion and hard work. Thank you to our shareholders and guests for their continued support and commitment to Cineplex and thank you to my fellow board members for their insight and guidance throughout the year. I hope you are as encouraged as I am for what the future holds for Cineplex.

Sincerely yours,

Ian Greenberg

Ian Greenberg
Chair of the Board, Cineplex Inc.

Letter from the CEO



Dear fellow shareholders,

Looking back at 2017, we have accomplished a great deal. We continued to pursue our diversification strategy, remaining focused on driving value within our new and existing businesses, continued to leverage synergies within the Cineplex ecosystem and identified new opportunities for revenue growth through innovation and acquisitions.

Total revenue increased 5.2% to $1.6 billion despite an attendance decrease of 5.6% which was a result of a weaker than expected film slate. The attendance decline, coupled with incremental costs related to the start-up and integration of our new businesses, resulted in a relatively flat adjusted EBITDA of $235.9 million, up 0.8% for the year.

Annual box office revenue of $715.6 million decreased 2.5% due to the above-mentioned attendance decline, however theatre food service revenue of $422.3 million, box office per patron ("BPP") of $10.17 and concession per patron ("CPP") of $6.00 represented all-time annual records for Cineplex. Our media business also continued to grow, reporting record annual media revenue of $171.9 million, largely due to higher cinema media revenue. Amusement revenue of $185.3 million increased 66.5%, which is primarily a result of the acquisitions made by Player One Amusement Group ("P1AG") and also includes increased revenue from *The Rec Room* as we had four locations open by year's end.

Exhibition

We selectively invested in our theatres to enhance the guest experience as we continue to focus on attracting new guests and driving frequency. We added recliner seating to 121 auditoriums at 12 locations in 2017 and will look to convert other theatres in select markets where appropriate.

As part of our focus on new innovations to drive growth, we piloted virtual reality ("VR") systems within our theatres. We opened Canada's first D-BOX VR cinematic experience at *Scotiabank Theatre Ottawa* and the first IMAX VR Centre in Canada at *Scotiabank Theatre Toronto*. We are reviewing a variety of attraction-based VR systems in our theatres and see this as an area of future growth.

We announced plans for new VIP Cinema locations to open in West Vancouver and Burnaby, BC over the next two years. We also look forward in 2018 to opening *Cineplex Cinemas East Hills and Cineplex Cinemas Seton and VIP* in Calgary, AB, as well as *Cineplex Cinemas Pickering and VIP* in Pickering, ON.

As of December 31, 2017, we operated 163 theatres with 1,676 screens.

Food Service

It was another record breaking year for our food service business. We reached a new milestone CPP of $6.00 at our theatres, resulting in large part from expanded offerings outside of our core food service products, which include our VIP Cinemas and proprietary food service offerings.

As a result of changes to provincial liquor laws in Ontario and Alberta, we can now offer alcoholic beverages to guests outside our VIP Cinema auditoriums and licensed lounges. In late 2017, we began to roll out beer and wine sales in theatres in Ontario and will continue to add more locations in 2018. This expansion will positively impact food service revenue in the future.

Alternative Programming

Alternative Programming continued to grow and expand, generating its best year ever. We continue to bring new, non-Hollywood programming to audiences across Canada in both our traditional auditoriums and to our 12 dedicated event auditoriums. The expansion of this network, allows us to increase specialty content in key markets and provides us with the flexibility to add additional show times and playdates to drive attendance.

During the year, programming included sporting events, stage productions, documentary releases, studio re-mastered films, family programming and concerts as well as the very popular genres of opera, ballet and live theatre. We also featured a number of international language films, including Hindi, Punjabi and Mandarin films, among others, in select markets across the country.

In November, we announced a three-year sponsorship agreement that brings Sunday Night Football and the Super Bowl to select Cineplex theatres across Canada. Regular season and playoff games were broadcast live to 16 Cineplex VIP Cinemas throughout the year and then expanded to approximately 50 additional theatres across Canada for the Super Bowl. We were pleased with the results and look forward to enhancing the program further for the 2018/19 season.

Digital Commerce

We continue to see strong growth quarter over quarter in all of our digital commerce initiatives and have the appropriate digital assets in place to reach our guests at multiple touchpoints, wherever they are in Canada and however they choose to consume their entertainment.

The Cineplex Store released an all-new user interface and experience on the website as well as on multiple connected televisions and device apps in 2017. Additionally, the Cineplex Store saw a 93.0% increase in monthly active users and a 63.0% increase in device activations compared to 2016.

As guests are increasingly choosing to go online or use their mobile devices to make ticket purchases, Cineplex.com registered a 10.5% increase in unique visits in 2017. During the year, we made a number of changes to many theatres to remove or redirect guests away from our theatre box offices and onto digital devices and kiosks for ticket purchases. In 2018, this plan will continue as we launch an enhanced mobile app that will provide significantly improved and expanded functionality for our guests.

Cineplex Media

Our Media business, which includes cinema media (Cineplex Media) and digital place-based media (Cineplex Digital Media), achieved record results in 2017, primarily as a result of higher cinema media revenue.

Cinema media achieved all-time annual record results, up by 2.6% for the year, largely due to record show time advertising sales combined with strong results in traditional media assets. The growth in show time revenue was a result of increased capacity as well as increased spend from new clients, specifically with robust results coming from the automotive sector.

Cineplex Digital Media

Cineplex Digital Media ("CDM") reported a decrease of 3.2% in revenue compared to the prior year, primarily due to lower project installation revenue, which was partially offset by higher advertising revenue generated from an expanded client base.

In addition to completing digital installations in Oxford and Ivanhoe Cambridge malls, in 2017 we were very pleased to be selected by Morguard Investments Limited to create, install, maintain and operate a state-of-the-art digital signage network at 21 of their top shopping centres across Canada. Additionally, CDM was also selected to install, maintain and operate a large-scale digital signage network at more than 1,000 Citizens Bank branches across the American Northeast. These systems were deployed in just two months during the fourth quarter.

We were also pleased to announce an agreement in early 2018 with Arcos Dorados, the largest McDonald's franchisee in the world. CDM will deploy, maintain, operate and support a network of digital menu boards at locations in Argentina, Brazil and Uruguay with content being created in Portuguese and Spanish. This partnership illustrates CDM's ability to support top tier brands, with multiple languages, anywhere in the world.

Since its inception, CDM has been an important part of our diversification strategy as it utilizes many of our skills and experience in media sales, as a retailer and as a QSR operator.

Amusement Solutions

P1AG is the largest distributor and operator of amusement gaming and vending equipment in Canada and one of the largest in the US. The business supports our internal amusement gaming needs in our theatres and in *The Rec Room* and *Playdium* locations, and externally provides amusement solutions to other theatre circuits and Family Entertainment Centres across Canada and the US.

In 2017, P1AG reported annual revenue of $170.6 million an increase of 66.5% versus 2016 and is made up of $10.6 million from Cineplex in-theatre amusement gaming and $160.0 million from all other sources of revenue. The primary increase in revenue was largely due to the acquisitions of Tricorp Amusements and SAW LLC in 2016, and Dandy Amusements in 2017.

Throughout the year, P1AG continued to expand its client base, adding new customers in amusement parks, family entertainment centres and shopping centres, in addition to opening two new self-operated XSCAPE Entertainment Centres at Mall of America in Minnesota.

As we move beyond the integration phase of the newly acquired P1AG businesses, we believe there will be continued growth from this area of the company as we continue to derive value from synergies and expand offerings in the future.

Location Based Entertainment

We were pleased to open three new locations of *The Rec Room* in 2017. The internally-developed concept combines incredible dining experiences with exciting live entertainment and amusement gaming, all under one roof. We opened locations at the iconic Roundhouse in downtown Toronto, West Edmonton Mall and at Calgary's Deerfoot City. We also announced plans to open three new locations—at CF Masonville Place in London this spring, and at Square One in Mississauga, ON and at The Amazing Brentwood complex in Burnaby, BC both in 2019. These are important milestones for Cineplex as we continue our expansion of this new business. We remain on target to open a total of 10-15 locations of *The Rec Room* across Canada over the next few years.

In addition, we announced plans to launch a reinvented *Playdium* brand concept, which will focus more on teens and families versus *The Rec Room's* millennial target demographic. The plan is to open 10-15 *Playdiums* in mid-sized communities across the country over the coming years, with the first location planned for Whitby, ON, opening in early 2019.

One of the key attractions within *The Rec Room* is VR and we were excited to launch the first Canadian installation of *THE VOID* at the Toronto Roundhouse location in 2017. We will continue to consider a variety of VR concepts and systems for all of our location-based entertainment brands in the future.

Finally, we were very pleased to announce an exclusive partnership with Topgolf to bring the sports entertainment experience to markets across Canada. Topgolf brings together golfers and non-golfers of all ages and skill levels for competitive play in a climate-controlled, sports and entertainment destination. They have been tremendously popular in the USA and UK and offer a strategic opportunity for Cineplex to draw on our existing skills and expertise. The first location is expected to open in 2019.

Esports

We offer a variety of esports programming and events via the WorldGaming online tournaments platform, which features live online competitive gaming with unique in-theatre tournament experiences in Cineplex theatres, in *The Rec Room*, and other third party venues. During the year, Cineplex acquired the remaining 20% non-controlling interest in WorldGaming so that we now own and operate 100% of WorldGaming.

Throughout 2017, WorldGaming hosted various tournaments including *Counter-Strike: Global Offensive* Canadian Championship Series, Northern Fights Canadian Championship Series and the *Call of Duty: Infinite Warfare* tournament. Our successful events have been recognized by the esports and gaming industry at large, having been nominated for the Cynopsis 'Esports Event of the Year.' Also, Collegiate Starleague, a subsidiary of WorldGaming and the largest collegiate esports organization with a presence on over 1,000 campuses across North America, hosted the 2017 North American Collegiate Grand Finals at the *Scotiabank Theatre* in Toronto, Ontario.

As part of our new partnership with the NFL, WorldGaming hosted a series of online and 'live' *Madden 18* tournaments. The finals were held in November at *The Rec Room's* Roundhouse location in Toronto.

Today, esports is fast becoming one of the largest gaming businesses with many opportunities. This is especially exciting since it attracts a younger demographic who love to participate in the competitive gaming genre versus watching traditional sports. We entered this business early in its evolution in North America and now see other major consumer brands, traditional sports leagues, and traditional sports teams entering the space. We believe in time, this business has the capacity to grow significantly and contribute in a meaningful way to our company.

Loyalty

Tying all of our businesses together is Canada's top entertainment loyalty program—SCENE. Celebrating our 10-year anniversary in 2017, SCENE continued to grow its membership by adding almost 800,000 members and reaching over 9 million members to date.

New in 2017, we launched changes to the program, enabling SCENE members to earn and redeem SCENE points for food and drink purchases within Cineplex theatres.

SCENE is a key conduit for collecting valuable guest data across the entire Cineplex ecosystem. This enables us to better understand the customer journey from website or mobile, in theatre or at *The Rec Room*, and online at the CineplexStore. This data also helps us better understand and communicate with our guests in order to improve decision making and drive guest behaviour.

Corporate and Community Investment

Cineplex has been a proud partner of WE since 2014. Over the years, our support has helped raise a significant amount of money to support WE programs that inspire Canadian youth across the country to discover their passions, develop their leadership skills and become positive change-makers in their communities.

In October, we hosted our seventh annual National Community Day, raising $325,000 for WE. Every year, thousands of our employees generously donate their time so families can enjoy a morning of free, family-friendly films, discounted food and beverage and have a lot of fun supporting the communities where we operate. In the past seven years, Cineplex has raised over $2.8 million on Community Days.

Also during the year, we were very pleased to open the “Cineplex O.E. Smith Theatre,” at the IWK Health Centre in Halifax. This charitable initiative offers patients and their families the ability to enjoy the escapism that movies provide while receiving treatment at the hospital. The multipurpose theatre auditorium also provides an updated meeting and presentation facility and is home to the annual IWK Telethon for Children.

Overall in 2017, we raised, donated or contributed in-kind services of more than $3.0 million going to WE and other charitable and industry organizations.

Strong Operating Results

Cineplex is committed to delivering long-term value and consistent returns for our shareholders. In May 2017, the Board of Directors approved a monthly dividend increase of 3.7% to $0.140 per share ($1.68 on an annual basis). We have announced a dividend increase each year since our conversion to a corporation and understand the importance of the dividend to our shareholders.

During the year, under provisions within our Credit Facility, we increased the Revolving Facility by $75.0 million with the Term Facility remaining unchanged. We also filed a normal course issuer bid with the Toronto Stock Exchange allowing us to purchase up to 10% of shares through September 2018 with all shares purchased to be cancelled. By December 31, 2017, we had purchased and cancelled 211,492 shares for $8.0 million.

Expressed in thousands of Canadian dollars except per share, per patron and attendance data	2017	2016	2015	2014	2013
Revenue	$1,555,067	$1,478,326	$1,370,943	$1,234,716	$1,171,267
Adjusted EBITDA	235,929	234,009	249,802	201,002	202,441
Net income	70,346	77,991	134,249	76,271	83,557
Total assets	1,855,168	1,728,186	1,701,917	1,609,416	1,591,378
Adjusted free cash flow per share	2.37	2.46	2.49	2.31	2.46
Cash dividends declared per share	1.66	1.60	1.54	1.48	1.41
Box office revenue per patron	10.17	9.84	9.48	9.31	9.28
Concession revenue per patron	6.00	5.65	5.43	5.09	4.82
Attendance	70,394	74,594	77,023	73,648	72,703

In Conclusion

In 2017, we made strategic investments in the company that have positioned Cineplex well for meaningful growth in the future. We have a seasoned senior management team in place and will continue to execute our strategic plan to diversify the company into other businesses making us less reliant on the fluctuations of the box office.

Looking ahead, I am excited about what's to come this year and beyond, as our new businesses (*The Rec Room*, *Playdium*, Player One Amusement Group, WorldGaming and Cineplex Digital Media) gain traction and make more meaningful contributions to the bottom line. I am also encouraged by the outlook for this year's film slate, especially in the second and third quarters.

My heartfelt thanks goes to each and every Cineplex employee for your hard work this year, and to the board of directors for your guidance and insight, and to our customers, partners, guests and investors for your continued commitment to and trust in Cineplex.

Sincerely,

Ellis Jacob
President and CEO, Cineplex Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 21, 2018

The following management's discussion and analysis ("MD&A") of Cineplex Inc. ("Cineplex") financial condition and results of operations should be read together with the consolidated financial statements and related notes of Cineplex (see Section 1, Overview of Cineplex). These financial statements, presented in Canadian dollars, were prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), defined as International Financial Reporting Standards ("IFRS") as set out in the Handbook of the Canadian Institute of Chartered Professional Accountants.

Unless otherwise specified, all information in this MD&A is as of December 31, 2017 and all amounts are in Canadian dollars.

Non-GAAP Measures

Cineplex reports on certain non-GAAP measures that are used by management to evaluate performance of Cineplex. In addition, non-GAAP measures are used in measuring compliance with debt covenants. Because non-GAAP measures do not have standardized meanings, securities regulations require that non-GAAP measures be clearly defined and qualified, and reconciled to their nearest GAAP measure. The definition, calculation and reconciliation of non-GAAP measures are provided in Section 17, Non-GAAP measures.

Forward-Looking Statements

This MD&A contains "forward-looking statements" within the meaning of applicable securities laws, such as statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts. These statements are not guarantees of future performance and are subject to numerous risks and uncertainties, including those described in this MD&A. Those risks and uncertainties include adverse factors generally encountered in the film exhibition industry such as poor film product and unauthorized copying; the risks associated with national and world events, including war, terrorism, international conflicts, natural disasters, extreme weather conditions, infectious diseases, criminal acts, changes in income tax legislation; and general economic conditions. Many of these risks and uncertainties can affect our actual results and could cause our actual results to differ materially from those expressed or implied in any forward-looking statement made by us or on our behalf. All forward-looking statements in this MD&A are qualified by these cautionary statements. These statements are made as of the date of this MD&A and, except as required by applicable law, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. Additionally, we undertake no obligation to comment on analyses, expectations or statements made by third parties in respect of Cineplex, its financial or operating results or its securities. Additional information, including Cineplex's Annual Information Form, can be found on SEDAR at www.sedar.com.

1. OVERVIEW OF CINEPLEX

A leading entertainment and media company, Cineplex is a top-tier Canadian brand that operates in the film entertainment and content, amusement and leisure, and media sectors. As Canada's largest film exhibitor, Cineplex welcomes over 70 million guests annually through its circuit of 163 theatres across the country. Cineplex also operates successful businesses in digital commerce (CineplexStore.com), food service, alternative programming (Cineplex Events), cinema media (Cineplex Media), digital place-based media (Cineplex Digital Media), amusement solutions (Player One Amusement Group "P1AG") and an online eSports platform for competitive and passionate gamers (WorldGaming.com "WGN"). Additionally, Cineplex operates a location based entertainment business through Canada's newest destination for 'Eats & Entertainment' (*The Rec Room*), and will also be opening new complexes specially designed for teens and families (*Playdium*) as well as exciting new sports and entertainment venues across Canada (*Topgolf*). Cineplex is a joint venture partner in SCENE, Canada's largest entertainment loyalty program.

Cineplex's theatre circuit is concentrated in major metropolitan and mid-sized markets. As of December 31, 2017, Cineplex owned, leased or had a joint venture interest in 1,676 screens in 163 theatres from coast to coast.

Cineplex
Theatre locations and screens at December 31, 2017

Province	Locations	Screens	Digital 3D Screens	UltraAVX	IMAX Screens (i)	VIP Auditoriums	D-BOX Locations	Other Screens(ii)
Ontario	68	733	358	40	13	39	40	2
Quebec	20	250	98	10	3	4	6	—
British Columbia	25	232	123	15	3	11	14	1
Alberta	17	193	98	16	2	3	12	1
Nova Scotia	12	91	44	1	1	—	2	—
Saskatchewan	6	54	29	2	—	3	2	—
Manitoba	5	49	26	1	1	3	2	—
New Brunswick	5	41	20	1	—	—	2	—
Newfoundland & Labrador	3	20	9	1	1	—	1	—
Prince Edward Island	2	13	6	—	—	—	1	—
TOTALS	**163**	**1,676**	**811**	**87**	**24**	**63**	**82**	**4**
Percentage of screens			48%	5%	1%	4%	5%	—%

(i) All IMAX screens are 3D enabled. Total 3D screens including IMAX screens are 835 screens or 49% of the circuit.

(ii) Other screens include 4DX and Barco Escape screens.

Cineplex - Theatres, screens and premium offerings in the last eight quarters

	2017				2016			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Theatres	163	163	164	164	165	164	162	163
Screens	1,676	1,676	1,677	1,677	1,683	1,677	1,659	1,666
3D Digital Screens	811	811	799	799	801	799	788	790
UltraAVX Screens	87	86	85	85	85	85	83	82
IMAX Screens	24	23	23	23	23	23	23	23
VIP Auditoriums	63	63	63	63	63	63	59	59
D-BOX Locations	82	81	80	78	77	68	62	44
Other	4	4	4	4	4	3	—	—

1.1 FINANCIAL HIGHLIGHTS

Financial highlights (in thousands of dollars, except attendance in thousands of patrons and per Share and per patron amounts)	**Fourth Quarter 2017**	**Fourth Quarter 2016**	**Change (i)**	**Full Year 2017**	**Full Year 2016**	**Change (i)**
Total revenues	$ 426,293	$ 385,436	10.6%	$ 1,555,067	$ 1,478,326	5.2%
Attendance	17,551	17,934	-2.1%	70,394	74,594	-5.6%
Net income	$ 28,786	$ 23,328	23.4%	$ 70,346	$ 77,991	-9.8%
Box office revenues per patron ("BPP") (ii) (iii)	$ 10.54	$ 10.23	3.0%	$ 10.17	$ 9.84	3.4%
Concession revenues per patron ("CPP") (ii)	$ 6.29	$ 5.75	9.4%	$ 6.00	$ 5.65	6.2%
Adjusted EBITDA (ii)	$ 79,614	$ 66,841	19.1%	$ 235,929	$ 234,009	0.8%
Adjusted EBITDA margin (ii)	18.7%	17.3%	1.4%	15.2%	15.8%	-0.6%
Adjusted free cash flow (ii)	$ 51,339	$ 39,437	30.2%	$ 150,597	$ 155,860	-3.4%
Adjusted free cash flow per common share of Cineplex ("Share") (ii)	$ 0.810	$ 0.621	30.4%	$ 2.373	$ 2.456	-3.4%
Earnings per Share ("EPS") - basic	$ 0.45	$ 0.37	21.6%	$ 1.11	$ 1.26	-11.9%
EPS excluding change in fair value of financial instrument - basic (ii)	$ 0.46	$ 0.37	24.3%	$ 1.07	$ 1.26	-15.1%
EPS - diluted	$ 0.45	$ 0.37	21.6%	$ 1.11	$ 1.25	-11.2%
EPS excluding change in fair value of financial instrument - diluted (ii)	$ 0.46	$ 0.37	24.3%	$ 1.07	$ 1.25	-14.4%

(i) Throughout this MD&A, changes in percentage amounts are calculated as 2017 value less 2016 value.
(ii) See Section 17, Non-GAAP measures.
(iii) Prior period figures have been reclassified to conform to current period presentation. See Section 10, Seasonality and quarterly results for further details.

Total revenues for the fourth quarter of 2017 increased 10.6%, or $40.9 million as compared to the prior year period, primarily due to increases in food service, media and amusement revenues. Box office revenues increased by 0.9% compared to the prior year period to $183.4 million despite a 2.1% decrease in attendance due to an all-time quarterly record BPP. Food service revenues increased 13.2%, to an all-time quarterly record of $119.5 million as a result of an all-time quarterly record for CPP and strong results from *The Rec Room*. Media revenues increased 16.7%, to an all-time quarterly record of $61.5 million resulting from an increase in in-theatre advertising and digital place-based media revenues due to an expanded client base. Amusement revenues increased by 46.1% to 49.3 million which was primarily a result of acquisitions by P1AG. As a result of these increases, Cineplex posted adjusted EBITDA of $79.6 million an increase of $12.8 million or 19.1% over the prior year period and adjusted free cash flow per Share increased 30.4% to $0.810 per Share.

Year-over-year comparatives are impacted by the continuing roll-out of *The Rec Room* and integration of the acquisitions completed by P1AG. The table below provides a summary of net operating results for P1AG and *The Rec Room* for the current and prior year quarter and year to date periods. With the focus of P1AG on driving revenue growth and operating synergies from the creation of a national platform in the U.S., non-recurring costs related to integration impacts on short-term results. During the quarter Cineplex opened a new location of *The Rec Room* in Calgary, completed the first full quarter of the second location in Edmonton which opened in late August 2017 and completed six full months at the Roundhouse location in Toronto which opened in June 2017. Costs that are incurred prior to opening include non-cash occupancy charges during the construction phase, and pre-opening marketing and training costs. Subsequent to opening, the goal is to ensure the delivery of an excellent customer experience and optimize the various experiences offered to customers. Given that the initial openings are concept prototypes, the expectation is that it will take approximately 12 months before operations are optimized. During the fourth quarter, approximately $0.8 million in integration costs and pre-opening costs related to the P1AG and *The Rec Room* businesses were incurred. For the year, integration and pre-opening costs of $9.9 million were incurred.

Total revenues of $1.6 billion for the year ended December 31, 2017 increased 5.2%, or $76.7 million compared to the prior year mainly as a result of the increase in revenues from P1AG of $61.4 million and $30.1 million from the *The Rec Room*. Excluding the impact of P1AG and *The Rec Room*, revenues decreased $14.7 million (1.1%) due to lower box office caused by the 5.6% decrease in attendance due to the weaker film slate compared to the prior year. Offsetting the impact of the attendance decline, Cineplex posted an all-time annual record BPP of $10.17 and CPP of $6.00 resulting in an all-time theatre food service revenues record of $422.3 million. Adjusted EBITDA increased 0.8%, from $234.0 million to $235.9 million as a result of higher amusement and leisure revenues, partially offset by lower box office revenues as a result of the lower attendance impacting film entertainment results and the impact of costs relating to emerging businesses as Cineplex continues to execute its diversification strategy including $9.9 million of integration and pre-opening costs associated with P1AG and *The Rec Room*. Adjusted free cash flow per Share decreased 3.4%, from $2.456 in 2016 to $2.373 in 2017.

The following tables present EBITDA for the fourth quarter and full year for P1AG and *The Rec Room* (in thousands of dollars):

P1AG Summary	Fourth Quarter			Full Year		
	2017	2016	Change	2017	2016	Change
Amusement revenues	$ 39,925	$ 29,072	37.3%	$ 159,974	$ 98,597	62.3%
Operating Expenses	36,174	26,644	35.8%	139,958	86,809	61.2%
EBITDA (i)	$ 3,751	$ 2,428	54.5%	$ 20,016	$ 11,788	69.8%

The Rec Room Summary	Fourth Quarter			Full Year		
	2017	2016	Change	2017	2016	Change
Food service revenues	$ 9,180	$ 2,407	281.4%	$ 19,564	$ 2,694	626.2%
Amusement revenues	6,813	2,163	215.0%	14,718	2,367	521.8%
Media and other revenues	887	—	NM	959	—	NM
Total revenues	16,880	4,570	269.4%	35,241	5,061	596.3%
Cost of food service	2,607	875	197.9%	5,938	945	528.4%
Operating expenses	10,896	2,976	266.1%	24,412	3,333	632.4%
Total costs	13,503	3,851	250.6%	30,350	4,278	609.4%
Store level EBITDA (i)	$ 3,377	$ 719	369.7%	$ 4,891	$ 783	524.6%
(i) See Section 17, Non-GAAP measures.						

1.2 KEY DEVELOPMENTS IN 2017

The following describes certain key business initiatives undertaken and results achieved during 2017 in each of Cineplex's core business areas:

FILM ENTERTAINMENT AND CONTENT

Theatre Exhibition

- Reported annual box office revenues of $715.6 million, a 2.5% decrease from 2016 due to a 5.6% decrease in attendance, partially offset by a 3.4% increase in BPP.
- BPP of $10.17 represents an annual record for Cineplex, $0.33 or 3.4% higher than $9.84 reported during 2016.
- Opened the first IMAX VR Centre in Canada at Cineplex's *Scotiabank Theatre Toronto*.
- Opened Canada's first D-BOX VR cinematic experience at Cineplex's *Scotiabank Theatre Ottawa.*
- During the year, Cineplex installed five D-BOX auditoriums, one IMAX auditorium, one UltraAVX auditorium and converted 121 auditoriums (12 locations) to recliner seating.

Theatre Food Service

- Reported record annual theatre food service revenues of $422.3 million (0.3% increase from 2016) due to record annual CPP of $6.00 ($0.35 or 6.2% increase from 2016).

- During the year, Cineplex added alcohol beverage service to several theatres in Ontario and Alberta due to an expansion of liquor license laws.

Alternative Programming

- Alternative programming during the year included strong performances from the Metropolitan Opera: Live in HD series, the live Mayweather vs. McGregor match featured in VIP cinemas, and featured numerous international films, including Hindi, Punjabi and Mandarin language films in select markets across the country.
- Announced a three year sponsorship agreement with the NFL that will bring Sunday Night Football and the Super Bowl live to select Cineplex theatres across Canada. The agreement also provides access to NFL brands and trademarks as well as sponsorship opportunities for Cineplex.

Digital Commerce

- Cineplex.com registered a 10.5% increase in visits in 2017 compared to 2016.
- Online and mobile ticketing represented 33.3% of total admissions during the year compared to 29.1% in the prior year.
- Monthly active users of the Cineplex Store increased 93.0% as compared to the prior year.
- Cineplex store registered a 63.0% increase in device activations over the prior year.
- Released a new Cineplex Store user interface and experience across the website and multiple connected televisions and device apps.

MEDIA

- Reported record annual media revenues of $171.9 million, 0.6% higher than the previous record set in 2016 mainly as a result of higher cinema media revenues.

Cinema Media

- Cinema media revenues were a record $116.4 million in 2017 (2.6% higher than 2016) with the increase due to record Show-Time advertising sales, with robust results seen in the automotive category.

Digital Place-Based Media

- Reported revenues of $55.5 million in 2017, a decrease of $1.8 million or 3.2%, compared to the prior year due to lower project installation revenues partially offset by higher advertising revenue generated from an expanded client base.
- Selected to install, maintain and operate a state-of-the-art digital signage network at 21 shopping centres in Canada managed by Morguard Investments Limited ("Morguard").
- Completed deployment of a digital display network at over a thousand Citizens Bank branches across the United States.

AMUSEMENT AND LEISURE

Amusement Solutions

- Reported annual revenues of $170.6 million in 2017 ($10.6 million from Cineplex theatre gaming and $160.0 million from all other sources of revenues). This was an increase of $61.6 million from the prior year mainly due to the acquisitions of Tricorp Amusements Inc. ("Tricorp"), SAW, LLC ("SAW") and Dandy Amusements International Inc. ("Dandy").
- On April 1, 2017, Cineplex acquired the assets of Dandy, a California-based leading amusement gaming machine operator with operations in the western United States, for $13.7 million.

Location-Based Entertainment

- *The Rec Room* reported total annual revenues of $35.2 million which includes food service revenues of $19.6 million and amusement revenues of $14.7 million.
- Opened three new locations of *The Rec Room;* one located at the iconic Roundhouse Park in downtown Toronto, one in Edmonton at the West Edmonton Mall and the other at Calgary's Deerfoot City.

- Announced plans for three locations of *The Rec Room:* one in Mississauga, Ontario at Square One, one in London, Ontario and the other, the first location in British Columbia, at The Amazing Brentwood.
- Announced the brand-new *Playdium* complex in Whitby, Ontario, which is scheduled to begin construction in early 2018.
- Announced an exclusive partnership with *Topgolf* to bring multiple *Topgolf* sports entertainment complexes to markets across Canada. *Topgolf* brings together people of all ages and skill levels for competitive play in the comfort of a climate-controlled sports and entertainment destination.

eSports

- In the second quarter, Cineplex acquired the 20% non-controlling interest in WGN for $4.0 million. Cineplex now owns and operates 100% of WGN.
- WGN hosted various tournaments including, *Counter-Strike: Global Offensive* Canadian Championship Series, Northern Fights Canadian Championship Series and the *Call of Duty: Infinite Warfare* tournament. Collegiate Starleague ("CSL"), a subsidiary of WGN, hosted the 2017 North American Collegiate Grand Finals at the Scotiabank Theatre in Toronto, Ontario.
- As part of a partnership with the NFL, WGN hosted a series of online and offline *Madden* tournaments. The finals were held on November 15, 2017, at the *The Rec Room's* Roundhouse location in Toronto.

LOYALTY

- Membership in the SCENE loyalty program increased by 0.8 million in 2017, reaching 8.9 million members at December 31, 2017.
- Announced the launch of a new program for SCENE members, which will allow them to earn and redeem SCENE points for food and drink purchases within Cineplex theatres.
- 2017 marks the 10th year anniversary of the SCENE loyalty program.

CORPORATE

- During the year, under provisions in its Credit Facility (defined and discussed in Section 7.4, Credit Facilities), Cineplex increased the Revolving Facility by $75.0 million with the Term Facility remaining unchanged.
- During the year, Cineplex implemented a normal course issuer bid ("NCIB") through the Toronto Stock Exchange allowing Cineplex to purchase up to 6,308,955 Shares through September 2018. All of the Shares purchased will be cancelled. As at December 31, 2017, 211,942 Shares were purchased and cancelled by Cineplex for $8.0 million.
- Effective with the May 2017 dividend, the Board of Directors of Cineplex (the "Board") announced a monthly dividend increase of 3.7% to $0.140 per share ($1.68 on an annual basis) up from $0.135 per Share ($1.62 on an annual basis).
- Cineplex was once again the entertainment sponsor for WE Day Family, which was held at the Air Canada Centre in Toronto. Cineplex also hosted it seventh annual National Community Day in October 2017 in support of WE, its national charitable partner. In the past seven years, Cineplex has raised a total of $2.8 million on Community Days.

1.3 BUSINESS ACQUISITIONS

a) Dandy Amusements International Inc.

On April 1, 2017, Cineplex acquired all the operating assets of Dandy for approximately $13.7 million in cash. Dandy is a leading amusement gaming machine operator based in California with operations in the western United States. Immaterial transaction costs were expensed as incurred.

Recognized amounts of identifiable assets acquired are as follows (in thousands of dollars):

Assets acquired		
Net working capital, including cash of $490	$	1,345
Customer relationships		1,996
Equipment		10,372
Net assets		13,713
Less: Cash from acquisition		(490)
	$	13,223
Consideration given - cash paid	$	13,713
Less: Cash from acquisition		(490)
	$	13,223

As at December 31, 2017, the fair value assigned to the assets and liabilities has been determined on a provisional basis, pending finalization of the post-acquisition review of the fair value of the customer relationships equipment acquired and liabilities assumed. Any variations are not expected to be material.

Dandy has arrangements with customers to operate Dandy's gaming equipment on a revenue share basis. The fair value of customer relationships recognized reflect historical annual renewal rates for existing customers and they will be amortized on a straight-line basis over five years.

The equipment will be amortized on a straight-line basis over seven years.

Cineplex's reported revenues and income would not have been materially different if the acquisition had occurred at January 1, 2017.

b) WGN Put Option

On April 13, 2017, Cineplex acquired the 20% of WGN that it did not already own for $4.0 million in cash. As a result of the acquisition, during the year ended December 31, 2017, Cineplex re-allocated the non-controlling interest of $2.4 million to other components of equity and recognized a gain of $1.0 million, reflected in the change in fair value of financial instrument.

c) EK3 Contingent Consideration

The deferred consideration relating to the acquisition of EK3 Technologies Inc. ("EK3") was settled at $10.0 million in the year ended December 31, 2017. There was no impact on net income.

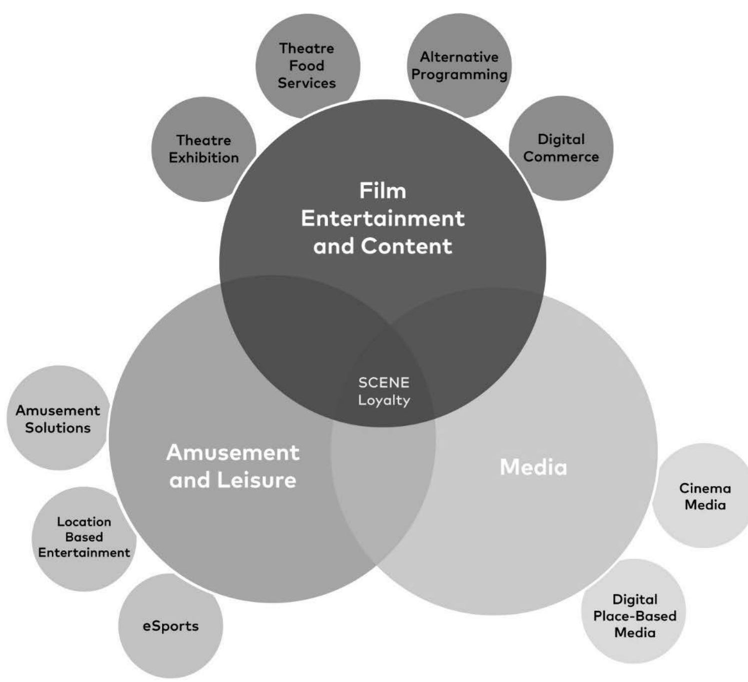
2. BUSINESS STRATEGY

Cineplex's mission statement is "Passionately delivering exceptional experiences." All of its efforts are focused towards this mission and it is Cineplex's goal to consistently provide guests and customers with exceptional experiences.

Cineplex's operations are primarily conducted in three main areas: film entertainment and content, media, and amusement and leisure, all supported by the SCENE loyalty program. Cineplex's key strategic areas of focus include the following:

- Continue to enhance and expand existing infrastructure and expand Cineplex's presence as an entertainment destination for Canadians in-theatre, at-home and on-the-go;
- Capitalize on core media strengths and infrastructure to provide continued growth of Cineplex's media business both inside and outside theatres;
- Develop and scale amusement and leisure concepts by extending existing capabilities and infrastructure; and
- Pursue selective acquisitions and opportunities that are strategic, accretive and capitalize on Cineplex's core strengths.

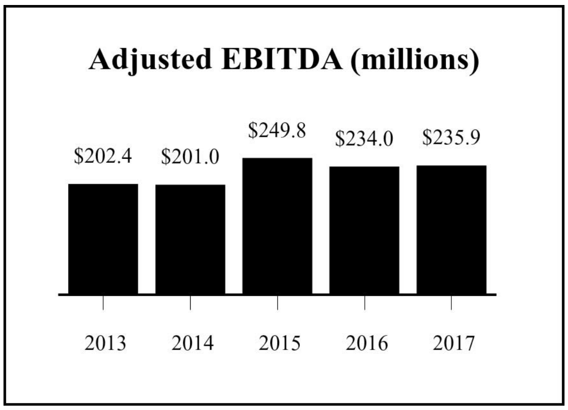
Cineplex uses the SCENE loyalty program and database as a strategic asset to link these areas of focus and drive customer acquisition and ancillary businesses.

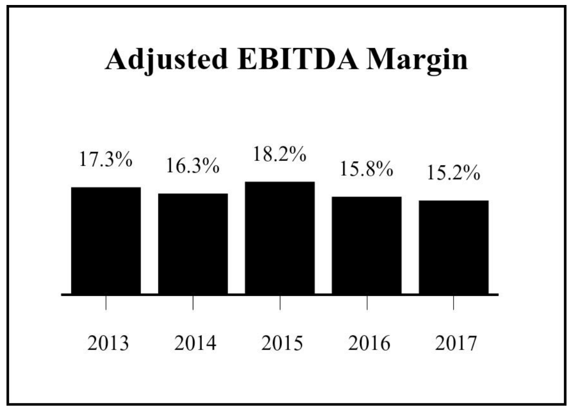


Key elements of this strategy include going beyond movies to reach customers in new ways and maximizing revenue per patron. Cineplex has implemented in-theatre initiatives to improve the overall entertainment experience, including increased premium offerings, enhanced in-theatre services, alternative pricing strategies, continued development of the SCENE loyalty program and initiatives in theatre food service such as optimizing product offerings and improving service execution. The ultimate goal of these in-theatre customer service initiatives is to maximize revenue per patron and increase the frequency of movie-going at Cineplex's theatres.

While box office revenues (which include alternative programming) continue to account for the largest portion of Cineplex's revenues, expanded theatre food service offerings, cinema media, digital place-based media, amusement and leisure, the Cineplex Store, promotions and other revenue streams have increased as a share of total revenues. Cineplex is committed to diversifying its revenue streams outside of the traditional theatre exhibition model through its media and amusement and leisure businesses.

Although Cineplex focuses on growth initiatives, management remains vigilant in controlling costs without compromising experiences. Cineplex will continue to invest in new revenue generating activities, as it has in prior years. The following tables show Cineplex's adjusted EBITDA and adjusted EBITDA margin performance over the last five years (see Section 17, Non-GAAP measures, for a discussion of adjusted EBITDA and adjusted EBITDA margin).





3. CINEPLEX'S BUSINESSES

Cineplex's operations are primarily conducted in three main areas: film entertainment and content, media, and amusement and leisure, all supported by the SCENE loyalty program.

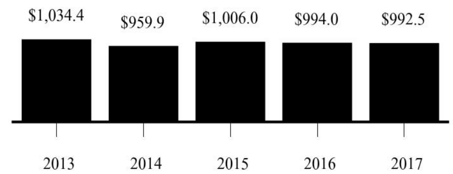
FILM ENTERTAINMENT AND CONTENT

Theatre Exhibition

Theatre exhibition is the core business of Cineplex. Box office revenues are highly dependent on the marketability, quality and appeal of the film product released by the major motion picture studios.

The motion picture industry consists of three principal activities: production, distribution and exhibition. Production involves the development, financing and creation of feature-length motion pictures. Distribution involves the promotion and exploitation of motion pictures in a variety of different channels. Theatrical exhibition is the primary channel for new motion picture releases and is the core business function of Cineplex. The Canadian industry reported a decrease of 0.15% in box office revenues in 2017 compared to the prior year based on industry weekly box office reporting results.

Canadian Industry Box Office (in millions)



Source: Movie Theatre Association of Canada ("MTAC")

Cineplex believes that the following market trends are important factors in the growth of the film exhibition industry in Canada:

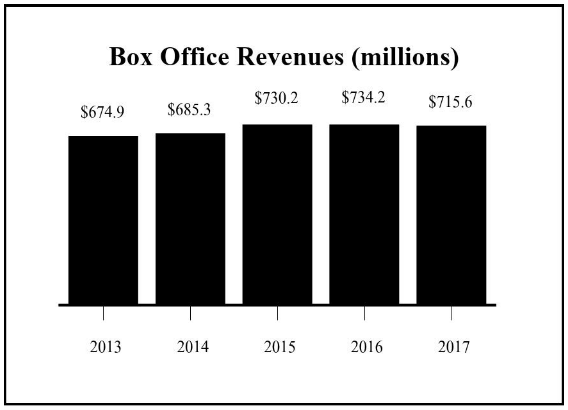
- *Importance of theatrical success in establishing movie brands and subsequent movies.* Theatrical exhibition is the initial and most important channel for new motion picture releases. A successful theatrical release which "brands" a film is often the determining factor in its popularity and value in "downstream" distribution channels, such as download-to-own ("DTO"), video-on-demand ("VoD"), DVD, Blu-ray, pay-per-view, subscription video-on-demand as well as network television.

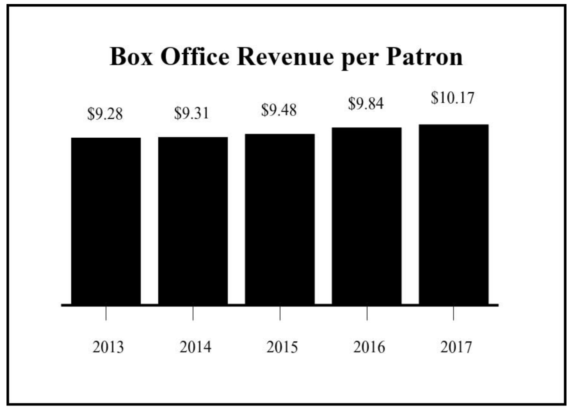
- *Continued supply of successful films.* Studios are increasingly producing film franchises, such as *Star Wars, Fast & Furious* and *Jurassic Park*. Additionally, new franchises continue to be developed, such as the films in the Marvel and Justice League universes. When the first film in a franchise is successful, subsequent films in the franchise benefit from existing public awareness and anticipation. The result is that such features typically attract large audiences and generate strong box office revenues. The success of a broader range of film genres also benefits film exhibitors. In 2018, the studios are releasing a strong slate of films, including *Black Panther, Ready Player One, A Wrinkle in Time, Avengers: Infinity War, Deadpool 2, Solo: A Star Wars Story, The Incredibles 2, Jurassic World: Fallen Kingdom, Ant-Man and the Wasp, Mission Impossible 6, Alita Battle Angel, Venom, X-Men: Dark Phoenix, Fantastic Beasts and Where to Find Them 2, Ralph Breaks the Internet: Wreck-It Ralph 2, Mulan* and *Aquaman.*

- *Convenient and affordable form of out-of-home entertainment.* Cineplex's BPP was $10.17 and $9.84 in 2017 and 2016 respectively. Excluding the impact of Cineplex's premium-priced product, BPP was $8.61 and $8.33 in 2017 and 2016 respectively. The movie-going experience continues to provide value and compares favorably to alternative forms of out-of-home entertainment in Canada such as professional sporting events or live theatre, and with Cineplex, SCENE members enjoy the ability to earn points towards Cineplex products as well as discounts and special offers.

- *Providing a variety of premium and enhanced guest theatre experiences.* Premium priced theatre offerings include 3D, 4DX, UltraAVX, VIP, IMAX and D-BOX. BPP for premium-priced product was $12.84 in 2017, and accounted for 46.4% of total box office revenues in 2017. In response to the increased demand for premium entertainment experiences, in 2017 Cineplex installed five D-Box auditoriums, one IMAX auditorium and one UltraAVX auditorium. Recent enhancements to the current circuit include the addition of all recliner seating at 13 locations. Cineplex has also begun installing virtual reality experiences for customers in theatres, with the IMAX VR Centre at the *Scotiabank Theatre Toronto* and D-BOX VR motion seats and VR systems at the *Scotiabank Theatre Ottawa*.

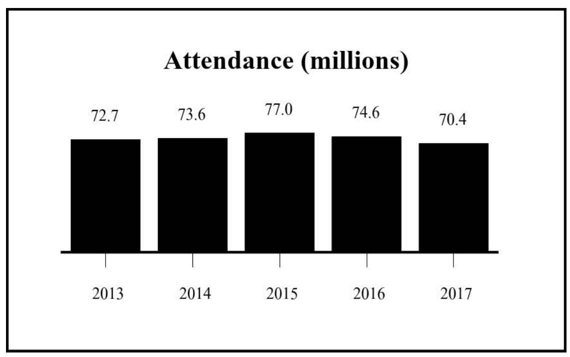
- *Reduced seasonality of revenues.* Historically, film exhibition industry revenues have been seasonal, with the most marketable motion pictures generally being released during the summer and the late-November through December holiday season. The seasonality of motion picture exhibition attendance has become less pronounced as film studios have expanded the historical summer and holiday release windows and increased the number of films released during traditionally weaker periods.





In the next few years, Cineplex plans to open or renovate an average of one to two theatres per year and continue to expand its premium offerings through these new theatres and existing locations.

Cineplex's leading market position enables it to effectively manage film, food service and other theatre-level costs, thereby maximizing operating efficiencies. Cineplex seeks to continue to achieve incremental operating savings by, among other things, implementing best practices and negotiating improved supplier contracts. Cineplex also continues to evaluate its existing theatres as it continues to replace or upgrade older theatres to state-of-the-art entertainment complexes including recliner retrofits in select theatres.

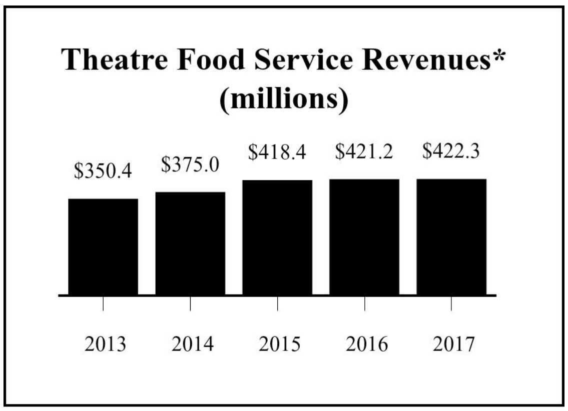


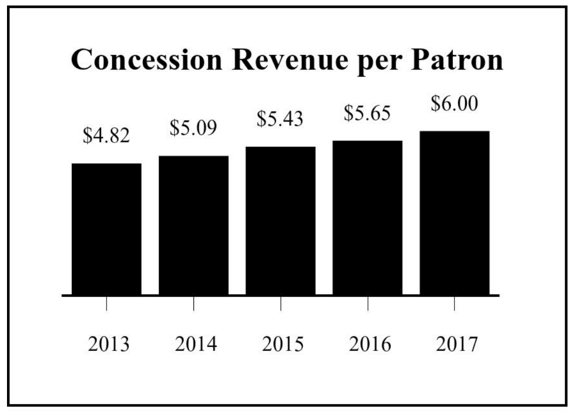
The development of premium experiences through design, structure and digital technology makes Cineplex theatres ideal locations for meetings and corporate events. Organizations, particularly corporations with offices across the country, can use Cineplex's theatres and digital technology for annual meetings, product launches and employee or customer events, producing new revenue streams independent of film exhibition.

Theatre Food Service

Cineplex's theatre food service business offers guests a range of food choices to enhance their theatre experience while generating strong profit margins for the company. Cineplex's theatres feature its internally developed brands: *Outtakes, Poptopia* and its joint venture interest in *YoYo's Yogurt Cafe* ("YoYo's"). Certain Cineplex theatres also feature popular fast food retail branded outlets ("RBO's") including Tim Hortons and Pizza Pizza, among others.

Cineplex continually focuses on process improvements designed to increase the speed of service at the concession counter in addition to optimizing the RBO's available at Cineplex's theatres. Each of the wide range of menu items available at *Outtakes* locations as well as the expanded menu and the licensed lounge service available at VIP Cinemas are designed to reach a wider market and to increase both purchase incidence and transaction value. Expanded rollout of digital menu boards installed across the circuit offer flexibility in menu offerings to guests which contribute to an improved guest experience while also creating additional revenue opportunities. The execution of this strategy contributed to a record CPP of $6.00 in 2017, an increase of $0.35 from the previous record of $5.65 achieved in 2016. Cineplex also added alcohol beverage service to several theatres in Ontario and Alberta due to an expansion of liquor license laws.





* Excludes *The Rec Room*

Alternative Programming

Alternative programming includes Cineplex's international film programming as well as content offered under its *Event Cinema* brand offerings, including The Metropolitan Opera, NFL Sunday Nights, sporting events and concerts. International film programming includes Bollywood content as well as Cantonese, Hindi, Punjabi, Mandarin, Korean and Filipino language films, amongst others, in select theatres across the country based on local demographics. This programming attracts a more diverse audience, expanding Cineplex's demographic reach and enhancing revenues.

The success of Cineplex's alternative programming events has led to further expansion of offerings including the Bolshoi Ballet from Moscow, the National Theatre from London, the *In the Gallery* series and screening select television content on the big screen. Cineplex offers the Classic Film Series and Family Favourites programming at non-peak hours to enhance theatre utilization rates. As additional content becomes available, Cineplex will continue to expand its alternative programming offerings.

Digital Commerce

Cineplex's digital commerce business consists of cineplex.com, mobile and the Cineplex Store. Cineplex has developed cineplex.com into one of the leading entertainment sites in Canada, a destination of choice for Canadians seeking movie entertainment information on the internet. The website offers streaming video, movie information, showtimes and the ability to buy tickets online, entertainment news and box office reports as well as advertising and digital commerce opportunities. To complement cineplex.com, the Cineplex mobile app is available as a free download for a wide variety of devices, providing guests with the ability to find showtimes and buy tickets as well as find information relating to the latest movie choices and movie-related entertainment content. Cineplex continues to improve the user experience including releasing new Cineplex Store user interfaces and experiences across the website and multiple connected televisions and device apps.

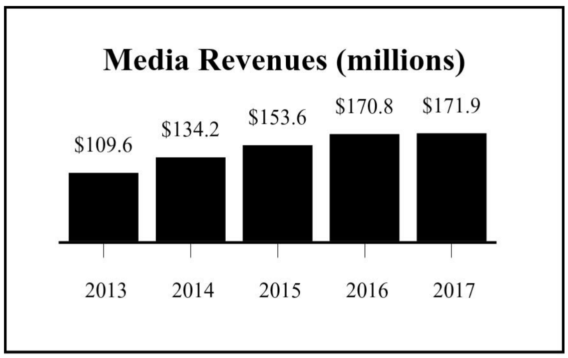
These features and others enable Cineplex to engage and interact with its guests online and on-the-go, allowing Cineplex to offer engaging, targeted and sponsored content to visitors and advertisers, resulting in opportunities to generate additional revenues.

The Cineplex Store rents and sells movies in digital form (DTO and VoD movies). Cineplex also offers SuperTicket, a bundled offering that allows movie-goers to purchase a movie admission ticket and pre-order the digital download of a movie at the same time. SuperTicket provides Cineplex with the flexibility to customize offerings to consumers, providing enhanced value above and beyond an in-theatre or at-home experience.

Cineplex's strong brand association with movies and well established partnerships with movie studios combined with Cineplex's website, app and the Cineplex Store provide Cineplex with the ability to bundle various forms of content to appeal to consumers. As emerging technologies continue to change the ways in which content is consumed, Cineplex will continue to leverage its digital commerce properties to provide guests with in home and on-the-go options for content delivery.

MEDIA

Cineplex's media businesses cover two major categories: cinema media, which incorporates advertising mediums related to theatre exhibition, and digital place-based media.



Cinema Media

Cinema media incorporates advertising mediums related to theatre exhibition, both within Cineplex's own circuit of theatres as well as in competitors' theatres through revenue sharing arrangements, resulting in a 94% market share of Canadian movie-going attendance.

Cineplex's core cinema media offerings include:

- Show-Time advertising, which runs just prior to the movie trailers in the darkened auditorium with limited distractions.
- Pre-show advertising, featured on the big screen as guests settle in to enjoy their movie night, in the period prior to Show-Time.
- Digital lobby advertising and digital poster cases located in the highest-traffic areas featuring big, bold digital signage.
- Website and mobile advertising sales through cineplex.com, cineplexstore.com and the Cineplex mobile app.
- Magazine advertising through *Cineplex Magazine* and *Le magazine Cineplex*, which offer advertising opportunities in Canada's leading entertainment magazine.

Select Cineplex theatres offer the following media opportunities:

- Timeplay, a third-party app that allows Cineplex to sell media integrated into real-time content on the big screen, with movie-goers using the app to compete for prizes and receive special offers from Cineplex and advertisers.
- The Interactive Media Zone ("IMZ"), an interactive media experience allowing advertisers to engage and interact with Cineplex guests in high traffic lobby locations.

Cineplex's theatres also provide opportunities for advertisers' special media placements (including floor and door coverings, window clings, standees, banners, samplings, activations and lobby domination setups).

In addition to these individual offerings, Cineplex offers integrated solutions that can cross over some or all of the above mentioned platforms. Advertisers can utilize these forms of media individually or take advantage of an integrated advertising program spanning multiple platforms. In partnership with its digital commerce platforms, Cineplex offers online media packages that include page dominations, page skins, pre-roll and post-roll advertising; all with geo-targeting capabilities.

Cineplex's cinema media business is well positioned for continued growth and is the ideal channel for advertisers wanting to reach all demographics, especially the highly sought-after 17 to 25-year-old Canadian market.

Cineplex also generates revenues from the sale of sponsorship and advertising at eSports events and at *The Rec Room*.

Digital Place-Based Media

Cineplex's digital place-based media business incorporates digital signage networks on both the path to purchase (including shopping malls, office complexes and other path to purchase locations) and at the point of purchase (focusing on the quick-service restaurant, financial and retail sectors across North America).

Cineplex's advertising sales team combined with the project management, system design, network operations, and creative services teams within its digital place-based media business have Cineplex well positioned to expand its media reach throughout its current infrastructure as well as in numerous place-based advertising locations across the country. Cineplex believes that the strength of its digital place-based media assets will make it a leader in the indoor digital signage industry and provide a platform for significant growth throughout North America.

AMUSEMENT AND LEISURE

Amusement and leisure includes three primary areas of operations:

- Amusement solutions, comprised of P1AG which is one of the largest distributors and operators of amusement, gaming and vending equipment in North America;
- Location-based entertainment, which includes social entertainment destinations featuring gaming, entertainment and dining, including *The Rec Room, Playdium* and in the future, *Topgolf*; and
- eSports, which features an online video gaming network managed by WGN as well as offering eSports entertainment through a community that connects live online gaming with unique in-theatre tournament experiences in Cineplex theatres and *The Rec Room*.

Amusement Solutions

Cineplex's amusement solutions business generates revenues from the following activities in both Canada and the United States:

- Route operations: P1AG collects a revenue share on games revenues earned by P1AG-owned amusement and vending equipment placed into locations such as family entertainment centres, arcades, theatres, restaurants, bars and other locations.
- Third party equipment sales.
- Supplying self operated family entertainment centres.

In addition to expanding Cineplex's amusement and gaming presence outside of its theatres, the acquisition and expansion of P1AG allowed Cineplex to vertically integrate its gaming operations. Cineplex's in-theatre gaming business features Cineplex's 29 XSCAPE Entertainment Centres as well as arcade games in select Cineplex theatres, with all of the games supplied and serviced by P1AG.

Location-Based Entertainment

Cineplex operates location-based entertainment establishments under the brand names *The Rec Room* and *Playdium,* as well as other family entertainment centres.

The Rec Room is a social entertainment destination targeting millennials featuring a wide range of entertainment options including simulation, redemption and recreational gaming, and an auditorium-style live entertainment venue for watching a wide range of entertainment programming. These entertainment options are complemented with an upscale casual dining environment, featuring an open kitchen and contemporary menu, as well as a centre bar with a wide range of digital monitors and a large screen above the bar for watching sporting and other major events.

The Rec Room earns revenues from food and beverage service, from amusement, gaming and leisure attraction play, and from ticket sales for events held within the destination.

Cineplex has opened four locations of *The Rec Room* and has announced plans to open three additional locations in London, Ontario, Mississauga, Ontario, and Burnaby, British Columbia.

During the year, Cineplex announced its plans to relaunch the *Playdium* brand concept targeting families and teens in mid-sized communities across Canada, with its first planned in Whitby, Ontario to be completed in early 2019.

During the year, Cineplex announced an exclusive partnership with *Topgolf* to bring multiple *Topgolf* sports entertainment complexes to markets across Canada with the first location expected to be completed in 2019. *Topgolf* brings together people of all ages and skill levels for competitive play in the comfort of a climate-controlled sports and entertainment destination.

eSports

Cineplex offers the following eSports product sets through Worldgaming, Collegiate Starleague and the Canadian Championship Series:

- On-line video gaming tournaments platform and community for competitive gamers;
- Venue-based competitive tournaments; and
- Combined on-line and venue-based tournaments.

Revenues are generated through the sale of sponsorships and advertising relating to these eSports events, which are recorded as Media revenues, as well as through entry fees for select online video games and ticket sales for spectators of the in-theatre tournaments.

LOYALTY

Cineplex has a joint venture agreement with Scotiabank to operate the SCENE loyalty program, providing Cineplex with a more comprehensive understanding of the demographics and movie-going habits of its audience as well as new ways to engage its customers. Cineplex and Scotiabank each have a 50% interest in the program.

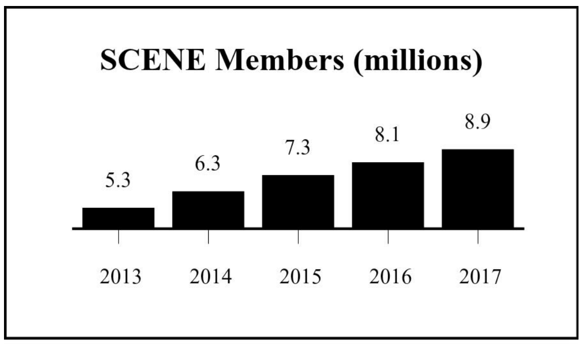
SCENE is a customer loyalty program designed to offer members discounts and the opportunity to earn and redeem SCENE points. SCENE members can earn and redeem SCENE points for purchases at Cineplex's theatres, at its location-based entertainment establishments, online at the Cineplex Store as well as at locations operated by select program partners and as part of the Cineplex Tuesdays program, receive 10% off all ticket prices on Tuesdays across the theatre circuit. SCENE is a key differentiator and source of competitive advantage for the Cineplex Store versus competitors for the in-home and on-the-go movie market.

The SCENE loyalty program has been well received as evidenced by the strong membership growth and high engagement and satisfaction levels of its program members. Membership in the SCENE loyalty program at

December 31, 2017 was approximately 8.9 million, an increase of approximately 0.8 million members during 2017. Through SCENE, Cineplex has gained a more thorough understanding of its customers, driven increased customer frequency, increased overall spending at its theatres and provides Cineplex with the ability to communicate directly and regularly with customers. Management believes the benefits of the program are reflected in box office and food service revenues.

The SCENE customer database has allowed Cineplex to segment SCENE's member population and provide special offers to Cineplex's guests, implement targeted marketing programs and deliver tailored messages to subsets of the membership base, providing members with relevant information and offers which in turn drive increased frequency of attendance and spend at the theatres. Cineplex continues to influence consumer behaviour through the use of SCENE bonus points and experience upgrades for SCENE members in its initiatives as well as in partnership with movie studios.

SCENE continues to build its strategic marketing partnerships with participating partners across Canada, providing promotions and offerings.



4. OVERVIEW OF OPERATIONS

Revenues

Cineplex generates revenues primarily from box office and food service sales. These revenues are affected primarily by attendance levels and by changes in BPP and CPP. Box office revenues represented 46.0% of revenues in 2017 and continues to represent Cineplex's largest revenue component.

Revenue mix % by year	2017	2016	2015	2014	2013
Box office (i)	**46.0%**	49.7%	53.3%	55.5%	57.6%
Food service	**28.4%**	28.7%	30.5%	30.4%	29.9%
Media	**11.1%**	11.6%	11.2%	10.9%	9.4%
Amusement (i)	**11.9%**	7.5%	2.2%	0.6%	0.6%
Other (i)	**2.6%**	2.5%	2.8%	2.6%	2.5%
Total	**100.0%**	100.0%	100.0%	100.0%	100.0%

(i) Prior period figures have been reclassified to conform to current period presentation. See Section 10, Seasonality and quarterly results for further details.

As at January 1, 2017, Cineplex has three reportable segments, film entertainment and content, media, and amusement and leisure. The reportable segments are business units offering differing products and services and managed separately due to their distinct natures. These three reportable segments have been determined by Cineplex's chief operating decision makers.

Revenue mix % by year	Year to date	
	2017	2016
Film Entertainment and Content	76.4%	81.4%
Media	10.7%	11.3%
Amusement and Leisure	12.9%	7.3%
Total	100.0%	100.0%

A key component of Cineplex's business strategy is to position itself as the leading exhibitor in the Canadian market by focusing on providing customers with an exceptional entertainment experience. Cineplex's share of the Canadian theatre exhibition market was approximately 77% based on Canadian industry box office revenues for the year ended December 31, 2017. As a result of Cineplex's focus on diversifying its business beyond the traditional film exhibition model, its revenue mix has shifted from box office revenue to other revenue sources.

The commercial appeal of the films and alternative content released during a given period, and the success of marketing as well as promotion for those films by film studios, distributors and content providers all drive attendance. BPP is affected by the mix of film and alternative content product that appeals to certain audiences (such as children or seniors who pay lower ticket prices), ticket prices during a given period and the appeal of premium priced product available. While BPP is negatively impacted by the SCENE loyalty program and the Cineplex Tuesdays program, these programs are designed to increase attendance frequency at Cineplex's theatres. Cineplex's main focus is to drive incremental visits to theatres, to employ a ticket price strategy which takes into account the local demographics at each individual theatre and to maximize BPP through premium offerings.

Food service revenues are comprised primarily of concession revenues, arising from food sales at theatre locations, as well as food and beverage sales at *The Rec Room*. CPP represents theatre food service revenues divided by theatre attendance, and is impacted by the theatre food service product mix, theatre food service prices, film genre, promotions and the issuance and redemption of SCENE points on the purchases of food and beverages at theatres. Films targeted to families and teenagers tend to result in a higher CPP and more adult-oriented product tends to result in a lower CPP. As a result, CPP can fluctuate from quarter to quarter depending on the genre of film product playing. The SCENE points issued and redeemed on theatre food service purchases decreases food service revenues on individual purchases. Cineplex believes the program drives incremental purchase incidence, increasing overall revenues. Cineplex focuses primarily on growing CPP by optimizing the product offerings, improving operational excellence and strategic pricing to increase purchase incidence and transaction value. Food service revenues from *The Rec Room* include food and beverage revenues from the various bars and restaurants located throughout the venues.

Media revenues include both cinema media and digital place-based media revenues. Cinema media generates revenues primarily from selling pre-show and Show-Time advertising in Cineplex's theatres as well as other circuits through representation sales agreements and magazine advertising for *Cineplex Magazine* and *Le Magazine Cineplex.* Additionally cinema media sells media placements throughout Cineplex's circuit including digital poster cases, the Interactive Media Zone in select Cineplex theatre lobbies, as well as sponsorship and advertising for eSports, events both in-theatre and online, and in *The Rec Room*. Cinema media also sells digital advertising for cineplex.com, the Cineplex mobile app and on third party networks operated by Cineplex Digital Media. Digital place-based media designs, installs, maintains and operates digital signage networks on both the path to purchase (in public spaces such as shopping malls and office towers) as well as at the point of purchase (with a focus on quick service restaurants, financial institutions and retailers).

Amusement revenues include amusement solutions revenues from P1AG, which supplies and services all of the games in Cineplex's theatre circuit while also supplying equipment to third party arcades, amusement parks and centres, bowling alleys and theatre circuits across Canada and the United States, in addition to owning and operating family entertainment centres, including *Playdium*. Additionally, included in amusement revenues are revenues generated by Cineplex's XSCAPE Entertainment Centres and game rooms in theatres as well as revenues generated at *The Rec Room*.

Cineplex generates other revenues from the Cineplex Store, promotional activities, screenings, private parties, corporate events, breakage on gift card sales and revenues from management fees.

Cost of Sales and Expenses

Film cost represents the film rental fees paid to distributors on films exhibited in Cineplex theatres. Film costs are calculated as a percentage of box office revenue and are dependent on various factors including the performance of the film. Film costs are accrued on the related box office receipts at either mutually agreed-upon terms established prior to the opening of the film, or estimated terms where a mutually agreed settlement is reached upon conclusion of the film's run, depending upon the film licensing arrangement. There can be significant variances in film cost percentage between quarters due to, among other things, the concentration of box office revenues amongst the top films in the period with stronger performing films having a higher film cost percentage.

Cost of food service represents the cost of concession items and other theatre food service items sold and varies with changes in concession and other theatre food service revenues as well as the quantity and mix of concession and other food service offerings sold. Cost of food and beverages sold at *The Rec Room* is also included in cost of food service.

Depreciation and amortization represents the depreciation and amortization of Cineplex's property, equipment and leaseholds, as well as certain of its intangible assets. Depreciation and amortization are calculated on a straight-line basis over the useful lives of the assets.

Loss on disposal of assets represents the loss recognized on assets or components of assets that were sold or otherwise disposed.

Other costs are comprised of theatre occupancy expenses, other operating expenses and general and administrative expenses. These categories are described below.

Theatre occupancy expenses include lease related expenses, property and business related taxes and insurance. Lease expenses are primarily a fixed cost at the theatre level because Cineplex's theatre leases generally require a fixed monthly minimum rent payment. However, a number of Cineplex's theatre leases also include a percentage rent clause whereby the landlord is paid an additional amount of rent based either in part or wholly upon box office revenues.

Other operating expenses consist of fixed and variable expenses, with the largest component being theatre salaries and wages. Although theatre salaries and wages include a fixed cost component, these expenses vary in relation to revenues as theatre staffing levels are adjusted to handle fluctuations in attendance. Other components of this category include marketing and advertising, media, amusement and leisure (including P1AG, *The Rec Room* and WGN), loyalty including SCENE, digital commerce, supplies and services, utilities and maintenance.

General and administrative expenses are primarily costs associated with managing Cineplex's business, including film buying, marketing and promotions, operations and theatre food service management, accounting and financial reporting, legal, treasury, design and construction, real estate development, communications and investor relations, information systems and administration. Included in these costs are payroll (including the long-term incentive plan ("LTIP") and Share option plan costs), occupancy costs related to Cineplex's corporate offices, professional fees (such as public accountant and legal fees) and travel and related costs. Cineplex maintains general and administrative staffing and associated costs at a level that it deems appropriate to manage and support the size and nature of its theatre portfolio and its business activities.

Accounting for Joint Arrangements

The financial statements incorporate the operating results of joint arrangements in which Cineplex has an interest using either the equity accounting method (for joint ventures) or recognizing Cineplex's share of the assets, liabilities, revenues and expenses in Cineplex's consolidated results (for joint operations), as required by GAAP.

Under IFRS 11, Cineplex's 50% share of one IMAX auditorium in Ontario, its 78.2% interest in the Canadian Digital Cinema Partnership ("CDCP") and 50% interest in YoYo's are classified as joint ventures. Through equity accounting, Cineplex's share of the results of operations for these joint ventures are reported as a single item in the statements of operations, 'Share of income of joint ventures'. Theatre attendance for the IMAX auditorium held in a joint venture is not reported in Cineplex's consolidated attendance as the line-by-line results of the joint venture are not included in the relevant lines in the statement of operations.

Under IFRS 11, Cineplex's 50% interest in SCENE LP is classified as a joint operation and Cineplex recognizes its share of the assets, liabilities, revenues and expenses of SCENE in its consolidated financial statements.

5. RESULTS OF OPERATIONS

5.1 SELECTED FINANCIAL DATA

The following table presents summarized financial data for Cineplex for the three most recently completed financial years (expressed in thousands of dollars except Shares outstanding, per Share data and per patron data, unless otherwise noted):

	Year ended December 31, 2017	Year ended December 31, 2016	Year ended December 31, 2015
Box office revenues (i)	$ 715,605	$ 734,193	$ 730,171
Food service revenues	441,876	423,920	418,445
Media revenues	171,874	170,792	153,646
Amusement revenues (i)	185,341	111,348	30,593
Other revenues (i)	40,371	38,073	38,088
Total revenues	1,555,067	1,478,326	1,370,943
Film cost	376,759	389,602	379,103
Cost of food service	99,438	96,059	90,530
Depreciation and amortization	119,916	105,941	89,339
Loss on disposal of assets	706	1,570	3,236
Other costs (a)	843,219	759,930	655,389
Costs of operations	1,440,038	1,353,102	1,217,597
Net income	$ 70,346	$ 77,991	$ 134,249
Adjusted EBITDA (ii)	$ 235,929	$ 234,009	$ 249,802
(a) Other costs include:			
Theatre occupancy expenses	207,022	204,633	203,356
Other operating expenses	569,406	487,108	383,281
General and administrative expenses	66,791	68,189	68,752
Total other costs	$ 843,219	$ 759,930	$ 655,389
EPS - basic	$ 1.11	$ 1.26	$ 2.13
EPS excluding non-recurring items - basic (ii)	$ 1.07	$ 1.26	$ 1.56
EPS - diluted	$ 1.11	$ 1.25	$ 2.12
EPS excluding non-recurring items - diluted (ii)	$ 1.07	$ 1.25	$ 1.55
Total assets	$ 1,855,168	$ 1,728,186	$ 1,701,917
Total long-term financial liabilities (iii)	$ 576,500	$ 407,500	$ 339,500
Shares outstanding at period end	63,330,446	63,515,875	63,370,059
Cash dividends declared per Share	$ 1.660	$ 1.600	$ 1.540
Adjusted free cash flow per Share (ii)	$ 2.373	$ 2.456	$ 2.492
Box office revenue per patron (i) (ii)	$ 10.17	$ 9.84	$ 9.48
Concession revenue per patron (ii)	$ 6.00	$ 5.65	$ 5.43
Film cost as a percentage of box office revenues (i)	52.6%	53.1%	51.9%
Attendance (in thousands of patrons) (ii)	70,394	74,594	77,023
Theatre locations (at period end)	163	165	162
Theatre screens (at period end)	1,676	1,683	1,655

(i) Prior period figures have been reclassified to conform to current period presentation. See Section 10, Seasonality and quarterly results for further details.

(ii) See Section 17, Non-GAAP measures, for the definitions of non-GAAP measures reported by Cineplex.

(iii) Comprised of the principal components of long-term debt and convertible debentures. Excludes Share-based compensation, fair value of interest rate swap agreements, financing lease obligations, post-employment benefit obligations, other liabilities and deferred financing fees net against long-term debt and convertible debentures.

5.2 OPERATING RESULTS FOR THE THREE MONTHS AND YEAR ENDED DECEMBER 31, 2017

Total revenues

Total revenues for the three months ended December 31, 2017 increased $40.9 million (10.6%) to $426.3 million as compared to the prior year period. Total revenues for the year ended December 31, 2017 increased $76.7 million (5.2%) to $1.6 billion as compared to the prior year. A discussion of the factors affecting the changes in box office, food service, media, amusement and other revenues for the two periods is provided below.

Non-GAAP measures discussed throughout this MD&A, including adjusted EBITDA, adjusted free cash flow, attendance, BPP, premium priced product, same theatre metrics, CPP, film cost percentage, theatre food service cost percentage and theatre concession margin per patron are defined and discussed in Section 17, Non-GAAP measures.

Box office revenues

The following table highlights the movement in box office revenues, attendance and BPP for the quarter and the full year (in thousands of dollars, except attendance reported in thousands of patrons and per patron amounts, unless otherwise noted):

Box office revenues	Fourth Quarter			Full Year		
	2017	2016	Change	2017	2016	Change
Box office revenues (i)	$ 185,048	$ 183,413	0.9%	$ 715,605	$ 734,193	-2.5%
Attendance (ii)	17,551	17,934	-2.1%	70,394	74,594	-5.6%
Box office revenue per patron (i) (ii)	$ 10.54	$ 10.23	3.0%	$ 10.17	$ 9.84	3.4%
BPP excluding premium priced product (ii)	$ 8.87	$ 8.56	3.6%	$ 8.61	$ 8.33	3.4%
Canadian industry revenues (iii)			3.5%			-0.6%
Same theatre box office revenues (i) (ii)	$ 184,617	$ 182,922	0.9%	$ 698,662	$ 725,047	-3.6%
Same theatre attendance (ii)	17,508	17,880	-2.1%	68,979	73,774	-6.5%
% Total box from premium priced product (i) (ii)	45.7%	49.7%	-4.0%	46.4%	47.7%	-1.3%

(i) Prior period figures have been reclassified to conform to current period presentation. See Section 10, Seasonality and quarterly results for further details.

(ii) See Section 17, Non-GAAP measures.

(iii) Source: The Movie Theatre Association of Canada industry data adjusted for calendar quarter and full year dates.

Box office continuity (i)	Fourth Quarter		Full Year	
	Box Office	Attendance	Box Office	Attendance
2016 as reported	$ 183,413	17,934	$ 734,193	74,594
Same theatre attendance change	(3,802)	(373)	(47,133)	(4,794)
Impact of same theatre BPP change	5,496	—	20,739	—
New and acquired theatres (ii)	37	3	8,741	728
Disposed and closed theatres (ii)	(96)	(13)	(935)	(134)
2017 as reported	$ 185,048	17,551	$ 715,605	70,394

(i) Prior period figures have been reclassified to conform to current period presentation. See Section 10, Seasonality and quarterly results for further details.

(ii) See Section 17, Non-GAAP measures. Represents theatres opened, acquired, disposed or closed subsequent to the start of the prior year comparative period.

Fourth Quarter

	Fourth Quarter 2017 Top Cineplex Films	3D	% Box		Fourth Quarter 2016 Top Cineplex Films	3D	% Box
1	Star Wars: The Last Jedi	✔	18.9%	1	Rogue One: A Star Wars Story	✔	16.1%
2	Thor: Ragnarok	✔	12.7%	2	Doctor Strange	✔	10.8%
3	Justice League	✔	7.3%	3	Fantastic Beasts and Where to Find Them	✔	9.3%
4	Blade Runner 2049	✔	5.7%	4	Moana	✔	5.6%
5	Jumanji: Welcome To The Jungle	✔	5.1%	5	Trolls	✔	4.5%

Box office revenues increased $1.6 million, or 0.9%, to $185.0 million during the fourth quarter of 2017, compared to $183.4 million recorded in the same period in 2016. This increase compared to the prior year is due to the higher BPP more than offsetting the impact of a 2.1% decrease in attendance.

BPP for the three months ended December 31, 2017 was $10.54, a $0.31 increase from the prior year period and an all-time quarterly record for Cineplex. The increase in BPP was due to price increases in selective markets as compared to the prior year period. While there was a greater concentration of 3D movies in the top five films in the current year, 3D accounted for a larger percentage of box office revenue outside of the top five movies in 2016.

Full Year

	Full Year 2017 Top Cineplex Films	3D	% Box		Full Year 2016 Top Cineplex Films	3D	% Box
1	Beauty and the Beast	✔	4.9%	1	Rogue One: A Star Wars Story	✔	4.0%
2	Star Wars: The Last Jedi	✔	4.9%	2	Deadpool		4.0%
3	Guardians Of The Galaxy Vol. 2	✔	4.0%	3	Finding Dory	✔	3.5%
4	Wonder Woman	✔	3.5%	4	Star Wars: The Force Awakens	✔	3.5%
5	Thor: Ragnarok	✔	3.3%	5	Captain America: Civil War	✔	3.4%

Box office revenues for the year ended December 31, 2017 were $715.6 million, a decrease of $18.6 million or 2.5% from the prior year. This was due to the 5.6% decrease in attendance, as a result of the weaker film slate in 2017 as compared to the prior year.

Cineplex's BPP for the year ended December 31, 2017 increased $0.33, or 3.4%, from $9.84 in 2016 to an annual record of $10.17 in 2017. This increase was primarily due to price increases in selective markets as compared to the prior year.

Food service revenues

The following table highlights the movement in food service revenues, attendance and CPP for the quarter and the full year (in thousands of dollars, except attendance and same store attendance reported in thousands of patrons and per patron amounts):

Food service revenues	Fourth Quarter			Full Year		
	2017	2016	Change	2017	2016	Change
Food service - theatres	$ 110,334	$ 103,128	7.0%	$ 422,312	$ 421,226	0.3%
Food service - *The Rec Room*	9,180	2,407	NM	19,564	2,694	NM
Total food service revenues	$ 119,514	$ 105,535	13.2%	$ 441,876	$ 423,920	4.2%
Attendance (i)	17,551	17,934	-2.1%	70,394	74,594	-5.6%
CPP (i)	$ 6.29	$ 5.75	9.4%	$ 6.00	$ 5.65	6.2%
Same theatre food service revenues (i)	$ 110,115	$ 102,892	7.0%	$ 411,638	$ 415,852	-1.0%
Same theatre attendance (i)	17,508	17,880	-2.1%	68,979	73,774	-6.5%

(i) See Section 17, Non-GAAP Measures.

Theatre food service revenue continuity	Fourth Quarter		Full Year	
	Theatre Food Service	Attendance	Theatre Food Service	Attendance
2016 as reported	$ 103,128	17,934	$ 421,226	74,594
Same theatre attendance change	(2,136)	(373)	(27,029)	(4,794)
Impact of same theatre CPP change	9,360	—	22,814	—
New and acquired theatres (i)	34	3	5,957	728
Disposed and closed theatres (i)	(52)	(13)	(656)	(134)
2017 as reported	$ 110,334	17,551	$ 422,312	70,394

(i) See Section 17, Non-GAAP measures. Represents theatres opened, acquired, disposed or closed subsequent to the start of the prior year comparative period.

Fourth Quarter

Food service revenues are comprised primarily of concession revenues, which includes food service sales at theatre locations. Food service revenues also include food and beverage sales at *The Rec Room*. Theatre food service revenues increased $7.2 million, or 7.0% as compared to the prior year period due to the 9.4% increase in CPP more than offsetting the impact of a 2.1% decrease in attendance. The operations of *The Rec Room* contributed $9.2 million in the period. These revenues are excluded from the CPP calculation.

CPP of $6.29 is an all-time quarterly record for Cineplex. Expanded offerings outside of core food service products, including offerings at Cineplex's VIP Cinemas and *Outtakes* locations, have contributed to increased visitation and higher average transaction values, resulting in the record CPP.

Full Year

Food service revenues increased $18.0 million, or 4.2% as compared to the prior year to a record $441.9 million due to the impact of the higher CPP more than offsetting the impact of the lower attendance and the impact of *The Rec Room*. CPP increased from $5.65 in 2016 to $6.00 in 2017, an annual record for Cineplex. The operations of *The Rec Room* contributed $19.6 million in the current year. These revenues are excluded from the CPP calculation.

While programs including SCENE points issued and redeemed on food services purchases reduce individual CPP, Cineplex believes that this loyalty program drives incremental visits and food service purchases, resulting in higher overall food service revenues.

Media revenues

The following table highlights the movement in media revenues for the quarter and the full year (in thousands of dollars):

Media revenues	Fourth Quarter			Full Year		
	2017	2016	Change	2017	2016	Change
Cinema media	$ 43,432	$ 37,065	17.2%	$ 116,397	$ 113,497	2.6%
Digital place-based media	18,087	15,655	15.5%	55,477	57,295	-3.2%
Total media revenues	$ 61,519	$ 52,720	16.7%	$ 171,874	$ 170,792	0.6%

Fourth Quarter

Total media revenues increased 16.7% to an all-time quarterly record of $61.5 million in the fourth quarter of 2017 compared to the prior year period. This increase was due to all-time quarterly records for both cinema media and digital place-based media revenues. Cinema media increased by $6.4 million, or 17.2% higher than the prior year period. This growth came from strong Show-Time results due to the high anticipation for *Star Wars: The Last Jedi*, particularly in the automotive industry.

Digital place-based media revenues increased $2.4 million due to an expansion of the client base resulting in increased project installation revenues, as well as advertising and other media revenue growth. During the quarter, digital placed-based media added 1,079 new locations for a total of 12,926 locations (an increase of 9.2% over the prior year). Cineplex also completed deployment of a digital display network at over a thousand Citizens Bank branches across the United States.

Full Year

Total media revenues increased $1.1 million, or 0.6%, in the year ended December 31, 2017 compared to the prior year. This increase was due to the record performance of Cinema media, which reported growth of $2.9 million (2.6%) compared to the prior year due primarily to strong Show-Time results in the automotive industry. Digital place-based media revenues decreased $1.8 million due to lower project revenues in 2017 compared to 2016, partially offset by higher advertising and service revenues on various networks including Ivanhoe and Oxford.

Amusement revenues

The following table highlights the movement in amusement revenues for the quarter and the full year (in thousands of dollars):

Amusement revenues (i)	Fourth Quarter			Full Year		
	2017	2016	Change	2017	2016	Change
Amusement - P1AG excluding Cineplex exhibition and *The Rec Room* (ii)	$ 39,925	$ 29,072	37.3%	$ 159,974	$ 98,597	62.3%
Amusement - Cineplex exhibition (ii)	2,562	2,502	2.4%	10,649	10,384	2.6%
Amusement - *The Rec Room*	6,813	2,163	NM	14,718	2,367	NM
Total amusement revenues	$ 49,300	$ 33,737	46.1%	$ 185,341	$ 111,348	66.5%

(i) Prior period figures have been reclassified to conform to current period presentation. See Section 10, Seasonality and quarterly results for further details.

(ii) Cineplex receives a venue revenue share on games revenues earned at in-theatre game rooms and XSCAPE Entertainment Centres. Amusement - Cineplex exhibition reports the total of this venue revenue share which is consistent with the historical presentation of Cineplex's amusement revenues. Amusement - P1AG excluding Cineplex exhibition and *The Rec Room* reflects P1AG's gross amusement revenues, net of the venue revenue share paid to Cineplex reflected in Amusement - Cineplex exhibition above.

Fourth Quarter

Amusement revenues increased 46.1%, or $15.6 million, to $49.3 million in the fourth quarter of 2017 compared to the prior year period. The increase was due to the acquisitions by P1AG and the increase to four operating locations of *The Rec Room* in the fourth quarter of 2017, compared to one location in the prior year period, resulting in a revenue increase of $4.7 million.

Full Year

For the full year period amusement revenues increased 66.5%, or $74.0 million to $185.3 million, primarily due to the acquisitions by P1AG in the current year and the increase in operating locations of *The Rec Room* which resulted in a revenue increase of $12.4 million.

Other revenues

The following table highlights the other revenues which includes revenues from the Cineplex Store, promotional activities, screenings, private parties, corporate events, breakage on gift card sales and revenues from management fees for the quarter and full year (in thousands of dollars):

Other revenues (i)	Fourth Quarter			Full Year		
	2017	2016	Change	2017	2016	Change
Other revenues	$ 10,912	$ 10,031	8.8%	$ 40,371	$ 38,073	6.0%

(i) Prior period figures have been reclassified to conform to current period presentation. See Section 10, Seasonality and quarterly results for further details.

Film cost

The following table highlights the movement in film cost and the film cost percentage for the quarter and the full year (in thousands of dollars, except film cost percentage):

Film cost	Fourth Quarter			Full Year		
	2017	2016	Change	2017	2016	Change
Film cost	$ 98,734	$ 96,068	2.8%	$ 376,759	$ 389,602	-3.3%
Film cost percentage (i) (ii)	53.4%	52.4%	1.0%	52.6%	53.1%	-0.5%

(i) See Section 17, Non-GAAP measures.

(ii) Prior period figures have been reclassified to conform to current period presentation. See Section 10, Seasonality and quarterly results for further details.

Fourth Quarter

Film cost varies primarily with box office revenues, and can vary from quarter to quarter usually based on the relative strength and concentration of the titles exhibited during the period. The 1.0% increase in film cost percentage in the current period is as a result of the concentration of box office results from a few titles, with the top five films in the current period accounting for 49.7% of box office revenues (2016 - top five represented 46.3%)

Full Year

The full year decrease in film cost expense was due a combination of the 0.5% decrease in the film cost percentage and the lower box office revenues in the current period compared to the prior year period. The decrease in film cost percentage is attributable to the top films in the current year having lower settlement rates compared to the prior year period.

Cost of food service

The following table highlights the movement in cost of food service for both theatres and *The Rec Room* for the quarter and the full year (in thousands of dollars, except percentages and margins per patron):

Cost of food service	Fourth Quarter			Full Year		
	2017	2016	Change	2017	2016	Change
Cost of food service - theatre	$ 24,328	$ 23,911	1.7%	$ 93,500	$ 95,114	-1.7%
Cost of food service - *The Rec Room*	2,607	875	NM	5,938	945	NM
Total cost of food service	$ 26,935	$ 24,786	8.7%	$ 99,438	$ 96,059	3.5%
Theatre concession cost percentage (i)	22.0%	23.2%	-1.2%	22.1%	22.6%	-0.5%
The Rec Room food cost percentage (i)	28.4%	36.4%	-8.0%	30.4%	35.1%	-4.7%
Theatre concession margin per patron (i)	$ 4.90	$ 4.42	10.9%	$ 4.67	$ 4.37	6.9%
(i) See Section 17, Non-GAAP measures.						

Fourth Quarter

Cost of food service at the theatres varies primarily with theatre attendance as well as the quantity and mix of offerings sold. Cost of food service at *The Rec Room* varies primarily with the volume of guests who visit the locations as well as the quantity and mix between food and beverage items sold.

The increase in the theatre cost of food service as compared to the prior year period was due to the higher food service revenues, partially offset by the 1.2% decrease in the concession cost percentage during the period.

The theatre concession margin per patron increased 10.9% from $4.42 in the fourth quarter of 2016 to $4.90 in the same period in 2017, reflecting the impact of the higher CPP during the period and the lower theatre concession cost percentage.

The increase in *The Rec Room* cost of food service as compared to the prior year period was due to the higher food service revenues as a result of the increase in operating locations. The decrease of 8.0% in *The Rec Room* food cost percentage during the quarter compared to the prior period was due to improved cost management as new locations opened.

Full Year

The decrease in the theatre cost of food service as compared to the prior year was due to the 0.5% decrease in the theatre concession cost percentage. The theatre concession margin per patron increased from $4.37 in the prior year to $4.67 in the current year, reflecting the impact of the higher CPP in the current year.

The increase in *The Rec Room* cost of food service as compared to the prior year was due to the higher food service revenues as a result of the increase in operating locations. The decrease of 4.7% for the food cost percentage regarding *The Rec Room* was due to improved cost management with the rollout of new locations.

Depreciation and amortization

The following table highlights the movement in depreciation and amortization expenses during the quarter and full year (in thousands of dollars):

Depreciation and amortization expenses	Fourth Quarter			Full Year		
	2017	2016	Change	2017	2016	Change
Depreciation of property, equipment and leaseholds	$ 27,456	$ 24,219	13.4%	$ 103,119	$ 91,047	13.3%
Amortization of intangible assets and other	3,934	4,035	-2.5%	16,797	14,894	12.8%
Depreciation and amortization expenses as reported	$ 31,390	$ 28,254	11.1%	$ 119,916	$ 105,941	13.2%

The quarterly and annual increase in depreciation of property, equipment and leaseholds of $3.2 million and $12.1 million, respectively, was primarily due to the investments in amusement and leisure businesses, including *The Rec Room* and the acquisitions of Tricorp, SAW and Dandy.

The quarterly and full year increase in amortization of intangible assets and other is primarily due to the acquisitions of Tricorp, SAW and Dandy customer relationships.

Loss on disposal of assets

The following table shows the movement in the loss on disposal of assets during the quarter and full year (in thousands of dollars):

Loss on disposal of assets	Fourth Quarter			Full Year		
	2017	2016	Change	2017	2016	Change
Loss on disposal of assets	$ 369	$ 168	119.6%	$ 706	$ 1,570	-55.0%

Other costs

Other costs include three main sub-categories of expenses, including theatre occupancy expenses, which capture the rent and associated occupancy costs for Cineplex's theatre operations; other operating expenses, which include the costs related to running Cineplex's film entertainment and content, media, amusement and leisure as well as Cineplex's ancillary businesses; and general and administrative expenses, which includes costs related to managing Cineplex's operations, including head office expenses. Please see the discussions below for more details on these categories. The following table highlights the movement in other costs for the quarter and full year (in thousands of dollars):

Other costs	Fourth Quarter			Full Year		
	2017	2016	Change	2017	2016	Change
Theatre occupancy expenses	$ 50,125	$ 49,581	1.1%	$ 207,022	$ 204,633	1.2%
Other operating expenses	155,096	134,683	15.2%	569,406	487,108	16.9%
General and administrative expenses	15,709	13,803	13.8%	66,791	68,189	-2.1%
Total other costs	$ 220,930	$ 198,067	11.5%	$ 843,219	$ 759,930	11.0%

Theatre occupancy expenses

The following table highlights the movement in theatre occupancy expenses for the quarter and full year (in thousands of dollars):

Theatre occupancy expenses	Fourth Quarter			Full Year		
	2017	2016	Change	2017	2016	Change
Rent	$ 34,799	$ 33,825	2.9%	$ 138,652	$ 136,393	1.7%
Other occupancy	16,541	16,540	—%	70,814	71,474	-0.9%
One-time items (i)	(1,215)	(784)	55.0%	(2,444)	(3,234)	-24.4%
Total	$ 50,125	$ 49,581	1.1%	$ 207,022	$ 204,633	1.2%

(i) One-time items include amounts related to both theatre rent and other theatre occupancy costs. They are isolated here to illustrate Cineplex's theatre rent and other theatre occupancy costs excluding these one-time, non-recurring items.

Theatre occupancy continuity	Fourth Quarter Occupancy	Full Year Occupancy
2016 as reported	$ 49,581	$ 204,633
Impact of new and acquired theatres	21	987
Impact of disposed theatres	(84)	(467)
Same store rent change (i)	1,012	2,088
One-time items	(432)	789
Other	27	(1,008)
2017 as reported	$ 50,125	$ 207,022

(i) See Section 17, Non-GAAP measures.

Fourth Quarter

Theatre occupancy expenses increased $0.5 million during the fourth quarter of 2017 compared to the prior year period. This increase was primarily due to higher same store rent expense ($1.0 million), offset by a decrease in one-time charges of $0.4 million.

Full Year

The increase in theatre occupancy expenses of $2.4 million for the 2017 compared the prior year was mainly due to the impact of the same store rent-change $2.1 million as compared to the prior year period.

Other operating expenses

The following table highlights the movement in other operating expenses during the quarter and the full year (in thousands of dollars):

Other operating expenses	Fourth Quarter			Full Year		
	2017	2016	Change	2017	2016	Change
Theatre payroll	$ 34,893	$ 35,768	-2.4%	$ 138,914	$ 143,197	-3.0%
Media	21,192	18,721	13.2%	72,985	69,120	5.6%
P1AG	36,174	26,644	35.8%	139,958	86,809	61.2%
The Rec Room (i)	10,896	2,976	NM	24,412	3,333	NM
Other	51,941	50,574	2.7%	193,137	184,649	4.6%
Other operating expenses	$ 155,096	$ 134,683	15.2%	$ 569,406	$ 487,108	16.9%

(i) Includes operating costs of *The Rec Room* locations. Pre-opening costs relating to *The Rec Room* locations and overhead relating to management of *The Rec Room* portfolio are included in the 'Other' line.

Other operating continuity	Fourth Quarter Other Operating	Full Year Other Operating
2016 as reported	$ 134,683	$ 487,108
Impact of new and acquired theatres	(26)	2,806
Impact of disposed theatres	(63)	(572)
Same theatre payroll change (i)	(839)	(5,652)
Marketing change	(114)	(4,192)
Media change	2,471	3,865
P1AG change	9,581	54,449
Amusement and leisure, excluding P1AG	7,765	27,207
Other	1,638	4,387
2017 as reported	$ 155,096	$ 569,406

(i) See Section 17, Non-GAAP measures.

Fourth Quarter

Other operating expenses during the fourth quarter of 2017 increased $20.4 million or 15.2% compared to the prior year period. The increase is primarily due to higher amusement and leisure costs, including higher P1AG costs due to the acquisitions of SAW and Dandy, which are not included in the prior year comparative, as well as costs relating to the *The Rec Room* (which only had one operating location in the prior year). Media costs were also higher due to the increased business volumes during the quarter. These increases were partially offset by proactive cost control measures resulting in a $0.8 million decline in same theatre payroll in response to the decline in attendance. Other costs include $0.8 million in pre-opening costs at *The Rec Room* and integration costs incurred by P1AG.

Full Year

For the year ended December 31, 2017, other operating expenses increased $82.3 million or 16.9% compared to the prior year. The increase is primarily due to higher amusement and leisure costs, including higher P1AG costs due to the acquisitions of Tricorp and SAW in the fourth quarter of 2016 and Dandy in the second quarter of 2017. Excluding P1AG, other operating expenses increased primarily due to operating expenses for *The Rec Room*, which had fewer operating locations in the prior year, and increases to media cost due to increased business volumes. These were partially offset by a $4.2 million decrease in marketing costs and a $5.7 million decrease in same theatre payroll due to proactive cost control measures put in place in response to the decline in attendance. Other costs include an increase of $7.6 million in pre-opening costs at *The Rec Room* and integration costs incurred by P1AG, to $9.9 million for the year.

General and administrative expenses

The following table highlights the movement in general and administrative ("G&A") expenses during the quarter and the full year, including Share based compensation costs, and G&A net of these costs (in thousands of dollars):

G&A expenses	Fourth Quarter			Full Year		
	2017	2016	Change	2017	2016	Change
G&A excluding LTIP and option plan expense	$ 14,729	$ 13,382	10.1%	$ 64,133	$ 58,217	10.2%
LTIP (i)	513	39	1215.4%	836	8,353	-90.0%
Option plan	467	382	22.3%	1,822	1,619	12.5%
G&A expenses as reported	$ 15,709	$ 13,803	13.8%	$ 66,791	$ 68,189	-2.1%

(i) LTIP includes the expense for the LTIP program as well as the expense for the executive and Board deferred share unit plans.

Fourth Quarter

G&A expenses increased $1.9 million during the fourth quarter of 2017 compared to the prior year period primarily due to higher head office payroll expenses.

Full Year

G&A expenses for 2017 decreased $1.4 million compared to the prior year, due to the $7.5 million decrease in LTIP expense as a result of Cineplex's lower Share price of $37.33 at December 31, 2017 compared to $51.22 at December 31, 2106 partially offset by non-recurring $1.6 million past-service costs associated with the supplemental executive retirement plan and higher head office payroll expenses.

Share of income of joint ventures

Cineplex's joint ventures in the 2017 periods include its 78.2% interest in CDCP, 50% interest in one IMAX screen in Ontario and 50% interest in YoYo's.

The following table highlights the components of share of income of joint ventures during the quarter and the full year (in thousands of dollars):

Share of income of joint ventures	Fourth Quarter			Full Year		
	2017	2016	Change	2017	2016	Change
Share of income of CDCP	$ (1,011)	$ (597)	69.3%	$ (3,480)	$ (2,542)	36.9%
Share of income of other joint ventures	99	(29)	-441.4%	(6)	(164)	-96.3%
Total income of joint ventures	$ (912)	$ (626)	45.7%	$ (3,486)	$ (2,706)	28.8%

Interest expense

Cineplex previously included foreign exchange gains and losses in interest expense. As of January 1, 2017, foreign exchange gains and losses are reported separately on the statements of operations. The prior year period figures have been reclassified to conform to current period presentation.

The following table highlights the movement in interest expense during the quarter and full year (in thousands of dollars):

Interest expense	Fourth Quarter			Full Year		
	2017	2016	Change	2017	2016	Change
Long-term debt interest expense	$ 4,432	$ 2,998	47.8%	$ 14,421	$ 10,099	42.8%
Convertible debenture interest expense	1,219	1,220	-0.1%	4,838	4,851	-0.3%
Finance lease interest expense	172	229	-24.9%	775	998	-22.3%
Sub-total - cash interest expense	$ 5,823	$ 4,447	30.9%	$ 20,034	$ 15,948	25.6%
Deferred financing fee accretion and other non-cash interest	164	174	-5.7%	638	635	0.5%
Convertible debenture accretion	565	531	6.4%	2,262	2,114	7.0%
Interest rate swap - non-cash	44	(528)	-108.3%	(200)	239	-183.7%
Sub-total - non-cash interest expense	773	177	336.7%	2,700	2,988	-9.6%
Total interest expense	$ 6,596	$ 4,624	42.6%	$ 22,734	$ 18,936	20.1%

Interest expense increased $2.0 million for the quarter and increased $3.8 million for the full year compared to the prior year periods. For both the fourth quarter and the full year, cash interest is higher due to higher average borrowings on Cineplex's Revolving Facility (See section 7.4, Credit Facilities) which was used to fund acquisitions by P1AG, new build capital expenditures including *The Rec Room* and recliner seating conversions and the NCIB.

Non-cash interest increased $0.6 million in the quarter due to lower interest rate swap rates compared to the prior period. Non-cash interest decreased $0.3 million compared to the prior year due to higher interest rate swap rates.

Interest income

Interest income during the fourth quarter and the full year was as follows (in thousands of dollars):

Interest income	Fourth Quarter			Full Year		
	2017	2016	Change	2017	2016	Change
Interest income	$ 59	$ 40	47.5%	$ 222	$ 204	8.8%

Foreign exchange

The following table highlights the movement in foreign exchange during the quarter and the full year (in thousands of dollars):

Foreign exchange	Fourth Quarter			Full Year		
	2017	2016	Change	2017	2016	Change
Foreign exchange (gain) loss	(47)	$ (104)	NM	810	$ (120)	NM

Loss (Gain) in fair value of financial instruments

The following table highlights the movement in change in fair value of financial instruments during the quarter and full year (in thousands of dollars):

Loss (Gain) in fair value of financial instruments	Fourth Quarter			Full Year		
	2017	2016	Change	2017	2016	Change
Loss (Gain) in fair value of financial instruments	$ 94	$ —	NM	$ (2,643)	$ —	NM

The gain on change in fair value of financial instrument is due to the revaluation of certain financial assets and liabilities during the year.

At March 31, 2017, the WGN put option liability, which had been included in accounts payable and accrued liabilities, was reduced from $5.0 million to $4.0 million, resulting in a $987 thousand change in fair value of financial instrument. On April 13, 2017, Cineplex acquired the remaining interest in WGN and settled the put liability for $4.0 million in cash.

Income taxes

The following table highlights the movement in current and deferred income tax expense during the quarter and the full year (in thousands of dollars):

Income taxes	Fourth Quarter			Full Year		
	2017	2016	Change	2017	2016	Change
Current income tax expense	$ 13,246	$ 8,378	58.1%	$ 26,626	$ 26,231	1.5%
Deferred income tax expense	$ 232	$ 2,533	NM	$ 864	$ 5,096	NM
Provision for income taxes	$ 13,478	$ 10,911	23.5%	$ 27,490	$ 31,327	-12.2%

Income tax expense is higher in the quarter due to stronger operating results as compared to the prior year period.

Income tax expense is lower in the year due to the increased costs resulting from Cineplex's diversification strategy leading to weaker operating results during the year resulting in lower taxable income and related tax expense.

Cineplex's combined statutory income tax rate at December 31, 2017 was 26.8% (2016 - 26.8%).

Net income

Net income during the fourth quarter of 2017 and the year ended December 31, 2017 was as follows (in thousands of dollars):

Net income	Fourth Quarter			Full Year		
	2017	2016	Change	2017	2016	Change
Net income	$ 28,786	$ 23,328	23.4%	$ 70,346	$ 77,991	-9.8%

5.3 EARNINGS BEFORE INTEREST, INCOME TAXES, DEPRECIATION AND AMORTIZATION ("EBITDA") (see Section 17, Non-GAAP measures)

The following table presents EBITDA and adjusted EBITDA for the three months and year ended December 31, 2017 as compared to the prior year periods (expressed in thousands of dollars, except adjusted EBITDA margin):

EBITDA	Fourth Quarter			Full Year		
	2017	2016	Change	2017	2016	Change
EBITDA (i)	$ 80,191	$ 67,077	19.6%	$240,264	$233,991	2.7%
Adjusted EBITDA	$ 79,614	$ 66,841	19.1%	$235,929	$234,009	0.8%
Adjusted EBITDA margin	18.7%	17.3%	1.4%	15.2%	15.8%	-0.6%
(i) Prior period figures have been reclassified to conform to current period presentation. See section 5.2, Interest Expense.						

Adjusted EBITDA for the fourth quarter of 2017 increased $12.8 million, or 19.1%, as compared to the prior year period, to $79.6 million. This increase as compared to the prior year period was due primarily to growth in the amusement and leisure businesses, higher contribution from media due to record media sales volumes and from the increase in theatre food service revenues as a result of the record CPP. Adjusted EBITDA margin, calculated as adjusted EBITDA divided by total revenues, was 18.7% in the current period, an increase of 1.4% from 17.3% in the prior year period.

Adjusted EBITDA for the year ended December 31, 2017 increased $1.9 million, or 0.8%, to $235.9 million as compared to $234.0 million primarily due to the growth in the amusement and leisure businesses which was partially offset by the decrease in box office revenues as a result of the lower attendance partially due to the weaker film product in the current year. Adjusted EBITDA margin was 15.2% in 2017 compared to 15.8% in 2016 due to the integration costs of the P1AG acquisitions and pre-opening costs of *The Rec Room*.

6. BALANCE SHEETS

The following sets out significant changes to Cineplex's consolidated balance sheets during the year ended December 31, 2017 as compared to December 31, 2016 (in thousands of dollars):

	December 31, 2017	December 31, 2016	Change ($)	Change (%)
Assets				
Current assets				
Cash and cash equivalents	$ 40,597	$ 33,553	$ 7,044	21.0%
Trade and other receivables	160,938	115,903	45,035	38.9%
Income taxes receivable	1,344	463	881	NM
Inventories	28,966	21,412	7,554	35.3%
Prepaid expenses and other current assets	13,013	10,856	2,157	19.9%
Fair value of interest rate swap agreements	314	—	314	NM
	245,172	182,187	62,985	34.6%
Non-current assets				
Property, equipment and leaseholds	628,129	564,879	63,250	11.2%
Deferred income taxes	7,134	5,891	1,243	21.1%
Fair value of interest rate swap agreements	3,880	756	3,124	NM
Interests in joint ventures	35,353	35,487	(134)	-0.4%
Intangible assets	119,011	125,492	(6,481)	-5.2%
Goodwill	816,489	813,494	2,995	0.4%
	$ 1,855,168	$ 1,728,186	$ 126,982	7.3%
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	$ 189,929	$ 204,725	$ (14,796)	-7.2%
Share-based compensation	4,732	8,958	(4,226)	-47.2%
Dividends payable	8,866	8,575	291	3.4%
Income taxes payable	9,157	2,042	7,115	NM
Deferred revenue	192,808	172,140	20,668	12.0%
Finance lease obligations	3,420	3,180	240	7.5%
Fair value of interest rate swap agreements	1,332	2,419	(1,087)	-44.9%
Convertible Debentures	105,080	—	105,080	NM
	515,324	402,039	113,285	28.2%
Non-current liabilities				
Share-based compensation	13,816	18,346	(4,530)	-24.7%
Long-term debt	466,891	297,496	169,395	56.9%
Fair value of interest rate swap agreements	—	2,020	(2,020)	-100.0%
Finance lease obligations	5,451	8,871	(3,420)	-38.6%
Post-employment benefit obligations	9,227	7,932	1,295	16.3%
Other liabilities	117,589	125,560	(7,971)	-6.3%
Deferred income taxes	15,094	11,210	3,884	34.6%
Convertible debentures	—	102,817	(102,817)	-100.0%
	1,143,392	976,291	167,101	17.1%
Total equity attributable to owners of Cineplex	711,776	749,095	(37,319)	-5.0%
Non-controlling interests	—	2,800	(2,800)	-100.0%
	$ 1,855,168	$ 1,728,186	$ 126,982	7.3%

Trade and other receivables. The increase in trade and other receivables is primarily due to the higher sales of gift cards and vouchers, as well as media sales during the 2017 holiday period. December represents the highest volume month for gift card and voucher sales and was a strong month for media sales.

Inventories. The increase in inventories is primarily due to higher amusement solutions inventories due to expanded operations in these businesses in 2017 as compared to the prior year.

Property, equipment and leaseholds. The increase in property, equipment and leaseholds is due to new build and other capital expenditures ($131.8 million), maintenance capital expenditures ($30.5 million) and assets acquired through business acquisitions ($7.2 million) offset by amortization expenses ($103.1 million) and asset dispositions ($3.1 million).

Intangible assets. The decrease in intangible assets is primarily due to the amortization of intangible assets with finite lives, offset by the recognition of the fair value of customer relationships acquired on the acquisition of Dandy and SAW and the capitalization of costs associated with internally generated software.

Goodwill. Goodwill increased with the adjustment of the fair values of assets from the acquisition of Tricorp.

Accounts payable and accrued liabilities. The decrease in accounts payable and accrued liabilities primarily relates to the settlement of the EK3 deferred consideration and WGN put option.

Income taxes payable. The increase in income taxes payable reflects the impact of lower tax installment payments in 2017 compared to 2016.

Deferred revenue. Deferred revenue increased primarily due to the sale of gift cards and vouchers during the 2017 holiday season.

Fair value of interest rate swap agreements. Represent the fair values of Cineplex's outstanding interest rate swap agreements. See Section 7.4, Credit Facilities, for more details.

Convertible debentures. The increase is due to the accretion of the deferred financing fees relating to the issuance of the convertible debentures. The convertible debentures are recorded as current liabilities at December 31, 2017 as the maturity date of the debentures is December 31, 2018.

Long-term debt. The increase in long-term debt relates to borrowings under the Revolving Facility (defined and discussed in Section 7.4, Credit Facilities) to fund the acquisitions of Dandy and Tricorp, the EK3 deferred consideration, the WGN put option, the recliner conversion program and capital expenditures related to Cineplex's ongoing diversification strategy in 2017.

Finance lease obligations. The decrease in finance lease obligations represents the payment of principal in the year.

Other liabilities. The decrease is primarily due to the amortization of lease-related liabilities.

7. LIQUIDITY AND CAPITAL RESOURCES

7.1 OPERATING ACTIVITIES

Cash flow is generated primarily from film entertainment (the sale of admission tickets and food service sales), media sales and services, amusement and leisure (amusement and food service sales) and other revenues. Generally, this provides Cineplex with positive working capital, since certain cash revenues are normally collected in advance of the payment of certain expenses. Box office revenues are directly related to the success and appeal of the film product produced and distributed by the studios. The following table highlights the movements in cash from operating activities for the three months and year ended December 31, 2017 and 2016 (in thousands of dollars):

Net cash provided by operating activities	**Fourth Quarter**			**Full Year**		
	2017	**2016**	**Change**	**2017**	**2016**	**Change**
Net income	$ 28,786	$ 23,328	$ 5,458	$ 70,346	$ 77,991	$ (7,645)
Adjustments to reconcile net income to net cash provided by operating activities:						
Non-cash amortization amounts (i)	28,693	24,784	3,909	110,160	95,730	14,430
Loss on disposal of assets	369	168	201	706	1,570	(864)
Deferred income taxes	232	2,533	(2,301)	864	5,096	(4,232)
Interest rate swap agreements - non-cash interest	44	(528)	572	(200)	239	(439)
Non-cash Share-based compensation	467	381	86	1,822	1,618	204
Change in fair value of financial instrument	94	—	94	(2,643)	—	(2,643)
Accretion of convertible debentures	566	531	35	2,263	2,114	149
Net change in interests in joint ventures	(1,419)	(1,403)	(16)	(4,031)	(3,254)	(777)
Tenant inducements	682	1,235	(553)	3,674	4,920	(1,246)
Changes in operating assets and liabilities	60,319	80,385	(20,066)	(28,609)	(20,010)	(8,599)
Net cash provided by operating activities	**$ 118,833**	**$ 131,414**	**$ (12,581)**	**$ 154,352**	**$ 166,014**	**$ (11,662)**

(i) Includes amortization of property, equipment and leaseholds and intangible assets, amortization of tenant inducements and rent averaging liabilities, and accretion of debt issuance and other non-cash interest costs.

Fourth Quarter

Cash provided by operating activities decreased $12.6 million in the fourth quarter of 2017 compared to the prior year period. Higher food service, media and amusement revenues in the current period contributed to higher net income however they were more than offset by the impact of changes in operating assets and liabilities primarily due to timing of the settlement of liabilities and the collection of receivables.

Full Year

For the year ended December 31, 2017, cash provided by operating activities decreased $11.7 million compared to the prior year, due to the weaker results as well as the impact of changes in operating assets and liabilities primarily due to the timing of the settlement of liabilities and the collection of receivables.

7.2 INVESTING ACTIVITIES

The following table highlights the movements in cash used in investing activities for the three months and year ended December 31, 2017 and 2016 (in thousands of dollars):

Net cash used in investing activities	Fourth Quarter			Full Year		
	2017	2016	Change	2017	2016	Change
Proceeds from sale of assets	$ 2,666	$ —	$ 2,666	$ 2,976	$ 108	$ 2,868
Purchases of property, equipment and leaseholds	(46,871)	(27,864)	(19,007)	(170,511)	(104,189)	(66,322)
Acquisition of businesses, net of cash acquired	—	(31,675)	31,675	(30,422)	(32,082)	1,660
Intangible assets additions	(2,013)	(1,321)	(692)	(5,755)	(1,931)	(3,824)
Net cash received from joint ventures	550	684	(134)	4,165	3,054	1,111
Net cash used in investing activities	**$ (45,668)**	**$ (60,176)**	**$ 14,508**	**$(199,547)**	**$(135,040)**	**$ (64,507)**

Fourth Quarter

Cash used in investing activities during the fourth quarter of 2017 decreased by $14.5 million compared to the prior year period. The decrease was primarily due to the acquisition of Tricorp and SAW which took place in the fourth quarter in 2016 partially offset by an increase in purchases of property, equipment and leaseholds due to ongoing expenditures on new *The Rec Room* locations, recliner seating conversions and theatre construction in the current period.

Full Year

For the full year, cash used in investing activities was $64.5 million higher than the prior year period. The variance was primarily due to increased spending on the construction of *The Rec Room* locations, recliner seating conversions and theatre construction. Acquisitions in the year included Dandy for net $13.2 million, the non-controlling interest of WGN for $4.0 million, the $10.0 million deferred consideration payment for EK3, and $3.1 million for Tricorp.

Components of capital expenditures include (in thousands of dollars):

Capital expenditures	Fourth Quarter			Full Year		
	2017	2016	Change	2017	2016	Change
Gross capital expenditures	$ 46,871	$ 27,864	$ 19,007	$ 170,511	$ 104,189	$ 66,322
Less: tenant inducements	(682)	(1,235)	553	(3,674)	(4,920)	1,246
Net capital expenditures	$ 46,189	$ 26,629	$ 19,560	$ 166,837	$ 99,269	$ 67,568
Net capital expenditures consists of:						
Growth and acquisition capital expenditures (i)	$ 17,564	$ 518	$ 17,046	$ 78,732	$ 52,418	$ 26,314
Tenant inducements	(682)	(1,235)	553	(3,674)	(4,920)	1,246
Media growth capital expenditures	1,627	2,296	(669)	6,054	4,178	1,876
Premium formats (ii)	9,771	7,601	2,170	39,935	11,790	28,145
Amusement and leisure growth capital expenditures (excluding *The Rec Room* build expenditures)	6,169	740	5,429	11,486	6,582	4,904
Maintenance capital expenditures	6,652	11,384	(4,732)	30,498	27,163	3,335
Other (iii)	5,088	5,325	(237)	3,806	2,058	1,748
	$ 46,189	$ 26,629	$ 19,560	$ 166,837	$ 99,269	$ 67,568

(i) Growth and acquisition capital expenditures include expenditures on the construction of new theatre buildings (including VIP auditoriums) and other Board approved projects including *The Rec Room* build expenditures with the exception of premium formats (discussed below), media growth capital expenditures and amusement and leisure capital expenditures.

(ii) Premium formats include capital expenditures for IMAX, UltraAVX, 3D and recliner seating upgrades.

(iii) Primary component of Other is the impact of the timing of cash payments relating to the purchases of property, equipment and leaseholds.

7.3 FINANCING ACTIVITIES

The following table highlights the movements in cash from financing activities for the three months and year ended December 31, 2017 and 2016 (in thousands of dollars):

Net cash used in (provided by) financing activities	Fourth Quarter			Full Year		
	2017	2016	Change	2017	2016	Change
Dividends paid	$ (26,613)	$ (25,715)	$ (898)	$(105,067)	$(101,197)	$ (3,870)
(Repayments) borrowings under credit facilities, net	(22,000)	(35,000)	13,000	169,000	72,634	96,366
Payments under finance leases	(817)	(760)	(57)	(3,180)	(2,957)	(223)
Deferred financing fees	—	—	—	(183)	(1,426)	1,243
Shares repurchased and canceled	(2,031)	—	(2,031)	(8,038)	—	(8,038)
Net cash used in (provided by) financing activities	**$ (51,461)**	**$ (61,475)**	**$ 10,014**	**$ 52,532**	**$ (32,946)**	**$ 85,478**

Fourth Quarter

Cash flows used in financing activities were $51.5 million in the fourth quarter of 2017, a decrease of $10.0 million from the prior year period, with the movement primarily due to lower repayments under the Credit Facilities in the current period compared to the prior year.

Full Year

Cash flows provided by financing activities were $52.5 million in 2017, an increase from $32.9 million used in financing activities from the prior year, with the movement due to increased net borrowings in 2017 to fund acquisitions and growth initiatives.

Cineplex believes that it will be able to meet its future cash obligations with its cash and cash equivalents, cash flows from operations and funds available under the Credit Facilities as described in Section 7.4, Credit Facilities.

7.4 CREDIT FACILITIES

Cineplex entered into certain credit facilities effective May 2, 2016 (the "Credit Facilities"). At December 31, 2017, the Credit Facilities consisted of the following (in millions of dollars):

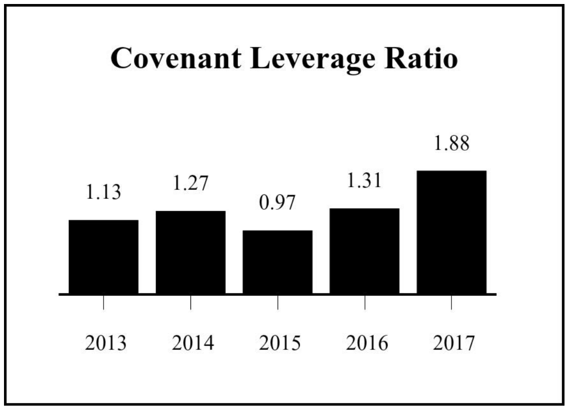
		Available	Drawn	Reserved	Remaining
(i)	a five-year senior secured revolving credit facility ("Revolving Facility")	$ 475.0	$ 319.0	$ 7.0	$ 149.0
(ii)	a five-year senior secured non-revolving term facility ("Term Facility")	$ 150.0	$ 150.0	$ —	$ —
Letters of credit outstanding at December 31, 2017 of $7.0 million are reserved against the Revolving Facility.					

The Revolving Facility included provisions to increase the commitment amount by an additional $150.0 million with the consent of the lenders. During the third quarter of 2017, Cineplex increased the Revolving Facility under these provisions by $75 million with a further $75 million available.

The Credit Facilities bear interest at a floating rate based on the Canadian dollar prime rate, or bankers' acceptances rates plus, in each case, an applicable margin to those rates. The facilities mature in April 2021 and are payable in full at maturity, with no scheduled repayment of principal required prior to maturity.

Cineplex's Credit Facilities contain restrictive covenants that limit the discretion of Cineplex's management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of Cineplex to create liens or other encumbrances, to pay dividends or make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity. The Credit Facilities are secured by all of Cineplex's assets.

One of the key financial covenants in the Credit Facilities is the leverage covenant. As at December 31, 2017, Cineplex's leverage ratio as calculated in accordance with the Credit Facilities definition was 1.88x, as compared to a covenant of 3.50x. The definition of debt in the Credit Facilities includes long-term debt (excluding any convertible debentures), financing leases and letters of credit but does not include a reduction for cash on hand. For the purposes of the Credit Facilities definition, EBITDA is adjusted for certain non-cash, non-recurring items and the annualized impact of new operating locations or acquisitions.



Cineplex believes that the Credit Facilities and ongoing cash flow from operations, will be sufficient to allow it to meet ongoing requirements for capital expenditures, investments in working capital and dividend payments. However, Cineplex's needs may change and in such event Cineplex's ability to satisfy its obligations will be dependent upon future financial performance, which in turn will be subject to financial, tax, business and other factors, including elements beyond Cineplex's control.

Interest rate swap agreements. During the third quarter of 2011, Cineplex entered into three interest rate swap agreements. Under these agreements, Cineplex paid a fixed rate of 1.715% per annum, plus an applicable margin and received a floating rate of interest equal to the three-month Canadian deposit offering rate set quarterly in advance, with net settlements quarterly. These interest rate swap agreements had a term of five years that commenced in August 2011 and had an aggregate notional principal amount of $150.0 million. The last settlements under these agreements occurred on September 28, 2016.

During the first quarter of 2014, Cineplex entered into three interest rate swap agreements which commenced in August 2016 for an aggregate notional principal amount of $150.0 million and mature on October 24, 2018, the maturity of the Credit Facilities at that time. Under these agreements, Cineplex pays a fixed rate of 2.62% per annum, plus an applicable margin and receives a floating rate of interest equal to the three-month Canadian deposit offering rate set quarterly in advance, with net settlements quarterly.

During the second quarter of 2016, Cineplex entered into three interest rate swap agreements which commenced April 26, 2016 for an aggregate notional principal amount of $50.0 million, and mature on October 24, 2018. Under these agreements, Cineplex pays a fixed rate of 1.07% per annum, plus an applicable margin, and receives a floating rate of interest equal to the three-month Canadian deposit offering rate set quarterly in advance, with net settlements quarterly.

Also during the second quarter of 2016, Cineplex entered into three interest rate swap agreements which commence on October 24, 2018 for an aggregate notional principal amount of $200.0 million and mature on April 26, 2021, the same date as the maturity of the Credit Facilities. Under these agreements, Cineplex pays a fixed rate of 1.484% per annum, plus an applicable margin, and receives a floating rate of interest equal to the three-month Canadian deposit offering rate set quarterly in advance, with net settlements quarterly.

The purpose of the interest rate swap agreements is to act as a cash flow hedge of the floating interest rate payable on Cineplex's first $200.0 million of borrowings. Cineplex considered its hedging relationships and determined that the interest rate swap agreements on its first $200.0 million of borrowings qualify for hedge accounting in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*. Under the provisions of IAS 39, the interest rate swap agreements are recorded on the balance sheet at their fair values, with subsequent changes in fair value recorded in either net income or other comprehensive income.

Based on the leverage ratio covenant at December 31, 2017, Cineplex's effective cost of borrowing on its first $200.0 million of borrowings was 3.7825% (December 31, 2016 - 3.6325%).

7.5 FUTURE OBLIGATIONS

At December 31, 2017, Cineplex had the following contractual or other commitments authorized by the Board (expressed in thousands of dollars):

	Payments due by period				
Contractual obligations	**Total**	**Within 1 year**	**2-3 years**	**4-5 years**	**After 5 years**
Long-term debt	469,000	—	—	469,000	—
Convertible debentures	107,500	107,500	—	—	
Interest rate swap agreements	(3,063)	1,052	(3,228)	(887)	—
Construction - Theatre and *The Rec Room*	150,462	61,126	67,509	21,827	—
Deferred consideration - AMC	3,134	—	3,134	—	—
Equipment obligations	8,268	2,102	4,004	1,987	175
Finance lease obligations	9,748	3,955	5,793	—	—
Operating lease obligations	1,200,461	159,452	286,288	229,672	525,049
Total contractual obligations	**$ 1,945,510**	**$ 335,187**	**$ 363,500**	**$ 721,599**	**$ 525,224**

Cineplex has aggregate gross capital commitments of $150.5 million ($124.7 million net of tenant inducements) related to the completion of construction of 20 operating locations, including both theatres and location based entertainment locations, over the next four years.

Cineplex conducts a significant part of its operations in leased premises. Cineplex's leases generally provide for minimum rent and a number of the leases also include percentage rent based primarily upon sales volume. Cineplex's leases may also include escalation clauses, guarantees and certain other restrictions, and generally require it to pay a portion of the real estate taxes and other property operating expenses. Initial lease terms generally range from 15 to 20 years and contain various renewal options, generally in intervals of five to ten years.

Cineplex is a guarantor under the leases for the remainder of the lease term for certain theatres that it has sold, in the event that the purchaser of each theatre does not fulfill its obligations under the respective lease. Should the purchasers of the theatres fail to fulfill their lease commitment obligations, Cineplex could face a substantial financial burden, which could be mitigated by Cineplex operating any theatres under default. Cineplex guarantees certain advertising revenues based on attendance levels for a majority of the theatres disposed to third parties. No amounts have been provided in the consolidated financial statements for guarantees for which Cineplex has not been notified of triggering events.

At December 31, 2017, Cineplex had $107.5 million principal amount of convertible debentures outstanding that have a maturity date of December 31, 2018. At December 31, 2017, the convertible debentures were recorded on Cineplex's balance sheet at $105.1 million. The convertible debentures are being accreted to their maturity value using the effective interest method as prescribed by IAS 39, *Financial Instruments: Recognition and Measurement*. On or after December 31, 2017, the convertible debentures may be redeemed in whole or in part from time to time at the option of Cineplex at a price equal to their principal amount plus accrued and unpaid interest. Redemptions may be in cash or in the form of Shares, at the option of Cineplex. See Section 8, Share activity, for more information regarding the convertible debentures.

8. ADJUSTED FREE CASH FLOW AND DIVIDENDS (see Section 17, Non-GAAP measures)

Cineplex's dividend policy is subject to the discretion of the Board and may vary depending on, among other things, Cineplex's results of operations, cash requirements, financial condition, contractual restrictions, business opportunities, provisions of applicable law and other factors that the Board may deem relevant. It is anticipated that Cineplex will pay a monthly dividend, subject to the discretion of the Board, at an annualized rate in the range between 60% and 85% of adjusted free cash flow per Share. Cineplex hereby currently designates all dividends paid or deemed to be paid as "eligible dividends" for purposes of subsection 89(14) of the *Income Tax Act* (Canada) and similar provincial and territorial legislation, unless indicated otherwise.

Effective for the May 2017 dividend, which was paid in June 2017, the Board approved a dividend increase to $0.140 per month per Share ($1.68 on an annual basis).

8.1 ADJUSTED FREE CASH FLOW

Cineplex distributes cash to its shareholders on a monthly basis. The following table illustrates adjusted free cash flow per Share, dividends paid per Share, and the payout ratio of dividends relative to adjusted free cash flow for the three months and year ended December 31, 2017 and 2016:

Adjusted free cash flow	Fourth Quarter			Full Year		
	2017	2016	Change	2017	2016	Change
Adjusted free cash flow per Share	$ 0.810	$ 0.621	30.4%	$ 2.373	$ 2.456	-3.4%
Dividends declared per Share	$ 0.420	$ 0.405	3.7%	$ 1.660	$ 1.600	3.8%
Payout ratio - year ended December 31				70.0%	65.1%	4.9%

Adjusted free cash flow per Share for the fourth quarter of 2017 increased 30.4% due primarily to the strong media and theatre food service results in the current period compared to the prior year. For 2017, adjusted free cash flow per Share decreased 3.4% as compared to the prior year due to the weaker film exhibition and content results.

Measures relevant to the discussion of adjusted free cash flow per Share are as follows (expressed in thousands of dollars except Shares outstanding):

	Fourth Quarter			Full Year		
	2017	2016	Change	2017	2016	Change
Cash flows provided by operations	$ 118,833	$ 131,414	-9.6%	$ 154,352	$ 166,014	-7.0%
Net income	$ 28,786	$ 23,328	23.4%	$ 70,346	$ 77,991	-9.8%
Standardized free cash flow	$ 74,628	$ 103,550	-27.9%	$ (13,183)	$ 61,933	-121.3%
Adjusted free cash flow	$ 51,339	$ 39,437	30.2%	$ 150,597	$ 155,860	-3.4%
Cash dividends declared	26,604	$ 25,719	3.4%	$ 105,358	$ 101,534	3.8%
Average number of Shares outstanding	63,350,216	63,495,944	-0.2%	63,473,583	63,451,257	—%

8.2 DIVIDENDS

Subject to the discretion of the Board, dividends are typically declared on a monthly basis to common shareholders of record on the last business day of each month. For the three months and year ended December 31, 2017, Cineplex declared dividends totaling $0.420 per Share and $1.660 per Share, respectively. For the three months and year ended December 31, 2016, Cineplex declared dividends totaling $0.405 per Share and $1.600 per Share, respectively.

The following table outlines Cineplex's distribution and dividend history:

Distribution and dividend history	
Effective Date	**Monthly Distribution/Dividend per Unit/Share**
January 2004 (i)	$0.0958
May 2007	$0.1000
May 2008	$0.1050
May 2011	$0.1075
May 2012	$0.1125
May 2013	$0.1200
May 2014	$0.1250
May 2015	$0.1300
May 2016	$0.1350
May 2017	$0.1400

(i) Cineplex Galaxy Income Fund, the predecessor to Cineplex ("The Fund") declared and paid distributions at a rate of $0.1050 per month from May 2008 until December 2010. The Fund converted to a corporation on January 1, 2011, at which time distributions ceased and dividends began at the same rate of $0.1050 per month.

9. SHARE ACTIVITY

Share capital at December 31, 2017 and the transactions during the year is as follows (expressed in thousands of dollars except Share amounts):

	Shares	Amount		
	Number of common shares issued and outstanding	**Common shares**	**Equity component of convertible debentures**	**Total**
Balance - December 31, 2016	63,515,875	$ 854,880	$ 4,471	$ 859,351
Issuance of shares on exercise of options	26,063	256	—	256
Shares repurchased and cancelled under the NCIB	(211,492)	(2,846)	—	(2,846)
Balance - December 31, 2017	63,330,446	$ 852,290	$ 4,471	$ 856,761

During the year, Cineplex filed for a normal course issuer bid with the Toronto Stock Exchange. The Board has concluded that the market price of the Shares, from time to time, may not reflect the inherent value of Cineplex and purchases of the Shares pursuant to the bid may represent an appropriate and desirable use of funds. Pursuant to the NCIB, Cineplex may, in the 12-month period commencing September 7, 2017 and ending on September 6, 2018, acquire for cancellation up to 10% of its total public float of Shares. Based on a total public float of 63,089,953 Shares on August 28, 2017, Cineplex could acquire up to 6,308,995 Shares under its NCIB. All Shares purchased by Cineplex under the normal course issuer bid will be cancelled. Purchases will be made at market prices through the facilities of the TSX and/or alternative Canadian trading systems. Under the normal course issuer bid, Cineplex may purchase up to 36,798 Shares on the TSX during any trading day, which is 25% of 147,192 (the average daily trading volume for Cineplex's Shares on the TSX for the six months ended August 31, 2017). This limitation does not apply to purchases made pursuant to block purchase exemptions. Cineplex has adopted an automatic securities purchase plan in connection with its NCIB that contains parameters regarding how its Shares may be repurchased during times when it would ordinarily not be permitted to purchase Shares due to regulatory restrictions or self-imposed blackout periods. Shareholders may obtain a copy of the notice describing the NCIB, without charge, by contacting Cineplex. During the year, 211,492 Shares were purchased and cancelled by Cineplex for an aggregate of $8.0 million.

Officers and key employees are eligible to participate in the LTIP. Each annual LTIP grant is for a three-year service period beginning January 1. The LTIP awards consist of a "phantom" stock plan awarding Share equivalents which may decrease by approximately 61% or increase by 83% subject to certain performance and market conditions. The base Share equivalents attract compounding notional dividends at the same rate as outstanding Shares, which are notionally re-invested as additional base Share equivalents. The awards will be settled in cash at the end of the service period, within 30 days of the approval of the annual consolidated financial statements by the Board.

The initial grants of Share equivalents were as follows:

	Base Share equivalents
2017 LTIP award	129,136
2016 LTIP award	112,804
2015 LTIP award	114,335

LTIP costs are estimated at the grant date based on expected performance results and recognized on a graded basis over the vesting period. The effects of changes in estimates of performance results are recognized in the period of change. Forfeitures are estimated at nil.

Cineplex has an incentive Share option plan for certain employees. The aggregate number of Shares that may be issued under the option plan is limited to 5.3 million Shares. All of the options must be exercised over specified periods not to exceed ten years from the date granted. As of December 31, 2017, 2.2 million Share options were outstanding under the Share option plan. Upon cashless exercise, the Share options exercised in excess of Shares issued are canceled and returned to the pool available for future grants. At December 31, 2017, 2.0 million Share options were available for grant under the option plan.

A summary of option activities for the year ended December 31, 2017 and 2016 is as follows:

	2017			2016	
	Weighted average remaining contractual life (years)	Number of underlying Shares	Weighted average exercise price	Number of underlying Shares	Weighted average exercise price
Options outstanding - January 1	7.72	1,705,338	$ 43.21	1,550,521	38.60
Granted		544,992	51.25	501,270	47.86
Canceled		(11,395)	49.71	(17,117)	47.16
Exercised		(81,346)	35.38	(329,336)	28.41
Options outstanding – end of period	7.37	2,157,589	$ 45.50	1,705,338	$ 43.21

During the fourth quarter of 2013, Cineplex issued $107.5 million principal amount of convertible unsecured subordinated debentures, maturing on December 31, 2018 (the "Maturity Date") and bearing interest at a rate of 4.5% per annum, payable semi-annually in arrears on June 30 and December 31 in each year, commencing on December 31, 2013. At the holder's option, debentures may be converted into Shares at a conversion price of $56 per Share at any time prior to the close of business five days before the earlier of the Maturity Date, the date fixed for redemption by Cineplex, or if called for repurchase in the event of a change in control, the payment date. The debentures were redeemable by Cineplex prior to December 31, 2016. On and after December 31, 2016 and prior to December 31, 2017, Cineplex may have, at its option, redeemed the convertible debentures in whole or in part from time to time, subject to the market price of the Shares. On or after December 31, 2017, the convertible debentures may be redeemed in whole or in part from time to time at the option of Cineplex at a price equal to their principal amount plus accrued and unpaid interest. Redemptions may be in cash or in the form of Shares, at the option of Cineplex.

10. SEASONALITY AND QUARTERLY RESULTS

Historically, Cineplex's revenues have been seasonal, coinciding with the timing of major film releases. The most marketable motion pictures were traditionally released during the summer and the late-November through December holiday season. This caused changes from quarter to quarter in attendance, affecting theatre exhibition reported results. The seasonality of attendance has become less pronounced as film studios have expanded the historical summer and holiday release windows and increased the number of heavily marketed films released during traditionally weaker periods. Cineplex's diversification into other businesses such as digital media and amusement and leisure, which are not dependent on motion picture content, has contributed to reduce the impact of this seasonality on Cineplex's consolidated results. To meet working capital requirements during lower revenue quarters, Cineplex can draw upon the Revolving Facility, which had $319.0 million drawn and $149.0 million available as of December 31, 2017.

Summary of Quarterly Results (in thousands of dollars except per Share, per patron, attendance and theatre location and screen data, unless otherwise noted):

	2017 Q4	2017 Q3	2017 Q2	2017 Q1	2016 Q4	2016 Q3	2016 Q2	2016 Q1
Revenues								
Box office revenues (i)	$ 185,048	$ 164,493	$ 170,710	$ 195,354	$ 183,413	$ 185,412	$ 166,725	$ 198,643
Food service revenues	119,514	107,029	101,398	113,935	105,535	109,565	96,814	112,006
Media revenues	61,519	39,862	36,581	33,912	52,720	44,828	40,186	33,058
Amusement revenues (i)	49,300	48,940	45,700	41,401	33,737	26,971	24,589	26,051
Other revenues (i)	10,912	10,124	9,694	9,641	10,031	9,176	9,711	9,155
	426,293	370,448	364,083	394,243	385,436	375,952	338,025	378,913
Expenses								
Film cost	98,734	83,268	91,468	103,289	96,068	95,471	90,677	107,386
Cost of food service	26,935	23,669	23,180	25,654	24,786	24,356	21,603	25,314
Depreciation and amortization	31,390	30,613	29,646	28,267	28,254	26,703	25,979	25,005
Loss on disposal of assets	369	275	36	26	168	468	428	506
Other costs	220,930	204,762	211,456	206,071	198,067	189,127	183,332	189,404
	378,358	342,587	355,786	363,307	347,343	336,125	322,019	347,615
Income from operations	47,935	27,861	8,297	30,936	38,093	39,827	16,006	31,298
Adjusted EBITDA (ii)	79,614	58,811	38,055	59,449	66,841	67,260	42,768	57,140
Net income	$ 28,786	$ 17,219	$ 1,376	$ 22,965	$ 23,328	$ 25,996	$ 7,212	$ 21,455
EPS - basic	$ 0.45	$ 0.27	$ 0.02	$ 0.37	$ 0.37	$ 0.42	$ 0.12	$ 0.35
EPS - diluted	$ 0.45	$ 0.27	$ 0.02	$ 0.37	$ 0.37	$ 0.41	$ 0.12	$ 0.34
Cash provided by (used in) operating activities	$ 118,833	$ 37,705	$ 12,489	$ (14,675)	$ 131,414	$ 36,597	$ 21,304	$ (23,301)
Cash used in investing activities	(45,668)	(47,518)	(80,396)	(25,965)	(60,176)	(27,548)	(18,742)	(28,574)
Cash (used in) provided by financing activities	(51,461)	7,320	48,170	48,503	(61,475)	(20,683)	(6,564)	55,776
Effect of exchange rate differences on cash	146	(184)	(253)	(2)	105	231	(15)	(509)
Net change in cash	$ 21,850	$ (2,677)	$ (19,990)	$ 7,861	$ 9,868	$ (11,403)	$ (4,017)	$ 3,392
BPP (i) (ii)	$ 10.54	$ 9.81	$ 10.36	$ 9.97	$ 10.23	$ 9.65	$ 9.89	$ 9.65
CPP (ii)	$ 6.29	$ 6.01	$ 6.03	$ 5.71	$ 5.75	$ 5.69	$ 5.74	$ 5.44
Film cost percentage (i) (ii)	53.4%	50.6%	53.6%	52.9%	52.4%	51.5%	54.4%	54.1%
Attendance (in thousands of patrons) (ii)	17,551	16,766	16,484	19,593	17,934	19,219	16,858	20,583
Theatre locations (at period end)	163	163	164	164	165	164	162	163
Theatre screens (at period end)	1,676	1,676	1,677	1,677	1,683	1,677	1,659	1,666

(i) As noted below, Cineplex has reclassified certain prior period figures in order to conform to current period presentation

(ii) See Section 17, Non-GAAP measures.

Cineplex has reclassified box office, amusement and other revenues to reflect the growth of its amusement and leisure business and to enhance comparability with exhibition peers in the United States. Certain revenues from Cineplex's enhanced guest experience initiatives were previously included in other revenues and are now included with box office revenues. This presentation is consistent with other exhibitors and better reflects how Cineplex management measures and operates the business. This affects the BPP, film cost percentage and percentage of premium priced products due to the increase in box office revenues reported. Prior period financial statement figures have been reclassified to conform to current period presentation. The following table presents the reclassified box office revenues in 2016 (in thousands of dollars):

	2016			
	Q4	Q3	Q2	Q1
Box office - previous presentation	$ 177,516	$ 180,146	$ 162,145	$ 192,639
Reclassification from other revenues	5,897	5,266	4,580	6,004
Box office - new presentation	$ 183,413	$ 185,412	$ 166,725	$ 198,643

Other revenues also previously contained all amusement revenue. Due to the growth of Cineplex's amusement solutions and location based entertainment businesses, these revenues are now separately reported as amusement revenues. The following table presents the reclassified other revenues in 2016 (in thousands of dollars):

	2016			
	Q4	Q3	Q2	Q1
Other revenues - previous presentation	$ 49,665	$ 41,413	$ 38,880	$ 41,210
Reclassification to box office revenues	(5,897)	(5,266)	(4,580)	(6,004)
Reclassification to amusement revenues	(33,737)	(26,971)	(24,589)	(26,051)
Other revenues - new presentation	$ 10,031	$ 9,176	$ 9,711	$ 9,155

Summary of adjusted free cash flow by quarter

Management calculates adjusted free cash flow per Share as follows (see Section 17, Non-GAAP measures, for a discussion of adjusted free cash flow) (in thousands of dollars except per Share data and number of Shares outstanding):

	2017				2016			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Cash provided by (used in) operating activities	$118,833	$ 37,705	$ 12,489	$(14,675)	$131,414	$ 36,597	$ 21,304	$(23,301)
Less: Total capital expenditures net of proceeds on sale of assets	(44,205)	(47,869)	(50,240)	(25,221)	(27,864)	(28,787)	(18,581)	(28,849)
Standardized free cash flow	74,628	(10,164)	(37,751)	(39,896)	103,550	7,810	2,723	(52,150)
Add/(Less):								
Changes in operating assets and liabilities	(60,319)	12,675	14,533	61,720	(80,385)	16,025	14,738	69,632
Changes in operating assets and liabilities of joint ventures	506	(1,657)	317	1,379	777	642	(1,997)	1,126
Tenant inducements	(682)	(2,594)	(89)	(309)	(1,235)	(1,291)	(2,163)	(231)
Principal component of financing lease obligations	(817)	(802)	(788)	(773)	(760)	(746)	(732)	(719)
Growth capital expenditures and other	37,553	38,149	41,025	20,310	16,480	22,621	12,510	25,307
Share of (loss) income of joint ventures, net of non-cash depreciation	(80)	62	55	52	50	44	110	48
Non-controlling interests of WGN and Brady Starburst LLC ("BSL")	—	—	21	168	276	218	245	283
Net cash received from CDCP	550	2,246	685	684	684	1,568	120	682
Adjusted free cash flow	$ 51,339	$ 37,915	$ 18,008	$ 43,335	$ 39,437	$ 46,891	$ 25,554	$ 43,978
Average number of Shares outstanding	63,350,216	63,508,418	63,520,645	63,516,499	63,495,944	63,491,658	63,439,420	63,220,133
Adjusted free cash flow per Share	$ 0.810	$ 0.597	$ 0.283	$ 0.682	$ 0.621	$ 0.739	$ 0.403	$ 0.696

11. RELATED PARTY TRANSACTIONS

Cineplex may have transactions in the normal course of business with entities whose management, directors or trustees are also directors of Cineplex. Any such transactions are in the normal course of operations and are measured at market based exchange amounts. Unless otherwise noted, these transactions are not considered related party transactions for financial statement purposes.

The Chief Executive Officer of Riocan Real Estate Investment Trust ("Riocan") serves as a member of the Board. During the three months and year ended December 31, 2017, Cineplex incurred theatre occupancy expenses for theatres under lease commitments with Riocan in the amounts of $10.3 million and $44.0 million, (2016 - $11.0 million and $45.2 million, respectively).

12. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATION UNCERTAINTIES

Cineplex makes estimates and assumptions concerning the future that may not equal actual results. The following are the estimates and judgments applied by management that most significantly impact Cineplex's consolidated financial statements. These estimates and judgments have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Goodwill - recoverable amount

Cineplex tests at least annually whether goodwill suffered any impairment. Management makes key assumptions and estimates in determining the recoverable amount of groups of cash generating units' goodwill, including future cash flows based on historical and budgeted operating results, growth rates, tax rates and appropriate after-tax discount rates.

Financial instruments - fair value of over-the-counter derivatives

Cineplex's over-the-counter derivatives include interest rate swaps used to economically hedge exposure to variable cash flows associated with interest payments on Cineplex's borrowings. Management estimates the fair values of these derivatives as the present value of expected future cash flows to be received or paid, based on available market data, which includes market yields and counterparty credit spreads.

Revenue recognition - gift cards

Management estimates the value of gift cards that are not expected to be redeemed by customers, based on the terms of the gift cards and historical redemption patterns, including industry data. The estimates are reviewed annually, or when evidence indicates the existing estimate is not valid.

Income taxes

The timing of reversal of timing differences and the expected income allocation to various tax jurisdictions within Canada affect the effective income tax rate used to compute the deferred income tax asset. Management estimates the reversals and income allocation based on historical and budgeted operating results and income tax laws existing at the consolidated balance sheet dates. In addition, management occasionally estimates the current or future deductibility of certain expenditures, affecting current or deferred income tax balances and expenses.

Fair value of identifiable assets acquired and liabilities assumed in business combinations

Significant judgment is required in the identifying of tangible and intangible assets and liabilities of the acquired businesses, as well as determining their fair values.

Share-based compensation

Management is required to make certain assumptions and to estimate future financial performance to estimate the fair value of Share-based awards at each consolidated balance sheet date. The LTIP requires management to estimate future non-GAAP earnings measures, future revenue growth relative to specified industry peers, and total shareholder return, both absolutely and relative to specified industry peers. Future non-GAAP earnings are estimated based on current projections, updated at least annually, taking into account actual performance since the grant of the award. Future revenue growth relative to peers is based on historical performance and current projections, updated at least annually for actual performance since the grant of the award by Cineplex and its peers. Total shareholder return for Cineplex and its peers is updated at each consolidated balance sheet date based on financial models, taking into account financial market observable inputs.

13. ACCOUNTING POLICIES

ACCOUNTING STANDARDS ADOPTED IN THE CURRENT YEAR

International Accounting Standard ("IAS") 12, Income Taxes

IAS 12 was amended to clarify the requirements for recognizing deferred income tax assets on unrealized losses, deferred income taxes where an asset is measured at fair value below the asset's tax base, and certain other aspects of accounting for deferred income tax assets. The amendments were effective on or after January 1, 2017 and did not have any impact on Cineplex's balance sheet and statement of operations.

ACCOUNTING STANDARDS ISSUED BUT NOT YET APPLIED

Management of Cineplex reviews all changes to the IFRS when issued. The International Accounting Standards Board ("IASB") has issued the following standards, which have not yet been adopted by Cineplex. The following is a description of the new standards:

Management of Cineplex reviews all changes to the IFRS when issued. The International Accounting Standards Board ("IASB") has issued the following standards, which have not yet been adopted by Cineplex. The following is a description of the new standards:

IFRS 9, Financial Instruments

IFRS 9, Financial Instruments ("IFRS 9") was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39") for debt instruments, with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income ("OCI"). Where equity instruments are measured at fair value through OCI, dividends are recognized in profit or loss to the extent not clearly representing a return on investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated other comprehensive income indefinitely.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, except that fair value changes due to Cineplex's own credit risk in liabilities designed at fair value through profit and loss would generally be recorded in OCI or other comprehensive loss ("OCL").

Deliberations by the IASB have clarified upon the modification of debt, any previously incurred deferred financing fees will be expensed in the statement of operations. Previously with IAS 39, additional financing fees would be added to the unamortized financing fees and deferred over the term of the modified debt.

The final version of IFRS 9 was issued in July 2014, and includes a third measurement category for financial assets, "fair value through other comprehensive income"; a single, forward-looking "expected loss impairment model"; and a mandatory effective date for annual periods beginning on or after January 1, 2018. Cineplex has completed analyzing the new standard to determine the impact on Cineplex's balance sheet and statement of operations upon adoption of the standard including working on a model for calculating expected credit losses on accounts receivables. The changes are not material.

IFRS 15, Revenue from Contracts with Customers

On May 28, 2014, the IASB issued the final revenue standard, IFRS 15, Revenue from Contracts with Customers, which will replace IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers, and SIC 31 Revenue - Barter Transactions Involving Advertising Services. The new standard will be mandatorily effective for fiscal years beginning on or after January 1, 2018, and interim periods within that year. Earlier application is permitted.

Cineplex has identified all significant revenues from its various lines of business, and has analyzed the specific contracts with customers underlying those revenues. Cineplex has completed its analysis on the impact of IFRS 15 on the consolidated financial statements and has determined that there will be no change on the balance sheet, statement of operations or cash flows. No change in controls or financial accounting systems will be required and no changes in underlying contractual arrangements are expected. Disclosures will be expanded as required under the new standard.

IFRS 16, Leases

On January 13, 2016, the IASB issued IFRS 16 *Leases*, which will replace IAS 17 *Leases*. The new standard will be mandatorily effective for fiscal years beginning on or after January 1, 2019. Earlier application is permitted. Cineplex is analyzing the new standard to determine its impact on Cineplex's balance sheet and statement of operations. Under the new standard, all leases will be on the balance sheet of lessees, except those that meet limited exception criteria. As Cineplex has significant contractual obligations classified as operating leases under the existing standard, there will be a material increase to both assets and liabilities upon adoption of the new standard, and material changes to the timing of recognition and presentation of expenses associated with the lease arrangements. Cineplex expects to change its existing accounting systems to account for IFRS 16.

14. RISKS AND UNCERTAINTIES

Cineplex is exposed to a number of risks and uncertainties in the normal course of business that have the potential to affect operating performance. Cineplex has operating and risk management strategies and insurance programs to help minimize these operating risks and uncertainties. In addition, Cineplex has entity level controls and governance procedures including a corporate code of business conduct and ethics, whistle blowing procedures, clearly articulated corporate values and detailed policies outlining the delegation of authority within Cineplex.

Cineplex conducts an annual enterprise risk management assessment which is overseen by Cineplex's executive management team and the audit committee of the Board and is reported to the full Board. The enterprise risk management framework sets out principles and tools for identifying, evaluating, prioritizing and managing risk effectively and consistently across Cineplex. All members of senior management participate in a detailed review of enterprise risk in four major categories: environment risks, process risks, information risks and business unit risks. In addition, Cineplex monitors risks and changing economic conditions on an ongoing basis and adapts its operating strategies as required.

This section describes the principal risks and uncertainties that could have a material adverse effect on Cineplex's business and financial results. The risks and uncertainties described below are not the only risks that may impact Cineplex's business. Additional risks not currently known to Cineplex or that management currently believes are immaterial may also have a material adverse effect on future business and operations. Any discussion about risks should be read in conjunction with "Forward-Looking Statements".

General Economic Conditions

Entertainment operations compete for guests' entertainment spending, and as such can be sensitive to global, national or regional economic conditions and any changes in the economy may either adversely influence these revenues in times of an economic downturn or positively influence these revenue streams should economic conditions improve. Historical data shows that movie attendance has not been negatively affected by economic downturns over the past 25 years. Further, to mitigate this risk, Cineplex continues to innovate and pursue cost savings in order to deliver an affordable out of home entertainment experience.

Customer Risk

In its consumer-facing entertainment businesses, Cineplex competes for the leisure time and disposable income of all potential customers. All other forms of entertainment are substantial competitors to the movie-going experience including home and online consumption of content, sporting events, streaming services, gaming, live music concerts, live theatre, other entertainment venues and restaurants. Cineplex aims to deliver value to its guests through a wide variety of entertainment experiences and price points. Cineplex monitors pricing in all markets to ensure that it offers a reasonably priced out of home experience compared to other entertainment alternatives. If Cineplex is too aggressive in raising ticket prices or concession prices, there may be an adverse effect on attendance and food service revenues.

To mitigate this risk, Cineplex offers the SCENE loyalty program, which rewards guests for their patronage with special offers as well as the ability to earn and redeem points. However, loyalty programs also carry risk in that customers may not be satisfied with the offering or any change in offerings. There also exists a risk of saturation of loyalty programs in a market or the inability to further grow membership such that the program may generate costs in excess of the benefits. Cineplex monitors customer needs to try and ensure that its entertainment experiences meet the anticipated needs of key demographic groups. Cineplex is differentiating the movie-going experience by providing premium alternatives such as UltraAVX, VIP, 4DX and D-BOX seating. Cineplex also includes XSCAPE Entertainment Centres in select theatres and provides alternative programming with appeals to specific demographic groups. In addition, the advent of digital technology has allowed for more niche programming.

In the event that consumer preferences change, Cineplex may need to incur further capital expenditures to redevelop or upgrade existing locations. Cineplex continues to improve the quality of its theatre assets through ongoing theatre recliner retrofits. If Cineplex's execution of processes does not consistently meet or exceed customer expectations due to poor customer service or poor quality of assets, movie attendance may be adversely affected. Cineplex monitors customer satisfaction through surveys, mystery shops and focus groups and maintains a guest services department to address customer concerns. Guest satisfaction is tied to performance measures for theatre management ensuring alignment between corporate and operational objectives.

There is the potential for misinformation to be spread virally through social media relating to Cineplex's assets as well as the quality of its customer service. In response to this risk, Cineplex monitors commentary on social media in order to respond quickly to potential social media misinformation or service issues.

Cineplex developed its Cineplex Store in response to the risk created by new in-home and on-the-go entertainment offerings. Cineplex's offerings through the Cineplex Store of VoD and DTO movies are delivered online via third party technology platforms. Technological issues relating to online delivery of content could negatively impact customer satisfaction. Cineplex monitors performance metrics for electronic delivery in order to proactively manage any potential customer satisfaction issues.

Regarding its media sales businesses, certain of Cineplex's media customers are signed to contracts of finite lengths or allow for early termination. There is a risk that these customers could choose not to renew these contracts at their maturity, or take steps to terminate them prior to maturity, which would have adverse effects on Cineplex's media revenues.

In its digital place-based media and amusement solutions businesses, Cineplex engages with multiple businesses where it provides products and services. These arrangements include the risk that businesses could decide to source the same products or similar services from a competitor, which would have a negative impact on Cineplex's results.

Film Entertainment and Content Risk

Cineplex's ability to operate successfully depends upon the availability, diversity and appeal of filmed content, the ability of Cineplex to license films and the performance of these films in Cineplex's markets. Cineplex primarily licenses first-run films, the success of which is dependent upon their quality, as well as on the marketing efforts of film studios and distributors. To mitigate this risk, Cineplex continues to diversify its entertainment offerings. Nonetheless, Cineplex is highly dependent on film product and film performance, including the number and success of blockbuster films. A reduction in quality or quantity of both 2D and 3D film product, any disruption in the production or release of films, the introduction of new delivery platforms for first run product, a strike or threat of a strike in film production, a reduction in the marketing efforts of film studios and distributors or a significant change in film release patterns, would have a negative effect on film attendance and adversely affect Cineplex's business and results of operations.

Cineplex box office revenues depend upon movie production and its relationships with film distributors, including a number of major Hollywood and Canadian distributors. In 2017, seven major film distributors accounted for approximately 85% of Cineplex's box office revenues, which is consistent with industry standards. Deterioration in Cineplex's relationships with any of the major film distributors or an increase in studio concentration could affect its ability to negotiate film licenses on favourable terms or its ability to obtain commercially successful films. Cineplex actively works on maintaining good relations with these distributors, as this affects its ability to negotiate commercially favourable licensing terms for first-run films or to obtain licenses at all. In addition, a change in the type and breadth of movies offered by studios may adversely affect the demographic base of moviegoers.

Cineplex competes with other consumption platforms, including cable, satellite television, DVDs and Blu-rays, as well as DTO, VoD, subscription video on demand ("SVOD") and other over the top operators via the Internet. The release date of a film in other channels of distribution such as DVD, over the top internet streaming, pay television and SVOD is at the discretion of each distributor and day and date release or earlier release windows for these or new alternative channels including the potential premium video on demand ("PVOD") models could have a negative impact on Cineplex's business.

Exhibition Industry Risk

Cineplex operates in each of its local markets with other forms of entertainment, as well as in some of its markets with national and regional film exhibition circuits and independent film exhibitors. In respect of other film exhibitors, Cineplex primarily competes with respect to film licensing, attracting guests and acquiring and developing new theatre sites and acquiring existing theatres. Movie-goers are generally not brand conscious and usually choose a theatre based on its location, the films showing, showtimes available and the theatre's amenities. As a result, the building of new theatres, renovations or upgrades to existing theatres, or the addition of screens to existing theatres by competitors in areas in which Cineplex operates theatres may result in reduced attendance levels at Cineplex's theatres.

In response to this risk, management continually reviews and upgrades its existing locations including recliner seating. Cineplex also fosters strong ties with the real estate and development community and monitors potential development sites. Most prime locations in larger markets have been developed such that further development would be generally uneconomical. In addition, the exhibition industry is capital intensive with high operating costs and long-term contractual commitments. Significant construction and real estate costs make it increasingly difficult to develop new sites profitably.

In response to risks to exhibition attendance, Cineplex continues to pursue other revenue opportunities including media in the form of in-theatre and out of home advertising, amusement and leisure, promotions and alternative uses of its theatres during non-peak hours. Amusement and leisure includes amusement solutions offered by P1AG, in-theatre gaming locations, XSCAPE Entertainment Centres, eSports gaming online through WGN and in-theatre at select Cineplex locations and location based entertainment including *The Rec Room*, *Playdium* and *Topgolf*. Cineplex's ability to achieve its business objectives may depend in part on its ability to successfully increase these revenue streams.

Media Risk

Media revenue has been shown to be particularly sensitive to economic conditions and any changes in the economy may either adversely influence this revenue stream in times of a downturn or positively influence this revenue stream should economic conditions improve. Cineplex has numerous large media and digital place based media customers, the loss of which could impact Cineplex's results. There is no guarantee that Cineplex could replace the revenues generated by these large customers if their business was lost.

Amusement and Leisure Risk

Cineplex's location based entertainment concepts are new concepts in the Canadian marketplace, and as such there is a risk that consumers may not react as favourably to the concepts, entertainment options or food service options as Cineplex's projections indicate. As part of Cineplex's vertical integration, P1AG is the primary supplier of games and amusement offerings for Cineplex's theatres, *The Rec Room* and *Playdium* locations, mitigating supplier risk.

Cineplex's amusement and leisure operations compete against other offerings for guests' entertainment spending. In each of the local markets in which Cineplex operates and will operate, it faces competition from local, national or international brands that also offer a wide variety of restaurant and/or amusement and gaming experiences, including sporting events, bowling alleys, entertainment centres, nightclubs and restaurants. Competition for guests' entertainment time and spending also extends to in-home entertainment such as internet or video gaming and other in-home leisure activities. Cineplex's failure to compete favourably in these markets could have a material adverse effect on Cineplex's business, results of operations and financial condition.

Cineplex's new location based entertainment locations may not meet or exceed the performance of our existing locations or our performance targets. New locations may even operate at a loss, which could have a significant adverse effect on our overall operating results.

Cineplex's results of operations are subject to fluctuations due to the timing of location based entertainment openings which may result in significant fluctuations in our quarterly performance. Cineplex typically incurs most cash pre-opening costs for a new location within the two months immediately preceding, and the month of, the location's opening. In addition, the labor and operating costs for a newly opened store during the first three to six months of operation are materially greater than what can be expected after that time, both in aggregate dollars and as a percentage of revenues. Additionally, a portion of a current fiscal year new location capital expenditures is related to locations that are not expected to open until the following fiscal year.

To mitigate these risks, Cineplex leverages its core competencies in food service execution, its partnership in SCENE LP and its knowledge of the trends in amusement and gaming via its P1AG operations to continuously update its amusement and leisure offerings in order to provide guests with the most compelling offerings available in Canada.

P1AG's procurement of games and amusement offerings is dependent upon a few suppliers, the ability to continue to procure new games, amusement offerings and other entertainment-related equipment. To the extent that the number of suppliers declines, P1AG could be subject to the risk of distribution delays, pricing pressure, lack of innovation and other associated risks. In addition, any increase in cost or decrease in availability of new amusement offerings that appeal to customers could have a negative impact on Cineplex's revenues from its amusement and leisure businesses.

P1AG competes with other providers of amusement and gaming services across North America. P1AG manages the risk of customers switching gaming providers by continually monitoring the performance of its amusement solutions and reacting quickly to replace underperforming solutions with newer or more relevant equipment. P1AG's expertise and experience in the industry and proven success maximizing revenue for its customers helps mitigate this switching risk. Certain of P1AG's revenue is dependent on the customer traffic of the venues in which they operate. Any reduction in traffic could have a material impact on their business.

Technology Risk

Technological advances have made it easier to create, transmit and electronically share unauthorized high quality copies of films during theatrical release. Some consumers may choose to obtain unauthorized copies of films rather than attending the theatre which may have an adverse effect on Cineplex's business. In addition, as home theatre technology becomes more sophisticated and additional technologies become available to consume content, consumers may choose other technology options rather than attending a theatre.

To mitigate these risks, Cineplex continues to enhance the out of home experience through the addition of new technologies and experiences including 3D, VIP, UltraAVX, D-BOX, 4DX, Barco Escape and digital projection in order to further differentiate the theatrical product from the home product. Cineplex has also diversified its offerings to customers by operating the Cineplex Store which sells VoD and DTO movies in order to participate in the in-home and on-the-go entertainment markets.

Changing platform technologies and new emerging technologies in the digital commerce industry, and specifically relating to the delivery of VoD, DTO and SVOD services, present a risk to the Cineplex Store's operations. Should Cineplex's supplier cease operations or have its technology platform rendered obsolete, Cineplex's sales of VoD and DTO products could be jeopardized.

Cineplex relies on various information technology solutions to provide its services to guests and customers, as well in running its operations from its various office locations. Cineplex may be subject to information technology malfunctions, outages, thefts or other unlawful acts that could result in loss of communication, unauthorized access to data, change in data, or loss of data which could compromise Cineplex's operations and/or the privacy of Cineplex's guests, customers and suppliers.

Information Management Risk

Cineplex needs an effective information technology infrastructure including hardware, networks, software, people and processes to effectively support the current and future needs of the business in an efficient, cost-effective and well-controlled fashion. To mitigate this risk, Cineplex is continually upgrading systems and infrastructure to meet business needs.

Cineplex requires relevant and reliable information to support the execution of its business model and reporting on performance. The integrity, reliability and security of information are critical to Cineplex's daily and strategic operations. Inaccurate, incomplete or unavailable information or inappropriate access to information could lead to incorrect financial or operational reporting, poor decisions, privacy breaches or inappropriate disclosure of sensitive information. To mitigate this risk, Cineplex continues to strengthen general information technology controls by developing operating policies and procedures in the areas of change management, computer operations and security access.

At select times during the normal course of business, Cineplex collects and stores sensitive data, including intellectual property, proprietary business information including data with respect to suppliers, employees and business partners, as well as some personally identifiable information of Cineplex's customers. The secure processing, maintenance and transmission of this information is critical to Cineplex's operations and business strategy. As such Cineplex adheres to industry standards for the payment card industry ("PCI") data security standard ("DSS") compliance, as well as undertaking commercially reasonable efforts for non-financial data.

Cineplex recognizes that security breaches and other disruptions could compromise this information and expose Cineplex to liability, which would cause its business and reputation to suffer. Despite security measures, Cineplex's information technology and infrastructure may be vulnerable to unforeseen attacks by hackers or breached due to employee error, malfeasance or other disruptions. Any such breach could compromise Cineplex's networks and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, regulatory penalties, disrupt Cineplex's operations and the services provided to customers, damage Cineplex's reputation and cause a loss of confidence in Cineplex's products and services, which could adversely affect Cineplex's business, financial condition, results of operations and cash flows. In response to this risk, Cineplex has employees whose role it is to monitor information technology and processes to ensure risk is minimized.

Real Estate Risk

The acquisition and development of potential operating locations by Cineplex is dependent on the ability of Cineplex to identify, acquire and develop suitable sites for these locations with favorable economic terms in both new and existing markets, while competing with other entertainment and non-entertainment companies for site locations. The cost to develop a new building is substantial and its success is not assured. While Cineplex is diligent in selecting sites, the significant time lag from identifying a new site to opening can result in a change in local market circumstances and could negatively impact the location's chance of success. In addition, building new operating locations may draw audiences away from existing sites operated by Cineplex. Cineplex considers the overall return for the theatres in a geographic area when making the decision to build new locations.

The majority of Cineplex's operating sites are subject to long-term leases. In accordance with the terms of these leases, Cineplex is responsible for costs associated with utilities consumed at the location and property taxes associated with the location. Cineplex has no control over these costs and these costs have been increasing over the last number of years.

Cineplex continues to be liable for obligations under theatre leases in respect of certain divested theatres. If the transferee of any such theatres fails to satisfy the obligations under such leases, Cineplex may be required to assume the lease obligations.

Sourcing Risk

Cineplex relies on a small number of companies for the distribution of a substantial portion of its concession supplies. If these distribution relationships were disrupted, Cineplex could be forced to negotiate a number of substitute arrangements with alternative distributors that could, in the aggregate, be less favourable to Cineplex than the current arrangements.

Substantially all of Cineplex's non-alcohol beverage concessions are products of one major beverage company. If this relationship was disrupted, Cineplex may be forced to negotiate a substitute arrangement that could be less favourable to Cineplex than the current arrangement. Any such disruptions could therefore increase the cost of concessions and harm Cineplex's operating margins, which would adversely affect its business and results of operations.

Cineplex relies on one major supplier to source popcorn seed, and has entered contracts with this supplier to guarantee a fixed supply. As crop yields can be affected by drought or other environmental factors, the supplier may be unable to fulfill the whole of its contractual commitments, such that Cineplex would need to source the remaining needed corn product from other suppliers at a potentially higher cost.

In order to minimize these operating risks, Cineplex actively monitors and manages its relationships with its key suppliers.

Human Resources Risk

The success of Cineplex depends upon the retention of senior executive management, including its Chief Executive Offer, Ellis Jacob. The loss of services of one or more members of the executive management team could adversely affect Cineplex's business, results of operations and Cineplex's ability to effectively pursue its business strategy. Cineplex does not maintain key-man life insurance for any of its employees but does provide long-term incentive programs to retain key personnel and undertakes a comprehensive succession planning program.

Cineplex employs approximately 13,000 people, of whom approximately 87% are hourly workers whose compensation is based on the prevailing provincial minimum wages with incremental adjustments as required to match market conditions. Any increase in these minimum wages will increase employee related costs. Minimum wage increases in Ontario, Quebec and Alberta for 2018 and proposed for 2019 will impact employee-related costs. In order to mitigate the impact of the proposed increases, Cineplex plans to expand automation, take advantage of technological efficiencies and review pricing.

Approximately 6% of Cineplex's employees are represented by unions, located primarily in the province of Quebec. Because of the small percentage of employees represented by unions, the impact of labour disruption nationally is low.

Health and Safety Risk

Cineplex is subject to risks associated with food safety, alcohol consumption by guests, product handling and the operation of machinery. Cineplex is in compliance with health and safety legislation and conducts employee awareness and training programs on a regular basis. Health and safety issues related to our guests such as pandemics and bedbug concerns are risks that may deter people from attending places of public gathering, potentially including movie theatres, gaming centres, malls and dining locations. For those risks that it can control, Cineplex has programs in place to mitigate its exposure.

Environment/Sustainability Risk

Cineplex's business is primarily a service and retail business which delivers guest experiences rather than physical commercial products and thus does not have substantial environmental risk. Cineplex operates multiple locations in major urban markets and does not anticipate any dramatic changes to operations due to climate change. Should legislation change to require more stringent management of carbon emissions or more stringent reporting of environmental impacts, Cineplex anticipates this will result in minimal cost increases or changes to operating procedures.

Integration Risk

While Cineplex has successfully integrated businesses acquired in the past, there can be no assurance that all acquisitions, including recent acquisitions, will be successfully integrated or that Cineplex will be able to realize expected operating and economic efficiencies from the acquisitions.

Financial and Markets Risk

Cineplex requires efficient access to capital in order to fuel growth, execute strategies and generate future financial returns. For this reason Cineplex entered into the Revolving Facility. Cineplex hedges interest rates on the Term Facility, thereby minimizing the impact of significant fluctuations in the market rates. Cineplex's exposure to currency and commodity risk is minimal as the majority of its transactions are in Canadian dollars and commodity costs are not a significant component of the overall cost structure. Counter party risk on the interest rate swap agreements is minimized through entering into these transactions with Cineplex's lenders.

Upon the maturity of the Credit Facilities, there is a risk that Cineplex may not be able to renegotiate under favorable terms in the then current economic environment. Cineplex believes that it has sufficient financial resources to meet its ongoing requirements for capital expenditures, investments in working capital and dividends. However, Cineplex's needs may change and in such event Cineplex's ability to satisfy its obligations will be dependent upon future financial performance, which in turn will be subject to financial, tax, business and other factors, including elements beyond Cineplex's control.

Foreign Currency Risk

Cineplex is exposed to foreign currency risk related to transactions in its normal course of business that are denominated in currencies other than the Canadian dollar. Cineplex's largest foreign currency exposure is to the US dollar, as its amusement solutions, digital place-based media and eSports businesses all operate in the United States.

Interest Rate Risk

Cineplex is exposed to risk on the interest rates applicable on its Credit Facilities. To mitigate this risk, Cineplex has entered into interest rate swap agreements as outlined in Section 6.4, Credit Facilities.

Legal, Regulatory, Taxation and Accounting Risk

Changes to any of the various international, federal, provincial and municipal laws, rules and regulations related to Cineplex's business could have a material impact on its financial results. Compliance with any changes could also result in significant cost to Cineplex. Failure to fully comply with various laws, rules and regulations may expose Cineplex to proceedings which may materially affect its performance.

On an ongoing basis, Cineplex may be involved in various judicial, administrative, regulatory and litigation proceedings concerning matters arising in the ordinary course of business operations, including but not limited to, personal injury claims, landlord-tenant disputes, alcohol-related incidents, commercial disputes, tax disputes, employment disputes and other contractual matters. Many of these proceedings seek an indeterminate amount of damages.

To mitigate these risks, Cineplex promotes a strong ethical culture through its values and code of conduct. Cineplex employs in-house counsel and uses third party tax and legal experts to assist in structuring significant transactions and contracts. Cineplex also has systems and controls that ensure efficient and orderly operations. Cineplex also has systems and controls that ensure the timely production of financial information in order to meet contractual and regulatory requirements and has implemented disclosure controls and internal controls over financial reporting which are tested for effectiveness on an ongoing basis. In situations where management believes that a loss arising from a proceeding is probable and can be reasonably estimated, Cineplex records the amount of the probable loss. As additional information becomes available, any potential liability related to these proceedings is assessed and the estimates are revised, if necessary.

Business Continuity Risk

Cineplex's primary sources of revenues are derived from providing an out of home entertainment experience. Our business results could be significantly impacted by a terrorist threat, severe weather incidents, the outbreak of a pandemic or general fear of community gatherings that may cause people to stay away from public places including movie theatres, malls and amusement and leisure locations. Cineplex operates in locations spread throughout North America which mitigates the risk to a specific location or locations. Cineplex has procedures to manage such events should they occur. These procedures identify risks, prioritize key services, plan for large staff absences and clarify communication and public relations processes. However, should there be a large-scale threat or occurrence, it is uncertain to what extent Cineplex could mitigate this risk and the costs that may be associated with any such crises. Further, Cineplex purchases insurance coverage from third-party insurance companies to cover certain operational risks, and is self-insured for other matters.

15. CONTROLS AND PROCEDURES

15.1 DISCLOSURE CONTROLS AND PROCEDURES

Management of Cineplex is responsible for establishing and maintaining disclosure controls and procedures for Cineplex as defined under National Instrument 52-109 issued by the Canadian Securities Administrators. Management has designed such disclosure controls and procedures, or caused them to be designed under its supervision, to provide reasonable assurance that material information relating to Cineplex, including its consolidated subsidiaries, is made known to the Chief Executive Officer and the Chief Financial Officer by others within those entities, particularly during the period in which the annual filings are being prepared.

Management has evaluated the design and operation of Cineplex's disclosure controls and procedures as of December 31, 2017 and has concluded that such disclosure controls and procedures are effective.

15.2 INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management of Cineplex is responsible for designing and evaluating the effectiveness of internal controls over financial reporting for Cineplex as defined under National Instrument 52-109 issued by the Canadian Securities Administrators. Management has designed such internal controls over financial reporting using the Integrated Control - Integrated Framework: 2013 issued by the Committee of Sponsoring Organizations of the Treadway Commission, or caused them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with GAAP.

Management has used the Internal Control - Integrated Framework: 2013 to evaluate the effectiveness of internal controls over financial reporting, which is a recognized and suitable framework developed by COSO.

Because of its inherent limitations, internal controls over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation 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 policies and procedures may deteriorate.

Management has evaluated the design and operation of Cineplex's internal controls over financial reporting as of December 31, 2017, and has concluded that such controls over financial reporting are effective. There are no material weaknesses that have been identified by management in this regard.

There has been no change in Cineplex's internal controls over financial reporting that occurred during the most recently completed interim period that has materially affected, or is reasonably likely to materially affect, Cineplex's internal control over financial reporting.

16. OUTLOOK

The following discussion is qualified in its entirety by the caution regarding Forward-Looking Statements at the beginning of this MD&A and Section 14, Risks and uncertainties.

FILM ENTERTAINMENT AND CONTENT

Theatre Exhibition

Film product in 2017 was not as strong as 2016, resulting in an industry box office decline of 0.6% and Cineplex's box office decrease of 2.5% as compared to the prior year period.

Box office revenues are and will remain highly dependent on the marketability, quality and appeal of the film product released by major motion picture studios. While film product in 2017 was weaker than the prior year, there is optimism for 2018, with a strong slate of films scheduled for release including *Black Panther, Ready*

Player One, A Wrinkle in Time, Avengers: Infinity War, Deadpool 2, Solo: A Star Wars Story, The Incredibles 2, Jurassic World: Fallen Kingdom, Ant-Man and the Wasp, Mission Impossible 6, Alita Battle Angel, Venom, X-Men: Dark Phoenix, Fantastic Beasts and Where to Find Them 2, Ralph Breaks the Internet: Wreck-It Ralph 2, Mulan and *Aquaman*.

Cineplex continues to focus on providing guests with a variety of premium viewing options through which to enjoy the theatre experience. These premium-priced offerings, which include UltraAVX, VIP Cinemas, IMAX, 3D and 4DX generate higher revenues per patron and expand the customer base. Cineplex believes that these premium formats provide an enhanced guest experience and will continue to charge a ticket price premium for films and events presented in these formats.

In the next few years, Cineplex plans to open on average one to two new theatres per year. Cineplex is also focused on providing guests with a variety of premium viewing options, including recliner seating, through which to enjoy the theatre experience, and will continue to expand premium viewing options throughout its circuit in 2018 and beyond. VIP Cinemas and other premium viewing options are a key component to Cineplex's theatre exhibition strategy, and have been well received by audiences. Additionally, Cineplex is looking to expand its entertainment options and experiences in its theatres beyond filmed content.

Cineplex has also installed VR experiences, with the IMAX VR Centre at the *Scotiabank Theatre Toronto* and D-BOX VR motion seats and VR systems at the *Scotiabank Theatre Ottawa* and expect to expand VR offerings in the future.

Theatre Food Service

Cineplex reported record food service revenues and CPP in 2017. Although pricing impacts CPP, Cineplex's core focus is on operational execution, promotions and providing the optimal product mix to provide further growth in this area. As part of this strategy, Cineplex continues to expand its product offering through its in house brands across the circuit; as well as leveraging digital menu board technologies which provide guests with more interactive messaging during visits to the theatre food service locations, and expanding VIP menu offerings. Cineplex will also leverage mobile technology to enhance the food service experience in its theatres. In provinces where legislation allows, Cineplex continues to expand its alcohol offerings.

Alternative Programming

Cineplex offers a wide variety of alternative programming, including international film programming, the popular Metropolitan Opera live in HD series, sports programming and various concert performances by popular recording artists. Live stage performances captured in London and New York are seeing increased growth with more productions. Cineplex continues to look for compelling content to offer as alternative content to attract a wider audience to its locations.

Digital Commerce

As at-home and on-the-go content distribution and consumption continues to grow and evolve, Cineplex believes it is well positioned to take advantage of this market with its digital commerce platform, the Cineplex Store, which offers enhanced device integration, supporting thousands of movies that can be rented or purchased and viewed on multiple devices. The Cineplex Store supports a wide range of devices in Canada on which to buy or rent movies, and continues to add new transactional storefronts on connected devices. The wide range of device Store integration combined with the continued expansion of SuperTicket and other offerings including any future potential PVOD offering, provides exciting opportunities for Cineplex in this market.

In addition to continuing to develop and improve the Cineplex Store user interface, Cineplex will continue to offer promotions to grow Cineplex Store revenues including tie-ins with the SCENE loyalty program through its digital delivery platform with an expanded device ecosystem for DTO and VoD sales.

MEDIA

Cinema Media

Cineplex believes that no other medium engages viewers like the cinema experience: engaged moviegoers, sitting in a darkened theatre, ready to be entertained and fully focused on the screen. Research has shown that cinema media advertising reaches the most sought-after demographics, as well as Canada's high-income households and educated populations. In addition to its successful Show-Time and pre-show advertising opportunities, in 2018 Cineplex believes its cinema media business will continue grow through its innovative media opportunities within Cineplex's theatres, including digital signage within theatre lobbies, the Interactive Media Zone in select theatres and Timeplay, a third-party app that allows Cineplex to sell media integrated into real-time content with the big screen. Cineplex also sells media for Cineplex Digital Media clients, *The Rec Room* and sponsorship for eSports.

Digital Place-Based Media

Cineplex's digital place-based media business will continue to roll out its world-class solutions in quick service restaurants, financial service and retail sectors as well as immersive place-based digital ecosystems. Cineplex will continue to explore opportunities outside of Canada, in order to better service its current customer base and to attract new clients. Cineplex believes that the strengths of its digital place-based media business will make Cineplex a leader in the indoor digital signage industry and provide a platform for significant growth throughout Canada and the United States. Cineplex has recently been selected by Arcos Dorados, the largest independent McDonald's franchisee in the world, to deploy, maintain and operate a complex merchandising network of digital menu boards at McDonald's locations in Argentina, Brazil and Uruguay.

AMUSEMENT AND LEISURE

Amusement Solutions

The acquisition of P1AG in 2015 has allowed Cineplex to complete the vertical integration of its gaming business. P1AG now supplies and services all of the games in Cineplex's circuit, while also supplying equipment to third party arcades, amusement centres, bowling alleys, amusement parks and theatre circuits, in addition to owning and operating family entertainment centres. Cineplex extended this vertical integration in 2017 as P1AG sources the amusement and gaming equipment for location based entertainment locations.

In the current year, P1AG expanded its presence in the United States through the acquisition of Dandy. P1AG will integrate this entity into its North American operations, recognizing synergies while expanding P1AG's brand presence throughout both Canada and the United States.

Location Based Entertainment

Cineplex's location based entertainment business features entertainment destination locations that cater to a wide range of guests. In 2016, Cineplex launched *The Rec Room*, a social entertainment destination targeting millennials featuring a wide range of entertainment options including an attractions area featuring recreational gaming, an auditorium-style live entertainment venue and a theatre-sized high definition screen for watching a wide range of entertainment programming. This entertainment is complemented with an upscale casual dining environment, as well as an expansive bar with a wide range of digital monitors and a large screen above the bar for watching events.

The first location of *The Rec Room* opened in Edmonton, Alberta in 2016 with subsequent openings in 2017 at the Roundhouse in Toronto, Ontario, the West Edmonton Mall in Edmonton, Alberta and in Calgary, Alberta. Additional locations have been announced for London, Ontario, Mississauga, Ontario, and Burnaby, British Columbia.

During the year, Cineplex announced its plans to relaunch the *Playdium* brand concept targeting families and teens, rolling them out in mid-sized communities across Canada, with its first planned in Whitby, Ontario to be completed in 2018.

With the recent announcement of Cineplex's joint venture with *Topgolf*, Cineplex intends to open multiple venues in markets across the country during the next several years.

eSports

Cineplex and WGN have created a community that connects live online gaming with unique in-theatre tournament experiences held in Cineplex theatres across the country.

In 2018, Cineplex and WGN will invite gamers to compete in a number of online tournaments across the most popular gaming titles, leading to regional qualifiers at Cineplex and third party locations.

WGN announced it will host the WorldGaming Canadian Championship featuring *Call of Duty: WWII*. The tournament began on January 6, 2018, with the finals to be hosted at the *Scotiabank Theatre* in Toronto on March 3 and 4, 2018.

LOYALTY

The SCENE loyalty program continues to grow its membership base, with approximately 8.9 million members at December 31, 2017. Cineplex continues to integrate SCENE elements into various film and other promotion campaigns, applying the data accumulated in the SCENE database to provide members targeted offers. Cineplex expects these programs to encourage increased frequency of visitation and spend by SCENE members and additional revenue opportunities through the use of the database. In addition, SCENE is implementing programs to drive consumer behavior through marketing automation initiatives.

As SCENE continues to grow its membership and reach, it continually works to develop strategic marketing partnerships.

FINANCIAL OUTLOOK

During the 12 months ended December 31, 2017, Cineplex generated adjusted free cash flow per Share of \$2.373, compared to \$2.456 in the prior year period. Cineplex declared dividends per Share of \$1.660 and \$1.600, respectively, in each period. The payout ratios for these periods were approximately 70.0% and 65.1%, respectively.

Under Cineplex's Credit Facilities, which mature in April 2021, Cineplex has a \$150.0 million Term Facility and a \$475.0 million Revolving Facility which is available to finance acquisitions, new construction, media growth projects, working capital and dividends. With the \$75 million increase in the Revolving Facility during the third quarter, as at December 31, 2017, Cineplex had \$149.0 million available under the Revolving Facility. As defined under the Credit Facilities, as at December 31, 2017, Cineplex reported a leverage ratio of 1.88x as compared to a covenant of 3.50x.

Between the free cash flow generated in excess of the dividends paid and amounts available under its Credit Facilities, Cineplex believes that it has sufficient financial resources to meet its ongoing requirements for capital expenditures, investments in working capital and dividends. However, Cineplex's needs may change and in such event Cineplex's ability to satisfy its obligations will be dependent upon future financial performance, which in turn will be subject to financial, tax, business and other factors, including elements beyond Cineplex's control.

17. NON-GAAP MEASURES

The following measures included in this MD&A do not have a standardized meaning under GAAP and may not be comparable to similar measures provided by other issuers. Cineplex includes these measures because its management believes that they assist investors in assessing financial performance.

17.1 EBITDA AND ADJUSTED EBITDA

Management defines EBITDA as earnings before interest income and expense, income taxes and depreciation and amortization expense. Adjusted EBITDA excludes the change in fair value of financial instrument, loss on disposal of assets, foreign exchange loss (gain), the equity income of CDCP, the non-controlling interests' share of adjusted EBITDA of WGN and BSL, and depreciation, amortization, interest and taxes of Cineplex's other joint ventures. Cineplex's management uses adjusted EBITDA to evaluate performance primarily because of the significant effect certain unusual or non-recurring charges and other items have on EBITDA from period to period. EBITDA, adjusted for various unusual items, is also used to define certain financial covenants in Cineplex's Credit Facilities. Management calculates adjusted EBITDA margin by dividing adjusted EBITDA by total revenues.

EBITDA and adjusted EBITDA are non-GAAP measures generally used as an indicator of financial performance and they should not be seen as a measure of liquidity or a substitute for comparable metrics prepared in accordance with GAAP. Cineplex's EBITDA and adjusted EBITDA may differ from similar calculations as reported by other entities and accordingly may not be comparable to EBITDA or adjusted EBITDA as reported by other entities.

The following represents management's calculation of EBITDA and adjusted EBITDA (expressed in thousands of dollars):

	Year ended December 31,		
	2017	**2016**	**2015**
Net income	**$ 70,346**	**$ 77,991**	**$ 134,249**
Depreciation and amortization	119,916	105,941	89,339
Interest expense (i)	22,734	18,936	22,567
Interest income	(222)	(204)	(186)
Current income tax expense	26,626	26,231	37,026
Deferred income tax expense (recovery)	864	5,096	(107)
EBITDA	**$ 240,264**	**$ 233,991**	**$ 282,888**
Change in fair value of financial instrument	(2,643)	—	(29,076)
Loss on disposal of assets	706	1,570	3,236
Gain on acquisition of business	—	—	(7,447)
CDCP equity income (ii)	(3,480)	(2,542)	(1,672)
Foreign exchange loss (gain)	810	(120)	(124)
Non-controlling interest adjusted EBITDA of WGN and BSL	189	1,022	165
Depreciation and amortization - joint ventures (iii)	32	39	1,563
Joint venture taxes and interest (iii)	51	49	269
Adjusted EBITDA	**$ 235,929**	**$ 234,009**	**$ 249,802**

(i) See Section 5, Results of Operations - Interest expense

(ii) CDCP equity income not included in adjusted EBITDA as CDCP is a limited-life financing vehicle that is funded by virtual print fees collected from distributors.

(iii) Includes the joint ventures with the exception of CDCP (see (ii) above).

17.2 ADJUSTED FREE CASH FLOW

Free cash flow measures the amount of cash from operating activities net of capital expenditures available for activities such as repayment of debt, dividends to owners and investments in future growth through acquisitions. Free cash flow is a non-GAAP measure generally used by Canadian corporations as an indicator of financial performance and it should not be viewed as a measure of liquidity or a substitute for comparable metrics prepared in accordance with GAAP. Standardized free cash flow is a non-GAAP measure recommended by the CICA in its 2008 interpretive release, *Improved Communication with Non-GAAP Financial Measures: General Principles and Guidance for Reporting EBITDA and Free Cash Flow,* and is designed to enhance comparability.

Cineplex presents standardized free cash flow and adjusted free cash flow per Share because they are key measures used by investors to value and assess Cineplex. Management of Cineplex defines adjusted free cash flow as standardized free cash flow adjusted for certain items, and considers adjusted free cash flow the amount available for distribution to Shareholders. Standardized free cash flow is defined by the CICA as cash from operating activities as reported in the GAAP financial statements, less total capital expenditures minus proceeds from the disposition of capital assets other than those of discontinued operations, as reported in the GAAP financial statements; and dividends, when stipulated, unless deducted in arriving at cash flows from operating activities. The standardized free cash flow calculation excludes common dividends and others that are declared at the Board's discretion.

Management calculates adjusted free cash flow per Share as follows (expressed in thousands of dollars except Shares outstanding and per Share data):

	Year ended December 31		
	2017	**2016**	**2015**
Cash provided by operating activities	$ 154,352	$ 166,014	$ 230,594
Less: Total capital expenditures net of proceeds on sale of assets	(167,535)	(104,081)	(95,871)
Standardized free cash flow	(13,183)	61,933	134,723
Add/(Less):			
Changes in operating assets and liabilities (i)	28,609	20,010	(42,545)
Changes in operating assets and liabilities of joint ventures (i)	545	548	1,304
Tenant inducements (ii)	(3,674)	(4,920)	(1,568)
Principal component of finance lease obligations	(3,180)	(2,957)	(2,670)
Growth capital expenditures and other (iii)	137,037	76,918	62,252
Share of income of joint ventures, net of non-cash depreciation (iv)	89	252	3,716
Non-controlling interests of WGN and BSL	189	1,022	165
Net cash received from CDCP (iv)	4,165	3,054	1,843
Adjusted free cash flow	**$ 150,597**	**$ 155,860**	**$ 157,220**
Average number of Shares outstanding	63,473,583	63,451,257	63,100,085
Adjusted free cash flow per Share	**$ 2.373**	**$ 2.456**	**$ 2.492**
Dividends declared	**$ 1.660**	**$ 1.600**	**$ 1.540**

(i) Changes in operating assets and liabilities are not considered a source or use of adjusted free cash flow.

(ii) Tenant inducements received are for the purpose of funding new theatre capital expenditures and are not considered a source of adjusted free cash flow.

(iii) Growth capital expenditures and other represent expenditures on Board approved projects, exclude maintenance capital expenditures and are net of proceeds on asset sales. The Revolving Facility (discussed above in Section 7.4, Credit Facilities) is available to Cineplex to fund Board approved projects.

(iv) Excludes the share of income of CDCP, as CDCP is a limited-life financing vehicle funded by virtual print fees collected from distributors. Cash invested into CDCP, as well as cash distributions received from CDCP, are considered to be uses and sources of adjusted free cash flow.

Alternatively, the calculation of adjusted free cash flow using the income statement as a reference point would be as follows (expressed in thousands of dollars):

	Year ended December 31, 2017	2016	2015
Net income	$ 70,346	$ 77,991	$ 134,249
Adjust for:			
Depreciation and amortization	119,916	105,941	89,339
Change in fair value of financial instrument	(2,643)	—	(29,076)
Loss on disposal of assets	706	1,570	3,236
Gain on acquisition of business	—	—	(7,447)
Non-cash interest (i)	2,701	2,988	7,642
Foreign exchange on non-cash interest	(32)	(228)	(357)
Share of income of CDCP (ii)	(3,480)	(2,542)	(1,672)
Non-controlling interests of WGN and BSL	189	1,022	165
Non-cash depreciation of joint ventures	32	39	1,563
Deferred income tax expense	864	5,096	(107)
Joint venture deferred income tax	51	49	269
Maintenance capital expenditures	(30,498)	(27,163)	(33,619)
Principal component of finance lease obligations	(3,180)	(2,957)	(2,670)
Net cash received from CDCP (ii)	4,165	3,054	1,843
Non-cash items:			
Amortization of tenant inducements, rent averaging liabilities and fair value lease contract assets	(10,362)	(10,618)	(7,832)
Non-cash Share-based compensation	1,822	1,618	1,694
Adjusted free cash flow	**$ 150,597**	**$ 155,860**	**$ 157,220**

(i) Non-cash interest includes amortization of deferred financing costs on the long-term debt, accretion expense on the convertible debentures and other non-cash interest expense items.

(ii) Excludes the share of income of CDCP, as CDCP is a limited-life financing vehicle funded by virtual print fees collected from distributors. Cash invested into CDCP, as well as cash distributions received from CDCP, are considered to be uses and sources of adjusted free cash flow.

Management uses the following non-GAAP measures as indicators of performance for Cineplex.

Earnings per Share Metrics

The year ended December 31, 2017 includes the gain associated with the change in fair value of financial instrument relating to the WGN put option and the revaluation of certain financial assets. Cineplex has presented basic and diluted earnings per share net of this item to provide a more comparable earnings per share metric between the current periods and prior year periods. In the non-GAAP measure, earnings is defined as net income excluding the change in fair value of financial instrument.

Per Patron Revenue Metrics

Cineplex reviews per patron metrics as they relate to box office revenue and theatre food service revenue such as BPP, CPP, BPP excluding premium priced product, and concession margin per patron, as these are key measures used by investors to value and assess Cineplex's performance, and are widely used in the theatre exhibition industry. Management of Cineplex defines these metrics as follows:

Attendance: Attendance is calculated as the total number of paying patrons that frequent Cineplex's theatres during the period.

BPP: Calculated as total box office revenues divided by total paid attendance for the period.

BPP excluding premium priced product: Calculated as total box office revenues for the period, less box office revenues from 3D, 4DX, UltraAVX, VIP and IMAX product; divided by total paid attendance for the period, less paid attendance for 3D, 4DX, UltraAVX, VIP and IMAX product.

CPP: Calculated as total theatre food service revenues divided by total paid attendance for the period.

Premium priced product: Defined as 3D, 4DX, UltraAVX, IMAX and VIP film product.

Theatre concession margin per patron: Calculated as total food service revenues less total food service cost, divided by attendance for the period.

Same Theatre Analysis

Cineplex reviews and reports same theatre metrics relating to box office revenues, theatre food service revenues, theatre rent expense and theatre payroll expense, as these measures are widely used in the theatre exhibition industry as well as other retail industries.

Same theatre metrics are calculated by removing the results for all theatres that have been opened, acquired, closed or otherwise disposed of subsequent to the start of the prior year comparative period. For the three months ended December 31, 2017 the impact of the one location that has been opened or acquired and two locations that have been closed have been excluded, resulting in 160 theatres being included in the same theatre metrics. For the year ended December 31, 2017 the impact of the four locations that have been opened or acquired and the three locations that have been closed have been excluded, resulting in 156 theatres being included in the same theatre metrics.

Cost of sales percentages

Cineplex reviews and reports cost of sales percentages for its two largest revenue sources, box office revenues and theatre food service revenues as these measures are widely used in the theatre exhibition industry. These measures are reported as film cost percentage and concession cost percentage, respectively, and are calculated as follows:

Film cost percentage: Calculated as total film cost expense divided by total box office revenues for the period.

Theatre concession cost percentage: Calculated as total theatre food service costs divided by total theatre food service revenues for the period.

***The Rec Room* food cost percentage:** Calculated as total *The Rec Room* food costs divided by total *The Rec Room* food service revenues for the period.

Store Level EBITDA Metrics

Cineplex reviews and reports EBITDA at the location level for the *The Rec Room* which is calculated as total *The Rec Room* revenues from all reportable segments less the total of *The Rec Room* costs.

Store Level Margin

Calculated as store level EBITDA divided by total revenues for *The Rec Room* for the period.

Management's Report to Shareholders

Management is responsible for the preparation of the accompanying consolidated financial statements and all other information contained in this Annual Report. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, which involve management's best estimates and judgments, based on available information.

Management maintains a system of internal accounting controls designed to provide reasonable assurance that transactions are authorized, assets are safeguarded, and financial records are reliable for preparing consolidated financial statements.

The Board of Directors of Cineplex Inc. (the "Board" of the "Company") is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board is assisted in exercising its responsibilities through the Audit Committee of the Board (the "Audit Committee"). The Audit Committee meets periodically with management and the independent auditor to satisfy itself that management's responsibilities are properly discharged and to recommend approval of the consolidated financial statements to the Board.

PricewaterhouseCoopers LLP serves as the Company's auditor. PricewaterhouseCoopers LLP's report on the accompanying consolidated financial statements follows. It outlines the extent of its examination as well as an opinion on the consolidated financial statements.

Ellis Jacob
Chief Executive Officer

Gord Nelson
Chief Financial Officer

Toronto, Ontario

February 22, 2018

February 21, 2018

Independent Auditor's Report

To the Shareholders of
Cineplex Inc.

We have audited the accompanying consolidated financial statements of Cineplex Inc. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2017 and 2016 and the consolidated statements of operations, comprehensive income, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Cineplex Inc. and its subsidiaries as at December 31, 2017 and 2016 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Cineplex Inc.

Consolidated Balance Sheets

(expressed in thousands of Canadian dollars)

	December 31, 2017	December 31, 2016
Assets		
Current assets		
Cash and cash equivalents (note 3)	$ 40,597	$ 33,553
Trade and other receivables (note 4)	160,938	115,903
Income taxes receivable	1,344	463
Inventories (note 5)	28,966	21,412
Prepaid expenses and other current assets	13,013	10,856
Fair value of interest rate swap agreements (note 29)	314	—
	245,172	182,187
Non-current assets		
Property, equipment and leaseholds (note 6)	628,129	564,879
Deferred income taxes (note 7)	7,134	5,891
Fair value of interest rate swap agreements (note 29)	3,880	756
Interests in joint ventures (note 8)	35,353	35,487
Intangible assets (note 9)	119,011	125,492
Goodwill (note 10)	816,489	813,494
	$ 1,855,168	$ 1,728,186

Business acquisitions (note 2)
Commitments guarantees and contingencies (note 27)

The accompanying notes are an integral part of these consolidated financial statements.

(expressed in thousands of Canadian dollars)

	December 31, 2017	December 31, 2016
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 11)	$ 189,929	$ 204,725
Share-based compensation (note 12)	4,732	8,958
Dividends payable (note 13)	8,866	8,575
Income taxes payable	9,157	2,042
Deferred revenue	192,808	172,140
Finance lease obligations (note 15)	3,420	3,180
Fair value of interest rate swap agreements (note 29)	1,332	2,419
Convertible debentures (note 18)	105,080	—
	515,324	402,039
Non-current liabilities		
Share-based compensation (note 12)	13,816	18,346
Long-term debt (note 14)	466,891	297,496
Fair value of interest rate swap agreements (note 29)	—	2,020
Finance lease obligations (note 15)	5,451	8,871
Post-employment benefit obligations (note 16)	9,227	7,932
Other liabilities (note 17)	117,589	125,560
Deferred income taxes (note 7)	15,094	11,210
Convertible debentures (note 18)	—	102,817
	628,068	574,252
Total liabilities	1,143,392	976,291
Equity		
Share capital (note 19)	856,761	859,351
Deficit	(145,147)	(108,342)
Hedging reserves and other	1,332	(3,170)
Contributed surplus	1,647	81
Cumulative translation adjustment	(2,817)	1,175
Total equity attributable to owners of Cineplex	711,776	749,095
Non-controlling interests	—	2,800
Total equity	711,776	751,895
	$ 1,855,168	$ 1,728,186

Approved by the Board of Directors

Director

Director

Cineplex Inc.
Consolidated Statements of Operations
For the years ended December 31, 2017 and 2016

(expressed in thousands of Canadian dollars, except per share amounts)

	2017	2016 (note 28)
Revenues		
Box office	$ 715,605	$ 734,193
Food service	441,876	423,920
Media	171,874	170,792
Amusement	185,341	111,348
Other	40,371	38,073
	1,555,067	1,478,326
Expenses		
Film cost	376,759	389,602
Cost of food service	99,438	96,059
Depreciation and amortization	119,916	105,941
Loss on disposal of assets	706	1,570
Other costs (note 20)	843,219	759,930
Share of income of joint ventures	(3,486)	(2,706)
Interest expense	22,734	18,936
Interest income	(222)	(204)
Foreign exchange	810	(120)
Change in fair value of financial instruments	(2,643)	—
	1,457,231	1,369,008
Income before income taxes	97,836	109,318
Provision for income taxes		
Current (note 7)	26,626	26,231
Deferred (note 7)	864	5,096
	27,490	31,327
Net income	$ 70,346	$ 77,991
Attributable to:		
Owners of Cineplex	$ 70,763	$ 79,713
Non-controlling interests	(417)	(1,722)
Net income	$ 70,346	$ 77,991
Basic net income per share attributable to owners of Cineplex (note 21)	$ 1.11	$ 1.26
Diluted net income per share attributable to owners of Cineplex (note 21)	$ 1.11	$ 1.25

The accompanying notes are an integral part of these consolidated financial statements.

Cineplex Inc.

Consolidated Statements of Comprehensive Income
For the years ended December 31, 2017 and 2016

(expressed in thousands of Canadian dollars)

	2017	2016
Net income	$ 70,346	$ 77,991
Other comprehensive income		
Items that will be reclassified subsequently to net income:		
Income on hedging instruments	6,147	2,458
Associated deferred income taxes expense	(1,645)	(649)
Foreign currency translation adjustment	(3,918)	75
Items that will not be reclassified to net income:		
Actuarial gains (losses) of post-employment benefit obligations	716	(307)
Associated deferred income taxes (expense) recovery	(191)	82
Other comprehensive income	1,109	1,659
Comprehensive income	$ 71,455	$ 79,650
Attributable to:		
Owners of Cineplex	$ 71,861	$ 81,538
Non-controlling interests	(406)	(1,888)
Comprehensive income	$ 71,455	$ 79,650

The accompanying notes are an integral part of these consolidated financial statements.

Cineplex Inc.

Consolidated Statements of Changes in Equity
For the years ended December 31, 2017 and 2016

(expressed in thousands of Canadian dollars)

	Share capital (note 19)	Contributed surplus	Hedging reserves and other	Cumulative translation adjustment	Deficit	Non-controlling interests	Total
January 1, 2017	$ 859,351	$ 81	$ (3,170)	$ 1,175	$ (108,342)	$ 2,800	$ 751,895
Net income	—	—	—	—	70,763	(417)	70,346
Other comprehensive income (page 4)	—	—	4,502	(3,929)	525	11	1,109
Total comprehensive income	**—**	**—**	**4,502**	**(3,929)**	**71,288**	**(406)**	**71,455**
Dividends declared	—	—	—	—	(105,358)	—	(105,358)
Share option expense	—	1,822	—	—	—	—	1,822
Issuance of shares on exercise of options	256	(256)	—	—	—	—	—
Shares repurchased and cancelled	(2,846)	—	—	—	(5,192)	—	(8,038)
WGN non-controlling interests acquired (note 2b)	—	—	—	(63)	2,457	(2,394)	—
December 31, 2017	$ 856,761	$ 1,647	$ 1,332	$ (2,817)	$ (145,147)	$ —	$ 711,776
January 1, 2016	$ 858,305	$ (491)	$ (4,979)	$ 934	$ (86,296)	$ 5,024	$ 772,497
Net income	—	—	—	—	79,713	(1,722)	77,991
Other comprehensive income (page 4)	—	—	1,809	241	(225)	(166)	1,659
Total comprehensive income	**—**	**—**	**1,809**	**241**	**79,488**	**(1,888)**	**79,650**
Dividends declared	—	—	—	—	(101,534)	—	(101,534)
Share option expense	—	1,618	—	—	—	—	1,618
Issuance of shares on exercise of options	1,046	(1,046)	—	—	—	—	—
CSI non-controlling interests acquired	—	—	—	—	—	(336)	(336)
December 31, 2016	$ 859,351	$ 81	$ (3,170)	$ 1,175	$ (108,342)	$ 2,800	$ 751,895

The accompanying notes are an integral part of these consolidated financial statements.

Cineplex Inc.

Consolidated Statements of Cash Flows
For the years ended December 31, 2017 and 2016

(expressed in thousands of Canadian dollars)

	2017	2016
Cash provided by (used in)		
Operating activities		
Net income	$ 70,346	$ 77,991
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization of property, equipment and leaseholds, and intangible assets	119,916	105,941
Amortization of tenant inducements, rent averaging liabilities and fair value lease contract liabilities	(10,362)	(10,618)
Accretion of debt issuance costs and other non-cash interest, net	606	407
Loss on disposal of assets	706	1,570
Deferred income taxes	864	5,096
Interest rate swap agreements - non-cash interest	(200)	239
Non-cash share-based compensation	1,822	1,618
Change in fair value of financial instruments	(2,643)	—
Accretion of convertible debentures	2,263	2,114
Net change in interests in joint ventures	(4,031)	(3,254)
Tenant inducements	3,674	4,920
Changes in operating assets and liabilities (note 25)	(28,609)	(20,010)
Net cash provided by operating activities	154,352	166,014
Investing activities		
Proceeds from sale of assets	2,976	108
Purchases of property, equipment and leaseholds	(170,511)	(104,189)
Acquisition of businesses, net of cash acquired (note 2)	(30,422)	(32,082)
Intangible assets additions	(5,755)	(1,931)
Net cash received from CDCP	4,165	3,054
Net cash used in investing activities	(199,547)	(135,040)
Financing activities		
Dividends paid	(105,067)	(101,197)
Borrowings under credit facilities, net (note 14)	169,000	72,634
Payments under finance leases	(3,180)	(2,957)
Deferred financing fees	(183)	(1,426)
Shares repurchased and cancelled (note 19)	(8,038)	—
Net cash provided by (used in) financing activities	52,532	(32,946)
Effect of exchange rate differences on cash	(293)	(188)
Increase (decrease) in cash and cash equivalents	7,044	(2,160)
Cash and cash equivalents - Beginning of year	33,553	35,713
Cash and cash equivalents - End of year	$ 40,597	$ 33,553
Supplemental information		
Cash paid for interest	$ 20,908	$ 13,584
Cash paid for income taxes, net	$ 20,132	$ 54,842

The accompanying notes are an integral part of these consolidated financial statements.

(expressed in thousands of Canadian dollars, except per share amounts)

1. General information

Cineplex Inc. ("Cineplex") an Ontario, Canada corporation, is one of Canada's largest entertainment organizations, with theatres in ten provinces. Cineplex operates primarily through its wholly owned subsidiaries, Cineplex Entertainment Limited Partnership (the "Partnership"), Famous Players Limited Partnership ("Famous Players"), Galaxy Entertainment Inc. ("GEI"), Cineplex Digital Media Inc. ("CDM"), Player One Amusement Group Inc. ("P1AG") and WorldGaming Network LP ("WGN"). Cineplex is headquartered at 1303 Yonge Street, Toronto, Ontario, M4T 2Y9.

The Board of Directors approved these consolidated financial statements on February 21, 2018.

2. Business acquisitions and formations

a) Dandy Amusements International Inc.

On April 1, 2017, Cineplex acquired all the operating assets of Dandy Amusement International Inc. ("Dandy"), for approximately $13,713 in cash. Dandy is a leading amusement gaming machine operator based in California with operations in western United States. Immaterial transaction costs were expensed as incurred.

Recognized amounts of identifiable assets acquired are as follows:

Assets acquired		
Net working capital, including cash of $490	$	1,345
Customer relationships		1,996
Equipment		10,372
Net assets		13,713
Less: Cash from acquisition		(490)
	$	13,223
Consideration given - cash paid	$	13,713
Less: Cash from acquisition		(490)
	$	13,223

Dandy has arrangements with customers to operate Dandy's gaming equipment on a revenue share basis. The fair value of customer relationships recognized reflect historical annual renewal rates for existing customers and they will be amortized on a straight-line basis over five years.

The equipment will be amortized on a straight-line basis over seven years.

Cineplex's reported revenues and income would not have been materially different if the acquisition had occurred at January 1, 2017.

(expressed in thousands of Canadian dollars, except per share amounts)

b) WGN Put Option

On April 13, 2017, Cineplex acquired the 20% of WGN that it did not already own for $4,000 in cash. As a result of the acquisition, during the year ended December 31, 2017, Cineplex re-allocated the non-controlling interest of $2,394 to other components of equity and recognized a gain of $987, reflected in the change in fair value of financial instrument.

c) EK3 Contingent Consideration

The deferred consideration relating to the acquisition of EK3 Technologies Inc. ("EK3") was settled at $10,000 during the year ended December 31, 2017. There was no impact on net income.

d) SAW, LLC

During the first quarter of 2017, the fair values were revised based on the post-acquisition review of the fair value of the customer relationships and equipment acquired, and liabilities assumed, resulting in the recognition of $3,156 in customer relationships, and a $3,156 reduction in the value of equipment, and a $10 decrease in working capital.

e) Tricorp Amusements Inc.

During the second quarter, Cineplex paid $3,093 of remaining consideration relating to the acquisition of Tricorp Amusements Inc. This amount was reflected in accounts payable and accrued liabilities in the first quarter of 2017.

(expressed in thousands of Canadian dollars, except per share amounts)

3. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	2017	2016
Cash at bank and on hand, net of outstanding cheques	$ 40,597	$ 33,553

4. Trade and other receivables

Trade and other receivables comprise the following:

	2017	2016
Trade receivables	$ 133,711	$ 92,707
Other receivables	27,227	23,196
	$ 160,938	$ 115,903

5. Inventories

Inventories comprise the following:

	2017	2016
Food service inventories	$ 7,510	$ 6,598
Gaming inventories	15,911	10,678
Other inventories, including work-in-progress	5,545	4,136
	$ 28,966	$ 21,412

(expressed in thousands of Canadian dollars, except per share amounts)

6. Property, equipment and leaseholds

Property, equipment and leaseholds consist of:

	Land	Buildings and leasehold improvements	Buildings and leasehold improvements under finance lease	Equipment	Construction-in-progress	Total
At January 1, 2016						
Cost	$ 19,262	$ 595,090	$ 26,102	$ 564,652	$ 21,152	$ 1,226,258
Accumulated depreciation	—	(317,730)	(17,146)	(358,190)	—	(693,066)
Net book value	$ 19,262	$ 277,360	$ 8,956	$ 206,462	$ 21,152	$ 533,192
Year ended December 31, 2016						
Opening net book value	$ 19,262	$ 277,360	$ 8,956	$ 206,462	$ 21,152	$ 533,192
Additions, net	126	49,946	—	57,263	(5,481)	101,854
Business acquisitions	—	—	—	22,847	—	22,847
Disposals	—	(409)	—	(1,957)	(125)	(2,491)
Foreign exchange rate changes	—	—	—	540	—	540
Depreciation for the year	—	(37,476)	(2,037)	(51,550)	—	(91,063)
Closing net book value	$ 19,388	$ 289,421	$ 6,919	$ 233,605	$ 15,546	$ 564,879
At January 1, 2017						
Cost	$ 19,388	$ 644,014	$ 26,102	$ 638,508	$ 15,546	$ 1,343,558
Accumulated depreciation	—	(354,593)	(19,183)	(404,903)	—	(778,679)
Net book value	$ 19,388	$ 289,421	$ 6,919	$ 233,605	$ 15,546	$ 564,879
Year ended December 31, 2017						
Opening net book value	$ 19,388	$ 289,421	$ 6,919	$ 233,605	$ 15,546	$ 564,879
Additions, net	15	61,773	—	81,995	23,020	166,803
Business acquisitions (note 2)	—	—	—	7,216	—	7,216
Disposals	(496)	(929)	—	(2,172)	(1,474)	(5,071)
Foreign exchange rate changes	—	9	—	(2,588)	—	(2,579)
Depreciation for the year	—	(41,461)	(2,038)	(59,620)	—	(103,119)
Closing net book value	$ 18,907	$ 308,813	$ 4,881	$ 258,436	$ 37,092	$ 628,129
At December 31, 2017						
Cost	$ 18,907	$ 704,403	$ 26,102	$ 720,691	$ 37,092	$ 1,507,195
Accumulated depreciation	—	(395,590)	(21,221)	(462,255)	—	(879,066)
Net book value	$ 18,907	$ 308,813	$ 4,881	$ 258,436	$ 37,092	$ 628,129

(expressed in thousands of Canadian dollars, except per share amounts)

7. Deferred income taxes

Based on substantively enacted corporate tax rates, expected timing of reversals and expected taxable income allocation to various tax jurisdictions, deferred income taxes are as follows:

		2017		2016
Deferred income tax assets				
Property, equipment and leaseholds and deferred tenant inducements - difference between net carrying value and undepreciated capital cost	$	26,607	$	23,022
Accounting provisions not currently deductible		10,689		13,005
Rent averaging liabilities		9,728		9,944
Deferred revenue		391		508
Interest rate swap agreements		(875)		1,075
Income tax credits available		291		102
Operating losses available for carry-forward		9,513		9,497
Total gross deferred income tax assets		56,344		57,153
Future deferred tax liabilities				
Intangible assets		(19,239)		(20,304)
Goodwill		(43,892)		(40,402)
Other		(1,173)		(1,766)
Total gross deferred income tax liabilities		(64,304)		(62,472)
Net deferred income tax liability	$	(7,960)	$	(5,319)

With the exception of operating losses used to reduce taxable income, which cannot be estimated, the net deferred income taxes are expected to be recognized after 2018.

The provision for income taxes included in the consolidated statements of operations differs from the statutory income tax rate for the years ended December 31, 2017 and 2016 as follows:

		2017		2016
Income before income taxes	$	97,836	$	109,318
Combined statutory income tax rates for the current year		26.78%		26.81%
Income taxes payable at statutory rate		26,200		29,308
Adjustments relating to prior periods		533		563
Other permanent differences		757		1,456
Provision for income taxes	$	27,490	$	31,327

Adjustments relating to prior periods include differences between the prior year provision and the income tax returns as filed.

(expressed in thousands of Canadian dollars, except per share amounts)

At December 31, 2017, subsidiaries of Cineplex had recognized deferred tax assets associated with operating (non-capital) losses available for carry-forward. Cineplex believes the circumstances under which the losses occurred are unlikely to recur given the existing business organization and projected operating results. Those losses expire as follows:

2023	$	297
2024	$	2,799
2026	$	3,929
2027	$	4,994
2028	$	8,822
2029	$	5,122
2030	$	2,184
2032	$	254
2034	$	1,947
2035	$	2,770
2036	$	2,749
	$	35,867

At December 31, 2017, Cineplex had not recognized deferred income tax assets associated with $21,924 (2016 - $18,529) of losses available for carry-forward from its joint venture SCENE, as under the current organizational structure the joint venture is not expected to generate sufficient taxable income to recover those losses in the foreseeable future.

8. Interests in joint ventures

Cineplex participates in incorporated and unincorporated joint ventures with other parties and accounts for its interests using the equity method.

Cineplex Digital Cinemas Partnership, ("CDCP"), is a joint venture formed by Cineplex and Empire Theatres Limited to finance the implementation of digital projectors. Cineplex leases its digital projectors from CDCP.

Other joint ventures include 50% interest in a theatre operation (2016 - one theatre operation), and a 50% interest in YoYo's.

Each of the joint ventures is headquartered in Canada.

The net interest in joint ventures is summarized as follows as at December 31, 2017 and 2016:

(expressed in thousands of Canadian dollars, except per share amounts)

2017	**CDCP**	**Other**	**Total**
Ownership percentage	78.2%	50%	
Voting percentage	50%	50%	
Interest at beginning of year	$ 34,868	$ 619	$ 35,487
Investments	134	—	134
Dividends or distributions	(4,299)	—	(4,299)
Net change in receivable or payable	814	(270)	544
Share of net income	3,480	6	3,486
Share of OCI	1	—	1
Net interest in joint ventures	$ 34,998	$ 355	$ 35,353

2016	**CDCP**	**Other**	**Total**
Ownership percentage	78.2%	50%	
Voting percentage	50%	50%	
Interest at beginning of year	$ 34,684	$ 604	$ 35,288
Investments	567	—	567
Dividends or distributions	(3,621)	—	(3,621)
Net change in receivable or payable	622	(149)	473
Share of net income	2,542	164	2,706
Share of OCI	74	—	74
Net interest in joint ventures	$ 34,868	$ 619	$ 35,487

(expressed in thousands of Canadian dollars, except per share amounts)

The summarized balance sheets including 100% of the assets, liabilities and equity of each of the joint ventures at December 31 each year are as follows:

2017	**CDCP**	**Other**	**Total**
Assets			
Cash and cash equivalents	$ 2,357	$ 189	$ 2,546
Trade and other receivables	6,656	455	7,111
Inventories	—	84	84
Prepaid expenses and other current assets	22	6	28
Fair value of interest rate contracts	14	—	14
	9,049	734	9,783
Equipment	41,186	140	41,326
Total assets	$ 50,235	$ 874	$ 51,109
Liabilities			
Accounts payable and accrued liabilities	$ 1,952	$ —	$ 1,952
Deferred revenue	157	—	157
Current portion of long-term debt	9,183	—	9,183
	11,292	—	11,292
Long-term debt	—	3,151	3,151
Total liabilities	11,292	3,151	14,443
Equity	38,943	(2,277)	36,666
Total liabilities and equity	$ 50,235	$ 874	$ 51,109

2016	**CDCP**	**Other**	**Total**
Assets			
Cash and cash equivalents	$ 3,598	$ 139	$ 3,737
Trade and other receivables	6,349	567	6,916
Inventories	—	113	113
Prepaid expenses and other current assets	47	86	133
Fair value of interest rate contracts	5	—	5
	9,999	905	10,904
Equipment	53,482	433	53,915
Fair value of interest rate contracts	4	—	4
Total assets	$ 63,485	$ 1,338	$ 64,823
Liabilities			
Accounts payable and accrued liabilities	$ 1,962	$ —	$ 1,962
Deferred revenue	158	—	158
Current portion of long-term debt	6,894	—	6,894
	9,014	—	9,014
Long-term debt	14,793	2,156	16,949
Total liabilities	23,807	2,156	25,963
Equity	39,678	(818)	38,860
Total liabilities and equity	$ 63,485	$ 1,338	$ 64,823

(expressed in thousands of Canadian dollars, except per share amounts)

Lease commitments of the joint ventures are disclosed in note 26.

The summarized statements of comprehensive income including 100% of the revenue, expenses and income of each of the joint ventures for the years ending December 31 are as follows:

2017	**CDCP**	**Other**	**Total**
Revenues	$ 23,982	$ 4,175	$ 28,157
Depreciation and amortization	12,296	63	12,359
Interest expense (net)	515	102	617
Other expenses	6,720	3,996	10,716
Total expenses	19,531	4,161	23,692
Net income	$ 4,451	$ 14	$ 4,465
Other comprehensive income	1	—	1
Comprehensive income	$ 4,452	$ 14	$ 4,466

2016	**CDCP**	**Other**	**Total**
Revenues	$ 24,463	$ 4,160	$ 28,623
Depreciation and amortization	13,652	78	13,730
Interest expense (net)	1,030	81	1,111
Other expenses	6,555	3,673	10,228
Total expenses	21,237	3,832	25,069
Net income	$ 3,226	$ 328	$ 3,554
Other comprehensive income	150	—	150
Comprehensive income	$ 3,376	$ 328	$ 3,704

(expressed in thousands of Canadian dollars, except per share amounts)

SCENE

In addition to the joint ventures which are equity accounted, Cineplex consolidates its 50% share of assets, liabilities, revenues and expenses of its joint operation, SCENE. The summarized balance sheets of SCENE at December 31 are as follows:

	2017	2016
Assets		
Cash and cash equivalents	$ 992	$ 3,644
Trade and other receivables	19,156	13,661
Prepaid expenses	—	76
	20,148	17,381
Intangible Assets	907	318
Equipment	492	438
Total assets	$ 21,547	$ 18,137
Liabilities		
Accounts payable and accrued liabilities	$ 22,342	$ 19,027
Deferred revenue	45,024	37,656
Total liabilities	67,366	56,683
Deficiency	(45,819)	(38,546)
	$ 21,547	$ 18,137

The summarized results of operations of SCENE are as follows:

	2017	2016
Revenues	$ 69,891	$ 65,897
Expenses	95,163	82,759
Net loss	$ (25,272)	$ (16,862)

Cineplex and the other partner of SCENE contribute capital as required to fund SCENE’s operations.

(expressed in thousands of Canadian dollars, except per share amounts)

9. Intangible assets

Intangible assets consist of the following:

	Customer relationships	Fair value of leases - assets	Other	Trademarks and trade names	Total
At January 1, 2016					
Cost	$ 23,714	$ 26,973	$ 43,404	$ 63,599	$ 157,690
Accumulated amortization	(4,634)	(11,008)	(9,908)	—	(25,550)
Net book value	$ 19,080	$ 15,965	$ 33,496	$ 63,599	$ 132,140
Year ended December 31, 2016					
Opening net book value	$ 19,080	$ 15,965	$ 33,496	$ 63,599	$ 132,140
Additions	—	—	4,706	—	4,706
Business acquisitions	4,319	—	—	—	4,319
Foreign exchange rate changes	67	—	(844)	—	(777)
Amortization	(4,057)	(2,446)	(8,393)	—	(14,896)
Closing net book value	$ 19,409	$ 13,519	$ 28,965	$ 63,599	$ 125,492
At January 1, 2017					
Cost	$ 28,094	$ 26,973	$ 47,283	$ 63,599	$ 165,949
Accumulated amortization	(8,685)	(13,454)	(18,318)	—	(40,457)
Net book value	$ 19,409	$ 13,519	$ 28,965	$ 63,599	$ 125,492
Year ended December 31, 2017					
Opening net book value	$ 19,409	$ 13,519	$ 28,965	$ 63,599	$ 125,492
Additions	—	—	5,755	—	5,755
Business acquisitions (note 2)	5,152	—	—	—	5,152
Foreign exchange rate changes	(493)	—	(98)	—	(591)
Amortization for the year	(5,341)	(2,086)	(9,370)	—	(16,797)
Closing net book value	$ 18,727	$ 11,433	$ 25,252	$ 63,599	$ 119,011
At December 31, 2017					
Cost	$ 32,585	$ 21,911	$ 52,927	$ 63,599	$ 171,022
Accumulated amortization	(13,858)	(10,478)	(27,675)	—	(52,011)
Net book value	$ 18,727	$ 11,433	$ 25,252	$ 63,599	$ 119,011

(expressed in thousands of Canadian dollars, except per share amounts)

10. Goodwill

The following table discloses the change in goodwill for the years ended December 31:

	2017	2016
Balance - Beginning of year	$ 813,494	$ 807,953
Goodwill acquired (note 2)	3,504	5,401
Foreign exchange rate changes	(509)	140
Balance - End of year	$ 816,489	$ 813,494

Cineplex performs its annual test for goodwill in the fourth quarter in accordance with its policy described in note 31. In assessing goodwill for impairment, Cineplex compared the aggregate recoverable amount of the assets included in the relevant CGUs to their respective carrying amounts. The recoverable amount was determined based on the fair value less costs of disposal of the groups of CGUs. This approach requires assumptions about revenue growth rates, operating margins, and discount rates.

For the purpose of impairment testing, goodwill has been allocated to the following CGUs or groups of CGUs:

	2017	2016
Exhibition	$ 594,950	$ 594,950
Media	206,385	206,385
Amusement and leisure	15,154	12,159
	$ 816,489	$ 813,494

Revenue growth rates and operating margins are based on Cineplex's internal budget. Cineplex projects revenue, operating margins and cash flows for a period of five years, and applies a perpetual long-term growth rate thereafter. In arriving at its forecasts, Cineplex considers past experience, economic trends such as inflation, as well as industry and market trends. The projections also take into account the expected impact of new product and service initiatives. Discount rates applied to the groups of CGUs represent Cineplex's assessment of the risks specific to each group of CGUs regarding the time value of money and individual risks of the underlying assets. Cineplex used discount rates between 6.4% and 12.7% (2016 - between 7.0% and 12.7%), and perpetual growth rates between 1% and 3% (2016 - between 1% and 3%), which are consistent with the observed long-term average growth rates in the exhibition and digital media industries.

Cineplex concluded that there were no impairments of its individual CGUs, and the reasonable range of recoverable amounts for the individual CGUs were greater than their carrying values. For one CGU in the Exhibition group of CGUs, if the discount rate were to increase by 1.0%-2.0%, assuming a constant cash flow margin, the carrying amount of the CGUs would exceed the reasonable range for the recoverable amount, representing approximately 0.2%-3.0% of the Exhibition goodwill. For all other CGUs, no reasonably possible change in assumption would cause the recoverable amount to fall below the carrying value.

The determination of fair value less costs of disposal is sensitive to the growth rates, discount rates, and long-term growth rates used. The risk premiums expected by market participants related to uncertainties about the industry and assumptions relating to future cash flows may differ, depending on economic conditions and other events. Accordingly, it is reasonably possible that future changes in assumptions may negatively impact future assessments of the recoverable amount for groups of CGUs.

(expressed in thousands of Canadian dollars, except per share amounts)

11. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consist of:

	2017	2016
Accounts payable - trade	$ 91,840	$ 114,512
Film payables and accruals	41,327	32,567
Accrued salaries and benefits	20,997	18,678
Sales taxes payable	13,595	8,258
Accrued occupancy costs	2,914	3,061
Deferred consideration - EK3 business acquisition	—	10,000
WGN put option	—	5,035
Other payables and accrued liabilities	19,256	12,614
	$ 189,929	$ 204,725

12. Share-based compensation

Option plan

Cineplex has an incentive share option plan (the “Plan”) for certain employees. The aggregate number of shares that may be issued under the Plan is limited to 5,250,000. All of the options must be exercised over specified periods not to exceed ten years from the date granted. As at December 31, 2017, 2,032,138 options are available for grant under the plan.

(expressed in thousands of Canadian dollars, except per share amounts)

Shares options have been granted as follows:

Grant date	Number of options granted	Exercise price	Number of employees granted options	Vesting period	Expiry
February 15, 2011	529,774	23.12	41	One third on each successive anniversary of the grant date	February 14, 2021
February 15, 2011	500,000	23.12	1	One fourth on each successive anniversary of the grant date	February 14, 2021
February 14, 2012	474,000	27.33	42	One third on each successive anniversary of the grant date	February 13, 2022
February 12, 2013	385,834	33.49	42	One third on each successive anniversary of the grant date	February 11, 2023
September 3, 2013	20,000	39.12	1	One third on each successive anniversary of the grant date	September 2, 2023
February 14, 2014	440,519	40.45	54	One third on each successive anniversary of the grant date	February 14, 2024
February 14, 2014	100,000	40.45	1	One fourth on each successive anniversary of the grant date	February 14, 2024
February 18, 2015	446,004	49.14	59	One fourth on each successive anniversary of the grant date	February 18, 2025
February 12, 2016	501,270	47.86	76	One fourth on each successive anniversary of the grant date	February 12, 2026
February 21, 2017	544,922	51.25	80	One fourth on each successive anniversary of the grant date	February 21, 2027

The exercise price was equal to the market price of Cineplex shares or units at the grant date.

The options may only be equity-settled, and are considered equity, not liabilities. The expense amount for options is determined at the time of their issuance, recognized over the vesting period of the options. Forfeitures are estimated at nil, based on historical forfeitures.

Cineplex recorded $1,822 of employee benefits expense with respect to the options during the year ended December 31, 2017 (2016 - $1,618). At December 31, 2017, $6,586 associated with the options is reflected in contributed surplus on the consolidated balance sheets (2016 - $5,020). The intrinsic value of vested share options at December 31, 2017 is $1,413 (2016 - $9,267), based on the market price of $37.33 per share (2016 - $51.22).

(expressed in thousands of Canadian dollars, except per share amounts)

A summary of option activities in 2017 and 2016 is as follows:

		2017		2016	
	Weighted average remaining contractual life (years)	Number of underlying shares	Weighted average exercise price	Number of underlying shares	Weighted average exercise price
Options outstanding, January 1	7.72	1,705,338	$ 43.21	1,550,521	$ 38.60
Granted		544,992	51.25	501,270	47.86
Cancelled		(11,395)	49.71	(17,117)	47.16
Exercised		(81,346)	35.38	(329,336)	28.41
Options outstanding, December 31	7.37	2,157,589	$ 45.50	1,705,338	$ 43.21

At December 31, 2017 and 2016, options are vested and exercisable as follows:

	2017	2016
Options vested and exercisable at $47.86	116,729	—
Options vested and exercisable at $49.14	207,386	106,330
Options vested and exercisable at $40.45	421,671	276,419
Options vested and exercisable at $39.12	20,000	20,000
Options vested and exercisable at $33.49	175,267	188,273
Options vested and exercisable at $27.33	55,851	88,755
Options vested and exercisable at $23.12	12,746	13,117
	1,009,650	692,894

The fair values of options granted in 2017 and 2016 were determined using the Black-Scholes valuation model using the following significant inputs:

Cineplex granted options in 2017 and 2016 as follows:

	2017	2016
Number of options granted	544,992	501,270
Share price	$ 51.25	$ 47.86
Exercise price	$ 51.25	$ 47.86
Expected option life (years)	4.0	4.0
Volatility	16%	15%
Dividend yield	3.15%	3.26%
Annual risk-free rate	0.98%	0.82%
Fair value of options granted	$ 4.07	$ 3.36

(expressed in thousands of Canadian dollars, except per share amounts)

Long-term incentive plan

The LTIP award for three-year service periods consists of a "phantom" stock plan, awarding 129,136 share equivalents in 2017 (2016 - 112,804), which, subject to certain performance and market conditions, may decrease approximately 61% or increase by 83% subject to certain performance and market conditions. The base share equivalents attract compounding notional dividends at the same rate as outstanding common shares, which are notionally reinvested as additional base share equivalents. The awards will be settled in cash at the end of service periods, within 30 days of the approval of the consolidated financial statements by the Board of Directors.

LTIP costs are estimated at the grant date based on expected performance results then accrued and recognized on a graded basis over the vesting period. The effects of changes in estimates of performance results are recognized in the year of change. Forfeitures are estimated at $nil. For the year ended December 31, 2017, Cineplex recognized compensation costs of $3,768 (2016 - $7,075) under the LTIP. At December 31, 2017, $9,440 (2016 - $14,933) was included in share-based compensation liability.

Deferred equity units

Members of the Board of Directors and certain officers of Cineplex may elect to defer a portion of their compensation in the form of deferred equity units. For the year ended December 31, 2017, Cineplex recognized compensation recovery of $2,932 (2016 - $1,277 expense) associated with the deferred equity units. At December 31, 2017, $9,108 (2016 - $12,370) was included in share-based compensation liability.

13. Dividends payable

Cineplex has declared the following dividends during the years:

	2017		2016	
Record date	**Amount**	**Amount per share**	**Amount**	**Amount per share**
January	$ 8,575	$ 0.1350	$ 8,238	$ 0.1300
February	8,575	0.1350	8,240	0.1300
March	8,575	0.1350	8,243	0.1300
April	8,575	0.1350	8,243	0.1300
May	8,892	0.1400	8,567	0.1350
June	8,896	0.1400	8,571	0.1350
July	8,896	0.1400	8,571	0.1350
August	8,896	0.1400	8,571	0.1350
September	8,874	0.1400	8,571	0.1350
October	8,872	0.1400	8,571	0.1350
November	8,866	0.1400	8,573	0.1350
December	8,866	0.1400	8,575	0.1350

The dividends are paid on the last business day of the following month. Dividends are at the discretion of the Board of Directors of Cineplex.

In January 2018, Cineplex declared a dividend of $8,866, or $0.1400 per share, payable in February 2018.

(expressed in thousands of Canadian dollars, except per share amounts)

14. Long-term debt

In the second quarter of 2016, Cineplex increased and extended its bank credit facilities (the "Credit Facilities"), primarily with the same syndicate of lenders, to April 26, 2021. The amendment was considered a renegotiation of debt and as a result, financing fees of $1,426 were added to the unamortized deferred financing fees of $1,465 associated with the previous amended credit facilities, and are being amortized over the remaining term on a straight-line basis.

The Credit Facilities consist of the following:

a) a five-year, $475,000, senior, secured, revolving, (the "Revolving Facility"); and
b) a five-year, $150,000, senior, secured, non-revolving, credit facility, (the "Term Facility").

During the third quarter of 2017, the Revolving Facility increased $75,000 from $400,000 to $475,000, under the provisions of the existing terms. Financing fees of $183 were added to the unamortized deferred financing fees of $2,070 associated with the previous amended credit facilities, and are being amortized over the remaining term on a straight-line basis. There are provisions to increase the Revolving Facility commitment amount by an additional $75,000 with the consent of the lenders.

The Credit Facilities mature on April 26, 2021 and are payable in full at maturity, with no scheduled repayment of principal required prior to maturity. The Credit Facilities bear interest at a floating rate, based on the Canadian dollar prime rate, or bankers' acceptances rates plus, in each case, an applicable margin to those rates. Borrowings on the Revolving Facility and the Term Facility can be made in either Canadian or US dollars.

The Credit Facilities contain numerous restrictive covenants that limit the discretion of Cineplex's management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of Cineplex to create liens or other encumbrances, to pay dividends or make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity.

The Credit Facilities are secured by all of the Partnership's and Cineplex's assets and are guaranteed by Cineplex.

During the first quarter of 2014, Cineplex entered into three interest rate swap agreements which commenced in August 2016 for an aggregate notional principal amount of $150,000, and mature on October 24, 2018, the maturity of the Credit Facilities at that time. Under these agreements, Cineplex pays a fixed rate of 2.62% per annum, plus an applicable margin, and receives a floating rate of interest equal to the three-month Canadian deposit offering rate set quarterly in advance, with net settlements quarterly.

During the second quarter of 2016, Cineplex entered into three interest rate swap agreements which commenced on April 25, 2016 for an aggregate notional principal amount of $50,000, and mature on October 24, 2018. Under these agreements, Cineplex pays a fixed rate of 1.07% per annum, plus an applicable margin, and receives a floating rate of interest equal to the three-month Canadian deposit offering rate set quarterly in advance, with net settlements quarterly.

Also during the second quarter of 2016, Cineplex entered into three interest rate swap agreements which commence in October 24 2018 for an aggregate notional principal amount of $200,000, and mature on April 26, 2021, the same date as the maturity date of the Credit Facilities. Under these agreements, Cineplex pays a fixed rate of 1.484% per annum, plus an applicable margin, and receives a floating rate of interest equal to the three-month Canadian deposit offering rate set quarterly in advance, with net settlements quarterly.

(expressed in thousands of Canadian dollars, except per share amounts)

The purpose of the interest rate swap agreements is to act as a cash flow hedge of the floating interest rate payable under the Term Facility. Cineplex considered its hedging relationships and determined that the interest rate swap agreements on its Term Facility qualify for hedge accounting in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*. Under the provisions of IAS 39, the interest rate swap agreements are recorded on the balance sheet at their fair values, with subsequent changes in fair value recorded in either net income or other comprehensive income.

Long-term debt consists of:

		2017		2016
Term Facility	$	150,000	$	150,000
Revolving Facility		319,000		150,000
Deferred financing fees		(2,109)		(2,504)
	$	466,891	$	297,496
Letters of credit reserved against Revolving Facility	$	7,043	$	6,252
Revolving Facility available		148,957		243,748

The increase in borrowings was used to fund new acquisitions, capital expenditures and the acquisition of shares for cancellation under the normal course issuer bid ("NCIB").

At December 31, 2017, Cineplex was subject to a margin of 0.75% (2016 - 0.40%) on the prime rate and 1.75% (2016 - 1.40%) on the bankers' acceptance rate, plus a 0.25% (2016 - 0.25%) per annum fee for letters of credit issued on the Revolving Facility. The average interest rate on borrowings under the Credit Facilities was 3.15% for the year ended December 31, 2017 (2016 - 2.85%). Cineplex pays a commitment fee on the daily unadvanced portion of the Revolving Facility, which will vary based on certain financial ratios and was 0.35% at December 31, 2017 (2016 - 0.28%).

15. Finance lease obligations

Cineplex has two non-cancellable finance leases for theatres and a number of small equipment leases for various periods, including renewal options. Future minimum payments, by year and in the aggregate, under non-cancellable finance leases are as follows:

2018	$	3,955
2019		3,955
2020		1,838
		9,748
Less: Amount representing interest (average rate of 7.3%)		877
		8,871
Less: Current portion		3,420
	$	5,451

Interest expense related to finance lease obligations was $775 for the year ended December 31, 2017 (2016 - $998).

(expressed in thousands of Canadian dollars, except per share amounts)

16. Post-employment benefit obligations

Cineplex sponsors a defined benefit supplementary executive retirement plan ("DB SERP"). On March 1, 2017, Cineplex revised the terms of the SERP to increase the defined benefit pension payable resulting in recognition of a $1,615 pension expenses included in employee salaries and benefits. The DB SERP has a defined benefit obligation of $8,098 at December 31, 2017 (December 31, 2016 - $6,680), which is substantially unfunded. Annual benefits payable are between $500 and $650, depending on the retirement date of the sole beneficiary. The DB SERP does not have a material effect on the operations or cash flows of Cineplex.

Cineplex also sponsors the Retirement Plan for Salaried Employees of Famous Players Limited Partnership, a defined benefit pension plan, and the Famous Players Retirement Excess Plan (collectively known as the "Famous Players Plans"). Effective October 23, 2005, Cineplex elected to freeze future accrual of defined benefits under the Famous Players Plans. The Famous Players Plans do not have a material effect on the operations, cash flows or financial position of Cineplex.

Cineplex also provides a group registered retirement plan for the benefit of full-time employees.

The net post-retirement benefit obligation for each of plans is as follows:

		2017		2016
DB SERP obligation, net of assets	$	7,507	$	6,199
Famous Players Plans obligations		1,720		1,733
Net post-retirement benefit obligation	$	9,227	$	7,932

Reconciliation of the net post-retirement benefit obligations

		2017		2016
Accrued benefit obligations				
Balance - Beginning of year	$	8,414	$	7,676
Current service cost		400		358
Past service cost - vested benefits		1,615		—
Interest cost		341		313
Benefits paid		(125)		(120)
Actuarial (gains) losses		(826)		187
Balance - End of year	$	9,819	$	8,414
Less: Fair value of plan assets	$	592	$	482
Net post-retirement benefit obligation	$	9,227	$	7,932

(expressed in thousands of Canadian dollars, except per share amounts)

Significant assumptions

	2017	2016
Accrued benefit obligations at December 31		
Discount rate - all plans	3.30% - 3.40%	3.60% - 3.80%
Health care cost trend rates at December 31		
Initial rate	6.62%	5.63%
Ultimate rate	4.46%	3.94%
Year ultimate rate reached	2028	2024

Sensitivity analysis

The following table shows the impact of a 1% increase or decrease of the discount rate on the defined benefit obligation at the end of the year.

	2017	2016
Impact of 1% increase in the discount rate	$ (1,147)	$ (932)
Impact of 1% decrease in the discount rate	$ 1,378	$ 1,118

17. Other liabilities

Other liabilities consist of the following:

	2017	2016
Deferred tenant inducements	$ 48,162	$ 49,070
Excess of straight-line amortization over lease payments	36,374	36,391
Fair value of leases - liabilities	17,531	21,817
Asset retirement obligations	2,334	2,120
Deferred gain on sale of density rights	1,237	1,384
Licensing obligations - non-current	5,902	7,720
Deferred consideration - AMC business acquisition	3,134	3,134
Other, including provisions	2,915	3,924
	$ 117,589	$ 125,560

(expressed in thousands of Canadian dollars, except per share amounts)

18. Convertible debentures

Convertible debentures consist of the following at December 31, 2017 and 2016:

	2017	2016
Face value of debentures outstanding	$ 107,500	$ 107,500
Unaccreted deferred financing fees and discount	(2,420)	(4,683)
	$ 105,080	$ 102,817

The $107,500 convertible unsecured subordinated debentures, mature on December 31, 2018 and bearing interest at a rate of 4.5% per annum, payable semi-annually in arrears on June 30 and December 30 in each year. On or after December 31, 2017, the convertible debentures may be redeemed in whole or in part from time to time at the option of Cineplex at a price equal to their principal amount plus accrued and unpaid interest. Redemptions may be in cash or in the form of shares, at the option of Cineplex.

Cineplex recorded accretion on convertible debentures of $2,263 (2016 - $2,114). Accretion on convertible debentures is included as part of the interest expense on the consolidated statement of operations.

(expressed in thousands of Canadian dollars, except per share amounts)

19. Share capital

Cineplex is authorized to issue an unlimited number of common shares and 10,000,000 preferred shares of which none are outstanding. Share capital at December 31, 2017 and 2016 and transactions during the periods are as follows:

2017				Amount
	Number of common shares issued and outstanding	Common shares	Equity component of convertible debentures	Total
Balance - December 31, 2016	63,515,875	$ 854,880	$ 4,471	$ 859,351
Issuance of shares on exercise of options	26,063	256	—	256
Shares repurchased and cancelled under the normal course issuer bid	(211,492)	(2,846)	—	(2,846)
Balance - December 31, 2017	63,330,446	$ 852,290	$ 4,471	$ 856,761

2016				Amount
	Number of common shares issued and outstanding	Common shares	Equity component of convertible debentures	Total
Balance - December 31, 2015	63,370,059	$ 853,834	$ 4,471	$ 858,305
Issuance of shares on exercise of options	145,816	1,046	—	1,046
Balance - December 31, 2016	63,515,875	$ 854,880	$ 4,471	$ 859,351

On September 5, 2017, Cineplex filed for a NCIB with the Toronto Stock Exchange ("TSX"). The Board has concluded that the market price of the shares, from time to time, may not reflect the inherent value of Cineplex and purchases of the shares pursuant to the bid may represent an appropriate and desirable use of funds. Pursuant to the NCIB, Cineplex may, in the 12-month period commencing September 7, 2017 and ending on September 6, 2018, acquire for cancellation up to 10% of its total public float of shares. Based on a total public float of 63,089,953 shares on August 28, 2017, Cineplex could acquire 6,308,995 shares under its NCIB. All shares purchased by Cineplex under the NCIB will be cancelled. Purchases will be made at market prices through the facilities of the TSX and/or alternative Canadian trading systems. Under the NCIB, Cineplex may purchase up to 36,798 shares on the TSX during any trading day, which is 25% of 147,192 (the average daily trading volume for Cineplex's shares on the TSX for the six months ended August 31, 2017). This limitation does not apply to purchases made pursuant to block purchase exemptions. Cineplex has adopted an automatic securities purchase plan in connection with its NCIB that contains parameters regarding how its shares may be repurchased during times when it would ordinarily not be permitted to purchase shares due to regulatory restrictions or self-imposed blackout periods. During the year, 211,492 shares were purchased and cancelled by Cineplex for an aggregate of $8,038.

(expressed in thousands of Canadian dollars, except per share amounts)

20. Other costs

	2017	2016
Employee salaries and benefits	$ 282,009	$ 256,694
Rent	153,283	144,236
Realty and occupancy taxes and maintenance fees	69,952	67,016
Utilities	31,185	31,550
Purchased services	61,907	58,481
Other inventories consumed, including amusement and digital place-based media	70,402	60,689
Venue revenue share	40,986	16,521
Repairs and maintenance	32,298	28,365
Office and operating supplies	16,166	15,101
Licences and franchise fees	14,358	13,328
Insurance	4,239	3,510
Advertising and promotion	29,641	32,145
Professional and consulting fees	7,184	7,491
Telecommunications and data	7,122	5,843
Bad debts	409	510
Equipment rental	3,250	2,934
Other costs	18,828	15,516
	$ 843,219	$ 759,930

21. Net income per share

Basic

Basic earnings per share ("EPS") is calculated by dividing the net income by the weighted average number of shares outstanding during the period.

	2017	2016
Net income attributable to owners of Cineplex	$ 70,763	$ 79,713
Weighted average number of shares outstanding	63,473,583	63,451,257
Basic EPS	$ 1.11	$ 1.26

Diluted

Diluted EPS is calculated by adjusting the weighted average number of shares outstanding to assume conversion of all dilutive potential shares. Cineplex has several categories of dilutive potential shares. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the outstanding shares for the period), based on the monetary value of the rights attached to the potentially dilutive shares. The number of shares calculated above is compared with the number of shares that would have been issued assuming exercise of conversions, exchanges or options.

(expressed in thousands of Canadian dollars, except per share amounts)

	2017	2016
Net income attributable to shareholders of Cineplex	$ 70,763	$ 79,713
Weighted average number of shares outstanding	63,473,583	63,451,257
Adjustments for stock options	135,467	241,259
Weighted average number of shares for diluted EPS	63,609,050	63,692,516
Diluted EPS	$ 1.11	$ 1.25

22. Operating segments

As at January 1, 2017, Cineplex has three reportable segments, Film Entertainment and Content, Media and Amusement and Leisure. Prior to this date, the Amusement and Leisure segment was grouped with the Film Entertainment and Content segment. The reportable segments are business units offering differing products and services and managed separately due to their distinct natures. These three reportable segments have been determined by Cineplex's chief operating decision makers. The Film Entertainment and Content reporting segment does not charge an access fee to the Media reporting segment. All other inter-segment transactions are eliminated in the Corporate and other category, which includes all corporate general and administrative costs not directly associated with a segment.

Film Entertainment and Content
The Film Entertainment and Content reporting segment includes all direct and ancillary revenues from theatre attendance, including box office and food service revenues and the associated costs to provide those products and services. Also included in the Film Entertainment and Content segment are in-theatre amusement, theatre rentals and digital commerce rental and sales and associated costs.

Media
The Media reporting segment is comprised of the aggregation of two operating segments, cinema media and digital place-based media. Cinema media consists of all in-theatre advertising revenues and costs, including pre-show, showtime, magazine and lobby advertising. Digital place-based media is comprised of revenues and costs associated with the design, installation and operations of digital signage networks, along with advertising on certain networks. Aggregation of these operating segments is based on the segments having similar economic characteristics.

Amusement and Leisure
The Amusement and Leisure reporting segment is comprised of the aggregation of three operating segments, amusement solutions, location-based entertainment and eSports. Amusement solutions is comprised of revenues and costs associated with operating and distributing amusement, gaming and vending equipment. Location-based entertainment is comprised of the social entertainment destinations featuring gaming, entertainment and dining. eSports is comprised of the revenues and costs related to facilitating tournaments, leagues and gaming ladders for the competitive gaming community.

In accordance with IFRS 8, Operating Segments, Cineplex discloses information about its reportable segments based upon the measures used by management in assessing the performance of those reportable segments. Cineplex uses EBITDA to measure the performance of its reportable segments.

(expressed in thousands of Canadian dollars, except per share amounts)

Management defines EBITDA as earnings before interest income and expense (including foreign exchange effects), income taxes and amortization expense. EBITDA is a non-GAAP measure generally used as an indicator of financial performance and should not be seen as a measure of liquidity or a substitute for comparable metrics prepared in accordance with Canadian GAAP. Cineplex's EBITDA may differ from similar calculations as reported by other entities and accordingly may not be comparable to EBITDA as reported by other entities.

Year ended December 31, 2017	Film Entertainment and Content	Media	Amusement and Leisure	Corporate and other (ii)	Consolidated
Box office	$ 715,605	$ —	$ —	$ —	$ 715,605
Food service	422,311	—	19,565	—	441,876
Media	—	166,490	5,384	—	171,874
Amusement	10,649	—	174,692	—	185,341
Other	39,738	—	633	—	40,371
Total revenues	$ 1,188,303	$ 166,490	$ 200,274	$ —	$ 1,555,067
EBITDA (i)	202,197	94,217	7,998	(64,148)	240,264
Depreciation and amortization	85,858	10,079	23,979	—	119,916
Interest expense					22,734
Interest income					(222)
Income taxes expense					27,490
Net income					$ 70,346

Year ended December 31, 2016	Film Entertainment and Content	Media	Amusement and Leisure	Corporate and other (ii)	Consolidated
Box office	$ 734,193	$ —	$ —	$ —	$ 734,193
Food service	421,226	—	2,694	—	423,920
Media	—	166,703	4,089	—	170,792
Amusement	10,384	—	100,964	—	111,348
Other	37,360	—	713	—	38,073
Total revenues	$ 1,203,163	$ 166,703	$ 108,460	$ —	$ 1,478,326
EBITDA (i)	199,691	98,510	3,979	(68,189)	233,991
Depreciation and amortization	84,012	9,118	12,811	—	105,941
Interest expense					18,936
Interest income					(204)
Income taxes expense					31,327
Net income					$ 77,991

(i) The Film Entertainment and Content reporting segment does not charge an access fee to the Media reporting segment for in-theatre advertising.

(ii) Corporate and other represents the cost of centralized corporate overhead in that is not allocated to the other operating segments and includes the change in fair value of financial instruments.

Though Cineplex's Media and Amusement and Leisure segments have sales and operations in the United States, total revenues outside Canada are not significant to disclose as a geographic segment.

(expressed in thousands of Canadian dollars, except per share amounts)

Cineplex's cash management and other treasury functions are centralized; interest expense and income are not allocated to segments. Income taxes are accounted for by entity, and cannot be attributable to individual segments.

Cineplex does not report balance sheet information by segment because that information is not used to evaluate performance or allocate resources between segments.

23. Barter transactions

Cineplex occasionally enters into barter arrangements with other parties to exchange goods or services. During the year ended December 31, 2017, Cineplex provided advertising and media services to third parties and recognized advertising revenues of $3,297 (2016 - $3,338). Cineplex received sponsorship and advertising services in exchange, recording marketing expenses of $3,289 (2016 - $3,430). The exchanges were measured at the estimated fair value of the services provided by Cineplex, by reference to similar services provided by Cineplex for monetary consideration to arm's-length third parties other than those with whom the transactions were entered into.

24. Related party transactions

Cineplex may have transactions in the ordinary course of business with entities whose management, directors or trustees are also directors of Cineplex. Any such transactions are in the normal course of operations and are measured at market-based exchange amounts.

Joint ventures

Cineplex leased digital projection systems from CDCP in the amount of $1,655 for the year ended December 31, 2017 (2016 - $1,617).

Cineplex performs certain management and film booking services for the joint ventures in which it is a joint venturer. During the year ended December 31, 2017, Cineplex earned revenue of $505 for these services (2016 - $427).

Compensation of key management

Compensation recognized in employee benefits for key management, who are defined as the Named Executive Officers, included:

	2017	2016
Salaries and short-term employee benefits	$ 4,460	$ 4,331
Post-employment benefits	2,399	701
Share-based payments	1,855	5,720
	$ 8,714	$ 10,752

(expressed in thousands of Canadian dollars, except per share amounts)

25. Changes in operating assets and liabilities

The following summarizes the changes in operating assets and liabilities:

	2017	2016
Trade and other receivables	$ (42,228)	$ 5,842
Inventories	(4,701)	253
Prepaid expenses and other current assets	(1,839)	(526)
Accounts payable and accrued liabilities	4,121	(6,949)
Income taxes payable	6,234	(28,885)
Deferred revenue	20,668	12,571
Post-employment benefit obligations	2,010	329
Share-based compensation	(10,102)	(1,999)
Other liabilities	(2,772)	(646)
	$ (28,609)	$ (20,010)

Property, equipment and leasehold purchases that are included in accounts payable and accrued liabilities as at December 31, 2017, are $14,199 (2016 - $18,295).

26. Leases

Cineplex conducts a significant part of its operations in leased premises. Leases generally provide for minimum rentals and, in certain situations, percentage rentals based on sales volume or other identifiable targets; may include escalation clauses and certain other restrictions; and may require the tenant to pay a portion of realty taxes and other property operating expenses. Lease terms generally range from 15 to 20 years and contain various renewal options, generally, in intervals of five to ten years. Certain theatre assets are pledged as security to landlords for rental commitments, subordinated to the Credit Facilities.

Cineplex's minimum rental commitments at December 31, 2017 under the above-mentioned operating leases are set forth as follows:

2018	$ 159,452
2019	152,384
2020	133,904
2021	117,323
2022	112,349
Thereafter	525,049
	$ 1,200,461

Minimum rent expense relating to operating leases on a straight-line basis in 2017 was $161,215 (2016 - $155,967). In addition to the minimum rent expense, in 2017 Cineplex incurred percentage rent charges of $1,292 (2016 - $1,200).

(expressed in thousands of Canadian dollars, except per share amounts)

Gross minimum rental commitments of Cineplex's joint ventures are as follows:

2018	$	151
2019		155
2020		156
2021		92
2022		17
Thereafter		—
	$	571

27. Commitments, guarantees and contingencies

Commitments

As of December 31, 2017, Cineplex has aggregate capital commitments as follows:

Capital commitments for operating locations to be completed or renovated during 2018 - 2021	$ 150,462
Letters of credit	$ 7,043

See note 26 for theatre lease commitments.

Guarantees

During 2005 and 2006, Cineplex entered into agreements with third parties to divest a total of 36 theatres, 30 of which were leased properties. Cineplex is guarantor under the leases for the remainder of the lease terms in the event that the purchaser of the theatres does not fulfill its obligations under the respective lease. Cineplex has also guaranteed certain advertising revenues based on attendance levels. Cineplex reacquired the leases for two theatres in 2010.

Also during 2006, Cineplex entered into an agreement with a related party to divest its 49% share in its three remaining Alliance Atlantis branded theatres. Cineplex is guarantor for its 49% share of the lease for the remainder of the lease term in the event that the purchaser of Cineplex's share in the theatres does not fulfill its obligations under the one remaining lease.

Cineplex has assessed the fair value of the lease guarantees and determined that the fair value of these guarantees at December 31, 2017 is nominal. As such, no additional amounts have been provided in the consolidated financial statements for these guarantees. Should the purchasers of the theatres fail to fulfill their lease commitment obligations, Cineplex could face a substantial financial burden, which could be mitigated by Cineplex operating any theatres under default.

Other

Cineplex or a subsidiary of Cineplex is a defendant in various claims and lawsuits arising in the ordinary course of business. From time to time, Cineplex is involved in disputes with landlords, contractors, suppliers, former employees and other third parties. It is the opinion of management that any liability to Cineplex, which may arise as a result of these matters, will not have a material adverse effect on Cineplex's operating results, financial position or cash flows.

(expressed in thousands of Canadian dollars, except per share amounts)

28. Financial statement presentation

Cineplex has reclassified box office, amusement and other revenues to reflect the growth of its Amusement and Leisure business and to enhance comparability with exhibition peers in the United States. Certain revenues from Cineplex's enhanced guest experience initiatives were previously included in other revenues and are now included with box office revenues. This presentation is consistent with other exhibitors and better reflects how Cineplex management measures and operates the business.

Other revenues also previously contained all amusement revenue. Due to the growth of Cineplex's amusement solutions and location-based entertainment businesses, these revenues are now separately reported as amusement revenues.

Interest expense previously included foreign exchange gains and losses, which are now reported separately.

Prior period financial statement figures have been reclassified to conform to current period presentation. The following tables present revised figures for the year ended December 31, 2016:

		2016
Box office - previous presentation	$	712,446
Reclassification from other revenues		21,747
Box office - new presentation	$	734,193
Other revenues - previous presentation	$	171,168
Reclassification to box office revenues		(21,747)
Reclassification to amusement revenues		(111,348)
Other revenues - new presentation	$	38,073
Interest expense - previous presentation	$	18,816
Reclassification to foreign exchange		120
Interest expense - new presentation	$	18,936

(expressed in thousands of Canadian dollars, except per share amounts)

29. Financial instruments

Fair value of financial instruments

The carrying value and fair value of Cineplex's financial instruments at December 31, 2017 and 2016 are as follows:

		2017		**2016**	
	Input level	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Long-term debt	2	466,891	469,000	297,496	300,000
Convertible debentures	1	105,080	108,575	102,817	112,993
Other liabilities - equipment liabilities	2	7,816	7,816	9,561	9,561
Interest rate swap agreements, net	2	(2,862)	(2,862)	3,683	3,683
Deferred consideration - AMC	2	3,134	3,134	3,134	3,134
Deferred consideration - EK3	3	—	—	10,000	10,000
Obligation to acquire WGN	3	—	—	5,035	5,035

Cash and cash equivalents, trade and other receivables, accounts payable and accrued liabilities and dividends payable are reflected in the consolidated financial statements at carrying values that approximate fair values because of the short-term maturities of these financial instruments.

The face value of long-term debt reflects fair value, as the debt bears floating interest at market rates.

The convertible debentures are publicly traded on the TSX, and are recorded at amortized cost.

The equipment liabilities are recorded at amortized cost, as derived from expected cash outflows and Cineplex's estimated incremental borrowing rate, 2.7%. The equipment liabilities are included in accounts payable and accrued liabilities (current portion) and in other liabilities on the balance sheet.

During the first quarter of 2014, Cineplex entered into three interest rate swap agreements which commenced in August 2016 for an aggregate notional principal amount of $150,000, and mature on October 24, 2018, the maturity of the Credit Facilities at that time. Under these agreements, Cineplex pays a fixed rate of 2.62% per annum, plus an applicable margin, and receives a floating rate of interest equal to the three-month Canadian deposit offering rate set quarterly in advance, with net settlements quarterly.

During the second quarter of 2016, Cineplex entered into three interest rate swap agreements which commenced on April 25, 2016 for an aggregate notional principal amount of $50,000, and mature on October 24, 2018. Under these agreements, Cineplex pays a fixed rate of 1.07% per annum, plus an applicable margin, and receives a floating rate of interest equal to the three-month Canadian deposit offering rate set quarterly in advance, with net settlements quarterly.

Also during the second quarter of 2016, Cineplex entered into three interest rate swap agreements which commence in October 24, 2018 for an aggregate notional principal amount of $200,000, and mature on April 26, 2021, the same date as the maturity date of the Credit Facilities. Under these agreements, Cineplex pays a fixed rate of 1.484% per annum, plus an applicable margin, and receives a floating rate of interest equal to the three-month Canadian deposit offering rate set quarterly in advance, with net settlements quarterly.

(expressed in thousands of Canadian dollars, except per share amounts)

The purpose of the interest rate swap agreements is to act as a cash flow hedge of the floating interest rate payable under the Term Facility. Cineplex considered its hedging relationships and determined that the interest rate swap agreements on its Term Facility qualify for hedge accounting in accordance IAS 39. Under the provisions of IAS 39, the interest rate swap agreements are recorded on the consolidated balance sheets at their fair values, with subsequent changes in fair value recorded either in net income or OCI.

The deferred consideration for AMC (an undiscounted amount of $3,134 based on estimated non-capital losses arising from the 2012 acquisition of AMC Ventures Inc.) is recorded at fair value and included in other liabilities.

The deferred consideration for EK3, which as of December 31, 2016 was recorded at $10,000 was settled in the third quarter of 2017.

The change in fair value during the years ended December 31, 2017 and 2016 are as follows:

	2017		2016	
	AMC	**EK3**	**AMC**	**EK3**
Fair value at beginning of year	$ 3,134	$ 10,000	$ 3,134	$ 10,000
Change in fair value	—	—	—	—
Payments	—	(10,000)	—	—
Accretion	—	—	—	—
Fair value at end of year	$ 3,134	$ —	$ 3,134	$ 10,000

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical financial assets or financial liabilities that Cineplex has the ability to access.

Fair values determined by Level 2 inputs use inputs other than the quoted prices included in Level 1 that are observable for the financial asset or financial liability, either directly or indirectly. Level 2 inputs include quoted prices for similar financial assets and financial liabilities in active markets, and inputs other than quoted prices that are observable for the financial assets or financial liabilities. Cineplex uses market interest rates and yield curves that are observable at commonly quoted intervals in the valuation of its interest rate swap agreements. The derivative positions are valued using models developed internally by the respective counterparty that uses as its basis readily observable market parameters (such as forward yield curves) and are classified within Level 2 of the valuation hierarchy. Cineplex considers its own credit risk as well as the credit risk of its counterparties when evaluating the fair value of its derivatives. Any adjustments resulting from credit risk are recorded as a change in fair value of the derivatives and reflected in OCI.

Level 3 inputs are unobservable inputs for the financial asset or financial liability, and include situations where there is little, if any, market activity for the financial asset or financial liability. Cineplex's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the financial asset or financial liability.

(expressed in thousands of Canadian dollars, except per share amounts)

Credit risk

Credit risk is the risk of financial loss to Cineplex if a customer or counterparty to a financial instrument fails to meet its contractual obligation. Management believes the credit risk on cash and cash equivalents is low because the counterparties are banks with high credit ratings.

Accounts receivable include trade and other receivables. Trade receivables are amounts billed to customers for the sales of goods and services, and represent the maximum exposure to credit risk of those financial assets, exclusive of the allowance for doubtful accounts. Normal credit terms for amounts due from customers call for payment within 30 to 45 days. Other receivables include amounts due from suppliers and landlords and other miscellaneous amounts. Cineplex's credit risk is primarily related to its trade receivables, as other receivables generally are recoverable through ongoing business relationships with the counterparties.

Cineplex grants credit to customers in the normal course of business. Cineplex typically does not require collateral or other security from customers; however, credit evaluations are performed prior to the initial granting of credit when warranted and periodically thereafter. Based on historical experience, Cineplex records a reserve for estimated uncollectible amounts, which management believes reduces credit risk. Management assesses the adequacy of the reserve quarterly, taking into account historical experience, current collection trends, the age of receivables and, when warranted and available, the financial condition of specific counterparties. Management also focuses on trade receivables outstanding for more than 120 days in assessing Cineplex's credit risk and records a reserve, when required, to recognize that risk. When collection efforts have been exhausted, specific balances are written off.

The following schedule reflects the balance and age of trade receivables at December 31, 2017 and 2016:

	2017	2016
Trade receivables carrying value	$ 133,711	$ 92,707
Percentage past due	24%	13%
Percentage outstanding more than 120 days	3%	2%

The following schedule reflects the changes in the allowance for trade receivables during the years ended December 31, 2017 and 2016:

	2017	2016
Allowance for trade receivables - Beginning of year	$ 141	$ 117
Additional allowance recorded	124	176
Amounts written off	(44)	(152)
Allowance for trade receivables - End of year	$ 221	$ 141

Due to Cineplex's diversified client base, management believes Cineplex does not have a significant concentration of credit risk.

Liquidity risk

Liquidity risk is the risk that Cineplex will encounter difficulty in meeting obligations associated with its financial liabilities.

(expressed in thousands of Canadian dollars, except per share amounts)

The table below reflects the contractual maturity of Cineplex's undiscounted cash flows for its financial liabilities and interest rate swap agreements:

					2017
					Payments due by period
Contractual obligations	**Total**	**Within 1 year**	**2 - 3 years**	**4 - 5 years**	**After 5 years**
Accounts payable and accrued liabilities	$ 189,927	$ 189,927	$ —	$ —	$ —
Dividends payable	8,866	8,866	—	—	—
Interest rate swap agreements	(3,063)	1,052	(3,228)	(887)	—
Long-term debt	469,000	—	—	469,000	—
Convertible debentures	107,500	107,500	—	—	—
Equipment obligations	8,268	2,102	4,004	1,987	175
Finance lease obligations	9,748	3,955	5,793	—	—
Deferred consideration - AMC	3,134	—	3,134	—	—
Total contractual obligations	$ 793,380	$ 313,402	$ 9,703	$ 470,100	$ 175

					2016
					Payments due by period
Contractual obligations	**Total**	**Within 1 year**	**2 - 3 years**	**4 - 5 years**	**After 5 years**
Accounts payable and accrued liabilities	$ 194,725	$ 194,725	$ —	$ —	$ —
Dividends payable	8,575	8,575	—	—	—
Interest rate swap agreements	4,143	2,775	2,122	(754)	—
Long-term debt	300,000	—	—	300,000	—
Convertible debentures	107,500	—	107,500	—	—
Equipment obligations	10,246	2,077	4,077	3,842	250
Finance lease obligations	13,703	3,955	7,910	1,838	—
Deferred consideration - AMC	3,134	—	3,134	—	—
Deferred consideration - EK3	10,000	10,000	—	—	—
Total contractual obligations	$ 652,026	$ 222,107	$ 124,743	$ 304,926	$ 250

Cineplex also has significant contractual obligations in the form of operating leases (note 26) and new theatre and other capital commitments (note 27), as well as contingent obligations in the form of letters of credit, guarantees and long-term incentive and option plans.

Cineplex expects to fund lease commitments through cash flows from operations. New theatre capital commitments not funded through cash flows from operations will be funded through Cineplex's committed Revolving Facility (note 14).

(expressed in thousands of Canadian dollars, except per share amounts)

Management believes the Cineplex's cash flows from operations and the Revolving Facility will be adequate to support all of its financial liabilities.

Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of the changes in foreign currency exchange rates.

The majority of Cineplex's revenues and expenses are in Canadian dollars, with the remainder denominated in US dollars. Management considers currency risk to be low and does not hedge its currency risk. An assumed 10% increase or decrease in exchange rates as at December 31, 2017 would not have had a material impact on net income or other comprehensive income for the year.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Cineplex is exposed to interest rate risk on its long-term debt, which bears interest at floating rates.

Interest expense on the long-term debt is adjusted to include the payments made or received under the interest rate swap agreements. The interest rate swap agreements are recognized in the consolidated balance sheets at their estimated fair value. The effective portion of the change in fair value of the interest rate swap agreements is recognized in OCI until the hedged interest payment is recorded, while the ineffective portion is recognized in the consolidated statements of operations as interest expense when incurred. During the year ended December 31, 2017, Cineplex recorded non-cash interest income (expense) of $200 (2016 - $(239)) relating to the cash flow hedge. Cineplex expects to reclassify $1,382 from hedging reserves and other to the consolidated statement of operations in 2018 (2017 - $2,174), excluding the impact of income taxes.

The following table shows Cineplex's exposure to interest rate risk and the pre-tax effects on net income and OCI for the years ended December 31, 2017 and 2016 of a 1% change in interest rates management believes is reasonably possible:

					2017
	Pre-tax effects on net income and OCI - increase (decrease)				
		1% decrease in interest rates		**1% increase in interest rates**	
	Carrying value of financial liability	**Net income**	**OCI**	**Net income**	**OCI**
Long-term debt	$ 466,891	$ 4,387	$ —	$ (4,387)	$ —
Interest rate swap agreements - net	(2,862)	(2,000)	(4,713)	2,000	4,752
		$ 2,387	$ (4,713)	$ (2,387)	$ 4,752

(expressed in thousands of Canadian dollars, except per share amounts)

	2016				
	Pre-tax effects on net income and OCI - increase (decrease)				
		1% decrease in interest rates		**1% increase in interest rates**	
	Carrying value of financial liability	Net income	OCI	Net income	OCI
Long-term debt	$ 297,496	$ 3,244	$ —	$ (3,244)	$ —
Interest rate swap agreements - net	3,683	(2,000)	(6,610)	2,000	6,436
		$ 1,244	$ (6,610)	$ (1,244)	$ 6,436

The carrying value of the interest rate swaps asset was $2,862 at December 31, 2017. If interest rates changed plus or minus 1% from existing estimates throughout the contract period, the carrying value would change to an asset of $9,615 or a liability of $3,850, primarily affecting OCI.

30. Capital disclosures

Cineplex's objectives when managing capital are to:

a) maintain financial flexibility to preserve its ability to meet financial obligations and growth objectives, including future investments;
b) deploy capital to provide an appropriate investment return to its shareholders; and
c) maintain a capital structure that allows multiple financing options, should a financing need arise.

Cineplex defines its capital as follows:

a) equity;
b) long-term debt, convertible debentures, and finance lease obligations, including the current portion;
c) fair value equipment liabilities, including the current portion; and
d) cash and cash equivalents.

It is Cineplex's policy to distribute annually to shareholders available cash from operations after cash required for maintenance capital expenditures, working capital and other reserves at the discretion of the Board of Directors.

Cineplex is subject to certain covenants on its credit facilities agreement, which defines certain non-GAAP terms and measures. The total leverage ratio may not exceed 3.50 to 1 unless an acquisition is undertaken, in which case, the ratio allowance increases to 4.00 to 1 for a 12-month period before reverting automatically to 3.50 to 1. The total leverage ratio is determined by dividing total debt at the period-end (as defined in the credit facilities agreement) by the adjusted earnings before interest, income taxes, depreciation and amortization ("EBITDA") (as defined in the credit facilities agreement) for the past four quarters. Cineplex also must maintain a fixed charge coverage ratio of greater than 1.25 to 1. The fixed charge coverage ratio (as defined in the credit facilities agreement) is computed by dividing the sum of adjusted EBITDA (as defined in the credit facilities agreement) and rent expense for the past four quarters by fixed charges for the same period. Fixed charges include interest expense, scheduled debt repayments, maintenance capital expenditures,

(expressed in thousands of Canadian dollars, except per share amounts)

rent expense and income taxes paid in the year. Management reviews the covenants on a quarterly basis in conjunction with filing requirements under its credit facilities agreement but also maintains a rolling projection to assess future growth capital commitments. Cineplex has complied with all covenant requirements during the years ended December 31, 2017 and 2016. Management also monitors the annualized payout ratio, calculated as dividends declared divided by adjusted free cash flow. All of these ratios are managed with certain target ranges determined by management to allow for flexibility in considering growth opportunities.

The basis for the Cineplex's capital structure is dependent on the Cineplex's expected growth and changes in the business and regulatory environments. To maintain or adjust its capital structure, Cineplex may purchase shares for holding or cancellation, issue new shares, raise debt or refinance existing debt with different characteristics.

Objectives and strategies are reviewed periodically by management. During 2017 and 2016, there was no material change to Cineplex's capital composition, objectives or strategies.

31. Significant accounting policies, judgments and estimation uncertainty

Significant accounting policies

The significant accounting policies used in the preparation of these consolidated financial statements are described below.

Basis of preparation and measurement

Cineplex prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"), defined as International Financial Reporting Standards ("IFRS") as set out in the CPA Canada Handbook - Accounting. The preparation of consolidated financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying Cineplex's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions are significant to the consolidated financial statements are disclosed later in this note.

These consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial assets and financial liabilities to fair value, including derivative instruments and available-for-sale investments.

Reportable operating segments

Cineplex is comprised of three reportable operating segments, Film Entertainment and Content, Media and Amusement and Leisure. The reportable segments are business units offering differing products and services. Details of Cineplex's three reportable operating segments are provided in note 22.

Consolidation

Subsidiaries are all entities over which Cineplex has control. Cineplex controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to Cineplex. They are deconsolidated from the date that control ceases.

Cineplex applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by Cineplex. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Cineplex recognises any non-controlling interest in the acquiree at fair value of the recognised amounts of the acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by Cineplex is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 in profit or loss. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of operations.

Inter-company transactions, balances and unrealised gains and losses on transactions between Cineplex entities are eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with Cineplex's accounting policies.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Associates are all entities over which Cineplex has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. Cineplex's investment in associates includes goodwill identified on acquisition.

Cineplex determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, Cineplex calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the statement of operations.

Profits and losses resulting from upstream and downstream transactions between Cineplex and its associate are recognised in the group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by Cineplex.

Dilution gains and losses arising in investments in associates are recognised in the consolidated statement of operations.

Investments in joint ventures

Investments in joint arrangements are classified as either joint operations and proportionately consolidated or as joint ventures and equity-accounted, depending on the contractual rights and obligations of each investor.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise Cineplex's share of the post-acquisition profits or losses and movements in OCI. When Cineplex's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of Cineplex's net investment in the joint ventures), Cineplex does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between Cineplex and its joint ventures are eliminated to the extent of Cineplex's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by Cineplex.

Cineplex assesses at each year-end whether there is any objective evidence that its interests in joint ventures are impaired. In determining the value-in-use of an investment, Cineplex estimates its share of the present value of the estimated cash flows expected to be generated by the joint venture, including the cash flows from the operations of the joint venture and the proceeds on the ultimate disposal of the investment, or the present value of the estimated future cash flows expected to arise from dividends to be received from the joint venture and its ultimate disposal. If impaired, the carrying value of Cineplex's share of the underlying assets of joint ventures is written down to its estimated recoverable amount (being the higher of fair value less costs of disposal and value in use) and charged to the consolidated statements of operations.

Cineplex has interests in a jointly controlled entity and accounts for its share of assets and liabilities, revenue and expenses of the joint operation. Cineplex conducts a portion of its business through SCENE Limited Partnership ("SCENE"), a joint operation whereby the joint operation participants are bound by contractual agreements establishing joint control. Joint control exists when unanimous consent of the joint operation participants is required regarding strategic, financial and operating policies of the joint operation. Cineplex's share of results from SCENE has been recognized in Cineplex's consolidated financial statements. Intercompany transactions between Cineplex and SCENE are eliminated to the extent of Cineplex's interest.

(expressed in thousands of Canadian dollars, except per share amounts)

Foreign currency translation

Functional and presentation currency

Cineplex determines its subsidiaries' functional currency by reviewing the currency of the primary economic environment in which each entity operates (the "functional currency"). The functional currency of three subsidiaries of P1AG is the United States dollar. The functional currency of all other entities of the Cineplex group is the Canadian dollar.

The consolidated financial statements are presented in Canadian dollars.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Generally, foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at fiscal year-end exchange rates of monetary assets and liabilities denominated in currencies other than an operation's functional currency are recognized in the consolidated statements of operations.

Subsidiaries

The results and balance sheet of the subsidiaries that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates, and
- all resulting exchange differences are recognised in other comprehensive income.

Goodwill recognized on the acquisition of a subsidiary are treated as assets and liabilities of the subsidiary and translated at the closing rate.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash equivalents are readily converted into known amounts of cash, and are subject to an insignificant risk of changes in value.

Financial instruments

Financial assets and financial liabilities are recognized when Cineplex becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and Cineplex has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the contractual obligations are discharged, canceled or expire. Regular purchases and sales of financial assets are recognized on the trade-date, the date on which Cineplex commits to purchase or sell the asset.

(expressed in thousands of Canadian dollars, except per share amounts)

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheets when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the financial asset and settle the financial liability simultaneously.

At initial recognition, Cineplex classifies its financial instruments in the following categories depending on the purpose for which the financial instruments were acquired:

i. Financial assets and financial liabilities at fair value through profit or loss: The only instruments held by Cineplex classified in this category are certain equipment purchase liabilities, and the deferred consideration payable for business combinations. Derivatives are included in this category unless they are designated as hedges.

   Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the consolidated statements of operations. Gains and losses arising from changes in fair value are presented in the consolidated statements of operations. Financial assets and financial liabilities at fair value through profit or loss are classified as current, except for the portion expected to be realized or paid beyond 12 months of the consolidated balance sheet date, which is classified as non-current. Financial assets and liabilities at fair value through profit or loss are presented within changes in operating assets and liabilities in the consolidated statements of cash flows.

ii. Available-for-sale investments: Cineplex has no available-for-sale investments.

iii. Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Cineplex's loans and receivables comprise trade receivables and cash and cash equivalents, and are included in current assets due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method, less a provision for impairment.

iv. Financial liabilities at amortized cost: Financial liabilities at amortized cost include trade payables, dividends and distributions payable, bank indebtedness and long-term debt and the non-derivative component of convertible debentures. Trade payables are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, trade payables are measured at amortized cost using the effective interest method. Bank indebtedness and long-term debt, and the non-derivative component of convertible debentures are recognized initially at fair value, net of any transaction costs incurred and, subsequently, at amortized cost using the effective interest method.

   Financial liabilities are classified as current liabilities if payment is due within 12 months. Otherwise, they are presented as non-current liabilities.

v. Derivative financial instruments: Cineplex uses derivatives in the form of interest rate swap agreements, which are designated as cash flow hedges to manage risks related to its variable rate debt. The effective portion of the change in fair value of the interest rate swap agreements is recognized in OCI or OCL until the hedged interest payment is recorded, while the ineffective portion is recognized as interest expense when incurred.

(expressed in thousands of Canadian dollars, except per share amounts)

Impairment of financial assets

At each reporting date, Cineplex assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, Cineplex recognizes an impairment loss, as follows:

i. Financial assets carried at amortized cost: The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the financial instrument's original effective interest rate. The carrying value of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

ii. Available-for-sale financial assets: The impairment loss is the difference between the cost of the financial asset and its fair value at the measurement date.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent years if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Inventories

Inventories consist of food service inventories, gaming inventories and other inventories, including work in progress.

Food service inventories, gaming equipment purchased for re-sale, merchandise that is used as redemption prizes and work-in progress inventories are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method. Net realizable value is the estimated selling price less applicable selling expenses.

Gaming inventories includes gaming equipment purchased for re-sale or transferred from property, equipment and leaseholds and merchandise that is used as redemption prizes for certain games. Gaming equipment also includes equipment that has been transferred from property, equipment and leaseholds to inventory when it is no longer in route operations and it will be sold or auctioned to third parties at the discretion of management. Gaming equipment is transferred to inventory at its net book value and stated at the lower of the net book value or net realizable value. Net realizable value is the estimated selling price less applicable selling expenses.

Other inventories include consumable supplies and work-in-progress being assembled for sale or installation by CDM.

Impairment of non-financial assets

Property, equipment and leaseholds and intangible assets subject to amortization are tested for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Long-lived assets that are not amortized are subject to an annual impairment test. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows relating to the relevant intangible asset ("cash-generating units" or "CGUs"). Cineplex considers each theatre a CGU. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset's carrying value exceeds its recoverable amount.

(expressed in thousands of Canadian dollars, except per share amounts)

Goodwill is reviewed for impairment annually or at any time if an indicator of impairment exists.

Goodwill acquired through a business combination is allocated to each CGU or group of CGUs that is expected to benefit from the related business combination. A group of CGUs represents the lowest level within the entity at which the goodwill is monitored for internal management purposes, which is not higher than an operating segment. Cineplex groups theatre CGUs based on geographical regions of financial management responsibility in testing goodwill for impairments.

Cineplex groups CGUs based on trade name in testing indefinite-lived trade names for impairment.

Cineplex evaluates impairment losses, other than goodwill impairment, for potential reversals when events or circumstances warrant such consideration.

Property, equipment and leaseholds

Property, equipment and leaseholds are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying value or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Cineplex and the cost can be measured reliably. The carrying value of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to the consolidated statements of operations during the year in which they are incurred.

The major categories of property, equipment and leaseholds are depreciated on a straight-line basis as follows:

Buildings	40 years
Equipment	3 - 10 years
Leasehold improvements	term of lease but not in excess of the useful lives

For owned buildings constructed on leased property, the useful lives do not exceed the terms of the land leases.

Cineplex allocates the amount initially recognized in respect of an item of property, equipment and leaseholds to its significant parts and depreciates separately each such part. Residual values, method of depreciation and useful lives of the assets are reviewed at least annually or whenever events or circumstances suggest a change that may otherwise indicate an impairment exists and adjusted if appropriate. Construction-in-progress is depreciated from the date the asset is ready for productive use.

Gains and losses on disposals of property, equipment and leaseholds are determined by comparing the proceeds with the carrying value of the asset and are included as part of other gain or loss on the sale of assets in the consolidated statements of operations.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of Cineplex's share of the net identifiable assets of the acquired business at the date of acquisition.

(expressed in thousands of Canadian dollars, except per share amounts)

Identifiable intangible assets

Intangible assets include trademarks, trade names, leases, software and customer relationships acquired by Cineplex. As Cineplex intends to use certain of the trademarks and trade names of the Partnership and GEI for the foreseeable future, the useful lives of those trademarks and trade names are indefinite and no amortization is recorded. Other trade names are expected to be substantially discontinued and are amortized over their expected useful lives (note 9). Management tests indefinite-lived intangible assets for impairment at least annually, and considers at least annually or whenever events or circumstances indicate that the life of an indefinite-lived intangible asset may be finite. The advertising contracts have limited lives and are amortized over their useful lives, estimated to be between five to nine years. The estimated fair value of lease contract assets is amortized on a straight-line basis over the remaining term of the lease into amortization expense.

The major categories of intangible assets are amortized on a straight-line basis as follows:

Internally generated software	3 - 5 years
Customer relationships	5 - 10 years
Trade names	not amortized

Leases

Leases are classified as either finance or operating. Leases that transfer substantially all of the risks and benefits of ownership to Cineplex and meet the criteria for finance leases are accounted for as an acquisition of an asset and an assumption of an obligation at the inception of the lease, measured at the present value of minimum lease payments. Related buildings, leasehold improvements and equipment are amortized on a straight-line basis over the term of the lease but not in excess of their useful lives. All other leases are accounted for as operating leases wherein rental payments are recorded in rent expense on a straight-line basis over the term of the related lease. Tenant inducements received are amortized into rent expense over the term of the related lease agreement. The unamortized portion of tenant inducements and the difference between the straight-line rent expense and the payments, as stipulated under the lease agreement, are included in other liabilities.

Borrowing costs

Borrowing costs attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognized as interest expense in the consolidated statements of operations in the year in which they are incurred.

Employee benefits

Cineplex is the sponsor of a number of employee benefit plans. These plans include a defined benefit pension plan, additional unfunded defined benefit obligations for former Famous Players employees, and a group registered retirement savings plan.

i. Post-employment benefit obligations

For defined benefit plans, the level of benefit provided is based on the length of service and annual earnings of the person entitled.

(expressed in thousands of Canadian dollars, except per share amounts)

The cost of defined benefit plans is determined using the projected unit credit method. The related benefit liability recognized in the consolidated balance sheets is the present value of the defined benefit obligation at the consolidated balance sheet dates less the fair value of plan assets. The cost of the group registered retirement savings plan is charged to expense as the contributions become payable.

Actuarial valuations for defined benefit plans are carried out periodically and considered at each annual consolidated balance sheet date. The discount rate applied in arriving at the present value of the benefit liability represents yields on high-quality corporate bonds that are denominated in Canadian dollars, the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related benefit liability.

The net defined benefit liability (asset) is recognized on the balance sheet without any deferral of actuarial gains and losses. Past service costs are recognized in net income when incurred. Post-employment benefits expense includes the net interest on the net defined benefit liability (asset) calculated using a discount rate based on market yields on high quality bonds. Remeasurements consisting of actuarial gains and losses, the actual return on plan assets (excluding the net interest component) and any change in the asset ceiling are recognized in other comprehensive income without recycling to the consolidated statements of operations.

Employee benefits are classified as long-term employee benefits if payments are not expected to be made within the next 12 months.

ii. Share-based compensation - options

Cineplex grants stock options to certain employees. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is based on the number of awards expected to vest and is recognized over the tranche's vesting period, included as employee benefits expense in other costs. The number of awards expected to vest is reviewed at least annually, with any impact being recognized immediately.

iii. Share-based compensation - other plans

Cineplex has a number of other cash-settled share-based compensation plans. The obligation for these plans is recorded at fair value on a percentage vested basis. Changes in the obligation are reflected in employee benefits in other costs in the consolidated statements of operations.

Provisions

Provisions for asset retirement obligations, theatre shutdowns and legal claims, where applicable, are recognized when Cineplex has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material. Cineplex performs evaluations to identify onerous contracts and, where applicable, records provisions for such contracts. Provisions are included in other liabilities on the consolidated balance sheets.

(expressed in thousands of Canadian dollars, except per share amounts)

Income taxes

Income taxes comprise current and deferred income taxes. Income taxes are recognized in the consolidated statements of operations, except to the extent that they relate to items recognized directly in equity or in OCI, in which case, the income taxes are also recognized directly in equity or in OCI.

Current income taxes are the expected taxes payable on the taxable income for the year, using income tax rates enacted or substantively enacted, at the end of the reporting period, and any adjustment to income taxes payable in respect of previous years.

In general, deferred income taxes are recognized in respect of temporary differences arising between the income tax bases of assets and liabilities and their carrying values in the consolidated financial statements. Deferred income taxes are determined on a non-discounted basis using income tax rates and laws that have been enacted or substantively enacted at the consolidated balance sheet dates and are expected to apply when the deferred income tax asset or liability is settled. Deferred income tax assets are recognized to the extent that it is probable that the assets can be recovered.

Deferred income taxes are provided on temporary differences arising on investments in subsidiaries and joint ventures, except, in the case of subsidiaries, where the timing of the reversal of the temporary difference is controlled by Cineplex and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are presented as non-current.

Taxes on income in interim periods are accrued using the income tax rate that would be applicable to expected total annual income.

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of common shares are recognized as a deduction from equity.

Dividends

Dividends on common shares are recognized in the consolidated financial statements in the year in which the dividends are approved by the Board of Directors of Cineplex.

Income per share

Basic EPS is calculated by dividing the net income for the year attributable to equity owners of Cineplex by the weighted average number of common shares outstanding during the year.

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options and similar instruments is computed using the treasury stock method. Cineplex's potentially dilutive common shares include stock options granted to employees and the conversion feature of the convertible debentures.

(expressed in thousands of Canadian dollars, except per share amounts)

Revenues

Box office and food service sales are recognized, net of applicable taxes, when sales are recorded at the theatres. Media revenues including media and digital media sales are recognized when services are provided or goods are shipped or installed. Amusement revenues are from route operations and the sale of amusement, gaming and vending equipment. Revenue from route operations are recorded at the gross amount with the portion shared with the location hosting the equipment recorded in other costs as venue revenue share. Revenues from the sale of equipment are recognized on the passing of title. Other revenues include online sales, rentals and theatre rentals and are recognized when services are provided or goods are shipped. Amounts collected on advance ticket sales and screen advertising agreements are deferred and recognized in the year earned or redeemed.

Gift cards and vouchers

Cineplex sells gift cards and vouchers (collectively the "gift cards") to its customers. The proceeds from the sales of gift cards are deferred and recognized as revenue either on redemption of the gift card or in accordance with Cineplex's accounting policy for breakage. Breakage income is included in other revenues and represents the estimated value of gift cards that is not expected to be redeemed by customers. It is estimated based on the terms of the gift cards and historical redemption patterns, including available industry data.

Multiple component arrangements

Cineplex routinely sells combinations of box office, concession and online products for a single price. In the ordinary course of operations, Cineplex offers equipment sales, design and support services for media installations, and sales of advertising services across multiple media (theatre lobby and exhibition, magazine and digital online and out-of-home) for a single price. In addition, Cineplex receives payments from certain vendors for advertising contracts, auditorium rentals and ticket purchases. Revenue from the sale of advertising services, software licenses, network services, maintenance and equipment is generally recognized on delivery to the customer as these criteria are generally met. These multiple-element arrangements are assessed to determine whether they should be treated as more than one unit of accounting or element for the purposes of revenue recognition. Consideration from the arrangement is allocated in multiple-element arrangements to the separate units of accounting, or elements, on a relative fair value basis as determined by an internal analysis of prices. Where an arrangement is accounted for as a single unit of accounting, or evidence of fair value is only available for the delivered components but not the undelivered components, the arrangement is considered a single element arrangement and revenue is deferred and recognized over the term of the arrangement.

Film rental costs

Film rental costs are recorded based on the terms of the respective film licence agreements. In some cases, the final film cost is dependent on the ultimate duration of the film's play and, until this is known, management uses its best estimate of the final settlement of these film costs. Film costs and the related film costs payable are adjusted to the final film settlement in the year Cineplex settles with the distributors. Actual settlement of these film costs could differ from those estimates.

Consideration received from vendors

Cineplex receives rebates from certain vendors with respect to the purchase of concession goods. In addition, Cineplex receives payments from vendors for advertising undertaken by the theatres on behalf of the vendors.

(expressed in thousands of Canadian dollars, except per share amounts)

Cineplex recognizes rebates earned for purchases of each vendor's product as a reduction of concession costs and recognizes payments received for services delivered to the vendor as media or other revenue.

Significant accounting judgments and estimation uncertainties

Critical accounting estimates and judgments

Cineplex makes estimates and assumptions concerning the future that may not equal actual results. The following are the estimates and judgments applied by management that most significantly impact Cineplex's consolidated financial statements. These estimates and judgments have a significant risk of causing a material adjustment to the carrying values of assets and liabilities within the next financial year.

a) Goodwill
Recoverable amount

Cineplex tests at least annually whether goodwill suffered any impairment. Management makes key assumptions and estimates in determining the recoverable amount of groups of CGUs' goodwill, including future cash flows based on historical and budgeted operating results, growth rates, tax rates and appropriate after-tax discount rates.

b) Financial instruments
Fair value of over-the-counter derivatives

Cineplex's over-the-counter derivatives include interest rate swaps used to economically hedge exposure to variable cash flows associated with interest payments on Cineplex's borrowings. Management estimates the fair values of these derivatives as the present value of expected future cash flows to be received or paid, based on available market data, which includes market yields and counterparty credit spreads.

c) Revenue recognition
Gift cards

Management estimates the value of gift cards that are not expected to be redeemed by customers, based on the terms of the gift cards and historical redemption patterns, including industry data. The estimates are reviewed annually, or when evidence indicates the existing estimate is not valid.

d) Income taxes

The timing of reversal of timing differences and the expected income allocation to various tax jurisdictions within Canada affect the effective income tax rate used to compute the deferred income tax asset. Management estimates the reversals and income allocation based on historical and budgeted operating results and income tax laws existing at the consolidated balance sheet dates. In addition, management occasionally estimates the current or future deductibility of certain expenditures, affecting current or deferred income tax balances and expenses.

e) Fair value of identifiable assets acquired and liabilities assumed in business combinations

(expressed in thousands of Canadian dollars, except per share amounts)

Significant judgment is required in the identifying tangible and intangible assets and liabilities of the acquired businesses, as well as determining their fair values (note 2).

f) Share-based compensation

Management is required to make certain assumptions and to estimate future financial performance to estimate the fair value of share-based awards at each consolidated balance sheet date. Significant estimates and assumptions relating to the option plan are disclosed in note 12. The LTIP requires management to estimate future non-GAAP earnings measures, future revenue growth relative to specified industry peers, and total shareholder return, both absolutely and relative to specified industry peers. Future non-GAAP earnings are estimated based on current projections, updated at least annually, taking into account actual performance since the grant of the award. Future revenue growth relative to peers is based on historical performance and current projections, updated at least annually for actual performance since the grant of the award by Cineplex and its peers. Total shareholder return for Cineplex and its peers is updated at each consolidated balance sheet date based on financial models, taking into account financial market observable inputs.

Accounting standards adopted in the current year

IAS 12 was amended to clarify the requirements for recognizing deferred income tax assets on unrealized losses, deferred income taxes where an asset is measured at fair value below the asset's tax base, and certain other aspects of accounting for deferred income tax assets. The amendments were effective on or after January 1, 2017 and did not have any impact on Cineplex's balance sheet and statement of operations.

Accounting standards issued but not yet applied

Management of Cineplex reviews all changes to the IFRS when issued. The International Accounting Standards Board ("IASB") has issued the following standards, which have not yet been adopted by Cineplex. The following is a description of the new standards:

IFRS 9, Financial Instruments

IFRS 9, Financial Instruments ("IFRS 9") was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39") for debt instruments, with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income ("OCI"). Where equity instruments are measured at fair value through OCI, dividends are recognized in profit or loss to the extent not clearly representing a return on investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated other comprehensive income indefinitely.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, except that fair value changes due to Cineplex's own credit risk in liabilities designed at fair value through profit and loss would generally be recorded in OCI or other comprehensive loss ("OCL").

Deliberations by the IASB have clarified upon the modification of debt, any previously incurred deferred financing fees will be expensed in the statement of operations. Previously with IAS 39, additional financing fees would be added to the unamortized financing fees and deferred over the term of the modified debt.

The final version of IFRS 9 was issued in July 2014, and includes a third measurement category for financial assets, "fair value through other comprehensive income"; a single, forward-looking "expected loss impairment

(expressed in thousands of Canadian dollars, except per share amounts)

model"; and a mandatory effective date for annual periods beginning on or after January 1, 2018. Cineplex has completed analyzing the new standard to determine the impact on Cineplex's balance sheet and statement of operations upon adoption of the standard including working on a model for calculating expected credit losses on accounts receivables. The changes are not material.

IFRS 15, Revenue from Contracts with Customers

On May 28, 2014, the IASB issued the final revenue standard, IFRS 15, Revenue from Contracts with Customers, which will replace IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers, and SIC 31 Revenue - Barter Transactions Involving Advertising Services. The new standard will be mandatorily effective for fiscal years beginning on or after January 1, 2018, and interim periods within that year. Earlier application is permitted.

Cineplex has identified all significant revenues from its various lines of business, and has analyzed the specific contracts with customers underlying those revenues. Cineplex has completed its analysis on the impact of IFRS 15 on the consolidated financial statements and has determined that there will be no change on the balance sheet, statement of operations or cash flows. No change in controls or financial accounting systems will be required and no changes in underlying contractual arrangements are expected. Disclosures will be expanded as required under the new standard.

IFRS 16, Leases

On January 13, 2016, the IASB issued IFRS 16 *Leases*, which will replace IAS 17 *Leases*. The new standard will be mandatorily effective for fiscal years beginning on or after January 1, 2019. Earlier application is permitted. Cineplex is analyzing the new standard to determine its impact on Cineplex's balance sheet and statement of operations. Under the new standard, all leases will be on the balance sheet of lessees, except those that meet limited exception criteria. As Cineplex has significant contractual obligations classified as operating leases under the existing standard, there will be a material increase to both assets and liabilities upon adoption of the new standard, and material changes to the timing of recognition and presentation of expenses associated with the lease arrangements. Cineplex expects to change its existing accounting systems to account for IFRS 16.

32. Comparative figures

Certain 2016 consolidated financial statement comparative figures have been reclassified to conform to the current years' presentation.

Cineplex Inc.
Investor Information

BOARD OF DIRECTORS

Jordan Banks (4)
Corporate Director
Toronto, ON

Robert Bruce (5)
Chief Executive Officer and Founding Partner
Mobile Klinik
Toronto, ON

Joan Dea (4)
Corporate Director
Ross, CA

Janice Fukakusa (3)
Corporate Director
Toronto, ON

Ian Greenberg (1) (4)
Corporate Director
Montreal, QC

Donna Hayes (5)
Corporate Director
Toronto, ON

Ellis Jacob, C.M.
President and Chief Executive Officer
Cineplex Inc.
Toronto, ON

Sarabjit (Sabi) Marwah (4)
Corporate Director
Toronto, ON

Nadir Mohamed (2)
Corporate Director
Toronto, ON

Edward Sonshine, O.ONT. QC (5)
Chief Executive Officer
RioCan Real Estate Investment Trust
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CGX

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ANNUAL MEETING

Friday May 25, 2018
10:30AM EDT
Cineplex Cinemas Yonge-Dundas and VIP
10 Dundas Street East
Toronto, ON

(1) Chair of the Board of Directors of Cineplex Inc.
(2) Chair of the Compensation, Nominating and Corporate Governance Committee
(3) Chair of the Audit Committee
(4) Member of the Compensation, Nominating and Corporate Governance Committee
(5) Member of the Audit Committee

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