

# Cineplex Inc.

## Management's Discussion and Analysis

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### MANAGEMENT'S DISCUSSION AND ANALYSIS

November 6, 2017

*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 September 30, 2017 and all amounts are in Canadian dollars.*

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### 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 16, Non-GAAP measures.

### Forward-Looking Statements

Certain information included in this MD&A contains forward-looking statements within the meaning of applicable securities laws. These forward-looking statements include, among others, statements with respect to Cineplex's objectives, goals and strategies to achieve those objectives and goals, as well as statements with respect to Cineplex's beliefs, plans, objectives, expectations, anticipations, estimates and intentions. The words "may", "will", "could", "should", "would", "suspect", "outlook", "believe", "plan", "anticipate", "estimate", "expect", "intend", "forecast", "objective" and "continue" (or the negative thereof), and words and expressions of similar import, are intended to identify forward-looking statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, including those described in Cineplex's Annual Information Form ("AIF"), its MD&A for the year ended December 31, 2016 ("Annual MD&A") and in this MD&A. Those risks and uncertainties, both general and specific, give rise to the possibility that predictions, forecasts, projections and other forward-looking statements will not be achieved. Certain material factors or assumptions are applied in making forward-looking statements and actual results may differ materially from those expressed or implied in such statements. Cineplex cautions readers not to place undue reliance on these statements, as a number of important factors, many of which are beyond Cineplex's control, could cause actual results to differ materially from the beliefs, plans, objectives, expectations, anticipations, estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to, risks generally encountered in the relevant industry, competition, customer, legal, taxation and accounting matters.

The foregoing list of factors that may affect future results is not exhaustive. When reviewing Cineplex's forward-looking statements, readers should carefully consider the foregoing factors and other uncertainties and potential events. Additional information about factors that may cause actual results to differ materially from expectations and about material factors or assumptions applied in making forward-looking statements may be found in the "Risks and Uncertainties" section of this MD&A.

Cineplex does not undertake to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable Canadian securities law. 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. All forward-looking statements in this MD&A are made as of the date hereof and are qualified by these cautionary statements. Additional information, including Cineplex's AIF and Annual MD&A, can be found on SEDAR at [www.sedar.com](http://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 75 million guests annually through its circuit of 163 theatres across the country. Cineplex also operates businesses in digital commerce (CineplexStore.com), food service, alternative programming (Cineplex Events), cinema media (Cineplex Media), digital place-based media (Cineplex Digital Media) and amusement solutions (Player One Amusement Group "P1AG"). It also operates a location based entertainment business through *The Rec Room* and an online eSports platform (WorldGaming.com "WGN"). Additionally, Cineplex is a joint venture partner in SCENE, Canada's largest entertainment loyalty program.

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Cineplex's theatre circuit is concentrated in major metropolitan and mid-sized markets. As of September 30, 2017, Cineplex owned, leased or had a joint venture interest in 1,676 screens in 163 theatres from coast to coast.

<b>Cineplex</b>								
<b>Theatre locations and screens at September 30, 2017</b>								
<b>Province</b>	<b>Locations</b>	<b>Screens</b>	<b>3D Screens</b>	<b>UltraAVX Screens</b>	<b>IMAX Screens (i)</b>	<b>VIP Auditoriums</b>	<b>D-BOX Locations</b>	<b>Other Screens(ii)</b>
Ontario	68	733	358	39	12	39	39	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	—
<b>TOTALS</b>	<b>163</b>	<b>1,676</b>	<b>811</b>	<b>86</b>	<b>23</b>	<b>63</b>	<b>81</b>	<b>4</b>
Percentage of screens			48%	5%	1%	4%	5%	—%
(i) All IMAX are 3D enabled. Total 3D screens including IMAX and screens is 834 screens or 50% of the circuit.								
(ii) Other screens include 4DX and Barco Escape screens								

<b>Cineplex - Theatres, screens and premium offerings in the last eight quarters</b>								
	<b>2017</b>			<b>2016</b>				<b>2015</b>
	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>	<b>Q4</b>
Theatres	163	164	164	165	164	162	163	162
Screens	1,676	1,677	1,677	1,683	1,677	1,659	1,666	1,655
3D Screens	811	799	799	801	799	788	790	783
UltraAVX Screens	86	85	85	85	85	83	82	80
IMAX Screens	23	23	23	23	23	23	23	23
VIP Auditoriums	63	63	63	63	63	59	59	56
D-BOX Locations	81	80	78	77	68	62	44	43
Other	4	4	4	4	3	—	—	—

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### 1.1 FINANCIAL HIGHLIGHTS

Financial highlights (in thousands of dollars, except attendance in thousands of patrons and per Share and per patron amounts)	Third Quarter			Year to Date		
	2017	2016	Change (i)	2017	2016	Change (i)
Total revenues	\$ 370,448	\$ 375,952	-1.5%	\$1,128,774	\$1,092,890	3.3%
Attendance	16,766	19,219	-12.8%	52,843	56,660	-6.7%
Net income	\$ 17,219	\$ 25,996	-33.8%	\$ 41,560	\$ 54,663	-24.0%
Box office revenues per patron ("BPP") (ii) (iii)	\$ 9.81	\$ 9.65	1.7%	\$ 10.04	\$ 9.72	3.3%
Concession revenues per patron ("CPP") (ii)	\$ 6.01	\$ 5.69	5.6%	\$ 5.90	\$ 5.61	5.2%
Adjusted EBITDA (ii)	\$ 58,811	\$ 67,260	-12.6%	\$ 156,315	\$ 167,168	-6.5%
Adjusted EBITDA margin (ii)	15.9%	17.9%	-2.0%	13.8%	15.3%	-1.5%
Adjusted free cash flow (ii)	\$ 37,915	\$ 46,891	-19.1%	\$ 99,258	\$ 116,423	-14.7%
Adjusted free cash flow per common share of Cineplex ("Share") (ii)	\$ 0.597	\$ 0.739	-19.2%	\$ 1.563	\$ 1.835	-14.8%
Earnings per Share ("EPS") - basic	\$ 0.27	\$ 0.42	-35.7%	\$ 0.66	\$ 0.88	-25.0%
EPS excluding change in fair value of financial instrument - basic (ii)	\$ 0.24	\$ 0.42	-42.9%	\$ 0.62	\$ 0.88	-29.5%
EPS - diluted	\$ 0.27	\$ 0.41	-34.1%	\$ 0.66	\$ 0.88	-25.0%
EPS excluding change in fair value of financial instrument - diluted (ii)	\$ 0.24	\$ 0.41	-41.5%	\$ 0.62	\$ 0.88	-29.5%

(i) Throughout this MD&A, changes in percentage amounts are calculated as 2017 value less 2016 value.  
(ii) See Section 16, Non-GAAP measures.  
(iii) Prior period figures have been reclassified to conform to current period presentation. See Section 9, Seasonality and quarterly results for further details.

Total revenues for the third quarter of 2017 decreased 1.5%, or \$5.5 million compared to the prior year period. A 12.8% decline in attendance from a weaker film slate resulted in lower box office, theatre food service and media revenues. This decrease more than offset a \$48.9 million increase in amusement revenues which was primarily a result of acquisitions in the P1AG business. Despite the decrease in these areas, Cineplex posted third quarter records for BPP of \$9.81 and CPP of \$6.01.

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 the integration impacts short-term results. During the quarter Cineplex opened a new *The Rec Room* location in Edmonton, substantially completed a location in Calgary for opening in early October 2017 and completed the first full quarter of the location in Toronto which opened in late 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 monitor the various experiences offered to customers. Given that the initial openings are concept prototypes, the expectation is that it will take approximately twelve months before operations are optimized. During the third quarter, approximately \$4.4 million in integration costs and pre-opening costs related to the P1AG and *The Rec Room* businesses were incurred. Excluding the impact of P1AG, revenues decreased \$33.5 million (9.5%) compared to the prior year period. Despite the proactive cost control measures, the decreases in box office, theatre food service revenues and the media business coupled with costs arising from Cineplex's ongoing diversification strategy resulted in a decrease of \$8.4 million in adjusted EBITDA or 12.6% from the prior year. Adjusted free cash flow was \$0.597 per common share, a decrease of 19.2% from the third quarter of 2016.

Total revenues for the nine months ended September 30, 2017 increased 3.3%, or \$35.9 million compared to the prior year period. Excluding the impact of P1AG and *The Rec Room*, revenues decreased \$32.4 million (3.2%) primarily due to lower box office and theatre food service revenues caused by the 6.7% decrease in attendance. Included in the year-to-date results are approximately \$9.1 million in integration costs and pre-

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opening costs related to the P1AG and *The Rec Room* businesses. Adjusted EBITDA decreased 6.5% to \$156.3 million as a result of higher costs associated with Cineplex's ongoing diversification strategy. Adjusted free cash flow per Share decreased 14.8%, to \$1.563 in the current period from \$1.835 in the 2016 period.

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

P1AG Summary	Third Quarter			Year to Date		
	2017	2016	Change	2017	2016	Change
Amusement revenues	\$ 41,986	\$ 24,042	74.6%	\$ 120,049	\$ 69,525	72.7%
Operating Expenses	36,197	20,421	77.3%	103,695	60,165	72.4%
EBITDA (i)	\$ 5,789	\$ 3,621	59.9%	\$ 16,354	\$ 9,360	74.7%

<i>The Rec Room</i> Summary	Third Quarter			Year to Date		
	2017	2016	Change	2017	2016	Change
Food service revenues	\$ 6,292	\$ 287	NM	\$ 10,384	\$ 287	NM
Amusement revenues	4,273	204	NM	7,905	204	NM
Total revenues	10,565	491	NM	18,289	491	NM
Cost of food service	1,972	70	NM	3,331	70	NM
Operating expenses	7,835	357	NM	13,516	357	NM
Total costs	9,807	427	NM	16,847	427	NM
EBITDA (i)	\$ 758	\$ 64	NM	\$ 1,442	\$ 64	NM

(i) See Section 16, Non-GAAP measures.

## 1.2 KEY DEVELOPMENTS IN THE THIRD QUARTER OF 2017

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

### FILM ENTERTAINMENT AND CONTENT

#### *Theatre Exhibition*

- Reported third quarter box office revenues of \$164.5 million, a decrease of \$20.9 million (11.3%) from the \$185.4 million reported in the prior year period due to a 12.8% decrease in attendance.
- BPP was \$9.81, a third quarter record for Cineplex, \$0.16 (1.7%) higher than the \$9.65 reported during the prior year period.
- Converted 18 auditoriums to recliner seating during the quarter.
- Announced a partnership with IMAX to install the first IMAX VR Centre in Canada at Cineplex's *Scotiabank Theatre Toronto*. The VR Centre consists of multiple "pods" to allow players to enjoy interactive VR experiences in a social environment.
- Announced the installation of D-BOX VR motion seats and VR Systems at Cineplex's *Scotiabank Theatre Ottawa*.

#### *Theatre Food Service*

- Reported third quarter food service revenues of \$100.7 million, a decrease of \$8.5 million or 7.8% from the prior year period as a result of the decrease in attendance.
- CPP was \$6.01, a third quarter record for Cineplex, \$0.32 (5.6%) higher than the \$5.69 reported during the prior year period.

#### *Alternative Programming*

- Presented the live Mayweather vs. McGregor match featured in VIP Cinemas and concerts including André Rieu's Maastricht Concert and David Gilmour live in Pompeii.

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- Featured numerous strong performing international films, including Mandarin, Hindi and Punjabi in select markets across the country.

### *Digital Commerce*

- Cineplex.com registered an 18% increase in visits during the third quarter of 2017 compared to the prior year period.
- Online and mobile ticketing represented 20.2% of total admissions during the third quarter.
- Monthly active users of the Cineplex Store increased 73% as compared to the prior year period.
- Cineplex store registered a 66% increase in device activations over the prior year period.

### **MEDIA**

- Reported third quarter total media revenues of \$39.9 million, a decrease of \$5.0 million, or 11.1% compared to the prior year period.

### *Cinema Media*

- Reported third quarter revenues of \$27.4 million, compared to \$29.1 million in the prior year period, a decrease of 5.8% primarily due to a decrease in onscreen advertising.

### *Digital Place-Based Media*

- Reported third quarter revenues of \$12.5 million, a decrease of \$3.3 million compared to the prior year period due to lower project installation revenues partially offset by higher advertising revenue generated from an expanded client base.

### **AMUSEMENT AND LEISURE**

### *Amusement Solutions*

- Reported third quarter revenues of \$48.9 million, an increase of \$22.0 million over the prior year period. The increase was primarily due to the acquisitions of Tricorp and SAW, which were acquired in the fourth quarter of 2016 and Dandy, which was acquired in the second quarter of 2017.

### *Location Based Entertainment*

- *The Rec Room* reported third quarter food service revenues of \$6.3 million and amusement revenues of \$4.3 million.
- Opened the third location of *The Rec Room* in Edmonton at the West Edmonton Mall on August 23, 2017.
- Announced an exclusive partnership with Topgolf to bring multiple Topgolf sports entertainment complexes to markets across Canada. Topgolf brings together golfers of all ages and skill levels for competitive play in the comfort of a climate-controlled sports and entertainment destination.

### *eSports*

- In September 2017, WGN hosted the finals of the Counter-Strike: Global Offensive Canadian Championship Series at the *Scotiabank Theatre Toronto*, Ontario.

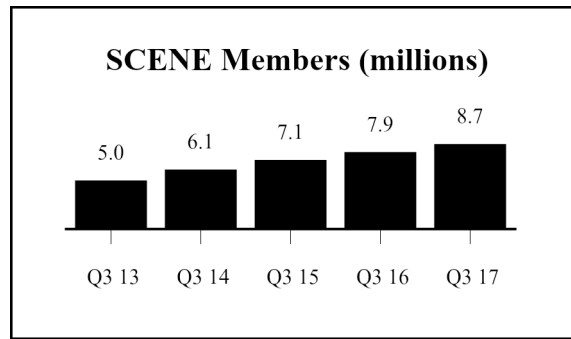
### **LOYALTY**

- Membership in the SCENE loyalty program increased by 0.2 million members in the period, reaching 8.7 million at September 30, 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.

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### CORPORATE

- During the quarter, Cineplex filed for a normal course issuer bid (“NCIB”) with 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. During the three months ended September 30, 2017, 157,192 shares were purchased and cancelled by Cineplex for \$6.0 million.
- Cineplex was once again the entertainment sponsor for WE Day Family which was held at the Air Canada Centre in Toronto, Ontario.
- During the quarter, under provisions in its Credit Facility (defined and discussed in Section 6.4, Credit Facilities), Cineplex increased the Revolving Facility by \$75.0 million with the Term Facility remaining unchanged.

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### 1.3 BUSINESS ACQUISITIONS

#### a) Dandy Amusements International Inc.

On April 1, 2017, Cineplex acquired 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
	<hr/>
Net assets	13,713
Less: Cash from acquisition	(490)
	<hr/>
	\$ 13,223
	<hr/>
Consideration given - cash paid	\$ 13,713
Less: Cash from acquisition	(490)
	<hr/>
	\$ 13,223
	<hr/>

As at September 30, 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 second quarter of 2017, Cineplex re-allocated the non-controlling interest of \$2.4 million to other components of equity. During the first quarter of 2017, Cineplex 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 was settled at \$10.0 million with \$9.3 million paid in the second quarter of 2017 and the remaining \$0.7 million paid in the third quarter of 2017. There was no impact on net income.

**d) Tricorp Amusements Inc.**

During the second quarter, Cineplex paid \$3.1 million of remaining consideration relating to the acquisition of Tricorp.

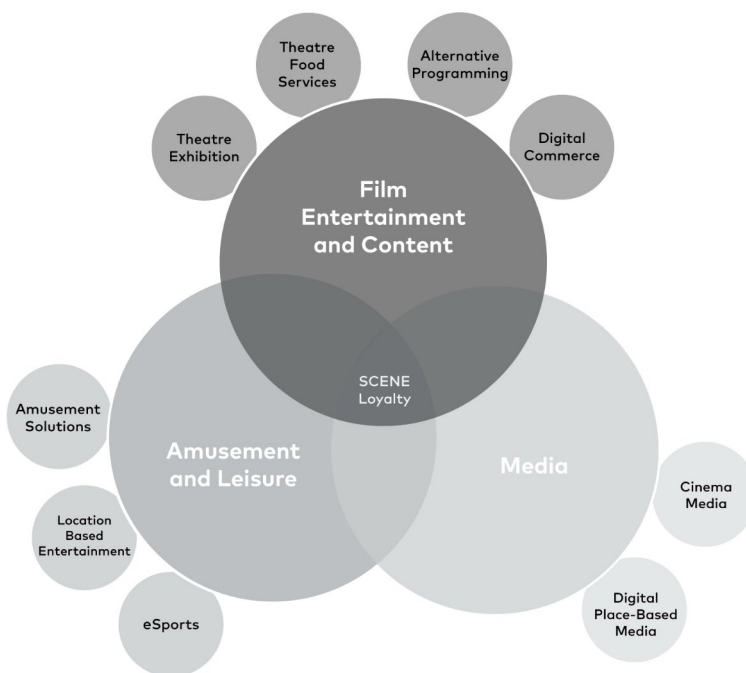
**2. CINEPLEX'S BUSINESSES AND STRATEGY**

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.



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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.

A detailed discussion of Cineplex's businesses and business strategy can be found in Cineplex's Annual MD&A. These have not changed materially during the third quarter of 2017.

### **3. OVERVIEW OF OPERATIONS**

#### *Revenues*

Cineplex generates revenues primarily from box office and concession sales. These revenues are affected primarily by attendance levels and by changes in BPP and CPP. Box office revenue represented 44.4% of revenue in the third quarter of 2017 and continues to represent Cineplex's largest revenue component.

Revenue mix % by year	Q3 2017	Q3 2016	Q3 2015	Q3 2014	Q3 2013
Box office (i)	44.4%	49.4%	53.9%	55.4%	57.0%
Food service	28.9%	29.1%	32.1%	30.8%	30.7%
Media	10.8%	11.9%	10.4%	10.7%	9.3%
Amusement (i)	13.2%	7.2%	0.8%	0.6%	0.7%
Other (i)	2.7%	2.4%	2.8%	2.5%	2.3%
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 9, 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 period	Third Quarter		Year to date	
	2017	2016	2017	2016
Film Entertainment and Content	75.0%	81.5%	78.0%	82.7%
Media	10.5%	11.6%	9.5%	10.6%
Amusement and Leisure	14.5%	6.9%	12.5%	6.7%
Total	100.0%	100.0%	100.0%	100.0%

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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 78% based on Canadian industry box office revenues for the year ended December 31, 2016. As a result of Cineplex's focus on diversifying the business beyond the traditional movie 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 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. Although pricing has an impact on CPP, Cineplex focuses primarily on growing CPP by optimizing the product offerings and improving operational excellence 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. 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.

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### *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.

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.

# Cineplex Inc.

## Management's Discussion and Analysis

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### *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 Yogurt Cafe ("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.

# Cineplex Inc.

## Management's Discussion and Analysis

### 4. RESULTS OF OPERATIONS

#### 4.1 SELECTED FINANCIAL DATA

The following table presents summarized financial data for Cineplex for the three and nine months ended September 30, 2017 and 2016 (in thousands of dollars except Shares outstanding, per Share data and per patron data, unless otherwise noted):

	Three months ended September 30, 2017	Three months ended September 30, 2016	Variance (%)	Nine months ended September 30, 2017	Nine months ended September 30, 2016	Variance (%)
Box office revenues (i)	\$ 164,493	\$ 185,412	-11.3%	\$ 530,557	\$ 550,780	-3.7%
Food service revenues	107,029	109,565	-2.3%	322,362	318,385	1.2%
Media revenues	39,862	44,828	-11.1%	110,355	118,072	-6.5%
Amusement revenues (i)	48,940	26,971	81.5%	136,041	77,611	75.3%
Other revenues (i)	10,124	9,176	10.3%	29,459	28,042	5.1%
Total revenues	370,448	375,952	-1.5%	1,128,774	1,092,890	3.3%
Film cost	83,268	95,471	-12.8%	278,025	293,534	-5.3%
Cost of food service	23,669	24,356	-2.8%	72,503	71,273	1.7%
Depreciation and amortization	30,613	26,703	14.6%	88,526	77,687	14.0%
Loss on disposal of assets	275	468	-41.2%	337	1,402	-76.0%
Other costs (a)	204,762	189,127	8.3%	622,289	561,863	10.8%
Costs of operations	342,587	336,125	1.9%	1,061,680	1,005,759	5.6%
Net income	\$ 17,219	\$ 25,996	-33.8%	\$ 41,560	\$ 54,663	-24.0%
Adjusted EBITDA (i)	\$ 58,811	\$ 67,260	-12.6%	\$ 156,315	\$ 167,168	-6.5%
(a) Other costs include:						
Theatre occupancy expenses	52,320	51,699	1.2%	156,897	155,052	1.2%
Other operating expenses	143,375	120,398	19.1%	414,310	352,425	17.6%
General and administrative expenses	9,067	17,030	-46.8%	51,082	54,386	-6.1%
Total other costs	\$ 204,762	\$ 189,127	8.3%	\$ 622,289	\$ 561,863	10.8%
EPS - basic	\$ 0.27	\$ 0.42	-35.7%	\$ 0.66	\$ 0.88	-25.0%
EPS excluding change in fair value of financial instrument - basic (ii)	\$ 0.27	\$ 0.42	-35.7%	\$ 0.62	\$ 0.88	-29.5%
EPS - diluted	\$ 0.27	\$ 0.41	-34.1%	\$ 0.66	\$ 0.88	-25.0%
EPS excluding change in fair value of financial instrument - diluted (ii)	\$ 0.27	\$ 0.41	-34.1%	\$ 0.62	\$ 0.88	-29.5%
Total assets	\$ 1,751,582	\$ 1,645,716	6.4%	\$ 1,751,582	\$ 1,645,716	6.4%
Total long-term financial liabilities (iii)	\$ 632,500	\$ 442,500	42.9%	\$ 632,500	\$ 442,500	42.9%
Shares outstanding at period end	63,384,746	63,492,274	-0.2%	63,384,746	63,492,274	-0.2%
Cash dividends declared per Share	\$ 0.420	\$ 0.405	3.7%	\$ 1.240	\$ 1.195	3.8%
Adjusted free cash flow per Share (ii)	\$ 0.597	\$ 0.739	-19.2%	\$ 1.563	\$ 1.835	-14.8%
Box office revenue per patron (i) (ii)	\$ 9.81	\$ 9.65	1.7%	\$ 10.04	\$ 9.72	3.3%
Concession revenue per patron (ii)	\$ 6.01	\$ 5.69	5.6%	\$ 5.90	\$ 5.61	5.2%
Film cost as a percentage of box office revenues (i)	50.6%	51.5%	-0.9%	52.4%	53.3%	-0.9%
Attendance (in thousands of patrons) (ii)	16,766	19,219	-12.8%	52,843	56,660	-6.7%
Theatre locations (at period end)	163	164	-0.6%	163	164	-0.6%
Theatre screens (at period end)	1,676	1,677	-0.1%	1,676	1,677	-0.1%
(i) Prior period figures have been reclassified to conform to current period presentation. See Section 9, Seasonality and quarterly results for further details.						
(ii) See Section 16, Non-GAAP measures, for the definition 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.						

# Cineplex Inc.

## Management's Discussion and Analysis

### 4.2 OPERATING RESULTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017

#### Total revenues

Total revenues for the three months ended September 30, 2017, decreased \$5.5 million (1.5%) to \$370.4 million as compared to the prior year period. Total revenues for the nine months ended September 30, 2017 increased \$35.9 million (3.3%) to \$1.1 billion as compared to the prior year period. A discussion of the factors affecting the changes in box office, food service, media, amusement and other revenues for the period 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, food service cost percentage and concession margin per patron are defined and discussed in Section 16, Non-GAAP measures.

#### Box office revenues

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

Box office revenues	Third Quarter			Year to Date		
	2017	2016	Change	2017	2016	Change
Box office revenues (i)	\$ 164,493	\$ 185,412	-11.3%	\$ 530,557	\$ 550,780	-3.7%
Attendance (ii)	16,766	19,219	-12.8%	52,843	56,660	-6.7%
Box office revenue per patron (i) (ii)	\$ 9.81	\$ 9.65	1.7%	\$ 10.04	\$ 9.72	3.3%
BPP excluding premium priced product (ii)	\$ 8.40	\$ 8.20	2.4%	\$ 8.52	\$ 8.26	3.1%
Canadian industry revenues (iii)			-10.1%			-1.9%
Same theatre box office revenues (i) (ii)	\$ 162,332	\$ 184,690	-12.1%	\$ 518,151	\$ 545,733	-5.1%
Same theatre attendance (ii)	16,562	19,138	-13.5%	51,793	56,183	-7.8%
% Total box from premium priced product (i) (ii)	43.8%	48.1%	-4.3%	46.7%	47.1%	-0.4%

(i) Prior period figures have been reclassified to conform to current period presentation. See Section 9, Seasonality and quarterly results for further details.  
(ii) See Section 16, Non-GAAP measures.  
(iii) Source: The Movie Theatre Association of Canada industry data adjusted for calendar quarter dates.

Box office continuity (i)	Third Quarter		Year to Date	
	Box Office	Attendance	Box Office	Attendance
2016 as reported	\$ 185,412	19,219	\$ 550,780	56,660
Same theatre attendance change	(24,854)	(2,575)	(42,639)	(4,390)
Impact of same theatre BPP change	2,495	—	15,057	—
New and acquired theatres (ii)	1,546	137	8,197	693
Disposed and closed theatres (ii)	(106)	(15)	(838)	(120)
2017 as reported	\$ 164,493	16,766	\$ 530,557	52,843

(i) Prior period figures have been reclassified to conform to current period presentation. See Section 9, Seasonality and quarterly results for further details.  
(ii) See Section 16, Non-GAAP measures. Represents theatres opened, acquired, disposed or closed subsequent to the start of the prior year comparative period.

#### Third Quarter

Third Quarter 2017 Top Cineplex Films		3D	% Box	Third Quarter 2016 Top Cineplex Films		3D	% Box
1	Spider-Man: Homecoming	✓	13.8%	1	Suicide Squad	✓	12.0%
2	It		10.1%	2	The Secret Life of Pets	✓	11.2%
3	Despicable Me 3	✓	9.1%	3	Star Trek Beyond	✓	6.9%
4	Dunkirk		9.1%	4	Jason Bourne		6.6%
5	War For The Planet Of The Apes	✓	5.4%	5	Finding Dory	✓	5.8%

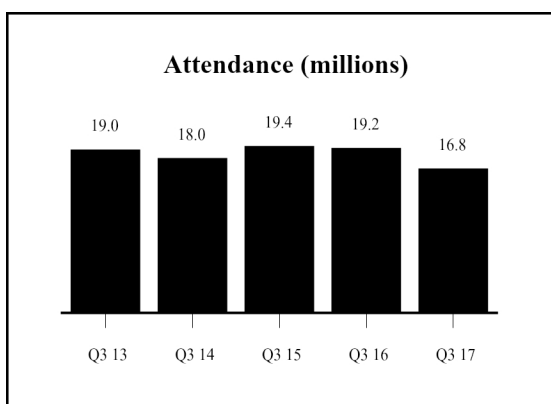
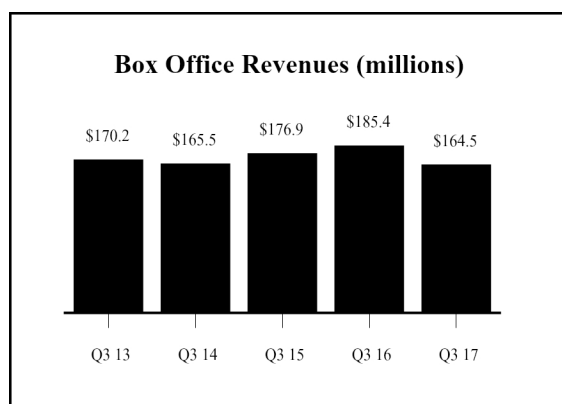
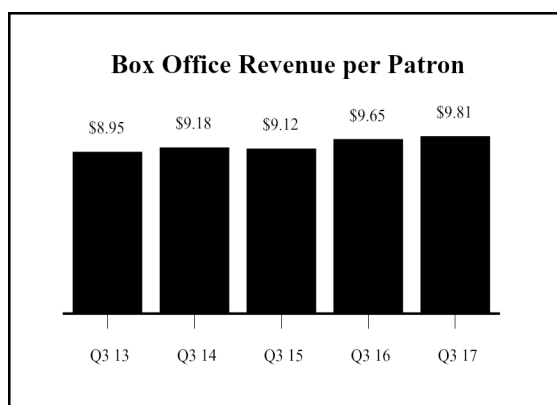
# Cineplex Inc.

## Management's Discussion and Analysis

Box office revenues decreased \$20.9 million, or 11.3%, to \$164.5 million during the period, compared to \$185.4 million reported in the strong third quarter in 2016. The decrease was due to a 12.8% decrease in attendance to 16.8 million guests, partially offset by the higher BPP. The attendance decrease was due to the weaker film slate in the third quarter of 2017 compared to the third quarter of 2016 in addition to the impact of auditorium closures during recliner conversions.

The decrease in premium priced product to 43.8% from 48.1% in the prior year period was due to only three of the top five films in the quarter being offered in a 3D format, whereas four of the top five in films were offered in 3D in the prior year period.

BPP for the three months ended September 30, 2017 was \$9.81, a \$0.16 (1.7%) increase from the prior year period and a third quarter record for Cineplex. The increase in BPP was due to price increases in selective markets compared to the prior year period.



### Year to Date

Year to Date 2017 Top Cineplex Films			Year to Date 2016 Top Cineplex Films			
		3D	% Box		3D	% Box
1	Beauty and the Beast	✓	6.5%	1	Deadpool	5.3%
2	Guardians Of The Galaxy Vol. 2	✓	5.3%	2	Finding Dory	4.7%
3	Wonder Woman	✓	4.7%	3	Star Wars: The Force Awakens	4.7%
4	Spider-Man: Homecoming	✓	4.3%	4	Captain America: Civil War	4.6%
5	Logan		3.2%	5	The Jungle Book	4.5%

Box office revenues for the nine months ended September 30, 2017 were \$530.6 million, a decrease of \$20.2 million or 3.7% over the prior year. This was due to the 6.7% decrease in attendance period over period as a

# Cineplex Inc.

## Management's Discussion and Analysis

result of the weaker film slate of in 2017 compared to the prior year which included two films ranked in the top nine highest grossing films of all-time.

Cineplex's BPP for the nine month period increased \$0.32, or 3.3%, from \$9.72 in the prior year period to a record \$10.04 in the current period. This increase was due to price increases in selective markets as compared to the prior year period.

### Food service revenues

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

Food service revenues	Third Quarter			Year to Date		
	2017	2016	Change	2017	2016	Change
Food service - theatres	\$ 100,737	\$ 109,278	-7.8%	\$ 311,978	\$ 318,098	-1.9%
Food service - <i>The Rec Room</i>	6,292	287	NM	\$ 10,384	287	NM
Total food service revenues	\$ 107,029	\$ 109,565	-2.3%	\$ 322,362	\$ 318,385	1.2%
Attendance (i)	16,766	19,219	-12.8%	52,843	56,660	-6.7%
CPP (i)	\$ 6.01	\$ 5.69	5.6%	\$ 5.90	\$ 5.61	5.2%
Same theatre food service revenues (i)	\$ 99,169	\$ 108,787	-8.8%	\$ 304,235	\$ 315,233	-3.5%
Same theatre attendance (i)	16,562	19,138	-13.5%	51,793	56,183	-7.8%

(i) See Section 16, Non-GAAP Measures.

Theatre food service revenue continuity	Third Quarter		Year to Date	
	Theatre Food Service	Attendance	Theatre Food Service	Attendance
2016 as reported	\$ 109,278	19,219	\$ 318,098	56,660
Same theatre attendance change	(14,639)	(2,575)	(24,630)	(4,390)
Impact of same theatre CPP change	5,021	—	13,631	—
New and acquired theatres (i)	1,167	137	5,484	693
Disposed and closed theatres (i)	(90)	(15)	(605)	(120)
2017 as reported	\$ 100,737	16,766	\$ 311,978	52,843

(i) See Section 16, Non-GAAP measures. Represents theatres opened, acquired, disposed or closed subsequent to the start of the prior year comparative period.

### Third Quarter

Food service revenues are comprised primarily of concession revenues, which includes food service sales at theatre locations and food and beverage sales at *The Rec Room*. Food service revenues decreased \$2.5 million or 2.3% as compared to the prior year period due to the 12.8% decrease in attendance, partially offset by the increase in CPP and the operations of *The Rec Room* which contributed \$6.3 million. Food service revenues from *The Rec Room* are not included in the CPP calculation.

CPP increased 5.6% to \$6.01, a third quarter 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 higher CPP in the period.

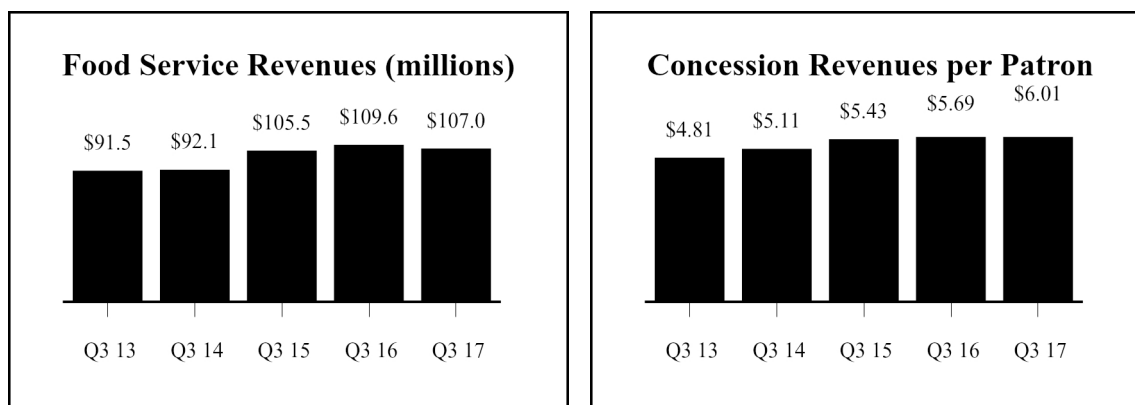
### Year to Date

Food service revenues increased \$4.0 million, or 1.2% as compared to the prior year, due to the 5.2% increase in CPP and \$10.4 million contributed by *The Rec Room* partially offset by the 6.7% decrease in attendance. The CPP of \$5.90 in the current period is the highest CPP Cineplex has reported through the first nine months of a year.

# Cineplex Inc.

## Management's Discussion and Analysis

While programs including the SCENE offers provided on food service 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

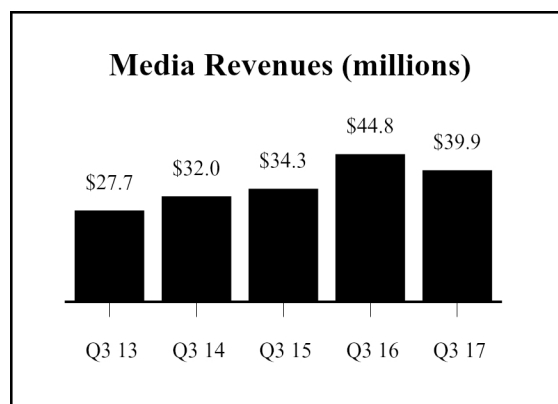
The following table highlights the movement in media revenues for the quarter and the year to date (in thousands of dollars):

Media revenues	Third Quarter			Year to Date		
	2017	2016	Change	2017	2016	Change
Cinema media	\$ 27,409	\$ 29,093	-5.8%	\$ 72,965	\$ 76,432	-4.5%
Digital place-based media	12,453	15,735	-20.9%	37,390	41,640	-10.2%
Total media revenues	\$ 39,862	\$ 44,828	-11.1%	\$ 110,355	\$ 118,072	-6.5%

#### Third Quarter

Total media revenues decreased \$5.0 million (11.1%) to \$39.9 million in the third quarter of 2017 compared to the prior year period. This change was due to decreases in cinema advertising and lower project installation revenues of \$3.0 million for digital place-based media due to the timing of project rollouts.

During the quarter, digital placed-based media added 226 new locations for a total of 11,847 locations (an increase of 1.9%).



# Cineplex Inc.

## Management's Discussion and Analysis

### Year to Date

Total media revenues decreased \$7.7 million in the nine months ended September 30, 2017 as compared to the prior year period. The decrease resulted from the \$3.5 million decrease in cinema media due to lower pre-show advertising and a \$4.3 million decrease in digital place-based media revenues due to lower project installation revenue which was partially offset by growth in digital advertising, software and network management revenues from increased active locations.

Year to date, digital placed-based media added 699 new locations (6.3% increase).

### Amusement revenues

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

Amusement revenues (i)	Third Quarter			Year to Date		
	2017	2016	Change	2017	2016	Change
Amusement - PIAG excluding Cineplex exhibition and <i>The Rec Room</i> (ii)	\$ 41,986	\$ 24,042	74.6%	120,049	69,525	72.7%
Amusement - Cineplex exhibition (ii)	\$ 2,681	\$ 2,725	-1.6%	8,087	7,882	2.6%
Amusement - <i>The Rec Room</i>	4,273	204	NM	7,905	204	NM
Total amusement revenues	\$ 48,940	\$ 26,971	81.5%	136,041	77,611	75.3%

(i) Prior period figures have been reclassified to conform to current period presentation. See Section 9, 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 - PIAG excluding Cineplex exhibition reflects PIAG's gross amusement revenues, net of the venue revenue share paid to Cineplex reflected in Amusement - Cineplex exhibition above.

### Third Quarter

Amusement revenues increased 81.5%, or \$22.0 million, to \$48.9 million in the third quarter of 2017 compared to the prior year period primarily due to the acquisitions of Tricorp and SAW in the fourth quarter of 2016 and Dandy in Q2.

### Year to Date

For the year to date period, amusement revenues increased 75.3% or \$58.4 million, to \$136.0 million primarily due to the acquisitions of Tricorp and SAW in the fourth quarter of 2016 and Dandy in the current period.

### 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 the year to date (in thousands of dollars):

Other revenues (i)	Third Quarter			Year to Date		
	2017	2016	Change	2017	2016	Change
Other revenues	\$ 10,124	\$ 9,176	10.3%	\$ 29,459	\$ 28,042	5.1%

(i) Prior period figures have been reclassified to conform to current period presentation. See Section 9, Seasonality and quarterly results for further details.

# Cineplex Inc.

## Management's Discussion and Analysis

### Film cost

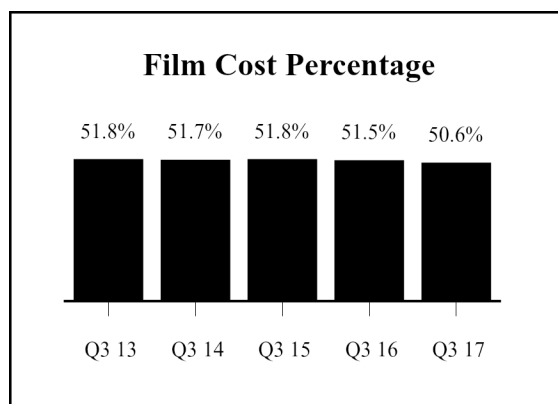
The following table highlights the movement in film cost and the film cost percentage for the quarter and the year to date (in thousands of dollars, except film cost percentage):

Film cost	Third Quarter			Year to Date		
	2017	2016	Change	2017	2016	Change
Film cost	\$ 83,268	\$ 95,471	-12.8%	\$ 278,025	\$ 293,534	-5.3%
Film cost percentage (i)(ii)	50.6%	51.5%	-0.9%	52.4%	53.3%	-0.9%

(i) See Section 16, Non-GAAP measures.  
(ii) Prior period figures have been reclassified to conform to current period presentation. See Section 9, Seasonality and quarterly results for further details.

### Third Quarter

Film cost varies primarily with box office revenues and can vary from quarter to quarter usually based on the relative strength of the titles exhibited during the period. This is due to film cost terms varying by title and distributor. Film cost percentage during the third quarter of 2017 was 50.6%, a 0.9% decrease from the prior year period.



### Year to Date

The year to date decrease in film cost expense was due a combination of the 0.9% 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 period 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 and food service cost as a percentage of food service revenues ("concession cost percentage") for the quarter and the year to date (in thousands of dollars, except percentages and margins per patron):

Cost of food service	Third Quarter			Year to Date		
	2017	2016	Change	2017	2016	Change
Cost of food service - theatre	\$ 21,697	\$ 24,286	-10.7%	\$ 69,172	\$ 71,203	-2.9%
Cost of food service - <i>The Rec Room</i>	1,972	70	NM	3,331	70	NM
Total cost of food service	\$ 23,669	\$ 24,356	9.6%	\$ 72,503	\$ 71,273	1.7%
Theatre concession cost percentage (i)	21.5%	22.2%	-0.7%	22.2%	22.4%	-0.2%
<i>The Rec Room</i> food cost percentage (i)	31.3%	24.4%	6.9%	32.1%	24.4%	7.7%
Theatre concession margin per patron (i)	\$ 4.71	\$ 4.42	6.6%	\$ 4.59	\$ 4.36	5.3%

(i) See Section 16, Non-GAAP measures

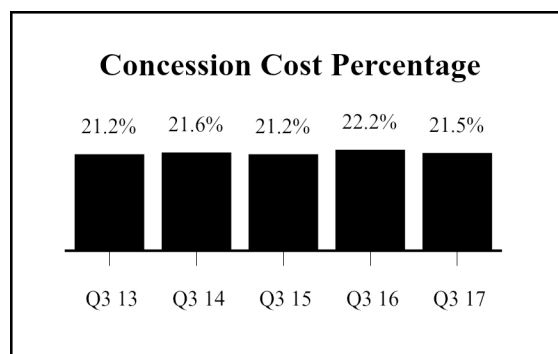
# Cineplex Inc.

## Management's Discussion and Analysis

### Third 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 location as well as the quantity and mix between food and beverage items sold.

The decrease in the theatre cost of food service as compared to the prior year period was primarily due to the lower food service revenues and the decrease in the theatre concession cost percentage from 22.2% to 21.5%. The theatre concession margin per patron increased 6.6% from \$4.42 in the third quarter of 2016 to \$4.71 in the same period in 2017, reflecting the impact of the higher CPP during the period and the lower concession cost percentage.



### Year to Date

The decrease in the theatre cost of food service as compared to the prior year period was due to the lower theatre food service revenues. The theatre concession margin per patron increased from \$4.36 in the prior year period to \$4.59 in the current period, reflecting the impact of the higher CPP in the current period.

### Depreciation and amortization

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

Depreciation and amortization expenses	Third Quarter			Year to Date		
	2017	2016	Change	2017	2016	Change
Depreciation of property, equipment and leaseholds	\$ 26,110	\$ 23,023	13.4%	\$ 75,663	\$ 66,828	13.2%
Amortization of intangible assets and other	4,503	3,680	22.4%	12,863	10,859	18.5%
Depreciation and amortization expenses as reported	\$ 30,613	\$ 26,703	14.6%	\$ 88,526	\$ 77,687	14.0%

The quarterly and year to date increase in depreciation of property, equipment and leaseholds of \$3.1 million and \$8.8 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 year to date increase in amortization of intangible assets and other is primarily due to the acquisitions of Tricorp, SAW and Dandy customer relationships.

# Cineplex Inc.

## Management's Discussion and Analysis

### Loss on disposal of assets

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

Loss on disposal of assets	Third Quarter			Year to Date		
	2017	2016	Change	2017	2016	Change
Loss on disposal of assets	\$ 275	\$ 468	-41.2%	\$ 337	\$ 1,402	-76.0%

### Other costs

Other costs include three main sub-categories of expenses; 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 the year to date (in thousands of dollars):

Other costs	Third Quarter			Year to Date		
	2017	2016	Change	2017	2016	Change
Theatre occupancy expenses	\$ 52,320	\$ 51,699	1.2%	\$ 156,897	\$ 155,052	1.2%
Other operating expenses	143,375	120,398	19.1%	414,310	352,425	17.6%
General and administrative expenses	9,067	17,030	-46.8%	51,082	54,386	-6.1%
Total other costs	\$ 204,762	\$ 189,127	8.3%	\$ 622,289	\$ 561,863	10.8%

### Theatre occupancy expenses

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

Theatre occupancy expenses	Third Quarter			Year to Date		
	2017	2016	Change	2017	2016	Change
Rent	\$ 34,882	\$ 34,192	2.0%	\$ 103,853	\$ 102,568	1.3%
Other occupancy	17,802	18,009	-1.1%	54,273	54,933	-1.2%
One-time items (i)	(364)	(502)	-27.5%	(1,229)	(2,449)	-49.8%
Total	\$ 52,320	\$ 51,699	1.2%	\$ 156,897	\$ 155,052	1.2%

(i) One-time items include amounts related to both 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	Third Quarter Occupancy	Year to Date Occupancy
2016 as reported	\$ 51,699	\$ 155,052
Impact of new and acquired theatres	275	1,022
Impact of disposed theatres	(91)	(383)
Same theatre rent change (i)	603	1,077
One-time items	139	1,220
Other	(305)	(1,091)
2017 as reported	\$ 52,320	\$ 156,897

(i) See Section 16, Non-GAAP measures

# Cineplex Inc.

## Management's Discussion and Analysis

### Third Quarter

Theatre occupancy expenses increased \$0.6 million during the third quarter of 2017 compared to the prior year period. This increase was primarily due to the impact of one time charges of \$0.1 million in addition to the impact of new and acquired theatres net of disposed theatres and rent increases partially offset by lower other expenses (including real estate taxes).

### Year to Date

The increase in theatre occupancy expenses of \$1.8 million for the 2017 period compared to the prior year was due to the impact of one time charges of \$1.2 million in addition to the impact of new and acquired theatres, net of disposed theatres and rent increases net of a decrease in other costs including real estate taxes 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 year to date (in thousands of dollars):

Other operating expenses	Third Quarter			Year to Date		
	2017	2016	Change	2017	2016	Change
Theatre payroll	\$ 32,944	\$ 35,532	-7.3%	\$ 104,021	\$ 107,430	-3.2%
Media	16,612	17,929	-7.3%	51,793	50,399	2.8%
P1AG	36,197	20,421	77.3%	103,695	60,165	72.4%
<i>The Rec Room</i> (i)	7,835	357	NM	13,516	357	NM
Other	49,787	46,159	7.9%	141,285	134,074	5.4%
Other operating expenses	\$ 143,375	\$ 120,398	19.1%	\$ 414,310	\$ 352,425	17.6%

(i) Includes operating costs of *The Rec Room* locations in Edmonton and Toronto. 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	Third Quarter Other Operating	Year to Date Other Operating
2016 as reported	\$ 120,398	\$ 352,425
Impact of new and acquired theatres	532	2,771
Impact of disposed theatres	(106)	(495)
Same theatre payroll change (i)	(2,912)	(4,834)
Marketing change	(765)	(4,078)
Media change	(1,317)	1,394
P1AG change	15,776	43,530
Amusement gaming and leisure, excluding P1AG	12,188	23,262
Other	(419)	335
2017 as reported	\$ 143,375	\$ 414,310

(i) See Section 16, Non-GAAP measures

### Third Quarter

Other operating expenses during the third quarter of 2017 increased \$23.0 million or 19.1% 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 Tricorp and SAW in the fourth quarter of 2016 and Dandy in the second quarter of 2017. Excluding P1AG, the increase to other operating expenses primarily included increased operating expenses for *The Rec Room* (which did not have a full period of operations in the prior year). These increases were partially offset by proactive cost control measures including a \$2.9 million decrease in same theatre payroll due to a decline in attendance, in addition to a \$1.3 million decrease in media due to a decrease in media revenues. Other costs include an increase of \$3.4 million in pre-opening costs at *The Rec Room* and integration costs incurred by P1AG, to \$4.4 million during the quarter.

# Cineplex Inc.

## Management's Discussion and Analysis

### Year to Date

For the nine months ended September 30, 2017, other operating expenses increased \$61.9 million or 17.6% 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 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 did not have a full year of operations in the prior year, and increases to Media cost due to high payments to third party networks which were partially offset by a \$4.0 million decrease in marketing costs and \$4.8 million decrease in same theatre payroll due to the decline in attendance. Other costs include an increase of \$7.9 million in pre-opening costs at *The Rec Room* and integration costs incurred by P1AG, to \$9.1 million during the year to date.

### General and administrative expenses

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

G&A expenses	Third Quarter			Year to Date		
	2017	2016	Change	2017	2016	Change
G&A excluding LTIP and option plan expense	\$ 15,021	\$ 15,039	-0.1%	\$ 49,404	\$ 44,835	10.2%
LTIP (i)	(6,424)	1,579	NM	323	8,314	-96.1%
Option plan	470	412	14.1%	1,355	1,237	9.5%
G&A expenses as reported	\$ 9,067	\$ 17,030	-46.8%	\$ 51,082	\$ 54,386	-6.1%

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

### Third Quarter

G&A expenses decreased \$8.0 million during the third quarter of 2017 compared to the prior year period due to a \$8.0 million decrease in LTIP expense. The LTIP expense decrease was mainly due to Cineplex's lower Share price at September 30, 2017, of \$39.04, compared to \$52.86 at June 30, 2017.

### Year to Date

G&A expenses for the year to date period decreased \$3.3 million compared to the prior year period primarily due to the decrease in LTIP expense partially offset by higher head office payroll and including non-recurring \$1.6 million past-service costs associated with the supplemental executive retirement plan. The LTIP expense decrease was mainly due to Cineplex's lower Share price of \$39.04 at September 30, 2017 compared to \$51.22 at December 31, 2016.

### 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 year to date (in thousands of dollars):

Share of income of joint ventures	Third Quarter			Year to Date		
	2017	2016	Change	2017	2016	Change
Share of income of CDCP	\$ (342)	\$ (889)	-61.5%	\$ (2,469)	\$ (1,945)	26.9%
Share of income of other joint ventures	(41)	(22)	86.4%	(105)	(135)	-22.2%
Total income of joint ventures	\$ (383)	\$ (911)	-58.0%	\$ (2,574)	\$ (2,080)	23.8%

### Interest expense

# Cineplex Inc.

## Management's Discussion and Analysis

Cineplex had 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 the year to date (in thousands of dollars):

Interest expense	Third Quarter			Year to Date		
	2017	2016	Change	2017	2016	Change
Long-term debt interest expense	\$ 3,784	\$ 2,399	57.7%	\$ 9,989	\$ 7,101	40.7%
Convertible debenture interest expense	1,220	1,219	0.1%	3,619	3,631	-0.3%
Finance lease interest expense	186	243	-23.5%	603	769	-21.6%
Sub-total - cash interest expense	\$ 5,190	\$ 3,861	34.4%	\$ 14,211	\$ 11,501	23.6%
Deferred financing fee accretion and other non-cash interest, net	156	143	9.1%	474	461	2.8%
Convertible debenture accretion	565	531	6.4%	1,697	1,583	7.2%
Interest rate swap - non-cash	62	(39)	NM	(244)	767	NM
Sub-total - non-cash interest expense	783	635	23.3%	1,927	2,811	-31.4%
Total interest expense	\$ 5,973	\$ 4,496	32.9%	\$ 16,138	\$ 14,312	12.8%

Interest expense increased \$1.5 million for the quarter and \$1.8 million for the year to date compared to the prior year period. For both the third quarter and year to date periods, cash interest is higher due to higher average borrowings on Cineplex's revolving facility (See section 6.4, Credit Facilities).

### Interest income

Interest income during the third quarter of 2017 and the nine months ended September 30, 2017 was as follows (in thousands of dollars):

Interest income	Third Quarter			Year to Date		
	2017	2016	Change	2017	2016	Change
Interest income	\$ 60	\$ 46	30.4%	\$ 163	\$ 164	-0.6%

### Foreign exchange

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

Foreign exchange	Third Quarter			Year to Date		
	2017	2016	Change	2017	2016	Change
Foreign exchange (gain) loss	282	\$ 79	NM	857	\$ (16)	NM

Foreign exchange loss is due to a drop in the CAD/USD foreign exchange month end rate from 1.2977 at June 30, 2017 and 1.3427 at December 31, 2016, to 1.2480 at September 30, 2017.

### Change in fair value of financial instrument

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

Change in fair value of financial instrument	Third Quarter			Year to Date		
	2017	2016	Change	2017	2016	Change
(Gain) on change in fair value of financial instrument	\$ (1,750)	\$ —	NM	(2,737)	—	NM

# Cineplex Inc.

## Management's Discussion and Analysis

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The gain on change in fair value of financial instrument during the the current period is due to the revaluation of certain financial assets to fair market value during the quarter.

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 year to date (in thousands of dollars):

Income taxes	Third Quarter			Year to Date		
	2017	2016	Change	2017	2016	Change
Current income tax expense	\$ 5,235	\$ 9,002	-41.8%	\$ 13,380	\$ 17,853	-25.1%
Deferred income tax (recovery) expense	\$ 1,344	\$ 1,211	NM	\$ 632	\$ 2,563	NM
Provision for income taxes	\$ 6,579	\$ 10,213	-35.6%	\$ 14,012	\$ 20,416	-31.4%

Income tax expense is lower in the current quarter and year to date compared to the prior year period due to weaker operating results during the periods resulting in lower taxable income and related tax expense.

Cineplex's blended federal and provincial statutory tax rate at September 30, 2017 was 26.8% (2016 - 26.8%).

### Net income

Net income during the third quarter of 2017 and the nine months ended September 30, 2017 was as follows (in thousands of dollars):

Net income	Third Quarter			Year to Date		
	2017	2016	Change	2017	2016	Change
Net income	\$ 17,219	\$ 25,996	-33.8%	\$ 41,560	\$ 54,663	-24.0%

# Cineplex Inc.

## Management's Discussion and Analysis

### 4.3 EARNINGS BEFORE INTEREST, INCOME TAXES, DEPRECIATION AND AMORTIZATION ("EBITDA") (see Section 16, Non-GAAP measures)

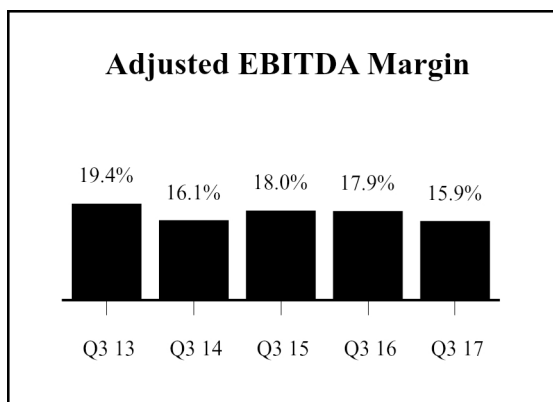
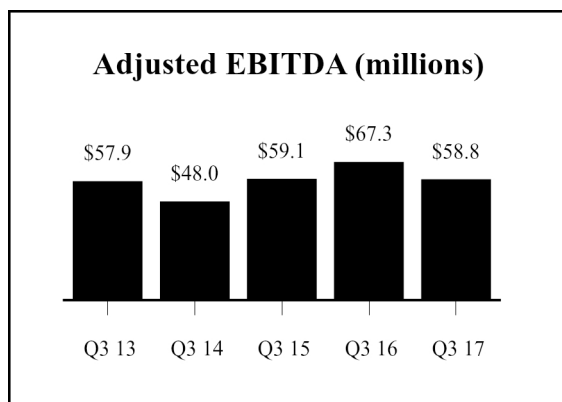
The following table presents EBITDA and adjusted EBITDA for the three and nine months ended September 30, 2017 as compared to the prior year periods (in thousands of dollars, except adjusted EBITDA margin):

EBITDA	Third Quarter			Year to Date		
	2017	2016	Change	2017	2016	Change
EBITDA (i)	\$ 60,324	\$ 67,362	-10.4%	\$160,073	\$166,914	-4.1%
Adjusted EBITDA	\$ 58,811	\$ 67,260	-12.6%	\$156,315	\$167,168	-6.5%
Adjusted EBITDA margin	15.9%	17.9%	-2.0%	13.8%	15.3%	-1.5%

(i) Prior period figures have been reclassified to conform to current period presentation. See section 4.2, Interest Expense.

Adjusted EBITDA for the third quarter of 2017 decreased \$8.4 million, or 12.6%, as compared to the prior year period. Adjusted EBITDA margin, calculated as adjusted EBITDA divided by total revenues, was 15.9% in the current period. The decrease as compared to the prior year period was due in part to higher costs attributable to Cineplex's emerging businesses including startup costs at *The Rec Room* and integration costs at P1AG totaling \$4.4 million as it continues to execute its diversification strategy.

Adjusted EBITDA for the nine months ended September 30, 2017 decreased \$10.9 million, or 6.5%, as compared to the prior year period. The decrease was due in part to Cineplex's continued higher costs attributable to Cineplex's emerging businesses including startup costs at *The Rec Room* and integration costs at P1AG totaling \$9.1 million as it continues to execute its diversification strategy. Adjusted EBITDA margin for the period was 13.8%, a decrease of 1.5% from 15.3% in the prior year period.



# Cineplex Inc.

## Management's Discussion and Analysis

### 5. BALANCE SHEETS

The following sets out significant changes to Cineplex's consolidated balance sheets during the nine months ended September 30, 2017 as compared to December 31, 2016 (in thousands of dollars):

	September 30, 2017	December 31, 2016	Change (\$)	Change (%)
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	\$ 18,747	\$ 33,553	\$ (14,806)	-44.1%
Trade and other receivables	82,214	115,903	(33,689)	-29.1%
Income taxes receivable	1,478	463	1,015	NM
Inventories	28,307	21,412	6,895	32.2%
Prepaid expenses and other current assets	21,039	10,856	10,183	93.8%
Fair value of interest rate swap agreements	249	—	249	NM
	152,034	182,187	(30,153)	-16.6%
<b>Non-current assets</b>				
Property, equipment and leaseholds	617,120	564,879	52,241	9.2%
Deferred income taxes	7,284	5,891	1,393	23.6%
Fair value of interest rate swap agreements	3,324	756	2,568	NM
Interests in joint ventures	34,484	35,487	(1,003)	-2.8%
Intangible assets	120,891	125,492	(4,601)	-3.7%
Goodwill	816,445	813,494	2,951	0.4%
	\$ 1,751,582	\$ 1,728,186	\$ 23,396	1.4%
<b>Liabilities</b>				
<b>Current liabilities</b>				
Accounts payable and accrued expenses	\$ 131,957	\$ 204,725	\$ (72,768)	-35.5%
Share-based compensation	5,307	8,958	(3,651)	-40.8%
Dividends payable	8,874	8,575	299	3.5%
Income taxes payable	2,098	2,042	56	2.7%
Deferred revenue	132,246	172,140	(39,894)	-23.2%
Finance lease obligations	3,358	3,180	178	5.6%
Fair value of interest rate swap agreements	1,511	2,419	(908)	-37.5%
	285,351	402,039	(116,688)	-29.0%
<b>Non-current liabilities</b>				
Share-based compensation	13,395	18,346	(4,951)	-27.0%
Long-term debt	488,747	297,496	191,251	64.3%
Fair value of interest rate swap agreements	242	2,020	(1,778)	-88.0%
Finance lease obligations	6,330	8,871	(2,541)	-28.6%
Post-employment benefit obligations	8,467	7,932	535	6.7%
Other liabilities	119,076	125,560	(6,484)	-5.2%
Deferred income taxes	14,891	11,210	3,681	32.8%
Convertible debentures	104,515	102,817	1,698	1.7%
	1,041,014	976,291	64,723	6.6%
Equity attributable to owners of Cineplex	710,568	749,095	(38,527)	-5.1%
Non-controlling interests	—	2,800	(2,800)	-100.0%
	\$ 1,751,582	\$ 1,728,186	\$ 23,396	1.4%

**Trade and other receivables.** The decrease in trade and other receivables is primarily due to the collection of receivables from the sales of gift cards, vouchers and media sales from the 2016 holiday period. December represents the highest volume month for gift card and voucher sales and is one of the strongest months for media sales during the year.

**Income taxes receivable.** The balance represents the excess of income tax installments paid by several taxable entities in Cineplex's consolidated group to various tax authorities in excess of their current period income tax provisions.

# Cineplex Inc.

## Management's Discussion and Analysis

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**Prepaid expenses and other current assets.** The increase in prepaid expenses and other current assets relates mostly to certain prepaid real estate tax installments which are paid during the first half of the year and amortized over the second half of the year. There were also increases in prepaid deposits and insurance related to business growth and acquisitions.

**Property, equipment and leaseholds.** The increase in property, equipment and leaseholds is due to new build and other capital expenditures (\$96.8 million), maintenance capital expenditures (\$23.8 million) and net acquisitions (\$7.2 million), offset by amortization expenses (\$75.7 million).

**Intangible assets.** The decrease in intangible assets is due to the amortization of intangible assets with finite lives, offset by the recognition of the fair value of customer relationships on the acquisition of Dandy.

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

**Accounts payable and accrued expenses.** The decrease in accounts payable and accrued expenses principally relates to the settlement of year end liabilities.

**Share-based compensation.** The decrease in Share-based compensation is primarily due to the lower share price of Cineplex shares and the payment of the 2014 LTIP, which vested in the first quarter of 2017.

**Income taxes payable.** The increase in income taxes payable represents the amount paid by Cineplex during the first quarter of 2017 for taxes due based on its 2016 operations, offset by liabilities for current income tax expense relating to 2017 in excess of tax installments paid for certain taxable entities in the consolidated group.

**Deferred revenue.** Deferred revenue decreased mainly due to the redemption of gift cards and vouchers sold during the 2016 holiday season.

**Long-term debt.** The increase in long-term debt relates to net borrowings under the Revolving Facility (defined and discussed in Section 6.4, Credit Facilities) and the deferred financing fee amortization recognized in the period.

**6. LIQUIDITY AND CAPITAL RESOURCES**

**6.1 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 and nine months ended September 30, 2017 and 2016 (in thousands of dollars):

Cash flows provided by operating activities	Third Quarter			Year to Date		
	2017	2016	Change	2017	2016	Change
Net income	\$ 17,219	\$ 25,996	\$ (8,777)	\$ 41,560	\$ 54,663	\$ (13,103)
Adjustments to reconcile net income to net cash provided by operating activities:						
Non-cash amortization amounts (i)	28,326	24,305	4,021	81,467	70,946	10,521
Loss on disposal of assets	275	468	(193)	337	1,402	(1,065)
Deferred income taxes	1,344	1,211	133	632	2,563	(1,931)
Interest rate swap agreements - non-cash interest	62	(39)	101	(244)	767	(1,011)
Non-cash Share-based compensation	470	412	58	1,355	1,237	118
Accretion of convertible debentures	565	531	34	1,697	1,583	114
Change in fair value of financial instruments	(1,750)	—	(1,750)	(2,737)	—	(2,737)
Net change in interests in joint ventures	1,275	(1,553)	2,828	(2,612)	(1,851)	(761)
Tenant inducements	2,594	1,291	1,303	2,992	3,685	(693)
Changes in operating assets and liabilities	(12,675)	(16,025)	3,350	(88,928)	(100,395)	11,467
Net cash provided by operating activities	\$ 37,705	\$ 36,597	\$ 1,108	\$ 35,519	\$ 34,600	\$ 919
(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.						

*Third Quarter*

Cash provided by operating activities increased \$1.1 million in the third quarter of 2017 compared to the prior year period with the decrease in net income more than offset by the changes in operating assets and liabilities, interests in joint ventures and tenant inducements.

*Year to Date*

For the nine months ended September 30, 2017, cash used in operating activities increased \$0.9 million compared to the prior year period due to the movement in operating assets and liabilities partially offset by the \$13.1 million decrease in net income.

# Cineplex Inc.

## Management's Discussion and Analysis

### 6.2 INVESTING ACTIVITIES

The following table highlights the movements in cash used in investing activities for the three and nine months ended September 30, 2017 and 2016 (in thousands of dollars):

Cash flows used in investing activities	Third Quarter			Year to Date		
	2017	2016	Change	2017	2016	Change
Proceeds from sale of assets	\$ —	\$ —	\$ —	\$ 310	\$ 108	\$ 202
Purchases of property, equipment and leaseholds	(47,869)	(28,787)	(19,082)	(123,640)	(76,325)	(47,315)
Acquisition of businesses, net of cash acquired	(735)	—	(735)	(30,422)	(407)	(30,015)
Intangible assets additions	(1,160)	(329)	(831)	(3,742)	(610)	(3,132)
Net cash received from CDCP	2,246	1,568	678	3,615	2,370	1,245
Net cash used in investing activities	\$ (47,518)	\$ (27,548)	\$ (19,970)	\$ (153,879)	\$ (74,864)	\$ (79,015)

#### Third Quarter

Cash used in investing activities during the third quarter of 2017 increased by \$20.0 million over the prior year period. The change was primarily due to the higher additions to property, equipment and leaseholds. Purchases of property, equipment and leaseholds were higher than the prior year period with ongoing expenditures on new *The Rec Room* locations, recliner seating conversion and theatre construction.

#### Year to Date

For the year to date period, cash used in investing activities was \$79.0 million higher than the prior year period. The variance was primarily due to having increased spending on the construction of *The Rec Room* locations, recliner seating conversions, theatre construction and acquisitions. Acquisitions include Dandy for net \$13.2 million, the non-controlling interest in WGN for \$4.0 million, \$10.0 million deferred consideration payment for EK3 and \$3.1 million of remaining consideration for Tricorp.

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

Capital expenditures	Third Quarter			Year to Date		
	2017	2016	Change	2017	2016	Change
Gross capital expenditures	\$ 47,869	\$ 28,787	\$ 19,082	\$ 123,640	\$ 76,325	\$ 47,315
Less: tenant inducements	(2,594)	(1,291)	(1,303)	(2,992)	(3,685)	693
Net capital expenditures	\$ 45,275	\$ 27,496	\$ 17,779	\$ 120,648	\$ 72,640	\$ 48,008
Net capital expenditures consists of:						
Growth and acquisition capital expenditures (i)	\$ 20,811	\$ 23,697	\$ (2,886)	\$ 61,168	\$ 51,900	\$ 9,268
Tenant inducements	(2,594)	(1,291)	(1,303)	(2,992)	(3,685)	693
Media growth capital expenditures	1,243	1,581	(338)	4,427	1,882	2,545
Premium formats (ii)	7,720	1,825	5,895	30,164	4,189	25,975
Amusement gaming & leisure growth capital expenditures (excluding <i>The Rec Room</i> expenditures)	2,635	2,291	344	5,317	5,842	(525)
Maintenance capital expenditures	9,720	6,166	3,554	23,846	15,779	8,067
Other (iii)	5,740	(6,773)	12,513	(1,282)	(3,267)	1,985
	\$ 45,275	\$ 27,496	\$ 17,779	\$ 120,648	\$ 72,640	\$ 48,008

(i) Growth and acquisition capital expenditures include expenditures on the construction of new locations (including VIP cinemas) and other Board approved growth projects with the exception of premium formats, media growth, and amusement gaming and leisure growth capital expenditures.

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

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

# Cineplex Inc.

## Management's Discussion and Analysis

Cineplex funds maintenance capital expenditures through internally generated cash flow and cash on hand. Cineplex's Revolving Facility (defined and discussed in Section 6.4, Credit Facilities) is available to fund new theatre capital expenditures.

### 6.3 FINANCING ACTIVITIES

The following table highlights the movements in cash from financing activities for the three and nine months ended September 30, 2017 and 2016 (in thousands of dollars):

Cash flows (used in) provided by financing activities	Third Quarter			Year to Date		
	2017	2016	Change	2017	2016	Change
Dividends paid	\$ (26,688)	\$ (25,713)	\$ (975)	\$ (78,454)	\$ (75,482)	\$ (2,972)
Borrowings under credit facility, net	41,000	5,798	35,202	191,000	107,634	83,366
Payments under finance leases	(802)	(746)	(56)	(2,363)	(2,197)	(166)
Deferred financing fees	(183)	(22)	(161)	(183)	(1,426)	1,243
Shares repurchased and canceled	(6,007)	—	(6,007)	(6,007)	—	(6,007)
Net cash provided by (used in) financing activities	\$ 7,320	\$ (20,683)	\$ 28,003	\$ 103,993	\$ 28,529	\$ 75,464

#### *Third Quarter*

Net cash provided by financing activities in the third quarter of 2017 increased \$28.0 million in the current period compared to the amount used in the prior period due to \$35.2 million more borrowings used to fund acquisitions, new build capital expenditures, recliner seating conversions partially offset by \$6.0 million spent on Shares repurchased through Cineplex's NCIB (See Section 8, Share Activity).

#### *Year to Date*

Net cash provided by financing activities in the year to date period in 2017 increased \$75.5 million compared to the prior year period due to \$83.4 million of higher borrowings to fund acquisitions, new build capital expenditures, recliner seating conversions and NCIB Share repurchases partially offset by \$3.0 million in additional dividend payments.

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 6.4, Credit Facilities.

### 6.4 CREDIT FACILITIES

Cineplex entered into certain credit facilities effective May 2, 2016 (the "Credit Facilities"). At September 30, 2017, the Credit Facilities consisted of the following (in millions of Canadian dollars):

	Available	Drawn	Reserved	Remaining
(i) a five-year senior secured revolving credit facility ("Revolving Facility")	\$ 475.0	\$ 341.0	\$ 7.0	\$ 127.0
(ii) a five-year senior secured non-revolving term facility ("Term Facility")	\$ 150.0	\$ 150.0	\$ —	\$ —

Letters of credit outstanding at March 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, Cineplex announced that it had increased the Revolving Facility under these provisions by \$75 million with a further \$75 million available.

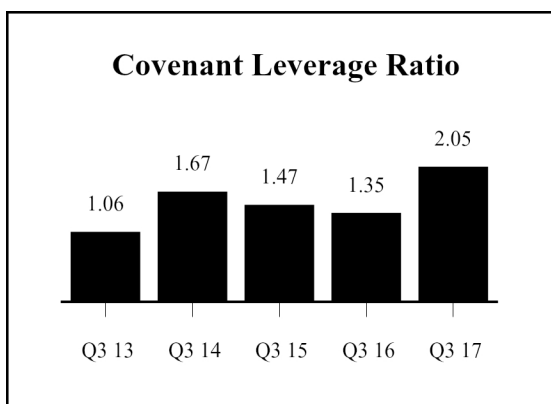
The Credit Facilities bear interest at a floating rate based on the Canadian dollar prime rate, or bankers' acceptances rates plus, in each case, an applicable margin to those rates. The facilities mature in April 2021 and are payable in full at maturity, with no scheduled repayment of principal required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

# Cineplex Inc.

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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 September 30, 2017, Cineplex's leverage ratio as calculated in accordance with the Credit Facilities definition was 2.05x, as compared to a covenant of 3.50x. The definition of debt in the Credit Facility 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 Facility definition, EBITDA is adjusted for certain non-cash, non-recurring items and the annualized impact of new theatres 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

# Cineplex Inc.

## Management's Discussion and Analysis

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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 in effect at September 30, 2017 Cineplex's effective cost of borrowing on the \$200.0 million hedged borrowings was 3.783% (September 30, 2016 - \$200.0 million hedged borrowings - 3.633%).

### 6.5 FUTURE OBLIGATIONS

Over the next four years, Cineplex has aggregate gross capital commitments of \$174.2 million (\$148.5 million net of tenant inducements) related to the completion of construction of 20 operating locations, including theatres, *The Rec Room* and Playdium locations.

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 September 30, 2017, Cineplex had \$107.5 million principal amount of convertible debentures outstanding that have a maturity date of December 31, 2018. At September 30, 2017, the convertible debentures were recorded on Cineplex's balance sheet at \$104.5 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*. 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, at its option, redeem 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. See Section 8, Share activity, for more information regarding the convertible debentures.

### **7. ADJUSTED FREE CASH FLOW AND DIVIDENDS (see Section 16, 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.

# Cineplex Inc.

## Management's Discussion and Analysis

### 7.1 ADJUSTED FREE CASH FLOW

Subject to the discretion of the Board, Cineplex typically 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 and nine months ended September 30, 2017 and 2016:

Adjusted free cash flow	Third Quarter			Year to Date		
	2017	2016	Change	2017	2016	Change
Adjusted free cash flow per Share	\$ 0.597	\$ 0.739	-19.2%	\$ 1.563	\$ 1.835	-14.8%
Dividends declared per Share	\$ 0.420	\$ 0.405	3.7%	\$ 1.240	\$ 1.195	3.8%
Payout ratio - twelve months ended September 30				75.3%	59.3%	16.0%

Adjusted free cash flow per Share is 19.2% lower than the prior year period due to the weaker operating results as compared to the prior year period. For the year to date period, adjusted free cash flow per Share is 14.8% lower than the prior year period.

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

	Third Quarter			Year to Date		
	2017	2016	Change	2017	2016	Change
Cash flows provided by operations	\$ 37,705	\$ 36,597	3.0%	\$ 35,519	\$ 34,600	2.7%
Net income	\$ 17,219	\$ 25,996	-33.8%	\$ 41,560	\$ 54,663	-24.0%
Standardized free cash flow	\$ (10,164)	\$ 7,810	-230%	\$ (87,811)	\$ (41,617)	NM
Adjusted free cash flow	\$ 37,915	\$ 46,891	-19.1%	\$ 99,258	\$ 116,423	-14.7%
Cash dividends declared	\$ 26,363	\$ 25,713	2.5%	\$ 52,087	\$ 75,815	-31.3%
Average number of Shares outstanding	63,508,418	63,491,658	NM	63,515,158	63,436,252	0.1%

### 7.2 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 ended September 30, 2017 and 2016, Cineplex declared dividends totaling \$0.420 per Share and \$0.405 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	\$0.0958
May 2007	\$0.1000
May 2008 (i)	\$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) 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.

# Cineplex Inc.

## Management's Discussion and Analysis

### 8. SHARE ACTIVITY

Share capital at September 30, 2017 and the transactions during the nine month period are 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 normal course issuer bid	(157,192)	(2,115)	—	(2,115)	
Balance - September 30, 2017	63,384,746	\$ 853,021	\$ 4,471	\$ 857,492	

During the three months ended September 30, 2017, 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 notice, 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 Common Shares. Based on a total public float of 63,089,953 Common Shares on August 28, 2017, Cineplex would acquire 6,308,995 Common Shares under its normal course bid. All Common 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 Common Shares on the TSX during any trading day, which is 25% of 147,192 (the average daily trading volume for Cineplex's Common 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, without charge, by contacting Cineplex. During the three months ended September 30, 2017, 157,192 shares were purchased and cancelled by Cineplex for an aggregate of \$6.0 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

# Cineplex Inc.

## Management's Discussion and Analysis

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 September 30, 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 September 30, 2017, 2.0 million Share options were available for grant under the plan.

A summary of option activities for the nine months ended September 30, 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)	47.71	(3,944)	46.74
Exercised		<u>(81,346)</u>	35.38	<u>(275,144)</u>	28.35
Options outstanding – end of period	7.62	2,157,589	\$ 45.50	1,772,703	\$ 42.79

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, at its option, redeem 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.

# Cineplex Inc.

## Management's Discussion and Analysis

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### **9. 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 \$341.0 million drawn as of September 30, 2017.

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

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	2017			2016			2015	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
<b>Revenues</b>								
Box office revenues (i)	\$ 164,493	\$ 170,710	\$ 195,354	\$ 183,413	\$ 185,412	\$ 166,725	\$ 198,643	\$ 202,489
Food service revenues	107,029	101,398	113,935	105,535	109,565	96,814	112,006	113,799
Media revenues	39,862	36,581	33,912	52,720	44,828	40,186	33,058	55,258
Amusement revenues (i)	48,940	45,700	41,401	33,737	26,971	24,589	26,051	23,577
Other revenues (i)	10,124	9,694	9,641	10,031	9,176	9,711	9,155	12,249
	370,448	364,083	394,243	385,436	375,952	338,025	378,913	407,372
<b>Expenses</b>								
Film cost	83,268	91,468	103,289	96,068	95,471	90,677	107,386	105,210
Cost of food service	23,669	23,180	25,654	24,786	24,356	21,603	25,314	24,836
Depreciation and amortization	30,613	29,646	28,267	28,254	26,703	25,979	25,005	24,526
Loss on disposal of assets	275	36	26	168	468	428	506	899
Other costs	204,762	211,456	206,071	198,067	189,127	183,332	189,404	192,378
	342,587	355,786	363,307	347,343	336,125	322,019	347,615	347,849
<b>Income from operations</b>	27,861	8,297	30,936	38,093	39,827	16,006	31,298	59,523
<b>Adjusted EBITDA (ii)</b>	58,811	38,055	59,449	66,841	67,260	42,768	57,140	85,163
<b>Net income</b>	\$ 17,219	\$ 1,376	\$ 22,965	\$ 23,328	\$ 25,996	\$ 7,212	\$ 21,455	\$ 76,805
EPS -basic	\$ 0.27	\$ 0.02	\$ 0.37	\$ 0.37	\$ 0.42	\$ 0.12	\$ 0.35	\$ 1.22
EPS - diluted (iii)	\$ 0.27	\$ 0.02	\$ 0.37	\$ 0.37	\$ 0.41	\$ 0.12	\$ 0.34	\$ 1.20
Cash provided by (used in) operating activities	\$ 37,705	\$ 12,489	\$ (14,675)	\$ 131,414	\$ 36,597	\$ 21,304	\$ (23,301)	\$ 156,346
Cash used in investing activities	(47,518)	(80,396)	(25,965)	(60,176)	(27,548)	(18,742)	(28,574)	(37,352)
Cash provided by (used in) financing activities	7,320	48,170	48,503	(61,475)	(20,683)	(6,564)	55,776	(108,227)
Effect of exchange rate differences on cash	(184)	(253)	(2)	105	231	(15)	(509)	151
Net change in cash	\$ (2,677)	\$ (19,990)	\$ 7,861	\$ 9,868	\$ (11,403)	\$ (4,017)	\$ 3,392	\$ 10,918
BPP (i) (ii)	\$ 9.81	\$ 10.36	\$ 9.97	\$ 10.23	\$ 9.65	\$ 9.89	\$ 9.65	\$ 9.93
CPP (ii)	\$ 6.01	\$ 6.03	\$ 5.71	\$ 5.75	\$ 5.69	\$ 5.74	\$ 5.44	\$ 5.58
Film cost percentage (i) (ii)	50.6%	53.6%	52.9%	52.4%	51.5%	54.4%	54.1%	52%
Attendance (in thousands of patrons) (ii)	16,766	16,484	19,593	17,934	19,219	16,858	20,583	20,383
Theatre locations (at period end)	163	164	164	165	164	162	163	162
Theatre screens (at period end)	1,676	1,677	1,677	1,683	1,677	1,659	1,666	1,655

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

(ii) See Section 16, Non-GAAP measures

(iii) Excludes the conversion of convertible debentures as such conversion would be anti-dilutive for all quarters with the exception of the fourth quarter of 2015 where conversion was dilutive.

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 and 2015 (in thousands of dollars):

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	2016				2015			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Box office - previous presentation	\$ 177,516	\$ 180,146	\$ 162,145	\$ 192,639	\$ 196,293	\$ 172,571	\$ 186,202	\$ 156,041
Reclassification from other revenues	5,897	5,266	4,580	6,004	6,196	4,353	4,859	3,656
Box office - new presentation	\$ 183,413	\$ 185,412	\$ 166,725	\$ 198,643	\$ 202,489	\$ 176,924	\$ 191,061	\$ 159,697

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 and 2015 (in thousands of dollars):

	2016				2015			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Other revenues - previous presentation	\$ 49,665	\$ 41,413	\$ 38,880	\$ 41,210	\$ 42,022	\$ 15,915	\$ 15,921	\$ 13,887
Reclassification to box office revenues	(5,897)	(5,266)	(4,580)	(6,004)	(6,196)	(4,353)	(4,859)	(3,656)
Reclassification to amusement revenues	(33,737)	(26,971)	(24,589)	(26,051)	(23,577)	(2,523)	(2,473)	(2,020)
Other revenues - new presentation	\$ 10,031	\$ 9,176	\$ 9,711	\$ 9,155	\$ 12,249	\$ 9,039	\$ 8,589	\$ 8,211

### Summary of adjusted free cash flow by quarter

Management calculates adjusted free cash flow per Share as follows (see Section 16, 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			2015	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Cash provided by (used in) operating activities	\$ 37,705	\$ 12,489	\$ (14,675)	\$ 131,414	\$ 36,597	\$ 21,304	\$ (23,301)	\$ 156,346
Less: Total capital expenditures net of proceeds on sale of assets	(47,869)	(50,240)	(25,221)	(27,864)	(28,787)	(18,581)	(28,849)	(23,094)
Standardized free cash flow	(10,164)	(37,751)	(39,896)	103,550	7,810	2,723	(52,150)	133,252
Add/(Less):								
Changes in operating assets and liabilities	12,675	14,533	61,720	(80,385)	16,025	14,738	69,632	(92,482)
Changes in operating assets and liabilities of joint ventures	(1,657)	317	1,379	777	642	(1,997)	1,126	1,666
Tenant inducements	(2,594)	(89)	(309)	(1,235)	(1,291)	(2,163)	(231)	(811)
Principal component of financing lease obligations	(802)	(788)	(773)	(760)	(746)	(732)	(719)	(690)
Growth capital expenditures and other	38,149	41,025	20,310	16,480	22,621	12,510	25,307	11,041
Share of income of joint ventures, net of non-cash depreciation	62	55	52	50	44	110	48	84
Non-controlling interest EBITDA of WGN	—	21	168	276	218	245	283	131
Net cash received from CDCP	2,246	685	684	684	1,568	120	682	680
Adjusted free cash flow	\$ 37,915	\$ 18,008	\$ 43,335	\$ 39,437	\$ 46,891	\$ 25,554	\$ 43,978	\$ 52,871
Average number of Shares outstanding	63,508,418	63,520,645	63,516,499	63,495,944	63,491,658	63,439,420	63,220,133	63,204,838
Adjusted free cash flow per Share	\$ 0.597	\$ 0.283	\$ 0.682	\$ 0.621	\$ 0.739	\$ 0.403	\$ 0.696	\$ 0.837

### **10. 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 and nine months ended September 30, 2017, Cineplex incurred theatre occupancy expenses for theatres under lease commitments with Riocan in the amounts of \$11.1 million and \$33.6 million, (2016 - \$11.1 million and \$34.2 million, respectively).

### **11. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATION UNCERTAINTIES**

Cineplex makes estimates and assumptions concerning the future that may not equal actual results. These estimates and assumptions are outlined in Section 12 of the Annual MD&A. These estimates and assumptions have not changed materially since December 31, 2016.

### **12. ACCOUNTING POLICIES**

#### **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 adopted January 1, 2017, without significant 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

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impairment model"; and a mandatory effective date for annual periods beginning on or after January 1, 2018. Cineplex is 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 with changes not expected to be 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 is currently analyzing the new standard to determine its impact on Cineplex's balance sheet and statement of operations.

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 tentatively concluded that the implementation of IFRS 15 will not have a material effect on the balance sheet, statement of operations or cash flows from revenues derived through the Exhibition or Amusement and Leisure segments.

Cineplex has identified the following areas that are likely to be affected:

Digital place-based media - the application of IFRS 15 may result in the identification of separate performance obligations which could affect the timing of revenue recognition. IFRS 15 outlines criteria to determine if a promised good or service in a contract is a distinct performance obligation in the contract. If a performance obligation is not distinct, it will be combined with other promised goods or services until an identified bundle of goods or services is distinct. At the contract inception, Cineplex will determine whether the distinct performance obligations are transferred to the customer over time, or at a point in time. Depending on this assessment the timing and classification of revenue between various components that comprise digital placed-based media contracts may be affected.

SCENE - Cineplex is currently examining the underlying contracts and arrangements with customers to determine the impact of IFRS 15.

At this stage, Cineplex is not able to estimate the impact of IFRS 15 on the consolidated financial statements. No expectation of a material changes in controls or financial accounting systems will be required and no change in underlying contractual arrangements are expected. Cineplex will make more detailed assessments and disclosures through 2017.

### *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.

## **13. 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

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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, 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 including home and online consumption of content, sporting events, streaming services, live music concerts, live theatre and restaurants are substantial competitors to the movie-going experience. 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.

In response to 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 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 the membership such that the program may generate costs in excess of the benefits. Cineplex monitors customer needs to ensure that our 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, Barco Escape and D-BOX seating. We also include XSCAPE Entertainment Centres in select theatres and provide 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

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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 Video on Demand ("VoD") and Download to Own ("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. 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 2016, seven major film distributors accounted for approximately 90% of Cineplex's box office revenues, which is consistent with industry standards. Deterioration in Cineplex's relationships with any of the major film distributors 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. 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 ability to procure new amusement offerings and games can have an impact on revenues from its amusement and leisure businesses. Cineplex's *The Rec Room* and Topgolf are new concepts in the Canadian marketplace, and as such there is a risk that consumers may not react as favourably to the concepts 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 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 spending also extend 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. In addition, with a significant portion of revenues tied to theatre attendance, declines in attendance could negatively impact the revenues earned by P1AG.

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

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update its amusement and leisure offerings to provide guests with the most compelling offerings available in Canada.

PIAG competes with other providers of amusement and gaming services across North America. PIAG 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. PIAG's expertise and experience in the industry and proven success maximizing revenue for its customers helps mitigate this switching risk. Certain of PIAG'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. 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. 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

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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 in both new and existing markets. 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 locations' chance of success. In addition, the building of 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 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 the Chief Executive Officer, 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 88% 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 and Alberta for 2017 and proposed for 2018 and 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 assurances 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 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.

*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.

### **14. CONTROLS AND PROCEDURES**

#### **14.1 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.

#### **14.2 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.

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.

### **15. 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 13, Risks and uncertainties.

#### **FILM ENTERTAINMENT AND CONTENT**

##### *Theatre Exhibition*

Cineplex box office revenues decreased 11.3% in the third quarter 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. The third quarter of 2017 included product that proved to have weak appeal to movie goers. Looking forward to the balance of 2017 there is a strong slate of films scheduled for release including *Thor: Ragnarok*, *Justice League*, *Pitch Perfect 3* and *Star Wars: Episode VIII, The Last Jedi*. Additionally, the 2018 slate has the scheduled releases of *Black Panther*, *Avengers: Infinity War*, *Solo: A Star Wars Story*, *Deadpool 2*, *The Incredibles 2*, *Jurassic World: Fallen Kingdom* 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 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 2017 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.

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Cineplex has also announced plans to install the first ever in Canada 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*.

### *Theatre Food Service*

Cineplex reported record third quarter CPP in the current period. 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 as well as download capabilities, 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 including Xbox 360, Xbox One and Android. The wide range of device Store integration combined with the continued expansion of SuperTicket and other offerings, 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 2017 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.

### *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

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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.

### AMUSEMENT GAMING AND LEISURE

#### *Amusement Solutions*

The acquisition of 100% 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 centers, bowling alleys, amusement parks and theatre circuits, in addition to owning and operating family entertainment centres. Cineplex extended this vertical integration in 2016 as P1AG sources the amusement and gaming equipment for *The Rec Room* 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 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, the second location opened at the Roundhouse in Toronto, Ontario and a third location opened in the West Edmonton Mall in Edmonton, Alberta on August 23, 2017. Subsequent locations have been announced for London, Ontario, Mississauga, Ontario, and Burnaby, British Columbia.

During the quarter, Cineplex announced its plans to relaunch the Playdium brand concept, 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 2017, 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 locations, ending with a National Championship live finals at *Scotiabank Theatre Toronto*. During the third quarter of 2017, Cineplex and WGN hosted gamers at the *Counter-Strike: Global Offensive* Canadian championship.

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### LOYALTY

The SCENE loyalty program continues to grow its membership base, with approximately 8.7 million members at September 30, 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 by SCENE members and additional revenue opportunities through the use of database.

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

### FINANCIAL OUTLOOK

During the twelve months ended September 30, 2017, Cineplex generated adjusted free cash flow per Share of \$2.184, compared to \$2.673 in the prior year period. Cineplex declared dividends per Share of \$1.645 and \$1.585, respectively, in each period. The payout ratios for these periods were approximately 75.3% and 59.3%, 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 September 30, 2017, Cineplex had \$127.0 million available on the Revolving Facility. As defined under the Credit Facilities, as at September 30, 2017, Cineplex reported a leverage ratio of 2.05x 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.

### **16. 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.

#### **16.1 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 Brady Starburst LLC ("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.

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
<b>Net income</b>	\$ 17,219	\$ 25,996	\$ 41,560	\$ 54,663
Depreciation and amortization	30,613	26,703	88,526	77,687
Interest expense (i)	5,973	4,496	16,138	14,312
Interest income	(60)	(46)	(163)	(164)
Current income tax expense	5,235	9,002	13,380	17,853
Deferred income tax expense	1,344	1,211	632	2,563
<b>EBITDA</b>	<b>\$ 60,324</b>	<b>\$ 67,362</b>	<b>\$ 160,073</b>	<b>\$ 166,914</b>
Loss on disposal of assets	275	468	337	1,402
CDCP equity income (ii)	(342)	(889)	(2,469)	(1,945)
Foreign exchange loss (gain) (i)	282	79	857	(16)
Non-controlling interest EBITDA of WGN and BSL	—	218	189	746
Depreciation and amortization - joint ventures (iii)	9	10	27	29
Joint venture taxes and interest (iii)	13	12	38	38
Change in fair value of financial instrument	(1,750)	—	(2,737)	—
<b>Adjusted EBITDA</b>	<b>\$ 58,811</b>	<b>\$ 67,260</b>	<b>\$ 156,315</b>	<b>\$ 167,168</b>
(i) See Section 4, 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).				

### 16.2 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):

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	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Cash provided by operating activities	\$ 37,705	\$ 36,597	\$ 35,519	\$ 34,600
Less: Total capital expenditures net of proceeds on sale of assets	(47,869)	(28,787)	(123,330)	(76,217)
Standardized free cash flow	(10,164)	7,810	(87,811)	(41,617)
Add/(Less):				
Changes in operating assets and liabilities (i)	12,675	16,025	88,928	100,395
Changes in operating assets and liabilities of joint ventures (i)	(1,657)	642	39	(229)
Tenant inducements (ii)	(2,594)	(1,291)	(2,992)	(3,685)
Principal component of finance lease obligations	(802)	(746)	(2,363)	(2,197)
Growth capital expenditures and other (iii)	38,149	22,621	99,484	60,438
Share of income of joint ventures, net of non-cash depreciation (iv)	62	44	169	202
Non-controlling interests of WGN and BSL	—	218	189	746
Net cash received from CDCP (iv)	2,246	1,568	3,615	2,370
<b>Adjusted free cash flow</b>	<b>\$ 37,915</b>	<b>\$ 46,891</b>	<b>\$ 99,258</b>	<b>\$ 116,423</b>
Average number of Shares outstanding	63,508,418	63,491,658	63,515,158	63,436,252
<b>Adjusted free cash flow per Share</b>	<b>\$ 0.597</b>	<b>\$ 0.739</b>	<b>\$ 1.563</b>	<b>\$ 1.835</b>
<b>Dividends declared</b>	<b>\$ 0.420</b>	<b>\$ 0.405</b>	<b>\$ 1.240</b>	<b>\$ 1.195</b>
<p>(i) Changes in operating assets and liabilities are not considered a source or use of adjusted free cash flow.</p> <p>(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.</p> <p>(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 6.4, Credit Facilities) is available to Cineplex to fund Board approved projects.</p> <p>(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.</p>				

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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):

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Net income	\$ 17,219	\$ 25,996	\$ 41,560	\$ 54,663
Adjust for:				
Depreciation and amortization	30,613	26,703	88,526	77,687
Loss on disposal of assets	275	468	337	1,402
Non-cash interest (i)	783	635	1,927	2,811
Foreign exchange on non-cash interest	—	116	(33)	(59)
Share of income of CDCP (ii)	(342)	(889)	(2,469)	(1,945)
Non-controlling interest of WGN and BSL	—	218	189	746
Non-cash depreciation of joint ventures	9	10	27	29
Deferred income tax expense	1,344	1,211	632	2,563
Joint venture interest and taxes	13	12	38	38
Maintenance capital expenditures	(9,720)	(6,166)	(23,846)	(15,779)
Principal component of finance lease obligations	(802)	(746)	(2,363)	(2,197)
Net cash received from CDCP (ii)	2,246	1,568	3,615	2,370
Non-cash items:				
Amortization of tenant inducements, rent averaging liabilities and fair value lease contract assets	(2,443)	(2,657)	(7,500)	(7,143)
Change in fair value of financial instruments	(1,750)	—	(2,737)	—
Non-cash Share-based compensation	470	412	1,355	1,237
<b>Adjusted free cash flow</b>	<b>\$ 37,915</b>	<b>\$ 46,891</b>	<b>\$ 99,258</b>	<b>\$ 116,423</b>

(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.

### 16.3 OTHER NON-GAAP MEASURES MONITORED BY MANAGEMENT

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

#### Earnings per Share Metrics

The nine months ended September 30, 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.

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**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 September 30, 2017 the impact of the three locations that have been opened or acquired and three locations that have been closed have been excluded, resulting in 157 theatres being included in the same theatre metrics. For the nine months ended September 30, 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.