MANAGEMENT'S DISCUSSION AND ANALYSIS

February 14, 2019

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

Unless otherwise specified, all information in this MD&A is as of December 31, 2018 and all amounts are in Canadian dollars.

MANAGEMENT'S DISCUSSION AND ANALYSIS CONTENTS

Non-GAAP Measures

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

Forward-Looking Statements

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

1. OVERVIEW OF CINEPLEX

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

Cineplex's theatre circuit is concentrated in major metropolitan and mid-sized markets. As of December 31, 2018, Cineplex owned, leased or had a joint venture interest in 1,686 screens in 164 theatres from coast to coast.

Cineplex **Theatre locations and screens at December 31, 2018**									
Province	**Locations**	**Screens**	**3D Screens**	**UltraAVX**	**IMAX Screens (i)**	**VIP Auditoriums**	**D-BOX Locations**	**Recliner Screens**	**Other Screens (ii)**
Ontario	67	726	356	41	13	43	45	96	3
Quebec	20	250	98	10	3	4	6	—	—
British Columbia	25	232	123	15	3	11	14	32	—
Alberta	19	210	111	18	2	11	14	35	1
Nova Scotia	12	91	44	1	1	—	2	—	—
Saskatchewan	6	54	28	2	1	3	2	10	—
Manitoba	5	49	26	1	1	3	2	—	—
New Brunswick	5	41	20	2	—	—	2	—	—
Newfoundland & Labrador	3	20	9	—	1	—	1	—	—
Prince Edward Island	2	13	6	—	—	—	1	—	—
TOTALS	**164**	**1,686**	**821**	**90**	**25**	**75**	**89**	**173**	**4**
Percentage of screens			49%	5%	1%	4%	5%	10%	—%

(i) All IMAX screens are 3D enabled. Total 3D screens including IMAX screens are 846 screens or 50% of the circuit.

(ii) Other screens includes 4DX, *Cineplex Clubhouse* and ScreenX.

Cineplex - Theatres, screens and premium offerings in the last eight quarters								
	2018				**2017**			
	Q4	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Theatres	164	165	164	163	163	163	164	164
Screens	1,686	1,696	1,683	1,676	1,676	1,676	1,677	1,677
3D Digital Screens	821	826	816	811	811	811	799	799
UltraAVX Screens	90	90	88	87	87	86	85	85
IMAX Screens	25	25	25	24	24	23	23	23
VIP Auditoriums	75	75	63	63	63	63	63	63
D-BOX Locations	89	89	86	82	82	81	80	78
Recliner Screens	173	173	155	149	130	108	82	42
Other Screens	4	3	2	1	1	1	1	1

Cineplex - Location-based entertainment - at December 31, 2018		
Province	***The Rec Room***	***Playdium***
Ontario	2	1
Alberta	3	—
TOTALS	**5**	**1**

1.1 FINANCIAL HIGHLIGHTS

Financial highlights (in thousands of dollars, except theatre attendance in thousands of patrons and per Share and per patron amounts)	Fourth Quarter 2018	Fourth Quarter 2017	Fourth Quarter Change (i)	Full Year 2018	Full Year 2017	Full Year Change (i)
Total revenues	$ 428,183	$ 426,293	0.4%	$ 1,614,823	$ 1,555,067	3.8%
Theatre attendance	16,992	17,551	-3.2%	69,272	70,394	-1.6%
Net income	$ 27,154	$ 28,786	-5.7%	$ 76,956	$ 70,346	9.4%
Box office revenues per patron ("BPP") (ii)	$ 10.73	$ 10.54	1.8%	$ 10.46	$ 10.17	2.9%
Concession revenues per patron ("CPP") (ii)	$ 6.53	$ 6.29	3.8%	$ 6.36	$ 6.00	6.0%
Adjusted EBITDA (ii)	$ 81,637	$ 79,614	2.5%	$ 256,365	$ 235,929	8.7%
Adjusted EBITDA margin (ii)	19.1%	18.7%	0.4%	15.9%	15.2%	0.7%
Adjusted free cash flow (ii)	$ 59,442	$ 51,339	15.8%	$ 178,151	$ 150,597	18.3%
Adjusted free cash flow per common share of Cineplex ("Share") (ii)	$ 0.939	$ 0.810	15.9%	$ 2.813	$ 2.373	18.5%
Earnings per Share ("EPS") - basic	$ 0.43	$ 0.45	-4.4%	$ 1.22	$ 1.11	9.9%
EPS excluding change in fair value of financial instrument - basic (ii)	$ 0.43	$ 0.46	-6.5%	$ 1.22	$ 1.07	14.0%
EPS - diluted	$ 0.43	$ 0.45	-4.4%	$ 1.22	$ 1.11	9.9%
EPS excluding change in fair value of financial instrument - diluted (ii)	$ 0.43	$ 0.46	-6.5%	$ 1.22	$ 1.07	14.0%

(i) Throughout this MD&A, changes in percentage amounts are calculated as 2018 value less 2017 value.

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

Total revenues for the fourth quarter of 2018 increased 0.4%, or $1.9 million as compared to the prior year period, primarily due to increases in amusement and food service revenues. Amusement revenues increased by 8.5% to $53.5 million due to increased route revenue in the United States and the growth in the locations of *The Rec Room*. Food service revenues increased to $120.7 million as a result of the record CPP of $6.53 combined with the increased locations of *The Rec Room*. Partially offsetting these increases, box office revenues decreased 1.5% as compared to a tough comparator in the prior year period to $185.0 million due to a 3.2% decrease in theatre attendance despite a fourth quarter record BPP to $10.73. In addition, media revenues decreased 5.4%, to $58.2 million as a result of a decrease of in-theatre advertising. Digital place-based media revenues decreased 1.9% as compared to a strong fourth quarter in 2017, due to lower project installation revenues. As a result of the increase in total revenues and the impact of the rollout of the cost reduction program implemented during the second quarter, Cineplex reported adjusted EBITDA of $81.6 million, an increase of $2.0 million or 2.5% over the prior year period and adjusted free cash flow per Share increased 15.9% to $0.939 per Share.

Total revenues of $1.6 billion for the year ended December 31, 2018 increased 3.8%, or $59.8 million compared to the prior year as a result of higher box office, food service and amusement revenues. Cineplex posted all-time annual records for BPP at $10.46 and CPP at $6.36 resulting in an $8.6 million (1.2%) increase to box office revenues and an all-time theatre food service revenue record of $440.7 million. These increases more than offset the impact of a 1.6% decrease in theatre attendance. *The Rec Room* also contributed an increase of $15.2 million (77.7%) to food services revenues due to new location openings. Amusement revenues increased $20.5 million (11.0%) to $205.8 million due to increased route revenues in the United States and the growth in the locations of *The Rec Room.* As a result of the increase in total revenues and the impact of the rollout of the cost reduction program implemented during the second quarter, adjusted EBITDA increased 8.7% from $235.9 million to an annual record of $256.4 million. Adjusted free cash flow per Share increased 18.5%, from $2.373 in 2017 to $2.813 in 2018.

1.2 KEY DEVELOPMENTS IN 2018

The following describes certain key business initiatives undertaken and results achieved during 2018 in each of Cineplex's core business areas:

FILM ENTERTAINMENT AND CONTENT

Theatre Exhibition

- Reported annual box office revenues of $724.2 million, a 1.2% increase from 2017 due to a 2.9% increase in BPP, partially offset by a 1.6% decrease in theatre attendance.
- BPP of $10.46 represents an all-time annual record for Cineplex, $0.29 or 2.9% higher than $10.17 reported during 2017.
- Opened three new theatres, *Cineplex Cinemas East Hill* in Calgary, Alberta, a seven screen theatre featuring all recliner seating as well as an UltraAVX screen, D-Box Motion Seats and *Cineplex Clubhouse; Cineplex Cinemas Pickering and VIP* in Pickering, Ontario, an eleven screen theatre featuring all recliner seating as well as an UltraAVX screen, D-BOX Motion Seats, *Cineplex Clubhouse* with four VIP auditoriums; and *Cineplex Cinemas Seton and VIP* in Calgary, Alberta, an eleven screen theatre featuring all recliner seating as well as an UltraAVX screen and D-BOX Motion Seats along with four VIP auditoriums.
- During the year, Cineplex opened a VIP cinema in Edmonton, Alberta featuring four VIP auditoriums at *Cineplex Cinemas North Edmonton and VIP*; and the first IMAX auditorium in Saskatoon at the *Scotiabank Theatre Saskatoon and VIP*.
- Cineplex, in partnership with CJ 4DPLEX, announced a new agreement that will expand the 4DX experience to up to13 additional Cineplex locations across Canada.
- Cineplex, in partnership with CJ 4DPLEX, announced a pilot project, opening Canada's first ScreenX auditorium at *Cineplex Cinemas Queensway and VIP* in Etobicoke, Ontario. ScreenX enables a 270-degree, panoramic movie-watching experience.
- During the year, Cineplex closed *Cineplex Odeon Orion Gate Cinemas* in order to begin the conversion to a *Playdium* location.

Theatre Food Service

- Reported record annual theatre food service revenues of $440.7 million a 4.4% increase from 2017 due to a record annual CPP of $6.36, a $0.36 or 6.0% increase from 2017.
- During the year, Cineplex added alcohol beverage service to an additional 25 theatres, now totalling 35 (excluding VIP).
- During the year, Cineplex launched an expanded partnership with Uber Eats to deliver theatre food products with digital movie rental through 92 Cineplex theatres in British Columbia, Alberta, Ontario and Quebec.

Alternative Programming

- Alternative Programming (Cineplex Events) during the year included strong performances from the Metropolitan Opera including *Aida (Verdi)* and *Samson et Dalila*, performances from the Bolshoi Ballet, Andre Rieu's 2018 *Maastrict Concert* and documentaries including the premiere of Peter Jackson's World War I documentary *They Shall Not Grow Old* and the Korean documentary, *Burn the Stage.*
- Cineplex international film featured numerous international films, including Hindi, Punjabi, Filipino and Mandarin language films in select markets across the country.

Digital Commerce

- Online and mobile ticketing represented 28.0% of total admissions during the year compared to 23.6% in the prior year.
- Cineplex launched the new Cineplex mobile app which improves the customer experience through simplified ticket purchases, digital tickets for paperless entry and mobile food and beverage ordering in VIP auditoriums.
- Cineplex Store continued to show significant growth with a 30.0% increase in active monthly users, reaching over 980 thousand users.

MEDIA

- Reported annual media revenues of $165.0 million, 4.0% lower than the prior year mainly as a result of a decrease in cinema media revenues.

Cinema Media

- Cinema media revenues were $109.0 million in 2018, $7.4 million or 6.3% lower than 2017. The decrease was due to lower pre-show advertising due to a challenging advertising environment resulting in a shift in the timing of campaigns and the impact of *Star Wars: The Last Jedi* in the fourth quarter of 2017.

Digital Place-Based Media

- Reported revenues of $56.0 million in 2018, an increase of $0.5 million or 0.9%, compared to the prior year due to higher project installation revenues.
- Chosen to deploy, maintain and operate a complex merchandising network of digital menu boards for Arcos Dorados, the largest independent McDonald's franchisee in the world with locations in Argentina, Brazil and Uruguay.
- Chosen to deploy, maintain and operate a complex merchandising network of digital menu boards for Subway Europe ("Subway") at locations across Europe. Cineplex will work with Subway to provide ongoing strategic content, consulting services and marketing initiatives to over 5,400 locations.

AMUSEMENT AND LEISURE

- Announced a strategic partnership with VRstudios Inc. ("VRstudios"), one of the largest providers of turn-key, location-based virtual reality solutions. Cineplex acquired a 34.7% interest in VRstudios for $4.7 million. The agreement also includes a commercial partnership which will provide expansion opportunities in North America and internationally.
- Announced a new exclusive expansion agreement with The VOID that provides Cineplex with the exclusive rights to operate The VOID concept in Canada. Cineplex plans to open a minimum of five VOID Experience Centres over the coming years, with the second location in Canada opened in the West Edmonton mall location of *The Rec Room* featuring *Star Wars: Secrets of the Empire*.

Amusement Solutions

- Reported annual revenues of $176.2 million in 2018 ($10.7 million from Cineplex theatre gaming and $165.5 million from all other sources of revenues). This $5.5 million increase over the prior year is mainly due to increased route revenues in the United States.
- During the year, P1AG entered into an agreement to be the exclusive amusement services provider for Cinemark. P1AG will install, operate and service gaming equipment in over 270 Cinemark locations across the United States and will pilot three premium gaming locations.

Location-based Entertainment

- *The Rec Room* reported total annual revenues of $66.5 million including annual food service revenues of $34.8 million and amusement revenues of $29.6 million.
- Opened *The Rec Room* at *CF Masonville Place* in London, Ontario, the fifth location of *The Rec Room*.
- In addition to previously announced locations to open in 2019 at *Square One* in Mississauga, Ontario, *The Amazing Brentwood* in Burnaby, British Columbia and *Playdium* locations in Whitby and Brampton, Ontario, Cineplex announced plans for three new locations of *The Rec Room*; located in Newfoundland and Labrador at the *Avalon Mall* in St. John's opening in 2019, Manitoba at *Seasons of Tuxedo* in Winnipeg opening in 2019 and *Park Place* in Barrie, Ontario which is scheduled to open in 2020.

eSports

- WGN hosted various tournaments including, GT Sport Canadian Championship Series, the *Call of Duty: WWII* Canadian Championship Series, *NHL 18* tournament, the Rocket League Canadian Championship and the Hearthstone Canadian Challenge. Collegiate Starleague ("CSL"), a subsidiary of WGN, hosted the 2018 North American Collegiate Grand Finals in Huntington Beach, California.

- WGN was the official tournament operator for the United States and Canada for the 2018-2019 World Electronic Sports Games in partnership with Alisports. WGN hosted the national tournaments for both countries in the fourth quarter of 2018.

LOYALTY

- Membership in the SCENE loyalty program increased by 0.7 million in 2018, reaching 9.6 million members at December 31, 2018.
- SCENE and Maple Leaf Sports & Entertainment Ltd. ("MLSE") launched the first campaign to bring MLSE's iconic Toronto Maple Leafs and Toronto Raptors teams to SCENE members, with access to "money can't buy" experiences and tickets that will engage sports-loving SCENE members.
- SCENE launched a pilot of a new premium SCENE Gold loyalty card in Edmonton, Alberta at six participating theatre locations.

CORPORATE

- During the year, Cineplex increased and extended its Credit Facilities (defined and discussed in Section 7.4, Credit Facilities), increasing the Revolving Facility by $175.0 million with the Term Facility remaining unchanged, and extending the maturity dates of Revolving Facility to November 13, 2023 and Term Facility to November 13, 2025.
- Cineplex repaid $107.5 million of convertible debentures in cash at maturity.
- In conjunction with the Credit Facilities, Cineplex entered into interest rate swap agreements with an aggregate notional amount of $450 million.
- Effective with the May 2018 dividend, the Board of Directors of Cineplex (the "Board") announced a monthly dividend increase of 3.6% to $0.145 per share ($1.74 on an annual basis), up from $0.140 per Share ($1.68 on an annual basis).
- Continued to execute the cost reduction program focused on achieving $25.0 million in annualized cost savings which was announced during the second quarter, incurring an additional $1.0 million of restructuring costs during the fourth quarter ($5.8 million year to date).
- Cineplex was once again the entertainment sponsor for WE Day and WE Day Family, which was held at the Scotiabank Arena in Toronto, Ontario. Cineplex also hosted its annual National Community Day in November 2018 in support of WE, its national charitable partner. In the past eight years, Cineplex has raised a total of $3.0 million on Community Days.

1.3 BUSINESS ACQUISITIONS

a) VRstudios Inc.

On September 12, 2018, Cineplex acquired a 34.7% interest in VRstudios for $4.7 million. VRstudios is based in Seattle, Washington and is a worldwide provider of turn-key location-based virtual reality solutions. Cineplex accounts for its investment in VRstudios as an associate using the equity method.

b) Topgolf

On July 25, 2017, Cineplex formed TG-CPX Limited Partnership ("TGLP"), a joint venture with Topgolf Canada Holding ("Topgolf"). Cineplex contributed an immaterial amount of cash totaling $37.5 thousand for an initial 75% interest in TGLP and has 75% of the voting rights. Cineplex will recognize revenue from the joint venture in the Amusement and Leisure segment. Cineplex consolidates TGLP's financial results from the inception date and recognizes a non-controlling interest for the portion of the joint venture it does not own. Topgolf has the right to require Cineplex to acquire the interest of TGLP owned by Topgolf under certain circumstances at any time after July 25, 2022.

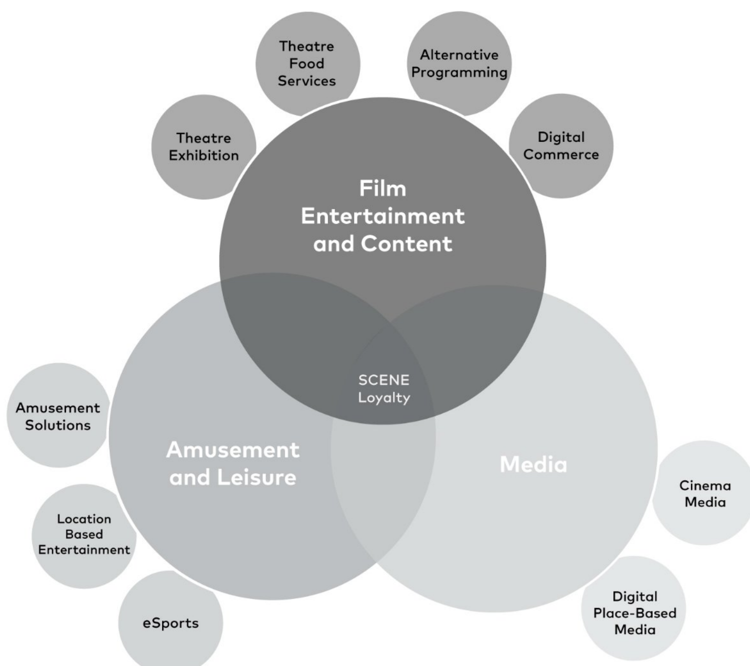
2. BUSINESS STRATEGY

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

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

- Continue to enhance and expand 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;
- Drive value within businesses by leveraging opportunities to optimize value, realize synergies, implement customer-centric technology and leverage big data across the Cineplex ecosystems; and
- Pursue opportunities that are strategic, accretive and capitalize on Cineplex's core strengths.

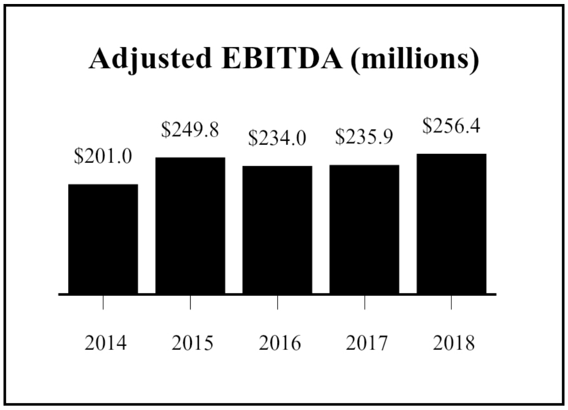
Cineplex uses the SCENE loyalty program and database as a strategic asset to link these areas of focus and drive customer acquisition and ancillary businesses.

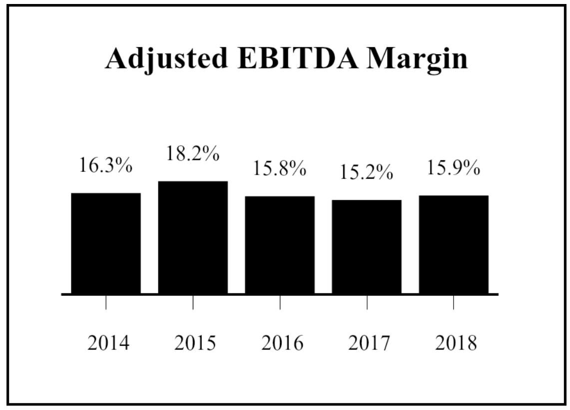


Key elements of this strategy include going beyond movies to reach customers in new ways and maximizing revenue per patron. Cineplex has implemented in-theatre initiatives to improve the overall entertainment experience, including increased premium offerings, enhanced in-theatre services, alternative pricing strategies, continued development of the SCENE loyalty program and initiatives in theatre food service such as optimizing and adding 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.





3. CINEPLEX'S BUSINESSES

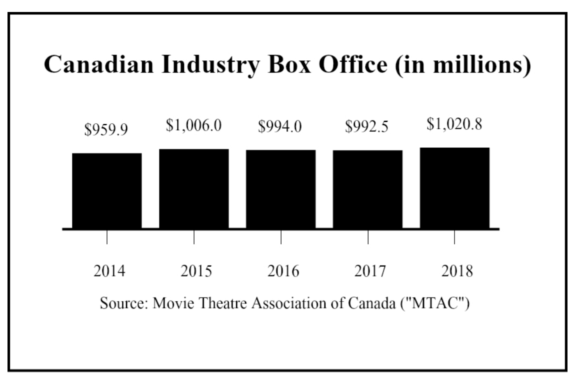
Cineplex's operations are primarily conducted in three main areas: film entertainment and content, media, and amusement and leisure, all supported by the SCENE loyalty program.

FILM ENTERTAINMENT AND CONTENT

Theatre Exhibition

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

The motion picture industry consists of three principal activities: production, distribution and exhibition. Production involves the development, financing and creation of feature-length motion pictures. Distribution involves the promotion and exploitation of motion pictures in a variety of different channels. Theatrical exhibition is the primary channel for new motion picture releases and is the core business function of Cineplex. The Canadian industry reported an increase of 2.9% in box office revenues in 2018 compared to the prior year based on industry weekly box office reporting results.



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

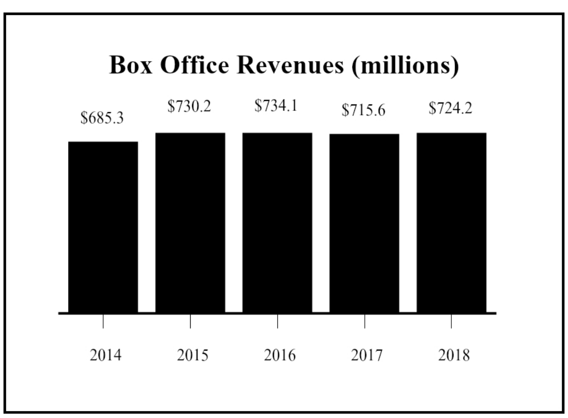
- *Importance of theatrical success in establishing movie brands and subsequent movies.* Theatrical exhibition is the initial and most important channel for new motion picture releases. A successful theatrical release which "brands" a film is often the determining factor in its popularity and value in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

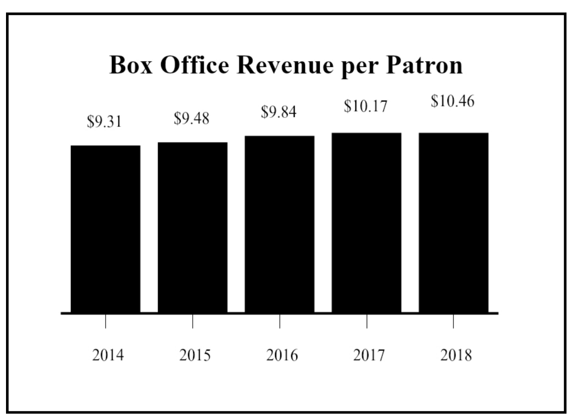
- *Continued supply of successful films.* Studios are increasingly producing film franchises, such as *Star Wars, Fast & Furious* and *Jurassic Park*. Additionally, new franchises continue to be developed, such as the films in the Marvel and DC universes. When the first film in a franchise is successful, subsequent films in the franchise benefit from existing public awareness and anticipation. The result is that such features typically attract large audiences and generate strong box office revenues. The success of a broader range of film genres also benefits film exhibitors. In 2019, the studios are releasing a strong slate of films, including *The LEGO Movie 2, How To Train Your Dragon: The Hidden World, Captain Marvel, Dumbo, Shazam!, Avengers: Endgame, Aladdin, Godzilla, King of the Monsters, Dark Phoenix, The Secret Life of Pets 2, Men in Black, Toy Story 4, Spider-Man: Far from Home, The Lion King, Once Upon a Time in Hollywood, Hobbs and Shaw, Artemis Fowl, IT: Chapter 2, Joker, You Are My Friend, Frozen 2, Jumanji 2* and *Star Wars: Episode IX.*

- *Convenient and affordable form of out-of-home entertainment.* Cineplex's BPP was $10.46 and $10.17 in 2018 and 2017 respectively. Excluding the impact of Cineplex's premium-priced product, BPP was $8.94 and $8.61 in 2018 and 2017 respectively. The movie-going experience continues to provide value and compares favorably to alternative forms of out-of-home entertainment in Canada such as professional sporting events or live theatre, and with Cineplex, SCENE members enjoy the ability to earn points towards Cineplex products as well as discounts and special offers.

- *Providing a variety of premium and enhanced guest theatre experiences.* Premium priced theatre offerings include 3D, 4DX, UltraAVX, VIP, IMAX, D-BOX, ScreenX and *Cineplex Clubhouse*. BPP for premium-priced product was $13.32 in 2018, and accounted for 44.1% of total box office revenues in 2018. In response to the increased demand for premium entertainment experiences, in 2018 Cineplex installed seven D-Box auditoriums, one IMAX auditorium, three UltraAVX auditoriums, one ScreenX auditorium, two *Cineplex Clubhouse* auditoriums and continues to expand its successful VIP offering, adding three new VIP locations in 2018. Recent enhancements to the current circuit include the addition of all recliner seating at 19 locations, including 16 location retrofits.

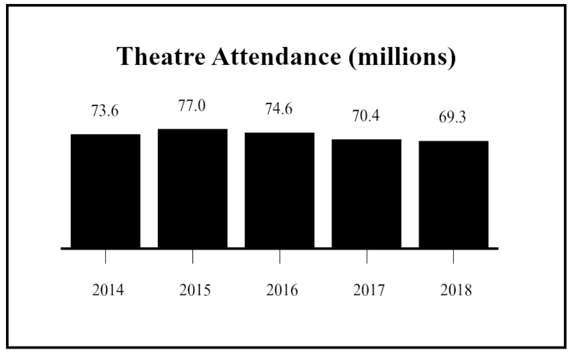
- *Reduced seasonality of revenues.* Historically, film exhibition industry revenues have been seasonal, with the most marketable motion pictures generally being released during the summer and the late-November through December holiday season. The seasonality of motion picture exhibition theatre attendance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





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

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

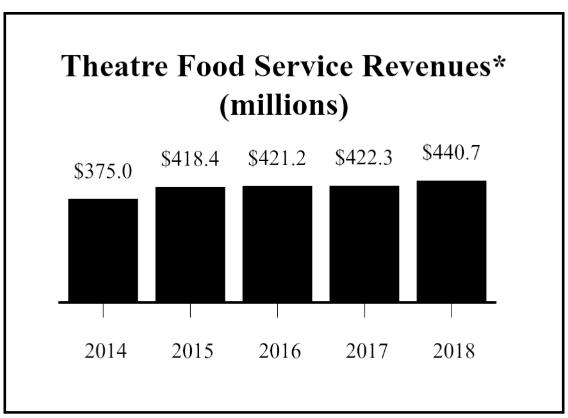


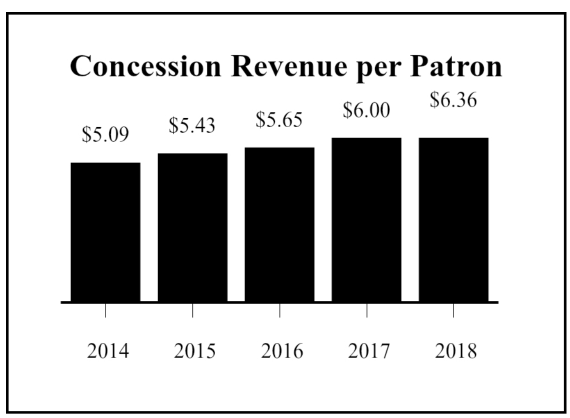
The development of premium experiences through design, structure and digital technology makes Cineplex theatres ideal locations for meetings and corporate events. Organizations, particularly corporations with offices across the country, can use Cineplex's theatres and digital technology for annual meetings,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

Theatre Food Service

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

Cineplex continually focuses on process improvements designed to increase the speed of service at the concession counter in addition to optimizing the RBO's available at Cineplex's theatres. Each of the wide range of menu items available at *Outtakes* locations, expanded liquor service available in theatres, partnership with Uber Eats as well as the expanded menu and the licensed lounge service available at VIP Cinemas are designed to reach a wider market and to increase both purchase incidence and transaction value. Digital menu boards installed across the circuit offer flexibility in menu offerings to guests which contribute to an improved guest experience while also creating additional revenue opportunities. The execution of this strategy contributed to a record CPP of $6.36 in 2018, an increase of $0.36 from the previous record of $6.00 achieved in 2017.





* Excludes *The Rec Room*

Alternative Programming

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

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

Digital Commerce

Cineplex's digital products consist of cineplex.com, the Cineplex mobile app and the Cineplex Store. Cineplex has developed cineplex.com into one of the leading entertainment sites in Canada, a destination of choice for Canadians seeking movie entertainment information on the internet. The website offers streaming video, movie information, showtimes and the ability to buy tickets online, entertainment news and box office reports as well as advertising and digital commerce opportunities. To complement cineplex.com, the Cineplex mobile app is available as a free download for a wide variety of devices, providing guests with the ability to find showtimes, buy tickets as well as find information relating to the latest movie choices and movie-related entertainment content and provide mobile food and beverage ordering in VIP auditoriums.

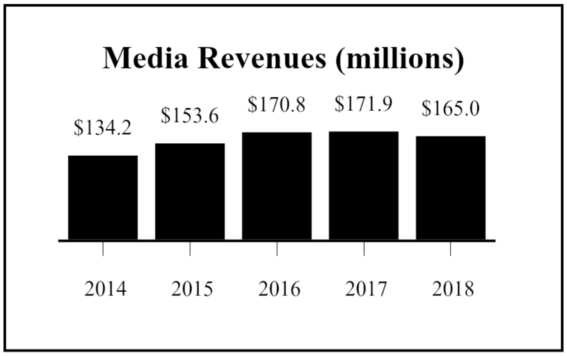
These features and others enable Cineplex to engage and interact with its guests online and on-the-go, allowing Cineplex to offer engaging, targeted and sponsored content to visitors and advertisers, resulting in opportunities to generate additional revenues.

The Cineplex Store rents and sells movies in digital form (TVoD movies). Cineplex also offers SuperTicket, a bundled offering that allows movie-goers to purchase a movie admission ticket and pre-order the digital download of a movie at the same time. SuperTicket provides Cineplex with the flexibility to bundle offerings to consumers, providing enhanced value above and beyond an in-theatre or at-home experience. Cineplex continues to improve the user experience including releasing new Cineplex Store user interfaces and experiences across the website and multiple connected televisions and device apps.

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

MEDIA

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



Cinema Media

Cinema media incorporates advertising mediums related to theatre exhibition, both within Cineplex's own circuit of theatres as well as in competitors' theatres through revenue sharing arrangements.

Cineplex's core cinema media offerings include:

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

Select Cineplex theatres also offer the following media opportunities:

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

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

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

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

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

Digital Place-Based Media

Cineplex's digital place-based media designs, installs, maintains and operates digital signage networks in four verticals including digital out of home (in public spaces such as shopping malls and office towers), quick service restaurants, financial institutions and retailers.

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

AMUSEMENT AND LEISURE

Amusement and leisure includes three primary areas of operations:

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

In addition to the three primary areas of operations, Cineplex is also focusing on opportunities related to location-based entertainment Virtual Reality ("VR") attractions. Cineplex announced a strategic partnership with VRstudios, the largest provider of turn-key, location-based virtual reality solutions. The agreement also includes a commercial partnership which will provide expansion opportunities in North America and internationally. Cineplex also announced a new exclusive expansion agreement with The VOID that provides Cineplex with the exclusive rights to operate The VOID concept in Canada. Cineplex plans to open a minimum of five VOID Experience Centres over the coming years, with the second location in Canada opened in the West Edmonton mall location of *The Rec Room* featuring *Star Wars: Secrets of the Empire*.

Amusement Solutions

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

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

In addition to expanding Cineplex's amusement and gaming presence outside of its theatres, the acquisition and expansion of P1AG allowed Cineplex to vertically integrate its gaming operations. Cineplex's in-theatre gaming business features Cineplex's 34 XSCAPE Entertainment Centres as well as arcade games in select Cineplex theatres, with all of the games supplied and serviced by P1AG.

Location-based Entertainment

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

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

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

Cineplex has opened five locations of *The Rec Room* and has announced its plans to open five additional locations in Mississauga and Barrie, Ontario, Burnaby, British Columbia, St. John's, Newfoundland and Labrador, and Winnipeg, Manitoba in 2019 and 2020.

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

Topgolf is a golf focused location-based sports and entertainment destination. Cineplex will build and operate *Topgolf* sports and entertainment venues across Canada through its majority-owned subsidiary TGLP.

eSports

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

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

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

LOYALTY

Cineplex has a joint venture agreement with Scotiabank to operate the SCENE loyalty program, providing Cineplex with significant data and a more comprehensive understanding of the demographics and behaviors of its audience. Cineplex and Scotiabank each have a 50% interest in the program.

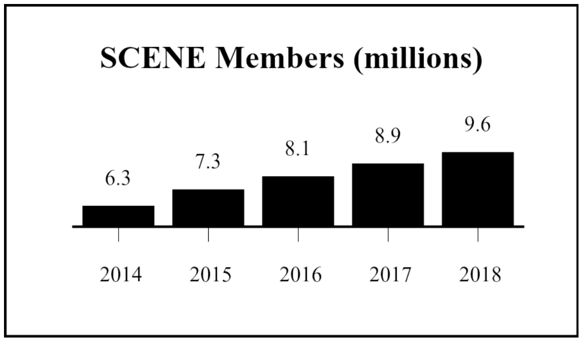
SCENE is a customer loyalty program designed to offer members discounts and the opportunity to earn and redeem SCENE points. SCENE members can earn and redeem SCENE points for purchases at Cineplex's theatres, at its location-based entertainment establishments, online at the Cineplex Store as well as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

The SCENE loyalty program has been well received as evidenced by the strong membership growth and high engagement and satisfaction levels of its program members. Membership in the SCENE loyalty program at December 31, 2018 was approximately 9.6 million, an increase of approximately 0.7 million members during 2018. Through SCENE, Cineplex has gained a more thorough understanding of its customers, driven increased customer frequency, increased overall spending across its businesses and provides Cineplex with the ability to communicate directly and regularly with customers.

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

Cineplex has gained tremendous insight into customer behaviour with over 10 years of data collected. Cineplex will continue to focus on leveraging this data through marketing automation to drive customer behaviour as well as accelerating the adoption of artificial intelligence and machine learning for more robust consumer insight.

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



4. OVERVIEW OF OPERATIONS

Revenues

Cineplex generates revenues primarily from box office and food service sales. These revenues are affected primarily by theatre attendance levels and by changes in BPP and CPP. Box office revenues represented 44.9% of revenues in 2018 and continues to represent Cineplex's largest revenue component.

Revenue mix % by period	2018	2017	2016	2015	2014
Box office	**44.9%**	46.0%	49.7%	53.3%	55.5%
Food service	**29.5%**	28.4%	28.7%	30.5%	30.4%
Media	**10.2%**	11.1%	11.6%	11.2%	10.9%
Amusement	**12.7%**	11.9%	7.5%	2.2%	0.6%
Other	**2.7%**	2.6%	2.5%	2.8%	2.6%
Total	**100.0%**	100.0%	100.0%	100.0%	100.0%

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

Revenue mix % by year	Year to date	
	2018	2017
Film Entertainment and Content	75.5%	76.4%
Media	10.0%	10.7%
Amusement and Leisure	14.5%	12.9%
Total	100.0%	100.0%

A key component of Cineplex's business strategy is to position itself as the leading exhibitor in the Canadian market by focusing on providing customers with an exceptional entertainment experience. Cineplex's share of the Canadian theatre exhibition market was approximately 75% based on Canadian industry box office revenues for the quarter and year ended December 31, 2018. 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 theatre 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 theatre 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 and beverage sales at theatre locations, as well as food and beverage sales at *The Rec Room*. CPP represents theatre food service revenues divided by theatre attendance, and is impacted by the theatre food service product mix, theatre food service prices, film genre, promotions and the issuance and redemption of SCENE points on the purchases of food and beverages at theatres. Films targeted to families and teenagers tend to result in a higher CPP and more adult-oriented product tends to result in a lower CPP. As a result, CPP can fluctuate from quarter to quarter depending on the genre of film product playing. The SCENE points issued and redeemed on theatre food service purchases decreases food service revenues on individual purchases. Cineplex believes the program drives incremental purchase incidence, increasing overall revenues. Cineplex focuses primarily on growing CPP by optimizing the product offerings, improving operational excellence and strategic pricing to increase purchase incidence and transaction value. Food service revenues from *The Rec Room* include food and beverage revenues from the various bars and restaurants located throughout the venues.

Media revenues include both cinema media and digital place-based media revenues. Cinema media generates revenues primarily from selling pre-show and Show-time advertising in Cineplex's theatres as well as other circuits through representation sales agreements and magazine advertising for *Cineplex Magazine.* Additionally, cinema media sells media placements throughout Cineplex's circuit including digital poster cases, the IMZ in select Cineplex theatre lobbies, as well as sponsorship and advertising for eSports, events both in-theatre and online, and in *The Rec Room*. Cinema media also sells digital advertising for cineplex.com, the Cineplex mobile app and on third party networks operated by Cineplex Digital Media. Digital place-based media designs, installs, maintains and operates digital signage networks in four verticals including digital out of home (in public spaces such as shopping malls and office towers), 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. Additionally, included in amusement revenues are revenues generated by Cineplex's XSCAPE Entertainment Centres and game rooms in theatres as well as revenues generated at *The Rec Room*.

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

Cost of Sales and Expenses

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

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

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

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

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

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

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

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

Accounting for Joint Arrangements

The financial statements incorporate the operating results of joint arrangements in which Cineplex has an interest using either the equity accounting method (for joint ventures and associates) 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"), 50% interest in YoYo's and a 34.7% interest in VRstudios are classified as joint ventures or associates. Through equity accounting, Cineplex's share of the results of operations for these joint ventures and associates are reported as a single item in the statements of operations, 'Share of income of joint ventures and associates'. Theatre attendance for the IMAX auditorium held in a joint venture is not reported in Cineplex's consolidated theatre 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 is classified as a joint operation and Cineplex recognizes its share of the assets, liabilities, revenues and expenses of SCENE in its consolidated financial statements.

5. RESULTS OF OPERATIONS

5.1 SELECTED FINANCIAL DATA

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

	Year ended December 31, 2018	Year ended December 31, 2017	Year ended December 31, 2016
Box office revenues	$ 724,244	$ 715,605	$ 734,193
Food service revenues	475,501	441,876	423,920
Media revenues	165,009	171,874	170,792
Amusement revenues	205,793	185,341	111,348
Other revenues	44,276	40,371	38,073
Total revenues	1,614,823	1,555,067	1,478,326
Film cost	379,325	376,759	389,602
Cost of food service	100,191	99,438	96,059
Depreciation and amortization	131,852	119,916	105,941
Loss on disposal of assets	2,697	706	1,570
Other costs (a)	878,735	843,219	759,930
Costs of operations	1,492,800	1,440,038	1,353,102
Net income	$ 76,956	$ 70,346	$ 77,991
Adjusted EBITDA (i)	$ 256,365	$ 235,929	$ 234,009
(a) Other costs include:			
Theatre occupancy expenses	209,838	207,022	204,633
Other operating expenses	602,114	569,406	487,108
General and administrative expenses	66,783	66,791	68,189
Total other costs	$ 878,735	$ 843,219	$ 759,930
EPS - basic	$ 1.22	$ 1.11	$ 1.26
EPS excluding non-recurring items - basic (i)	$ 1.22	$ 1.07	$ 1.26
EPS - diluted	$ 1.22	$ 1.11	$ 1.25
EPS excluding non-recurring items - diluted (i)	$ 1.22	$ 1.07	$ 1.25
Total assets	$ 1,856,449	$ 1,855,168	$ 1,728,186
Total long-term financial liabilities (ii)	$ 580,000	$ 576,500	$ 407,500
Shares outstanding at period end	63,333,238	63,330,446	63,515,875
Cash dividends declared per Share	$ 1.720	$ 1.660	$ 1.600
Adjusted free cash flow per Share (i)	$ 2.813	$ 2.373	$ 2.456
Box office revenue per patron (i)	$ 10.46	$ 10.17	$ 9.84
Concession revenue per patron (i)	$ 6.36	$ 6.00	$ 5.65
Film cost as a percentage of box office revenues	52.4%	52.6%	53.1%
Theatre attendance (in thousands of patrons) (i)	69,272	70,394	74,594
Theatre locations (at period end)	164	163	165
Theatre screens (at period end)	1,686	1,676	1,683

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

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

5.2 OPERATING RESULTS FOR THE THREE MONTHS AND YEAR ENDED DECEMBER 31, 2018

Total revenues

Total revenues for the three months ended December 31, 2018 increased $1.9 million (0.4%) to $428.2 million as compared to the prior year period. Total revenues for the year ended December 31, 2018 increased $59.8 million (3.8%) to $1.6 billion as compared to the prior year. A discussion of the factors affecting the changes in box office, food service, media, amusement and other revenues for the two periods is provided below.

Non-GAAP measures discussed throughout this MD&A, including adjusted EBITDA, adjusted store level EBITDA, adjusted EBITDA margin, adjusted store level EBITDA margin, adjusted free cash flow, theatre 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 17, Non-GAAP measures.

Box office revenues

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

Box office revenues	Fourth Quarter			Full Year		
	2018	2017	Change	2018	2017	Change
Box office revenues	$ 182,352	$ 185,048	-1.5%	$ 724,244	$ 715,605	1.2%
Theatre attendance (i)	16,992	17,551	-3.2%	69,272	70,394	-1.6%
Box office revenue per patron (i)	$ 10.73	$ 10.54	1.8%	$ 10.46	$ 10.17	2.9%
BPP excluding premium priced product (i)	$ 9.22	$ 8.87	3.9%	$ 8.94	$ 8.61	3.8%
Canadian industry revenues (ii)			-0.5%			2.5%
Same theatre box office revenues (i)	$ 178,526	$ 184,130	-3.0%	$ 714,121	$ 711,288	0.4%
Same theatre attendance (i)	16,702	17,444	-4.3%	68,367	69,862	-2.1%
% Total box from premium priced product (i)	44.6%	45.7%	-1.1%	44.1%	46.4%	-2.3%

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

(ii) Source: Gross box office receipts (inclusive of all taxes) from The Movie Theatre Association of Canada industry data adjusted for calendar quarter and full year dates.

Box office continuity	Fourth Quarter		Full Year	
	Box Office	Theatre Attendance	Box Office	Theatre Attendance
2017 as reported	$ 185,048	17,551	$ 715,605	70,394
Same theatre attendance change	(7,831)	(742)	(15,217)	(1,495)
Impact of same theatre BPP change	2,227	—	18,050	—
New and acquired theatres (i)	3,826	290	7,430	589
Disposed and closed theatres (i)	(918)	(107)	(1,624)	(216)
2018 as reported	$ 182,352	16,992	$ 724,244	69,272

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

Fourth Quarter

	Fourth Quarter 2018 Top Cineplex Films	3D	% Box		Fourth Quarter 2017 Top Cineplex Films	3D	% Box
1	Dr. Seuss' The Grinch	✔	8.9%	1	Star Wars: The Last Jedi	✔	18.9%
2	A Star Is Born		8.9%	2	Thor: Ragnarok	✔	12.7%
3	Venom	✔	8.7%	3	Justice League	✔	7.3%
4	Bohemian Rhapsody		8.6%	4	Blade Runner 2049	✔	5.7%
5	Fantastic Beasts: The Crimes Of Grindelwald	✔	7.2%	5	Jumanji: Welcome To The Jungle	✔	5.1%

Box office revenues decreased $2.7 million, or 1.5%, to $182.4 million during the fourth quarter of 2018, compared to $185.0 million recorded in the same period in 2017. This decrease compared to the prior year was due to a 3.2% decrease in theatre attendance more than offsetting the impact of a higher BPP. The prior period is a tough comparator due to *Star Wars: The Last Jedi* which finished in the top ten highest grossing films of all-time in North America, as well all of the top films in 2017 were available in 3D as compared to just three in 2018.

BPP for the three months ended December 31, 2018 was $10.73, a $0.19 increase from the prior year period due to price increases in selective markets as compared to the prior year period.

Full Year

	Full Year 2018 Top Cineplex Films	3D	% Box		Full Year 2017 Top Cineplex Films	3D	% Box
1	Avengers: Infinity War	✔	6.3%	1	Beauty and the Beast	✔	4.9%
2	Black Panther	✔	6.1%	2	Star Wars: The Last Jedi	✔	4.9%
3	Incredibles 2	✔	4.1%	3	Guardians Of The Galaxy Vol. 2	✔	4.0%
4	Jurassic World: Fallen Kingdom	✔	3.4%	4	Wonder Woman	✔	3.5%
5	Deadpool 2	✔	3.1%	5	Thor: Ragnarok	✔	3.3%

Box office revenues for the year ended December 31, 2018 were $724.2 million, an increase of $8.6 million or 1.2% from the prior year. This was due to the higher BPP in 2018 compared to 2017, more than offsetting the 1.6% decrease in theatre attendance year over year.

Cineplex's BPP for the year ended December 31, 2018 increased $0.29, or 2.9%, from $10.17 in 2017 to an annual record of $10.46 in 2018. This increase was primarily due to price increases in selective markets as compared to the prior year.

Food service revenues

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

Food service revenues	Fourth Quarter			Full Year		
	2018	2017	Change	2018	2017	Change
Food service - theatres	$ 111,015	$ 110,334	0.6%	$ 440,733	$ 422,312	4.4%
Food service - *The Rec Room*	9,711	9,180	5.8%	34,768	19,564	77.7%
Total food service revenues	$ 120,726	$ 119,514	1.0%	$ 475,501	$ 441,876	7.6%
Theatre attendance (i)	16,992	17,551	-3.2%	69,272	70,394	-1.6%
CPP (i) (ii)	$ 6.53	$ 6.29	3.8%	$ 6.36	$ 6.00	6.0%
Same theatre food service revenues (i)	$ 107,820	$ 109,763	-1.8%	$ 433,034	$ 419,661	3.2%
Same theatre attendance (i)	16,702	17,444	-4.3%	68,367	69,862	-2.1%

(i) See Section 17, Non-GAAP Measures.
(ii) Food service revenue from *The Rec Room* is not included in the CPP calculation.

Theatre food service revenue continuity	Fourth Quarter		Full Year	
	Theatre Food Service	Theatre Attendance	Theatre Food Service	Theatre Attendance
2017 as reported	$ 110,334	17,551	$ 422,312	70,394
Same theatre attendance change	(4,668)	(742)	(8,978)	(1,495)
Impact of same theatre CPP change	2,725	—	22,351	—
New and acquired theatres (i)	3,195	290	6,012	589
Disposed and closed theatres (i)	(571)	(107)	(962)	(216)
2018 as reported	$ 111,015	16,992	$ 440,735	69,272

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

Fourth Quarter

Food service revenues are comprised primarily of concession revenues, which includes food service sales at theatre locations. Food service revenues also include food and beverage sales at *The Rec Room*. Theatre food service revenues increased $0.7 million, or 0.6% as compared to the prior year period due to the 3.8% increase in CPP more than offsetting the impact of a 3.2% decrease in theatre attendance. The operations of *The Rec Room* contributed $9.7 million in the period.

CPP of $6.53, an increase of 3.8% compared to the prior year period was a fourth quarter record for Cineplex. Expanded offerings outside of core theatre food service products, including offerings at Cineplex's VIP Cinemas and *Outtakes* locations, have contributed to increased visitation and higher average transaction values, resulting in the record CPP.

Full Year

Food service revenues increased $33.6 million, or 7.6% as compared to the prior year to an annual record of $475.5 million due impact of *The Rec Room* and the higher CPP more than offsetting the impact of the lower theatre attendance. CPP of $6.00 in 2017 increased 6.0% to $6.36 in 2018, an annual record for Cineplex. The operations of *The Rec Room* contributed $34.8 million in 2018.

Media revenues

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

Media revenues	Fourth Quarter			Full Year		
	2018	2017	Change	2018	2017	Change
Cinema media	$ 40,478	$ 43,432	-6.8%	$ 109,023	$ 116,397	-6.3%
Digital place-based media	17,740	18,087	-1.9%	55,986	55,477	0.9%
Total media revenues	$ 58,218	$ 61,519	-5.4%	$ 165,009	$ 171,874	-4.0%

Fourth Quarter

Total media revenues decreased 5.4% to $58.2 million in the fourth quarter of 2018 compared to the prior year period. This decrease was due to lower cinema media and digital place-based media revenues. Cinema media decreased by $3.0 million, or 6.8% lower than the prior year period. The decrease in cinema media was as a result of lower pre-show results as compared to the prior period which set an all-time quarterly record due to high anticipation for *Star Wars: The Last Jedi* in the fourth quarter of 2017.

Digital place-based media revenues decreased $0.3 million due to decreased project installation revenue. Lower digital place-based media revenues as compared to the prior year period was primarily due to the large initial rollout for Citizens Bank that occurred in the fourth quarter of 2017.

During the fourth quarter of 2018, digital place-based media added 78 new locations, an increase of 0.6% over the third quarter of 2018.

Full Year

Total media revenues decreased $6.9 million, or 4.0%, in the year ended December 31, 2018 compared to the prior year. This decrease was due to the performance of Cinema media, which reported a decrease of $7.4 million (6.3%) compared to the prior year due primarily to lower pre-show results. Digital place-based media revenues increased $0.5 million due to higher project installation revenues and an increase in on-going software and support revenues, partially offset by a decrease in media share revenues.

Full year, digital place-based media added 576 new locations (an increase of 4.5%) for a total of 13,502 locations as at December 31, 2018.

The following table shows a breakdown of the nature of digital place-based media revenues for the quarter and the full year (in thousands of dollars):

Digital place-based media revenues	**Fourth Quarter**			**Full Year**		
	2018	**2017**	**Change**	**2018**	**2017**	**Change**
Project revenues (i)	$ 5,391	$ 6,032	-10.6%	$ 15,872	$ 16,021	-0.9%
Other revenues (ii)	12,349	12,055	2.4%	40,114	39,456	1.7%
Total digital place-based media revenues	$ 17,740	$ 18,087	-1.9%	$ 55,986	$ 55,477	0.9%

(i) Project revenues include hardware sales and professional services.
(ii) Other revenues include sales of software and its support as well as media advertising.

Amusement revenues

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

Amusement revenues	**Fourth Quarter**			**Full Year**		
	2018	**2017**	**Change**	**2018**	**2017**	**Change**
Amusement - P1AG excluding Cineplex exhibition and *The Rec Room* (i)	$ 43,307	$ 39,925	8.5%	$ 165,486	$ 159,974	3.4%
Amusement - Cineplex exhibition (i)	2,697	2,562	5.3%	10,664	10,649	0.1%
Amusement - *The Rec Room*	7,469	6,813	9.6%	29,643	14,718	101.4%
Total amusement revenues	$ 53,473	$ 49,300	8.5%	$ 205,793	$ 185,341	11.0%

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

Fourth Quarter

Amusement revenues increased 8.5%, or $4.2 million, to $53.5 million in the fourth quarter of 2018 compared to the prior year period. The increase was due to an increase in route revenues in the United States in part as a result of the Cinemark agreement signed in the second quarter of 2018 and strong growth in the revenues from the additional *The Rec Room* locations.

Full Year

For the full year period amusement revenues increased 11.0%, or $20.5 million to $205.8 million, compared to the prior year due to the acquisition of Dandy Amusements International Inc. ("Dandy") in the second quarter of 2017 and the agreement signed with Cinemark in the second quarter of 2018 resulting in increased route revenue in the United States. In addition, the increase in operating locations of *The Rec Room* resulted in an increase of $14.9 million to amusement revenues.

The following table presents the adjusted EBITDA for the quarter and year to date for P1AG (in thousands of dollars):

P1AG Summary	Fourth Quarter			Full Year		
	2018	2017	Change	2018	2017	Change
Amusement revenues	$ 43,307	$ 39,925	8.5%	$165,486	$159,974	3.4%
Operating Expenses	40,076	36,174	10.8%	150,476	139,958	7.5%
P1AG adjusted EBITDA (i)	$ 3,231	$ 3,751	-13.9%	$ 15,010	$ 20,016	-25.0%
P1AG adjusted EBITDA Margin (i)	7.5%	9.4%	-1.9%	9.1%	12.5%	-3.4%
(i) See Section 17, Non-GAAP measures.						

Margins for P1AG decreased during 2018 compared to 2017 in part due to a $2.1 million non-recurring charge.

The following table presents the adjusted store level EBITDA for the quarter and year to date for *The Rec Room* (in thousands of dollars):

The Rec Room Summary	Fourth Quarter			Full Year		
	2018	2017	Change	2018	2017	Change
Food service revenues	$ 9,711	$ 9,180	5.8%	$ 34,768	$ 19,564	77.7%
Amusement revenues	7,469	6,813	9.6%	29,643	14,718	101.4%
Media and other revenues	690	887	-22.2%	2,076	959	116.5%
Total revenues	$ 17,870	$ 16,880	5.9%	$ 66,487	$ 35,241	88.7%
Cost of food service	2,333	2,607	-10.5%	9,190	5,938	54.8%
Operating expenses (i)	11,609	10,896	6.5%	44,512	24,412	82.3%
Total costs	$ 13,942	$ 13,503	3.3%	$ 53,702	$ 30,350	76.9%
Adjusted store level EBITDA (ii)	$ 3,928	$ 3,377	16.3%	$ 12,785	$ 4,891	161.4%
Adjusted store level EBITDA Margin (ii)	22.0%	20.0%	2.0%	19.2%	13.9%	5.3%
(i) Includes operating costs of *The Rec Room* locations. Pre-opening costs relating to *The Rec Room* locations and overhead relating to management of *The Rec Room* portfolio are not included.						
(ii) See Section 17, Non-GAAP measures.						

Other revenues

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

Other revenues	Fourth Quarter			Full Year		
	2018	2017	Change	2018	2017	Change
Other revenues	$ 13,414	$ 10,912	22.9%	$ 44,276	$ 40,371	9.7%

The fourth quarter and year to date increase in other revenues was due primarily to increases from Cineplex Store and SCENE.

Film cost

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

Film cost	Fourth Quarter			Full Year		
	2018	2017	Change	2018	2017	Change
Film cost	$ 91,562	$ 98,734	-7.3%	$ 379,325	$ 376,759	0.7%
Film cost percentage (i)	50.2%	53.4%	-3.2%	52.4%	52.6%	-0.2%
(i) See Section 17, Non-GAAP measures.						

Fourth Quarter

Film cost varies primarily with box office revenues, and can vary from quarter to quarter usually based on the relative strength and concentration of the titles exhibited during the prior period. The 3.2% decrease in film cost percentage in the current period was as a result lower settlement rates attributable to the top films in 2018 compared to 2017.

Full Year

The full year increase in film cost expense was due to a combination of the higher box revenues in the current period compared to the prior year period which were partially offset by a 0.2% decrease in the film cost percentage. The decrease in film cost percentage was attributable to the top films in 2018 having a 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 both theatres and *The Rec Room* for the quarter and the full year (in thousands of dollars, except percentages and margins per patron):

Cost of food service	Fourth Quarter			Full Year		
	2018	2017	Change	2018	2017	Change
Cost of food service - theatre	$ 23,805	$ 24,328	-2.1%	$ 91,001	$ 93,500	-2.7%
Cost of food service - *The Rec Room*	2,333	2,607	-10.5%	9,190	5,938	54.8%
Total cost of food service	$ 26,138	$ 26,935	-3.0%	$100,191	$ 99,438	0.8%
Theatre concession cost percentage (i)	21.4%	22.0%	-0.6%	20.6%	22.1%	-1.5%
The Rec Room food cost percentage (i)	24.0%	28.4%	-4.4%	26.4%	30.4%	-4.0%
Theatre concession margin per patron (i)	$ 5.13	$ 4.90	4.7%	$ 5.05	$ 4.67	8.1%
(i) See Section 17, Non-GAAP measures.						

Fourth Quarter

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

The decrease in the theatre cost of food service as compared to the prior year period was due to a 0.6% decrease in the concession cost percentage during the period.

The theatre concession margin per patron increased 4.7% from $4.90 in the fourth quarter of 2017 to $5.13 in the same period in 2018, reflecting the impact of the higher CPP during the period and the impact of the lower theatre concession cost percentage.

The decrease in *The Rec Room* cost of food service as compared to the prior year period was due to the decrease of 4.4% in *The Rec Room* food cost percentage during the quarter compared to the prior period as a result of improved cost management and menu optimization as new locations opened. This was partially offset by the higher food service revenues as a result of the increase in operating locations.

Full Year

The decrease in the theatre cost of food service as compared to the prior year was due to a 1.5% decrease in the theatre concession cost percentage. The theatre concession margin per patron increased from $4.67 in the prior year to $5.05 in 2018, reflecting the impact of the higher CPP in 2018.

The increase in *The Rec Room* cost of food service as compared to the prior year was due to the higher food service revenues as a result of the increase in operating locations. The decrease of 4.0% for the food cost percentage regarding *The Rec Room* was due to improved cost management and menu optimization with the rollout of new locations.

Depreciation and amortization

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

Depreciation and amortization expenses	**Fourth Quarter**			**Full Year**		
	2018	**2017**	**Change**	**2018**	**2017**	**Change**
Depreciation of property, equipment and leaseholds	$ 30,478	$ 27,456	11.0%	$ 115,402	$ 103,119	11.9%
Amortization of intangible assets and other	4,321	3,934	9.8%	16,450	16,797	-2.1%
Depreciation and amortization expenses as reported	$ 34,799	$ 31,390	10.9%	$ 131,852	$ 119,916	10.0%

The quarterly and annual increases in depreciation of property, equipment and leaseholds of $3.0 million and $12.3 million, respectively, were primarily due to the investments in route equipment, furniture and fixtures and leasehold improvements.

The quarterly increase in amortization of intangible assets and other was primarily due to internally developed software for digital products including the Cineplex mobile app and website platform. The decrease in amortization of intangible assets for the annual period was due to certain assets being fully amortized.

Loss on disposal of assets

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

Loss on disposal of assets	**Fourth Quarter**			**Full Year**		
	2018	**2017**	**Change**	**2018**	**2017**	**Change**
Loss on disposal of assets	$ 1,064	$ 369	188.3%	$ 2,697	$ 706	282.0%

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, as well as amusement and leisure; and general and administrative expenses, which include costs related to managing Cineplex's operations, including head office expenses. Please see the discussions below for more details on these categories. The following table highlights the movement in other costs for the quarter and full year (in thousands of dollars):

Other costs	Fourth Quarter			Full Year		
	2018	2017	Change	2018	2017	Change
Theatre occupancy expenses	$ 51,991	$ 50,125	3.7%	$ 209,838	$ 207,022	1.4%
Other operating expenses	163,795	155,096	5.6%	602,114	569,406	5.7%
General and administrative expenses	12,779	15,709	-18.7%	66,783	66,791	—%
Total other costs	$ 228,565	$ 220,930	3.5%	$ 878,735	$ 843,219	4.2%

Theatre occupancy expenses

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

Theatre occupancy expenses	Fourth Quarter			Full Year		
	2018	2017	Change	2018	2017	Change
Rent	$ 34,963	$ 34,799	0.5%	$ 139,179	$ 138,652	0.4%
Other occupancy	17,578	16,541	6.3%	73,435	70,814	3.7%
One-time items (i)	(550)	(1,215)	-54.7%	(2,776)	(2,444)	13.6%
Total	$ 51,991	$ 50,125	3.7%	$ 209,838	$ 207,022	1.4%

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

Theatre occupancy continuity	Fourth Quarter Occupancy	Full Year Occupancy
2017 as reported	$ 50,125	$ 207,022
Impact of new and acquired theatres	330	848
Impact of disposed theatres	(106)	(305)
Same store rent change (i)	243	542
One-time items	666	(332)
Other	733	2,063
2018 as reported	$ 51,991	$ 209,838

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

Fourth Quarter

Theatre occupancy expenses increased $1.9 million during the fourth quarter of 2018 compared to the prior year period. This increase was primarily due to the impact of one-time items and other charges, in addition to new theatres net of disposed theatres.

Full Year

The increase in theatre occupancy expenses of $2.8 million for the 2018 year compared the prior year was mainly due to the impact of an increase in other charges ($2.1 million) and the impact of new and acquired theatres net of disposed theatres ($0.5 million) partially offset by an increase in one-time items ($0.3 million).

Other operating expenses

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

Other operating expenses	Fourth Quarter			Full Year		
	2018	2017	Change	2018	2017	Change
Theatre payroll	$ 38,663	$ 34,893	10.8%	$ 152,465	$ 138,914	9.8%
Theatre operating expenses	29,940	29,476	1.6%	117,423	115,518	1.6%
Media	18,869	21,192	-11.0%	66,777	72,985	-8.5%
P1AG	40,076	36,174	10.8%	150,476	139,958	7.5%
The Rec Room (i)	11,609	10,896	6.5%	44,512	24,412	82.3%
Location-based entertainment pre-opening (ii)	349	696	-49.9%	1,915	8,605	-77.7%
SCENE	6,889	4,073	69.1%	17,345	15,548	11.6%
Marketing	6,663	6,283	6.0%	19,959	20,046	-0.4%
Business interruption insurance proceeds	(1,749)	—	NM	(5,449)	—	NM
Other (iii)	12,486	11,413	9.4%	36,691	33,420	9.8%
Other operating expenses	$ 163,795	$ 155,096	5.6%	$ 602,114	$ 569,406	5.7%

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

(ii) Includes pre-opening costs of *The Rec Room* and *Playdium* locations

(iii) Other category includes overhead costs related to *The Rec Room,* operating costs of WGN and other Cineplex internal departments.

Other operating continuity	Fourth Quarter Other Operating	Full Year Other Operating
2017 as reported	$ 155,096	$ 569,406
Impact of new and acquired theatres	2,047	4,246
Impact of disposed theatres	(313)	(699)
Same theatre payroll change (i)	2,477	10,907
Same theatre operating expenses change (i)	46	1,069
Media operating expenses change	(2,323)	(6,208)
P1AG operating expenses change	3,902	10,518
The Rec Room operating expenses change	713	20,100
Location-based entertainment pre-opening change	(347)	(6,690)
SCENE change	2,816	1,797
Marketing change	380	(87)
Business interruption insurance proceeds change	(1,749)	(5,449)
Other	1,050	3,204
2018 as reported	$ 163,795	$ 602,114

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

Fourth Quarter

Other operating expenses during the fourth quarter of 2018 increased $8.7 million or 5.6% compared to the prior year period. The increase was primarily due to higher amusement and leisure costs related to P1AG. Same theatre payroll also increased as a result of the minimum wage increases in Ontario, Quebec and Alberta. These were partially offset by a $2.3 million decrease in media due to decrease in business volumes and a $1.7 million increase in business interruption proceeds as a result of a fire at *Cineplex Seton and VIP* in 2017.

Full Year

For the year ended December 31, 2018, other operating expenses increased $32.7 million or 5.7% compared to the prior year. The increase was primarily due to higher amusement and leisure costs, including higher P1AG costs, as well as costs related to new locations of *The Rec Room*. Same theatre payroll increased as a result of the minimum wages increases in Ontario, Quebec and Alberta which more than offset any labor efficiencies achieved during the year. Media expenses decreased as a result of the reduction in business volumes and improved cost management during 2018. Other expenses increased due to higher digital commerce business volumes during the current year as compared to the prior year. *The Rec Room* pre-opening costs decreased $6.7 million as there were three openings in the prior year compared to one opening in the current year.

During 2018, Cineplex recognized business interruption insurance proceeds of $5.4 million, as a result of the fire at *Cineplex Cinemas Seton and VIP*.

General and administrative expenses

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

G&A expenses	Fourth Quarter			Full Year		
	2018	2017	Change	2018	2017	Change
G&A excluding LTIP and option plan expense	$ 13,438	$ 14,729	-8.8%	$ 60,570	$ 64,133	-5.6%
Restructuring	1,022	—	NM	5,842	—	NM
LTIP (i)	(2,076)	513	NM	(1,347)	836	NM
Option plan	395	467	-15.4%	1,718	1,822	-5.7%
G&A expenses as reported	$ 12,779	$ 15,709	-18.7%	$ 66,783	$ 66,791	—%
(i) LTIP includes the expense for the LTIP program as well as the expense for the executive and Board deferred share unit plans.						

Fourth Quarter

G&A expenses decreased $2.9 million during the fourth quarter of 2018 compared to the prior year period as a result of the $2.6 million decrease in LTIP expense as a result of the decrease in the Cineplex's Share price at September 30, 2018 of $35.00 to $25.44 at December 31, 2018. Restructuring costs of $1.0 million were due to Cineplex's cost reduction initiative which was implemented in the second quarter. This initiative is focused on achieving $25.0 million in annualized costs savings, a component of which will be realized in G&A. Decreases in G&A in part reflect the initial impact of the rollout of this initiative.

Full Year

G&A expenses for 2018 were flat compared to the prior year, due primarily to restructuring costs of $5.8 million which were due to Cineplex's cost reduction initiative implemented in the second quarter of 2018, partially offset by a reduction to G&A expenses in part reflecting the initial impact of the rollout of this initiative.

Share of income of joint ventures and associates

Cineplex's joint ventures and associates include its 78.2% interest in CDCP, 50% interest in one IMAX screen in Ontario, 50% interest in YoYo's and 34.7% interest in VRstudios.

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

Share of income of joint ventures and associates	Fourth Quarter			Full Year		
	2018	2017	Change	2018	2017	Change
Share of income of CDCP	$ (1,311)	$ (1,011)	29.7%	$ (4,186)	$ (3,480)	20.3%
Share of loss (income) of other joint ventures and associates	413	99	317.2%	438	(6)	NM
Total income of joint ventures and associates	$ (898)	$ (912)	-1.5%	$ (3,748)	$ (3,486)	7.5%

Interest expense

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

Interest expense	Fourth Quarter			Full Year		
	2018	2017	Change	2018	2017	Change
Long-term debt interest expense	$ 4,910	$ 4,432	10.8%	$ 18,319	$ 14,421	27.0%
Financing Fees	1,945	—	NM	1,945	$ —	NM
Convertible debenture interest expense	1,193	1,219	-2.1%	4,811	4,838	-0.6%
Finance lease interest expense	110	172	-36.0%	535	775	-31.0%
Sub-total - cash interest expense	$ 8,158	$ 5,823	40.1%	$ 25,610	$ 20,034	27.8%
Deferred financing fee accretion and other non-cash interest	893	164	444.5%	1,194	638	87.1%
Convertible debenture accretion	605	565	7.1%	2,420	2,262	7.0%
Interest rate swap - non-cash	1,073	44	2,338.6%	1,466	(200)	NM
Sub-total - non-cash interest expense	2,571	773	232.6%	5,080	2,700	88.1%
Total interest expense	$ 10,729	$ 6,596	62.7%	$ 30,690	$ 22,734	35.0%

Interest expense increased $4.1 million for the quarter and $8.0 million for the full year as compared to the prior year periods. For both the fourth quarter and the full year, cash interest was higher due to higher average borrowings on Cineplex's Revolving Facility (See section 7.4, Credit Facilities) which was used to fund new build capital expenditures including the new theatres, *The Rec Room*, *Playdium* and *Topgolf*. Financing fees of $1.9 million was recognized as a result of Cineplex amending its Credit Facilities (defined and discussed in Section 7.4, Credit Facilities) in the fourth quarter.

Non-cash interest increased in the quarter and for the full year due to higher interest rate swap rates compared to the prior period and $0.8 million of previously unamortized deferred financing fees that was expensed in accordance with IFRS 9 as a result of the amendment of the Credit Facilities.

Interest income

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

Interest income	Fourth Quarter			Full Year		
	2018	2017	Change	2018	2017	Change
Interest income	$ 69	$ 59	16.9%	$ 274	$ 222	23.4%

Foreign exchange

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

Foreign exchange	Fourth Quarter			Full Year		
	2018	2017	Change	2018	2017	Change
Foreign exchange (gain) loss	$ (1,750)	$ (47)	3,623.4%	$ (2,191)	$ 810	NM

The movement in the quarterly and full year foreign exchange was due to increases in the CAD/USD foreign exchange month end rate from 1.2945 at September 30, 2018 and 1.2545 at December 31, 2017 to 1.3642 at December 31, 2018.

Change in fair value of financial instruments

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

Change in fair value of financial instruments	Fourth Quarter			Full Year		
	2018	2017	Change	2018	2017	Change
Loss (gain) in fair value of financial instruments	$ —	$ 94	NM	$ —	$ (2,643)	NM

The gain on change in fair value of financial instrument in 2017 was due to the revaluation of the WGN put option liability. On April 13, 2017, Cineplex acquired the remaining interest in WGN and settled the put liability for $4.0 million in cash.

Income taxes

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

Income taxes	Fourth Quarter			Full Year		
	2018	2017	Change	2018	2017	Change
Current income tax expense	$ 9,572	$ 13,246	-27.7%	$ 27,573	$ 26,626	3.6%
Deferred income tax expense (recovery)	1,317	232	467.7%	(6,983)	864	NM
Provision for income taxes	$ 10,889	$ 13,478	-19.2%	$ 20,590	$ 27,490	-25.1%

The decrease in the fourth quarter provision for income taxes was due to the decrease in the current tax expense due to lower taxable income versus the prior year period and the impact of a difference in the timing of deductions for tax as compared to accounting in the current period as compared to the prior year period.

The full year decrease in the provision for income taxes was primarily due to lower income before taxes in 2018 and an increase to deferred income tax recovery resulting from Cineplex recognizing a deferred tax asset of $5.0 million at June 30, 2018 and an additional $1.2 million at September 30, 2018, related to its joint venture in SCENE. This conclusion and the resulting recognition of the deferred tax asset is based on management's reassessment of the amount of its deferred tax assets that are more likely than not to be recognized.

In October 2018, the company received a proposal letter from the Canada Revenue Agency ("CRA") proposing to deny a portion of the losses of AMC Ventures Inc. ("AMC"), which was acquired by Cineplex in 2012. Subsequent to year end, the CRA issued a notice of reassessment ("NOR") denying the use of $26.6 million of losses by Cineplex, which offset taxable income generated in 2014, thereby increasing taxes and interest payable by approximately $8.6 million, fifty percent of which is payable immediately. Cineplex disagrees with the CRA's position and will file a notice of objection in respect of the NOR. Cineplex believes that it should prevail in defending its original filing position although no assurance can be given in this regard. The immediate payment of fifty percent of the amount assessed under the NOR is required, notwithstanding the filing of a notice of objection to dispute this matter and it will remain on account until the dispute is resolved. Should Cineplex be unsuccessful in defending its position the additional amount of tax and interest noted above will be payable. In addition, a portion of certain amounts paid in connection with the acquisition of AMC would be refunded by the seller and amounts still owing, included in deferred consideration - AMC, would be reversed. These amounts total $2.7 million.

Cineplex's combined statutory income tax rate at December 31, 2018 was 26.9% (2017 - 26.8%).

Net income

Net income during the fourth quarter of 2018 and the year ended December 31, 2018 was as follows (in thousands of dollars):

Net income	Fourth Quarter			Full Year		
	2018	2017	Change	2018	2017	Change
Net income	$ 27,154	$ 28,786	-5.7%	$ 76,956	$ 70,346	9.4%

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

The following table presents EBITDA and adjusted EBITDA for the three months and year ended December 31, 2018 as compared to the prior year periods (expressed in thousands of dollars, except adjusted EBITDA margin):

EBITDA	Fourth Quarter			Full Year		
	2018	2017	Change	2018	2017	Change
EBITDA	$ 83,502	$ 80,191	4.1%	$ 259,814	$ 240,264	8.1%
Adjusted EBITDA	$ 81,637	$ 79,614	2.5%	$ 256,365	$ 235,929	8.7%
Adjusted EBITDA margin	19.1%	18.7%	0.4%	15.9%	15.2%	0.7%

Adjusted EBITDA for the fourth quarter of 2018 increased $2.0 million, or 2.5%, as compared to the prior year period, to $81.6 million. This increase as compared to the prior year period was due primarily to growth in the amusement and leisure businesses and the increase in theatre food service revenues as a result of the fourth quarter record CPP. This growth was partially offset by a decline in box office due to a drop in theatre attendance and the decrease in media sales in part due to a stronger fourth quarter in 2017 with the performance of *Star Wars: The Last Jedi*. Adjusted EBITDA margin, calculated as adjusted EBITDA divided by total revenues, was 19.1% in the current period, an increase of 0.4% from 18.7% in the prior year period.

Adjusted EBITDA for the year ended December 31, 2018 increased $20.4 million, or 8.7%, to an annual record of $256.4 million as compared to $235.9 million primarily due to the growth in the amusement and leisure businesses, coupled with the higher contribution from box office and food service revenues representing the record annual BPP and CPP. Adjusted EBITDA margin was up 0.7% to 15.9% in 2018 compared to 15.2% in 2017.

6. BALANCE SHEETS

The following sets out significant changes to Cineplex's consolidated balance sheets during the year ended December 31, 2018 as compared to December 31, 2017 (in thousands of dollars):

	December 31, 2018	Restated December 31, 2017 (i)	Change ($)	Change (%)
Assets				
Current assets				
Cash and cash equivalents	$ 25,242	$ 40,597	$ (15,355)	-37.8%
Trade and other receivables	165,586	160,938	4,648	2.9%
Income taxes receivable	4,944	1,344	3,600	267.9%
Inventories	30,592	28,966	1,626	5.6%
Prepaid expenses and other current assets	13,862	13,013	849	6.5%
Fair value of interest rate swap agreements	1,457	314	1,143	364.0%
	241,683	245,172	(3,489)	-1.4%
Non-current assets				
Property, equipment and leaseholds	634,354	628,129	6,225	1.0%
Deferred income taxes	13,444	7,134	6,310	88.4%
Fair value of interest rate swap agreements	2,063	3,880	(1,817)	-46.8%
Interests in joint ventures and associates	38,912	35,353	3,559	10.1%
Intangible assets	108,758	119,011	(10,253)	-8.6%
Goodwill	817,235	816,489	746	0.1%
	$ 1,856,449	$ 1,855,168	$ 1,281	0.1%
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	$ 186,407	$ 189,929	$ (3,522)	-1.9%
Share-based compensation	4,862	4,732	130	2.7%
Dividends payable	9,183	8,866	317	3.6%
Income taxes payable	12,167	9,157	3,010	32.9%
Deferred revenue	214,016	195,808	18,208	9.3%
Finance lease obligations	3,058	3,420	(362)	-10.6%
Fair value of interest rate swap agreements	1,184	1,332	(148)	-11.1%
Convertible Debentures	—	105,080	(105,080)	-100.0%
	430,877	518,324	(87,447)	-16.9%
Non-current liabilities				
Share-based compensation	8,210	13,816	(5,606)	-40.6%
Long-term debt	580,000	467,867	112,133	24.0%
Fair value of interest rate swap agreements	7,674	—	7,674	NM
Finance lease obligations	10,789	5,451	5,338	97.9%
Post-employment benefit obligations	9,250	9,227	23	0.2%
Other liabilities	119,110	117,589	1,521	1.3%
Deferred income taxes	11,528	14,031	(2,503)	-17.8%
	1,177,438	1,146,305	31,133	2.7%
Equity				
Equity attributable to owners of Cineplex	679,096	708,863	(29,767)	-4.2%
Non-controlling interests	(85)	—	(85)	NM
Total Equity	679,011	708,863	(29,852)	-4.2%
	$ 1,856,449	$ 1,855,168	$ 1,281	0.1%

(i) See Section 13, Accounting Policies, for the changes in equity due to the adoption of IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customer*.

Trade and other receivables. The increase in trade and other receivables is primarily due to the timing of billing and collection of trade receivables, particularly gift card resellers. December represents the highest volume month for gift card and voucher sales and was 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 income tax provisions.

Inventories. The increase in inventories is primarily due to an increase in concession inventories for anticipated business volumes and higher amusement solutions and digital media inventories as a result of the growth in the businesses.

Property, equipment and leaseholds. The increase in property, equipment and leaseholds is due to new build and other capital expenditures ($94.1 million), maintenance capital expenditures ($19.2 million), the addition arising from finance lease extension ($8.4 million), and foreign exchange impact ($3.7 million), partially offset by depreciation expenses ($115.4 million) and asset dispositions ($3.9 million).

Interests in joint ventures and associates. The increase in interest in joint ventures and associates is primarily due to the acquisition of the 34.7% interest in VRstudios for $4.7 million.

Intangible assets. The decrease in intangible assets is primarily due to the amortization of intangible assets with finite lives, offset by the capitalization of costs associated with internally generated software.

Goodwill. The increase in goodwill is due to the impact of foreign exchange.

Accounts payable and accrued liabilities. The decrease in accounts payable and accrued liabilities relates to lower business volume in December 2018 compared to the prior year period for film entertainment and cinema media. The year over year decrease is also impacted by the timing of payments for trade payables.

Income taxes payable. The increase in income taxes payable reflects the impact of lower tax installment payments in 2018 compared to 2017 for certain entities in Cineplex's consolidated group to various tax authorities.

Deferred revenue. The deferred revenue increase is primarily due to less redemptions in 2018 compared to 2017.

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

Convertible debentures. The decrease is due to the repayment of the convertible debentures which matured on December 31, 2018. The convertible debentures were repaid in cash.

Long-term debt. The increase in long-term debt relates to increased net borrowings under the Revolving Facility (defined and discussed in Section 7.4, Credit Facilities) primarily to repay the convertible debentures at maturity ($107.5 million).

Finance lease obligations. The increase in finance lease obligations is primarily due to the renewal of an existing lease.

Other liabilities. The increase is primarily due to increased tenant inducement partially offset by the amortization of lease-related liabilities.

7. LIQUIDITY AND CAPITAL RESOURCES

7.1 OPERATING ACTIVITIES

Cash flow is generated primarily from film entertainment (the sale of admission tickets and food service sales), media sales and services, amusement and leisure (amusement and food service sales) and other revenues. Generally, this provides Cineplex with positive working capital, since certain cash revenues are normally collected in advance of the payment of certain expenses. Box office revenues are directly related to the success and appeal of the film product produced and distributed by the studios. The following table highlights the movements in cash from operating activities for the three months and year ended December 31, 2018 and 2017 (in thousands of dollars):

Cash flows provided by operating activities	Fourth Quarter			Full Year		
	2018	2017	Change	2018	2017	Change
Net income	$ 27,154	$ 28,786	$ (1,632)	$ 76,956	$ 70,346	$ 6,610
Adjustments to reconcile net income to net cash provided by operating activities:						
Non-cash amortization amounts (i)	32,476	28,528	3,948	120,746	109,554	11,192
Unrealized foreign exchange	(1,304)	1	(1,305)	(1,423)	(32)	(1,391)
Interest rate swap agreements - non-cash interest	1,073	44	1,029	1,466	(200)	1,666
Accretion of convertible debentures	605	566	39	2,420	2,263	157
Other non-cash interest	893	164	729	1,194	638	556
Financing fees included in interest expenses	1,718	—	1,718	1,718	—	1,718
Loss on disposal of assets	1,064	369	695	2,697	706	1,991
Deferred income taxes	1,317	232	1,085	(6,983)	864	(7,847)
Non-cash Share-based compensation	395	467	(72)	1,718	1,822	(104)
Change in fair value of financial instrument	—	94	(94)	—	(2,643)	2,643
Net change in interests in joint ventures and associates	620	(1,419)	2,039	(3,139)	(4,031)	892
Tenant inducements	3,113	682	2,431	14,842	3,674	11,168
Changes in operating assets and liabilities	15,969	60,319	(44,350)	(3,557)	(28,609)	25,052
Net cash provided by operating activities	**$ 85,093**	**$ 118,833**	**$ (33,740)**	**$ 208,655**	**$ 154,352**	**$ 54,303**
(i) Includes amortization of property, equipment and leaseholds and intangible assets, amortization of tenant inducements and rent averaging liabilities, and accretion of debt issuance and other non-cash interest costs.						

Fourth Quarter

Cash provided by operating activities decreased $33.7 million in the fourth quarter of 2018 compared to the prior year period. The decrease primarily resulted from the impact of changes in operating assets and liabilities primarily due to timing of the settlement of liabilities and the collection of receivables which was partially offset by the net change in joint ventures and associates and increased tenant inducements.

Full Year

For the year ended December 31, 2018, cash provided by operating activities increased $54.3 million compared to the prior year. The increase was primarily due to an $6.6 million increase in net income, an $11.2 million increase in tenant inducements and an increase of $25.1 million in changes of operating assets and liabilities as a result of the timing and settlement of accounts receivable and payables balances.

7.2 INVESTING ACTIVITIES

The following table highlights the movements in cash used in investing activities for the three months and year ended December 31, 2018 and 2017 (in thousands of dollars):

Cash flows used in investing activities	Fourth Quarter			Full Year		
	2018	2017	Change	2018	2017	Change
Proceeds from disposal of assets, including asset-related insurance recoveries	$ 100	$ 2,666	$ (2,566)	$ 1,930	$ 2,976	$ (1,046)
Purchases of property, equipment and leaseholds	(24,547)	(46,871)	22,324	(110,120)	(170,511)	60,391
Acquisition of businesses, net of cash acquired	—	—	—	(4,685)	(30,422)	25,737
Intangible assets additions	(1,900)	(2,013)	113	(5,475)	(5,755)	280
Net cash received from CDCP	684	550	134	4,266	4,165	101
Net cash used in investing activities	**$ (25,663)**	**$ (45,668)**	**$ 20,005**	**$ (114,084)**	**$ (199,547)**	**$ 85,463**

Fourth Quarter

Cash used in investing activities during the fourth quarter of 2018 decreased by $20.0 million compared to the prior year period. The change was primarily due to the higher additions to property, equipment and leaseholds in the prior year period, including spending on the construction of *The Rec Room* locations, recliner theatre seating conversions and theatre construction.

Full Year

For the full year, cash used in investing activities was $85.5 million lower than the prior year. The variance was primarily due to increased spending in the prior year period on the construction of *The Rec Room* locations and theatres, recliner seating conversions, and acquisitions. In 2018 Cineplex acquired an interest in VRStudios for $4.7 million as compared to the acquisitions in 2017 which included Dandy for net $13.2 million, the non-controlling interest in WGN for $4.0 million, $10.0 million deferred consideration payment for EK3 Technologies Inc. and $3.1 million of remaining consideration for Tricorp Amusement Inc. Insurance proceeds of $1.5 million received during the second quarter with respect to a fire at *Cineplex Cinemas Seton and VIP* in 2017 are included in proceeds from disposal of assets, including asset-related insurance recoveries.

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

Capital expenditures	Fourth Quarter			Full Year		
	2018	2017	Change	2018	2017	Change
Gross capital expenditures	$ 24,547	$ 46,871	$ (22,324)	$ 110,120	$ 170,511	$ (60,391)
Less: tenant inducements	(3,113)	(682)	(2,431)	(14,842)	(3,674)	(11,168)
Net capital expenditures	$ 21,434	$ 46,189	$ (24,755)	$ 95,278	$ 166,837	$ (71,559)
Net capital expenditures consists of:						
Growth and acquisition capital expenditures (i)	$ 20,692	$ 17,564	$ 3,128	$ 73,061	$ 78,732	$ (5,671)
Tenant inducements	(3,113)	(682)	(2,431)	(14,842)	(3,674)	(11,168)
Media growth capital expenditures	922	1,627	(705)	1,812	6,054	(4,242)
Premium formats (ii)	3,369	9,771	(6,402)	8,275	39,935	(31,660)
Amusement and leisure growth capital expenditures (excluding *The Rec Room* build expenditures)	1,005	6,169	(5,164)	11,017	11,486	(469)
Maintenance capital expenditures	4,576	6,652	(2,076)	19,249	30,498	(11,249)
Other (iii)	(6,017)	5,088	(11,105)	(3,294)	3,806	(7,100)
	$ 21,434	$ 46,189	$ (24,755)	$ 95,278	$ 166,837	$ (71,559)

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

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

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

7.3 FINANCING ACTIVITIES

The following table highlights the movements in cash from financing activities for the three months and year ended December 31, 2018 and 2017 (in thousands of dollars):

Net cash (used in) provided by financing activities	Fourth Quarter			Full Year		
	2018	2017	Change	2018	2017	Change
Dividends paid	$ (27,550)	$ (26,613)	$ (937)	$ (108,614)	$ (105,067)	$ (3,547)
Borrowings (repayments) under credit facilities, net	71,000	(22,000)	93,000	111,000	169,000	(58,000)
Options exercised for cash	—	—	—	68	—	68
Payments under finance leases	(878)	(817)	(61)	(3,420)	(3,180)	(240)
Financing fees	(1,718)	—	(1,718)	(1,718)	(183)	(1,535)
Shares repurchased and canceled	—	(2,031)	2,031	—	(8,038)	8,038
Repayment of convertible debentures at maturity	(107,500)	—	(107,500)	(107,500)	—	(107,500)
Net cash (used in) provided by financing activities	**$ (66,646)**	**$ (51,461)**	**$ (15,185)**	**$ (110,184)**	**$ 52,532**	**$ (162,716)**

Fourth Quarter

Cash flows used in financing activities were $66.6 million in the fourth quarter of 2018, an increase of $15.2 million from the prior year period. The change was primarily due to settlement of convertible debentures in cash at maturity. This was partially offset by net borrowings under credit facilities in the current period, as well as, $1.7 million in financing fees paid related to the amendment of the Credit Facilities.

Full Year

Cash flows used in financing activities were $110.2 million in 2018, compared to $52.5 million of cash provided by financing activities in the prior year. The movement was due to the repayment of convertible debentures at maturity and decreased net borrowings under the Credit Facilities as a result of lower capital expenditures.

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

7.4 CREDIT FACILITIES

Cineplex increased and extended its bank credit facilities effective November 13, 2018 (the "Credit Facilities"). At December 31, 2018, the Credit Facilities consisted of the following (in millions of dollars):

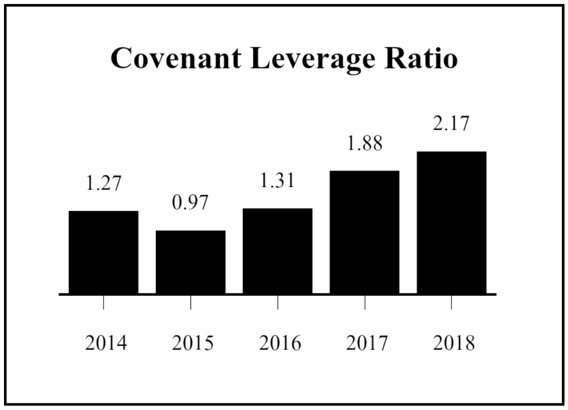
		Available	Drawn	Reserved	Remaining
(i)	a five-year senior secured revolving credit facility ("Revolving Facility")	$ 650.0	$ 430.0	$ 8.4	$ 211.6
(ii)	a seven-year senior secured non-revolving term facility ("Term Facility")	$ 150.0	$ 150.0	$ —	$ —
Letters of credit outstanding at December 31, 2018 of $8.4 million are reserved against the Revolving Facility.					

There are provisions to increase the amount of either the Revolving Facility commitment or Term Facility commitment amount by an additional $150.0 million (the combined aggregate of both Facilities) with the consent of the lenders.

The Credit Facilities bear interest at a floating rate based on the Canadian dollar prime rate, U.S. Base Rate, LIBOR or bankers' acceptances rates plus, in each case, an applicable margin to those rates. The Revolving Facility matures in November 2023 and the Term Facility matures in November 2025, payable in full at maturity with no scheduled repayment of principal required prior to maturity.

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

One of the key financial covenants in the Credit Facilities is the leverage covenant. As at December 31, 2018, Cineplex's leverage ratio as calculated in accordance with the Credit Facilities definition was 2.17x, as compared to a covenant of 3.75x. The definition of debt in the Credit Facilities includes long-term debt (excluding any convertible debentures which were repaid in 2018 using funds drawn on the Credit Facilities), financing leases and letters of credit but does not include a reduction for cash on hand. For the purposes of the Credit Facilities definition, EBITDA is adjusted for certain non-cash, non-recurring items and the annualized impact of new operating locations or acquisitions.



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

Interest rate swap agreements. During the 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 matured on October 24, 2018, the maturity of the Credit Facilities at that time. Under these agreements, Cineplex paid a fixed rate of 2.62% 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.

During the second quarter of 2016, Cineplex entered into four interest rate swap agreements which commenced April 26, 2016 for an aggregate notional principal amount of $50.0 million, and matured on October 24, 2018. Under these agreements, Cineplex paid a fixed rate of 1.07% 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.

During the second quarter of 2016, Cineplex entered into four interest rate swap agreements which commenced 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.

During the fourth quarter of 2018, Cineplex entered into five interest rate swap agreements which commence April 26, 2021 for an aggregate notional principal amount of $200.0 million and mature on November 14, 2023. Under these agreements, Cineplex pays a fixed rate of 2.945% 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 fourth quarter of 2018, Cineplex entered into five interest rate swap agreements which commenced November 13, 2018 for an aggregate notional principal amount of $100.0 million and mature on November 14, 2023. Under these agreements, Cineplex pays a fixed rate of 2.83% 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 fourth quarter of 2018, Cineplex entered into five interest rate swap agreements which commenced November 13, 2018 for an aggregate notional principal amount of $150.0 million and mature on November 14, 2025. Under these agreements, Cineplex pays a fixed rate of 2.898% 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 $450.0 million of borrowings. Cineplex considered its hedging relationships and determined that the interest rate swap agreements on its first $450.0 million of borrowings qualify for hedge accounting in accordance with IFRS 9, *Financial Instruments.* Under the provisions of IFRS 9, the interest rate swap agreements are recorded on the balance sheet at their fair values, with subsequent changes in fair value recorded in either net income or other comprehensive income.

Based on the leverage ratio covenant at December 31, 2018, Cineplex's effective cost of borrowing on its first $450.0 million of borrowings was 4.079% (December 31, 2017 - 3.7825%).

7.5 FUTURE OBLIGATIONS

At December 31, 2018, Cineplex had the following contractual or other commitments authorized by the Board (expressed in thousands of dollars):

	Payments due by period				
Contractual obligations	**Total**	**Within 1 year**	**2-3 years**	**4-5 years**	**After 5 years**
Long-term debt	580,000	—	—	430,000	150,000
Interest rate swap agreements	8,076	(8)	1,767	5,194	1,123
Capital commitment - exhibition and location-based entertainment	222,946	105,734	94,119	23,093	—
Deferred consideration - AMC	3,134	3,134	—	—	—
Equipment obligations	6,241	2,050	3,942	150	99
Finance lease obligations	16,517	3,955	6,128	4,290	2,144
Operating lease obligations	1,200,073	165,157	294,740	247,876	492,300
Minimum commitments in Media	13,503	2,518	5,205	5,480	300
Total contractual obligations	**$ 2,063,993**	**$ 285,058**	**$ 411,106**	**$ 721,563**	**$ 646,266**

Cineplex has aggregate gross capital commitments of $222.9 million ($160.2 million net of tenant inducements) related to the completion of construction of 21 operating locations including both theatres and location-based entertainment locations, in addition to the ongoing rollout of expanded entertainment offerings at select theatres and location-based entertainment locations, over the next four years.

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

Cineplex is guarantor under the leases for the remainder of the lease terms in the event that the purchaser of the theatres does not fulfill its obligations under the respective lease; ten or fewer of those theatres are still operated by a third-party lease under which Cineplex arguably could be responsible as a guarantor. Cineplex has assessed the fair value of the lease guarantees and determined that the fair value of these guarantees at December 31, 2018 is nominal. As such, no additional amounts have been provided in the consolidated financial statements for these guarantees. Should the purchasers of the theatres fail to fulfill their lease commitment obligations, Cineplex could face a substantial financial burden, which could be mitigated by Cineplex operating any theatres under default.

The convertible debentures of $107.5 million principal amount matured and were repaid in full in cash on December 31, 2018.

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

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

Effective for the May 2018 dividend, which was paid in June 2018, the Board approved a dividend increase to $0.145 per month per Share ($1.74 on an annual basis).

8.1 ADJUSTED FREE CASH FLOW

Cineplex distributes cash to its shareholders on a monthly basis. The following table illustrates adjusted free cash flow per Share, dividends paid per Share, and the payout ratio of dividends relative to adjusted free cash flow for the three months and year ended December 31, 2018 and 2017:

Adjusted free cash flow	Fourth Quarter			Full Year		
	2018	2017	Change	2018	2017	Change
Adjusted free cash flow per Share	$ 0.939	$ 0.810	15.9%	$ 2.813	$ 2.373	18.5%
Dividends declared per Share	$ 0.435	$ 0.420	3.6%	$ 1.720	$ 1.660	3.6%
Payout ratio - year ended December 31				61.1%	70.0%	-8.9%

Adjusted free cash flow per Share for the fourth quarter of 2018 increased 15.9% due primarily to higher food service and amusement revenues in the current period compared to the prior year. For 2018, adjusted free cash flow per Share increased 18.5% as compared to the prior year primarily due to the success of *The Rec Room* resulting in record annual results for food service and amusement and leisure.

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

	Fourth Quarter			Full Year		
	2018	2017	Change	2018	2017	Change
Cash flows provided by operations	$ 85,093	$ 118,833	-28.4%	$ 208,655	$ 154,352	35.2%
Net income	$ 27,154	$ 28,786	-5.7%	$ 76,956	$ 70,346	9.4%
Standardized free cash flow	$ 60,646	$ 74,628	-18.7%	$ 100,465	$ (13,183)	NM
Adjusted free cash flow	$ 59,442	$ 51,339	15.8%	$ 178,151	$ 150,597	18.3%
Cash dividends declared	$ 27,549	$ 26,604	3.6%	$ 108,931	$ 105,358	3.4%
Average number of Shares outstanding	63,333,137	63,350,216	—%	63,332,159	63,473,583	-0.2%

8.2 DIVIDENDS

Subject to the discretion of the Board, dividends are typically declared on a monthly basis to common shareholders of record on the last business day of each month. For the three months and year ended December 31, 2018, Cineplex declared dividends totaling $0.435 per Share and $1.720 per Share, respectively. For the three months and year ended December 31, 2017, Cineplex declared dividends totaling $0.420 per Share and $1.660 per Share, respectively.

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

Distribution and dividend history	
Effective Date	**Monthly Distribution/Dividend per Unit/Share**
January 2004 (i)	$0.0958
May 2007	$0.1000
May 2008	$0.1050
May 2011	$0.1075
May 2012	$0.1125
May 2013	$0.1200
May 2014	$0.1250
May 2015	$0.1300
May 2016	$0.1350
May 2017	$0.1400
May 2018	$0.1450

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

9. SHARE ACTIVITY

Share capital at December 31, 2018 and the transactions during the year is as follows (expressed in thousands of dollars except Share amounts):

	Shares			**Amount**
	Number of common shares issued and outstanding	**Common shares**	**Equity component of convertible debentures**	**Total**
Balance - December 31, 2017	63,330,446	$ 852,290	$ 4,471	$ 856,761
Issuance of shares on exercise of options	2,792	89	—	89
Transfer on repayment of convertible debentures to contributed surplus	—	—	(4,471)	(4,471)
Balance - December 31, 2018	63,333,238	$ 852,379	$ —	$ 852,379

Officers and key employees are eligible to participate in the LTIP. Beginning with the 2018 awards, each annual LTIP grant is for a three-year service period beginning October 1. The LTIP award consists of a restricted stock unit ("RSU") plan awarding base Share equivalents which may decrease or increase subject to certain market conditions and a phantom share unit ("PSU") plan awarding Share equivalents which may decrease approximately to 0% or increase by 200% 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.

LTIP awards granted in 2017 and 2016 consist of a PSU 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:

	PSU Share equivalents	RSU Share equivalents
2018 LTIP award	79,089	39,549
2017 LTIP award	129,136	—
2016 LTIP award	112,804	—

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, based on historical forfeiture rates.

Cineplex has an incentive Share option plan for certain employees. The aggregate number of Shares that may be issued under the option plan is limited to 5.3 million Shares. All of the options must be exercised over specified periods not to exceed ten years from the date granted. As of December 31, 2018, 2.4 million Share options were outstanding under the Share option plan. Upon cashless exercise, the Share options exercised in excess of Shares issued are canceled and returned to the pool available for future grants. At December 31, 2018, 1.7 million Share options were available for grant under the option plan.

A summary of option activities for the year ended December 31, 2018 and 2017 is as follows:

	2018			2017	
	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	7.37	2,157,589	$ 45.50	1,705,338	43.21
Granted		559,703	33.59	544,992	51.25
Forfeited		(276,661)	45.12	(11,395)	49.71
Exercised		(7,042)	31.30	(81,346)	35.38
Options outstanding – end of period	6.92	2,433,589	$ 42.84	2,157,589 $	45.50

During the fourth quarter of 2013, Cineplex issued $107.5 million principal amount of convertible unsecured subordinated debentures, maturing on December 31, 2018 and bearing interest at a rate of 4.5% per annum, payable semi-annually in arrears on June 30 and December 31 in each year, commencing on December 31, 2013. Cineplex repaid the convertible debentures in full in cash at maturity on December 31, 2018.

10. SEASONALITY AND QUARTERLY RESULTS

Historically, Cineplex's revenues have been seasonal, coinciding with the timing of major film releases. The most marketable motion pictures were traditionally released during the summer and the late-November through December holiday season. This caused changes from quarter to quarter in theatre attendance, affecting theatre exhibition reported results. The seasonality of theatre 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 as dependent on hollywood 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 $430.0 million drawn and $211.6 million available as of December 31, 2018.

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

	2018				2017			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues								
Box office revenues	**$ 182,352**	$ 173,278	$ 187,234	$ 181,380	$ 185,048	$ 164,493	$ 170,710	$ 195,354
Food service revenues	**120,726**	115,557	122,270	116,948	119,514	107,029	101,398	113,935
Media revenues	**58,218**	33,487	40,791	32,513	61,519	39,862	36,581	33,912
Amusement revenues	**53,473**	53,838	48,577	49,905	49,300	48,940	45,700	41,401
Other revenues	**13,414**	10,555	10,181	10,126	10,912	10,124	9,694	9,641
	428,183	386,715	409,053	390,872	426,293	370,448	364,083	394,243
Expenses								
Film cost	**91,562**	90,213	102,346	95,204	98,734	83,268	91,468	103,289
Cost of food service	**26,138**	24,257	25,020	24,776	26,935	23,669	23,180	25,654
Depreciation and amortization	**34,799**	33,599	32,260	31,194	31,390	30,613	29,646	28,267
Loss on disposal of assets	**1,064**	783	640	210	369	275	36	26
Other costs	**228,565**	218,944	213,772	217,454	220,930	204,762	211,456	206,071
	382,128	367,796	374,038	368,838	378,358	342,587	355,786	363,307
Income from operations	**46,055**	18,919	35,015	22,034	47,935	27,861	8,297	30,936
Adjusted EBITDA (i)	**81,637**	53,356	67,840	53,532	79,614	58,811	38,055	59,449
Net income	**$ 27,154**	$ 10,209	$ 24,367	$ 15,226	$ 28,786	$ 17,219	$ 1,376	$ 22,965
EPS - basic	**$ 0.43**	$ 0.16	$ 0.38	$ 0.24	$ 0.45	$ 0.27	$ 0.02	$ 0.37
EPS - diluted (ii)	**$ 0.43**	$ 0.16	$ 0.38	$ 0.24	$ 0.45	$ 0.27	$ 0.02	$ 0.37
Cash provided by (used in) operating activities	**$ 85,093**	$ 41,847	$ 35,289	$ 46,426	$ 118,833	$ 37,705	$ 12,489	$ (14,675)
Cash used in investing activities	**(25,663)**	(33,824)	(28,597)	(26,000)	(45,668)	(47,518)	(80,396)	(25,965)
Cash (used in) provided by financing activities	**(66,646)**	(9,412)	(12,695)	(21,431)	(51,461)	7,320	48,170	48,503
Effect of exchange rate differences on cash	**(104)**	(173)	589	(54)	146	(184)	(253)	(2)
Net change in cash	**$ (7,320)**	$ (1,562)	$ (5,414)	$ (1,059)	$ 21,850	$ (2,677)	$ (19,990)	$ 7,861
BPP (i)	**$ 10.73**	$ 10.07	$ 10.82	$ 10.21	$ 10.54	$ 9.81	$ 10.36	$ 9.97
CPP (i)	**$ 6.53**	$ 6.25	$ 6.59	$ 6.09	$ 6.29	$ 6.01	$ 6.03	$ 5.71
Film cost percentage (i)	**50.2%**	52.1%	54.7%	52.5%	53.4%	50.6%	53.6%	52.9%
Theatre attendance (in thousands of patrons) (i)	**16,992**	17,208	17,307	17,765	17,551	16,766	16,484	19,593
Theatre locations (at period end)	**164**	165	164	163	163	163	164	164
Theatre screens (at period end)	**1,686**	1,696	1,683	1,676	1,676	1,676	1,677	1,677

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

(ii) Excludes the conversion of convertible debentures as such conversion would be anti-dilutive for all quarters.

Summary of adjusted free cash flow by quarter

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

	2018				2017			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Cash provided by (used in) operating activities	**$ 85,093**	$ 41,847	$ 35,289	$ 46,426	$ 118,833	$ 37,705	$ 12,489	$ (14,675)
Less: Total capital expenditures net of proceeds on sale of assets	**(24,447)**	(30,538)	(27,876)	(25,329)	(44,205)	(47,869)	(50,240)	(25,221)
Standardized free cash flow	**60,646**	11,309	7.413	21,097	74,628	(10,164)	(37,751)	(39,896)
Add/(Less):								
Changes in operating assets and liabilities	**(15,969)**	(234)	20,679	(919)	(60,319)	12,675	14,533	61,720
Changes in operating assets and liabilities of joint ventures and associates	**(1,518)**	1,012	(411)	308	506	(1,657)	317	1,379
Tenant inducements	**(3,113)**	(3,481)	(6,372)	(1,876)	(682)	(2,594)	(89)	(309)
Principal component of financing lease obligations	**(878)**	(863)	(847)	(832)	(817)	(802)	(788)	(773)
Growth capital expenditures and other	**19,871**	26,105	22,923	20,042	37,553	38,149	41,025	20,310
Share of (loss) income of joint ventures and associates, net of non-cash depreciation	**(306)**	2	(75)	94	(80)	62	55	52
Non-controlling interests	**25**	53	—	—	—	—	21	168
Net cash received from CDCP	**684**	2,606	292	684	550	2,246	685	684
Adjusted free cash flow	**$ 59,442**	$ 36,509	$ 43,602	$ 38,598	$ 51,339	$ 37,915	$ 18,008	$ 43,335
Average number of Shares outstanding	**63,333,137**	63,332,946	63,332,067	63,330,446	63,350,216	63,508,418	63,520,645	63,516,499
Adjusted free cash flow per Share	**$ 0.939**	$ 0.576	$ 0.688	$ 0.609	$ 0.810	$ 0.597	$ 0.283	$ 0.682

11. RELATED PARTY TRANSACTIONS

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

The Chief Executive Officer of Riocan Real Estate Investment Trust ("Riocan") serves as a member of the Board. During the three months and year ended December 31, 2018, Cineplex incurred theatre occupancy expenses for theatres under lease commitments with Riocan in the amounts of $11.1 million and $44.8 million, (2017 - $10.3 million and $44.0 million, respectively).

12. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATION UNCERTAINTIES

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

Goodwill - recoverable amount

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

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

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

Revenue recognition - gift cards

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

Income taxes

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

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

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

Share-based compensation

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

13. ACCOUNTING POLICIES

ACCOUNTING STANDARDS ADOPTED IN THE CURRENT YEAR

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 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 *Financial Instruments* from January 1, 2018 resulted in changes in accounting policies and adjustments to the amounts recognized in the financial statements. In accordance with the transition provisions in IFRS 9, Cineplex has adopted the new rules retrospectively and has restated comparatives for the 2017 financial year.

Following the adoption, Cineplex will no longer defer and amortize the deferred financing fees associated with the previous amended bank credit facilities. Under IAS 39, when Cineplex extended its bank credit facilities in 2016, it was considered a renegotiation of debt and the financing fees related to the transaction were added to the previous unamortized deferred financing fees and amortized over the remaining term on a straight-line basis. The adjustments below were made to the amounts recognized in the balance sheet and statement of changes in equity. The impact on the statement of operations is not material.

Under IFRS 9's new expected credit loss model, Cineplex is required to revise its impairment methodology. Cineplex applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. The impact on the balance sheet and statement of operations is not material.

IFRS 15 Revenue from Contracts with Customers

Cineplex has adopted IFRS 15 *Revenue from Contracts with Customers* from January 1, 2018 which replaces 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 Customer*, and SIC 31 *Revenue - Barter Transactions Involving Advertising Services*. Following the adoption of IFRS 15, Cineplex defers unused cash balances on rechargeable game cards. The adoption of the new revenue standard did not have a material impact on Cineplex's statement of operations. The following accounting policy disclosures were expanded as required under the new standard.

Film Entertainment and Content

Cineplex generates box office revenues from the sale of admission tickets for theatrical releases purchased by customers in theatres, online at Cineplex.com or through the Cineplex mobile app. Revenue is recognized at the time the obligation is satisfied which is when the movie for which the ticket purchased has played. Amounts collected on advanced tickets sales are recorded as deferred revenue and recognized when the movie has played. Cineplex also generates revenues from the sale of food service which is comprised of food and beverage sales. Food service revenue is recognized when control of the food service has transferred, being at the point the customer purchases the food service at the theatres. Payment of the transaction price is due immediately at the point the customer purchases the concessions. When retail transactions include the issuance of SCENE points, Cineplex records deferred revenue based on relative stand alone selling price of the points issued. The liability associated with the points redeemed is recognized as revenue when points are redeemed by customers or in accordance with Cineplex's accounting policy for breakage.

Cineplex sells gift cards directly to individual customers and vouchers to both wholesale resellers and directly to individual customers. The transaction price received from the sales of gift cards and vouchers is due at the time of sale and is recorded as deferred revenue. Revenues from gift cards and vouchers are recognized either on redemption or in accordance with Cineplex's accounting policy for breakage. Breakage income is included in other revenues and represents the estimated value of gift cards and vouchers that are not expected to be redeemed by customers. It is estimated based on historical redemption patterns. The sale of a voucher creates a future obligation from Cineplex to provide an admission ticket or a combination of admission ticket(s) and concessions. The transaction price of the voucher is allocated between box office and concessions based on a relative stand-alone selling price basis.

Media

The media segment principally generates revenue from providing advertising services, sales of digital hardware for digital signage networks, installation of digital hardware, digital software services subscriptions, software maintenance and support services, creative services, printing services and warranties. Products and services may be sold separately or in bundled packages. For bundled packages, Cineplex determines whether individual products and services are distinct (if a product or service is separately identifiable from other items in the bundled package and if a customer can benefit from it). The consideration is allocated between separate products and service in a bundle based on their relative stand-alone selling prices.

Advertising Media

Media revenues consist primarily of advertising revenues generated from customers who advertise their products and services through Cineplex's media offerings which include onscreen, online, magazine, and digital out of home. Revenue for advertising is recognized over time as services are delivered. The transaction price allocated to these services is recognized as the media runs from the start to the end dates specified in the contracts with the customer. The transaction price allocated to the distinct services to be provided is based on the stand-alone selling prices of the distinct services. Amounts collected on advanced media sales are recorded as deferred revenue and recognized over the period that the media is presented.

Each contract with a customer is also evaluated to determine whether Cineplex is the principal or agent in the transaction. For transactions which Cineplex is the principal, revenues are recorded on a gross basis and for transactions where Cineplex is the agent, revenues are recorded on a net basis.

Installation and Digital Hardware for digital signage network

Cineplex sells digital hardware, installation and other professional services for digital signage networks. The installation and other professional services that Cineplex provides are not a significant integration service, does not customize or modify the hardware and can be performed by another party. The installation and other professional services are therefore accounted for as a separate performance obligation and the transaction price is allocated to each performance obligation based on the stand-alone selling prices. Revenue for installation and other professional services are recognized upon completion of the installation of the digital hardware at the individual site being installed for the customer. If contracts include the purchase of hardware, revenue for the hardware is recognized at the point in time when hardware is delivered to the customer. Delivery occurs when the hardware has been shipped to the customer's specific location, the legal title has passed and the customer has accepted the hardware.

Digital software services subscription

Cineplex sells software service subscriptions to customers which provides the functionality for the digital signage network, the customer portal, the content management tool and media player software at the customer's location. Cineplex also sells maintenance and support services for the software service subscriptions. Software service subscription and maintenance and support services are considered to represent a single performance obligation and revenue is recognized over time over the life of the contract. For software service subscriptions, customers have payment options of either equal monthly payments over the term of the contract or a single lump sum payment at the inception of the contract. Amounts collected as advanced payments are recorded as deferred revenue and recognized equally over the term of the contract unless the contract contains a renewal option with an embedded material right which provides the customer a material right (such as a free or discounted good or service) and gives rise to a separate performance obligation. If an embedded material right exists, revenue is recognized on a straight-line basis over the term of the contract including the renewal period. Contracts are evaluated to determine whether renewal options provide the customer with an embedded material right and whether a significant financing arrangement exists. For maintenance and support services, the transaction price is paid monthly in equal payments over the term of the contract as service is provided.

Creative Services

Cineplex provides creative services producing content to be run on customer's digital display networks. For creative services, revenue is recognized at a point in time when the project is completed and the customer has accepted the final product. Creative services are based on an hourly rate and the transaction price recognized as revenue is the amount to which Cineplex has a right to invoice based on the amount of hours required to complete the project. Payment of the transaction price is due at completion of the project.

Amusement and Leisure

The amusement and leisure segment principally generates revenue from route operations, the sale of amusement gaming and vending equipment and from the sale of food services and entertainment at location-based entertainment venues.

Cineplex operates amusement, gaming and vending equipment at family entertainment centres ("FECs") and non-FECs which is referred to as route operations. The transaction price is the set price that the customer playing the game is required to pay and revenue is recognized upon the customer playing the game. As it relates to gaming revenues, the most significant judgment is determining whether Cineplex is the principal or agent in the route operations. Cineplex is considered to be the principal in its route operations as it owns all of the equipment hosted at sites, is responsible for the maintenance of the equipment, and has control over which equipment will be on site. Revenues from route operations are recorded at the gross amount with the portion shared with the location hosting the equipment recorded in other costs as venue revenue share. Cineplex also sells rechargeable cards to be used for gameplay. IFRS 15 requires unused cash values on the rechargeable cards to be deferred. Revenue from the rechargeable cards is recognized upon redemption or in accordance with Cineplex's policy for breakage based on historical redemption patterns.

For the sale of equipment to customers, revenue is recognized when control of the goods has transferred and title has passed, being when the goods have been delivered to the customer's specific location.

Food and beverage sales at location-based entertainment venues are recognized when control of the goods has transferred, being at the point the customer purchases and receives the goods. Payment of the transaction price is due at the point the customer purchases food and/or beverages.

The following table shows the adjustments recognized for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub totals and totals disclosed cannot be recalculated from the numbers provided.

Consolidated Statement of Changes in Equity:

	January 1, 2017 as originally presented	Adjustment	January 1, 2017 Restated
Equity			
Deficit	$ (108,342)	$ (2,913)	$ (111,255)
Total Equity	$ 751,895	$ (2,913)	$ 748,982

Consolidated Balance Sheet:

	January 1, 2017 as originally presented	Adjustment	January 1, 2017 Restated
Current liabilities			
Deferred revenue	$ 172,140	$ 3,000	$ 175,140
Non-current liabilities			
Long-term debt	297,496	976	298,472
Deferred income taxes	11,210	(1,063)	10,147
Total Liabilities	$ 976,291	$ 2,913	$ 979,204

Consolidated Statement of Changes in Equity:

	December 31, 2017 as originally presented	Adjustment	December 31, 2017 Restated
Equity			
Deficit	$ (145,147)	$ (2,913)	$ (148,060)
Total Equity	$ 711,776	$ (2,913)	$ 708,863

Consolidated Balance Sheet:

	December 31, 2017 as originally presented	Adjustment	December 31, 2017 Restated
Current liabilities			
Deferred revenue	$ 192,808	$ 3,000	$ 195,808
Non-current liabilities			
Long-term debt	466,891	976	467,867
Deferred income taxes	15,094	(1,063)	14,031
Total Liabilities	$ 1,143,392	$ 2,913	$ 1,146,305

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 standard, which has not yet been adopted by Cineplex. The following is a description of the new standard:

IFRS 16 Leases

On January 13, 2016, the IASB issued IFRS 16 *Leases*, which will replace IAS 17 *Leases*. The new standard is mandatorily effective for fiscal years beginning on or after January 1, 2019. Under the new standard, all leases will be reported on lessees' balance sheets, except those that meet limited exception criteria. Cineplex is reviewing its analysis of the new standard and has made policy decisions to determine its impact on Cineplex's balance sheet and statement of operations. Cineplex will apply IFRS 16 using the modified retrospective approach and as a result comparative information will not be restated and will continue to be reported under IAS 17 and IFRIC 4. Additional disclosure will include a reconciliation between operating lease commitments at December 31, 2018 under IAS 17 and the opening lease liabilities at January 1, 2019 under IFRS 16. Cineplex has also identified and reviewed all contracts from all lines of its business to assess if they fall within the scope of IFRS 16, in whole or in part and to quantify lease and non-lease components.

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. Current disclosure with respect to lease commitments includes undiscounted minimum lease commitments not factoring in any assumptions with respect to renewals or extensions that will be included in determining the IFRS 16 lease liability. At the date of adoption of IFRS 16, Cineplex will recognize a lease liability and right-of-use asset. The lease liability will be measured at the present value of the future lease payments during the lease term which is estimated to be an average of 20 years at the date of adoption, discounted using incremental borrowing rates which, in most instances, will be similar to Cineplex's average interest rate on borrowings under the Credit Facility. The right-of-use asset will be initially calculated at an amount equal to the initial value of the lease liability adjusted as required under the standard for specific items.

In general, the right-of-use asset will be depreciated using the straight-line method from the date of adoption to the end of the lease term. Interest on the lease liability will be calculated using the effective interest method with rent payments reducing the liability. As a result of these changes, there will be a material increase in 2019 to interest expense and depreciation, as well as a material reduction in Other Costs on the Statement of Operations due to the decrease in rent expense and all lease expense related non-cash components being removed. Cineplex is currently in the final phases of upgrading its existing accounting systems, processes and internal controls to account for IFRS 16. Cineplex will be ready to report under IFRS 16 in its first quarter financial statements in 2019.

14. RISKS AND UNCERTAINTIES

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

Cineplex conducts an annual enterprise risk management assessment which is overseen by Cineplex's executive management team and the audit committee of the Board and is reported to the full Board. The enterprise risk management framework sets out principles and tools for identifying, evaluating, prioritizing and managing risk effectively and consistently across Cineplex. 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 companies 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 theatre attendance has not been negatively affected by economic downturns over the past 25 years. Further, to mitigate this risk, Cineplex continues to innovate and pursue cost savings in order to deliver an affordable out of home entertainment experience.

Customer Risk

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

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

In the event that consumer preferences change, Cineplex may need to incur further capital expenditures to redevelop or upgrade existing locations. Cineplex continues to improve the quality of its theatre assets through ongoing renovations and 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 theatre attendance may be adversely affected. Cineplex monitors customer satisfaction through surveys, mystery shops and focus groups and maintains a guest services department to address customer concerns. Guest satisfaction is tied to performance measures for theatre management ensuring alignment between corporate and operational objectives.

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

Cineplex developed its Cineplex Store in response to the risk created by new in-home and on-the-go entertainment offerings. Cineplex's offerings through the Cineplex Store of TVoD 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, or delay the timing of contract fulfillment, which would have a negative impact on Cineplex's results.

Film Entertainment and Content Risk

Cineplex's ability to operate successfully depends upon the availability, diversity and appeal of filmed content, the ability of Cineplex to license films and the performance of these films in Cineplex's markets. Cineplex primarily licenses first-run films, the success of which is dependent upon their quality, as well as on the marketing efforts of film studios and distributors. To mitigate this risk, Cineplex continues to diversify its entertainment offerings. Nonetheless, Cineplex is highly dependent on film product and film performance, including the number and success of blockbuster films. A reduction in quality or quantity of both 2D and 3D film product, any disruption in the production or release of films, the introduction of new delivery platforms for first run product, a strike or threat of a strike in film production, a reduction in the marketing efforts of film studios and distributors or a significant change in film release patterns, would have a negative effect on movie theatre 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 2018, seven major film distributors accounted for approximately 88% of Cineplex's box office revenues, which is consistent with industry standards. Deterioration in Cineplex's relationships with any of the major film distributors or an increase in studio concentration or consolidation 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 TVoD, 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 theatre attendance levels at Cineplex's theatres.

In response to this risk, management continually reviews and upgrades its existing locations including recliner seating. Cineplex also fosters strong ties with the real estate and development community and monitors potential development sites. Most prime locations in larger markets have been developed such that significant 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 theatre attendance, Cineplex continues to pursue other revenue opportunities including media in the form of in-theatre and out of home advertising, amusement and leisure, promotions and alternative uses of its theatres during non-peak hours. Amusement and leisure includes amusement solutions offered by P1AG, in-theatre gaming locations, XSCAPE Entertainment Centres, eSports gaming online through WGN and in-theatre at select Cineplex locations and location-based entertainment including *The Rec Room*, *Playdium* and *Topgolf*. Cineplex's ability to achieve its business objectives may depend in part on its ability to successfully increase these revenue streams.

Media Risk

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

Amusement and Leisure Risk

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

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

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

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

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

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

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

Technology Risk

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

To mitigate these risks, Cineplex continues to enhance the out of home experience through the addition of new technologies and experiences including 3D, VIP, UltraAVX, D-BOX, 4DX, ScreenX 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 TVoD 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 TVoD 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 TVoD products could be jeopardized.

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

Information Management Risk

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

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

At select times during the normal course of business, Cineplex and its subsidiary and joint venture partners store 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 on their customers and employees. Further, Cineplex regularly works with third party suppliers in the delivery of services to their customers and employees where such data is provided in the normal course of the commercial relationship. The secure processing, maintenance and transmission of this information is critical to Cineplex's operations and business strategies. 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 of the information systems of Cineplex or any one of its third-party suppliers could compromise this information and expose Cineplex to liability, which could cause their businesses or reputations to suffer. Despite security measures, information technology and infrastructure may be vulnerable to unforeseen attacks by hackers or breached due to employee error, malfeasance, computer viruses, malware, phishing, denial of service attacks, unauthorized access to confidential, proprietary or sensitive information, industrial espionage or other disruptions. Any such breach could compromise 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 operations and the services provided to customers, damage reputation and cause a loss of confidence in products and services, which could adversely affect business, financial condition, results of operations and cash flows. In response to this risk, Cineplex has employees whose role is to monitor information technology and processes to ensure risk is minimized.

Real Estate Risk

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

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

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

Sourcing Risk

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

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

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

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

Human Resources Risk

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

Cineplex employs approximately 13,000 people, of whom approximately 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. Any increase in minimum wages 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 significant 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. Severe weather incidents (as a result of environmental changes or otherwise) have potential to negatively impact Cineplex's operation. See "Business Continuity Risk" below.

Integration Risk

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

Financial and Markets Risk

Cineplex requires efficient access to capital in order to fuel growth, execute strategies and generate future financial returns. For this reason Cineplex entered into the Revolving Facility. Cineplex hedges interest rates on the Term Facility and $250 million of the Revolving Facility, thereby minimizing the impact of significant fluctuations in the market rates. Cineplex's exposure to currency and commodity risk is minimal as the majority of its transactions are in Canadian dollars and commodity costs are not a significant component of the overall cost structure. Counter party risk on the interest rate swap agreements is minimized through entering into these transactions with Cineplex's lenders. Upon the maturity of the Credit Facilities, there is a risk that Cineplex may not be able to renegotiate under favorable terms in the then current economic environment. Cineplex believes that it has sufficient financial resources to meet its ongoing requirements for capital expenditures, investments in working capital and dividends. However, Cineplex's needs may change and in such event Cineplex's ability to satisfy its obligations will be dependent upon future financial performance, which in turn will be subject to financial, tax, business and other factors, including elements beyond Cineplex's control.

Foreign Currency Risk

Cineplex is exposed to foreign currency risk related to transactions in its normal course of business that are denominated in currencies other than the Canadian dollar. Cineplex's largest foreign currency exposure is to the US dollar, as its amusement solutions, digital place-based media and eSports businesses all operate in the United States and which represent 7.9% of Cineplex's revenues. These revenues are naturally hedged by Cineplex's US-based operating costs

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 7.4, Credit Facilities.

Legal, Regulatory, Taxation and Accounting Risk

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

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

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

Business Continuity Risk

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

15. CONTROLS AND PROCEDURES

15.1 DISCLOSURE CONTROLS AND PROCEDURES

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

Management has evaluated the design and operation of Cineplex's disclosure controls and procedures as of December 31, 2018 and has concluded that such disclosure controls and procedures are effective.

15.2 INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

Because of its inherent limitations, internal controls over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies and procedures may deteriorate.

Management has evaluated the design and operation of Cineplex's internal controls over financial reporting as of December 31, 2018, and has concluded that such controls over financial reporting are effective. There are no material weaknesses that have been identified by management in this regard.

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

16. OUTLOOK

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

FILM ENTERTAINMENT AND CONTENT

Theatre Exhibition

Cineplex reported record annual BPP and an increase of 1.2% in box office revenue 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. Looking forward to 2019, there is a strong slate of films scheduled for release including *The LEGO Movie 2, How To Train Your Dragon: The Hidden World, Captain Marvel, Dumbo, Shazam!, Avengers: Endgame, Aladdin, Godzilla, King of the Monsters, Dark Phoenix, The Secret Life of Pets 2, Men in Black, Toy Story 4, Spider-Man: Far from Home, The Lion King, Once Upon a Time in Hollywood, Hobbs and Shaw, Artemis Fowl, IT: Chapter 2, Joker, You Are My Friend, Frozen 2, Jumanji 2* and *Star Wars: Episode IX*.

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, D-BOX, 3D, 4DX, *Cineplex Clubhouse* and ScreenX 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 2018, Cineplex entered into an exclusive expansion agreement that allows Cineplex to expand the 4DX experience across Canada.

Over the next few years, Cineplex plans to open on average two to three 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 2019 and beyond. VIP Cinemas and other premium viewing options are a key component to Cineplex's theatre exhibition strategy, and have been well received by audiences. Additionally, Cineplex is looking to expand its entertainment options and experiences in its theatres beyond filmed content.

Cineplex has also installed VR experiences in theatre locations and expects to expand VR offerings in the future.

Theatre Food Service

Cineplex reported record food service revenues and CPP in 2018. 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 cinema menu offerings. Cineplex will also leverage mobile technology to enhance the food service experience in its theatres and has launched VIP in seat ordering with the release of new Cineplex mobile app. In provinces where legislation allows, Cineplex continues to expand its alcohol offerings throughout entire theatres.

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, in addition to adding dedicated event screens.

Digital Commerce

As at-home and on-the-go content distribution and consumption continue 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 thousands of movies that can be rented or purchased digitally and viewed on multiple devices. The Cineplex Store supports a wide range of devices in Canada on which to buy or rent digital movies, and continues to add new transactional storefronts on connected devices. The wide range of device integration combined with the continued expansion of SuperTicket and other offerings including any future potential PVOD offering, provides exciting opportunities for Cineplex in this market.

In addition to continuing to develop and improve the Cineplex Store user interface, Cineplex will continue to offer promotions to grow Cineplex Store revenues including tie-ins with the SCENE loyalty program and Uber Eats digital combos with an expanded device ecosystem for TVoD 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, Cineplex believes its cinema media business will continue to grow through its innovative media opportunities within Cineplex's theatres, including digital signage within theatre lobbies, the IMZs in select theatres and Timeplay, a third-party app that allows Cineplex to sell media integrated into real-time content on the big screen. Cineplex also sells media for Cineplex Digital Media clients, *The Rec Room* and sponsorship for eSports.

Digital Place-Based Media

Cineplex's digital place-based media business will continue to roll out its world-class solutions in quick service restaurants, financial service and retail sectors as well as immersive digital place-based media networks. Cineplex will continue to explore opportunities outside of Canada, in order to better service its current customer base and to attract new clients. Cineplex believes that the strengths of its digital place-based media business will make Cineplex a leader in the indoor digital signage industry and will provide a platform for significant growth throughout Canada, United States and internationally.

AMUSEMENT AND LEISURE

Amusement Solutions

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

In 2017, P1AG expanded its presence in the United States through the acquisition of Dandy. P1AG continues to integrate its acquisitions into its North American operations, recognizing synergies while expanding P1AG's brand presence throughout both Canada and the United States.

In 2018, Cineplex entered into a partnership with VRstudios and acquired a 34.7% interest in the largest provider of turn-key, location-based virtual reality solutions. The VRstudios agreement will allow Cineplex to supply virtual reality solutions in Cineplex's theatres and location-based entertainment locations, and to provide expansion opportunities in other third-party locations throughout North America and internationally using P1AG as a distributor. Cineplex also announced a new exclusive expansion agreement with The VOID, a state-of-the-art VR experience which combines VR technology with physical stages and multi-sensory effects. The VOID agreement will allow Cineplex to open new VOID experiences across Canada.

Location-Based Entertainment

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

The first location of *The Rec Room* opened in Edmonton, Alberta in 2016 with subsequent openings in 2017 in Toronto, Ontario, Edmonton and Calgary, Alberta and in 2018, London, Ontario. Additional locations will open in 2019 in Mississauga, Ontario, Burnaby, British Columbia, Winnipeg, Manitoba and St. John's, Newfoundland. A new location in Barrie, Ontario will open in 2020.

Cineplex has announced its plans to relaunch the *Playdium* brand concept targeting families and teens, rolling them out in mid-sized communities across Canada, with locations planned in Whitby and Brampton, Ontario which are scheduled to open in 2019.

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

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

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

LOYALTY

The SCENE loyalty program continues to grow its membership base, with approximately 9.6 million members at December 31, 2018. Cineplex continues to integrate SCENE elements into various film and other promotion campaigns, applying the data accumulated in the SCENE database to provide members targeted offers. Cineplex expects these programs to encourage increased frequency of visitation and spend by SCENE members and additional revenue opportunities through the use of the database. In addition, SCENE is implementing programs to drive consumer behavior through marketing automation initiatives. On October 30, 2018, SCENE launched a pilot of a new premium SCENE Gold loyalty card in Edmonton, Alberta at six participating theatre locations, offering bigger and better rewards for entertainment lovers.

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

FINANCIAL OUTLOOK

During the year ended December 31, 2018, Cineplex generated adjusted free cash flow per Share of $2.813, compared to $2.373 in the prior year period. Cineplex declared dividends per Share of $1.720 and $1.660, respectively, in each period. The payout ratios for these periods were approximately 61.1% and 70.0%, respectively.

Under Cineplex's Credit Facilities, Cineplex has a $150.0 million Term Facility which matures in November 2025 and a $650.0 million Revolving Facility which matures in November 2023 available to finance acquisitions, new construction, media growth projects, working capital and dividends. As at December 31, 2018, Cineplex had $211.6 million available under the Revolving Facility. As defined under the Credit Facilities, as at December 31, 2018, Cineplex reported a leverage ratio of 2.17x as compared to a covenant of 3.75x.

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

17. NON-GAAP MEASURES

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

17.1 EBITDA AND ADJUSTED EBITDA

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

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

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

	Year ended December 31,		
	2018	**2017**	**2016**
Net income	**$ 76,956**	**$ 70,346**	**$ 77,991**
Depreciation and amortization	131,852	119,916	105,941
Interest expense	30,690	22,734	18,936
Interest income	(274)	(222)	(204)
Current income tax expense	27,573	26,626	26,231
Deferred income tax (recovery) expense	(6,983)	864	5,096
EBITDA	**$ 259,814**	**$ 240,264**	**$ 233,991**
Loss on disposal of assets	2,697	706	1,570
CDCP equity income (i)	(4,186)	(3,480)	(2,542)
Foreign exchange (gain) loss	(2,191)	810	(120)
Non-controlling interest adjusted EBITDA	78	189	1,022
Depreciation and amortization - joint ventures and associates (ii)	33	32	39
Taxes and interest of joint ventures and associates (ii)	120	51	49
Change in fair value of financial instrument	—	(2,643)	—
Adjusted EBITDA	**$ 256,365**	**$ 235,929**	**$ 234,009**

(i) 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.

(ii) Includes the joint ventures and associates with the exception of CDCP (see (i) above).

17.2 ADJUSTED FREE CASH FLOW

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

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

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

	Year ended December 31		
	2018	2017	2016
Cash provided by operating activities	$ 208,655	$ 154,352	$ 166,014
Less: Total capital expenditures net of proceeds on sale of assets	(108,190)	(167,535)	(104,081)
Standardized free cash flow	100,465	(13,183)	61,933
Add/(Less):			
Changes in operating assets and liabilities (i)	3,557	28,609	20,010
Changes in operating assets and liabilities of joint ventures and associates (i)	(609)	545	548
Tenant inducements (ii)	(14,842)	(3,674)	(4,920)
Principal component of finance lease obligations	(3,420)	(3,180)	(2,957)
Growth capital expenditures and other (iii)	88,941	137,037	76,918
Share of income of joint ventures and associates, net of non-cash depreciation (iv)	(285)	89	252
Non-controlling interests	78	189	1,022
Net cash received from CDCP (iv)	4,266	4,165	3,054
Adjusted free cash flow	**$ 178,151**	**$ 150,597**	**$ 155,860**
Average number of Shares outstanding	63,332,159	63,473,583	63,451,257
Adjusted free cash flow per Share	**$ 2.813**	**$ 2.373**	**$ 2.456**
Dividends declared	**$ 1.720**	**$ 1.660**	**$ 1.600**

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

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

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

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

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

	Year ended December 31, 2018	2017	2016
Net income	$ 76,956	$ 70,346	$ 77,991
Adjust for:			
Depreciation and amortization	131,852	119,916	105,941
Change in fair value of financial instrument	—	(2,643)	—
Loss on disposal of assets	2,697	706	1,570
Non-cash interest (i)	5,080	2,701	2,988
Financing fees in interest expense	1,718	—	—
Foreign exchange on non-cash interest	(1,423)	(32)	(228)
Share of income of CDCP (ii)	(4,186)	(3,480)	(2,542)
Non-controlling interests	78	189	1,022
Non-cash depreciation of joint ventures and associates	33	32	39
Deferred income tax (recovery) expense	(6,983)	864	5,096
Taxes and interest of joint ventures and associates	120	51	49
Maintenance capital expenditures	(19,249)	(30,498)	(27,163)
Principal component of finance lease obligations	(3,420)	(3,180)	(2,957)
Net cash received from CDCP (ii)	4,266	4,165	3,054
Non-cash items:			
Amortization of tenant inducements, rent averaging liabilities and fair value lease contract assets	(11,106)	(10,362)	(10,618)
Non-cash Share-based compensation	1,718	1,822	1,618
Adjusted free cash flow	**$ 178,151**	**$ 150,597**	**$ 155,860**

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

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

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

Earnings per Share Metrics

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 attributable to Cineplex 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:

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

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

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

Same Theatre Analysis

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

Same theatre metrics are calculated by removing the results for all theatres that have been opened, acquired, closed or otherwise disposed of subsequent to the start of the prior year comparative period. For the three months ended December 31, 2018 the impact of the 3 locations that have been opened or acquired and 2 locations that have been closed have been excluded, resulting in 161 theatres being included in the same theatre metrics. For the year ended December 31, 2018 the impact of the 3 locations that have been opened or acquired and the 4 locations that have been closed have been excluded, resulting in 161 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 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.

P1AG Adjusted EBITDA

Calculated as amusement revenues of P1AG less the total operating expenses of P1AG, which excludes foreign exchange.

P1AG Adjusted EBITDA Margin

Calculated as P1AG Adjusted EBITDA divided by total amusement revenues for P1AG for the period.

Adjusted Store Level EBITDA Metrics

Cineplex reviews and reports adjusted EBITDA at the location level for the *The Rec Room* which is calculated as total *The Rec Room* revenues from all locations less the total operating expenses of The *Rec Room,* which excludes pre-opening costs and overhead relating to the management of *The Rec Room*.

Adjusted Store Level EBITDA Margin

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