2014

ANNUAL REPORT

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APRIL 10, 2015

DEAR FELLOW SHAREHOLDERS:

It is my pleasure to report Cineplex's annual results for 2014. During the year, we accomplished a great deal as we continued to diversify our revenue streams beyond traditional exhibition.

Total revenues for the year increased 5.4% to $1.2 billion, while adjusted EBITDA remained relatively flat at $201.0 million, compared to the prior year.

Overall, box office revenues increased 1.1% to $672.7 million, largely due to incremental revenues from the acquired Atlantic Canada theatres. Food service revenues of $375.0 million continued to show strong gains, exceeding prior year results by 7.0%. We set a new annual record for CPP of $5.09, up 5.6% from the previous year's CPP record of $4.82. Media also reported record annual results of $134.2 million, increasing 22.5%, primarily due to higher digital media revenues as a result of the Cineplex Digital Networks ("CDN") (formerly EK3 Technologies Inc.) acquisition.

This year's weaker film product combined with a number of titles shifting from 2014 to 2015, created a challenging year for the exhibition industry. In spite of the 2014 box office being softer than we had hoped, Cineplex made significant progress in many other areas of the business.

Investment within our theatres

Our premium large format UltraAVX™ screens have been a huge success and in 2014, we added 11 UltraAVX screens (including multiple screens in some locations) to bring our total to 66. We also expanded our D-Box motion seats to four additional theatres to bring the total to 25 and added three VIP Cinemas to the circuit to bring our total to 11 VIP Cinemas.

We opened two new theatres in 2014, including *Cineplex Cinemas Manning Town Centre* in Edmonton and Canada's first stand-alone VIP Cinemas, *Cineplex VIP Cinemas Don Mills*, in Toronto. The overwhelming popularity of Cineplex's VIP Cinemas was the catalyst for adding VIP to our Queensway and Yonge-Dundas locations. We also completed an extensive renovation to our original VIP location, *Cineplex Cinemas Varsity and VIP* in Toronto. Subsequent to year end, we added VIP Cinemas to *Scotiabank Theatre Saskatoon* and opened *Cineplex Cinemas Markham and VIP* and *Cineplex Cinemas Lansdowne and VIP*.

It was another record-breaking year in 2014 for our food service business. We continued to expand our proprietary brands across the circuit, operating 90 *Outtakes* and 17 *Poptopia* locations as of December 31, 2014. We also acquired a 50% stake in *YoYo's Yogurt Café* – a London, Ontario-based self-serve frozen yogurt chain. Throughout the year, we opened a number of *YoYo's* locations in selected theatres, replacing

existing third-party frozen yogurt Retail Branded Outlets. At December 31, 2014 we operated 53 *YoYo's* locations.

Key growth initiatives

While exhibition remains our core business, we continued to focus on other initiatives that are less dependent on Hollywood product, enabling us to diversify our revenue streams outside of traditional exhibition. Throughout the year, we continued to invest in these areas as I have detailed below.

Cineplex Media

We showed strong gains within all media businesses and delivered on many key initiatives. Cineplex Media – our wholly-owned advertising business – continued to offer clients integrated advertising solutions, covering numerous touch points from our wide range of media offerings. We introduced Interactive Media Zones ("IMZs") in our theatre lobbies, which were created by our Cineplex Digital Solutions ("CDS") group. IMZs are powerful marketing tools, comprised of multiple interactive screens enabling movie-goers to fully engage with an advertiser's interactive content. We had a total of 13 IMZs installed, and completed a number of successful client campaigns by year end. We will continue to add more to our theatre lobbies in 2015. We also began the rollout of our digital poster case program into our theatre lobbies, replacing static advertising cases with dynamic digital displays. This will significantly improve the offering for clients and add incremental media revenue.

We also completed the national roll-out of TimePlay – the innovative app that turns movie-goers' smartphones into game controllers, enabling guests to interact in real-time with on-screen content during the Cineplex Pre-Show. Timeplay is now available on 731 screens located in 56 theatres coast-to-coast. Timeplay allows advertisers to create customized interactive experiences and players can compete for prizes from a variety of advertisers, as well as special offers from Cineplex.

Our relationship with Scotiabank continued to evolve this year with the addition of naming rights sponsorship for three more theatres located in Saskatoon, Halifax and St. John's – now branded as Scotiabank Theatres – and the "presenting sponsor" rights to all Cineplex VIP Cinemas.

Cineplex Digital Media

I am very pleased to report that CDS and CDN, which together comprise Cineplex Digital Media, achieved many milestone accomplishments this year.

CDS partnered with Oxford Properties Group to create North America's first place-based digital ecosystem within 10 of the leading shopping centres in Canada. Phase one, which features large video walls and directories, is now complete with added installations and functionality for these properties to continue in 2015. CDS also completed an innovative and unique installation of a "digital lounge" within Ivanhoe Cambridge's Vaughan Mills shopping centre, north of Toronto. It is comprised of four unique digital zones that cover a 20 by 60 foot area, designed to enhance the shopping experience by providing a lounging space that also features news, social media content, and interactive experiences.

CDN rolled out national digital networks for two major Canadian clients – Tim Hortons and McDonald's Canada. CDN successfully launched one of the largest digital programming networks in Canada with the launch of Tims TV, which is now available at more than 2,200 stores. CDN also partnered with McDonald's

Canada to rollout digital menu boards to all 1,400 restaurant locations across the country. McDonald's selected Canada to become the first country to rollout full digital menu boards to 100% of its restaurants.

Cineplex's advertising sales team combined with the program management, system design, network operations and creative services teams at CDS and CDN, have positioned us well to continue to grow the business. We believe that these strengths make Cineplex a leader in the indoor digital signage industry and provide a platform for growth throughout North America.

Digital Commerce

Cineplex's digital commerce business consists of Cineplex.com, our mobile apps, and the Cineplex Store ("CineplexStore.com"). We continued to make strategic advancements in this area of the business, including the launch of a new digital platform for the Cineplex Store, featuring 7,500 movies now available on the widest range of supported devices in Canada. Additionally, the Cineplex Store became the first movie on-demand service to be available in Canada on Roku players, allowing users to stream content easily on televisions directly from the Internet. This complements our existing device platform which includes LG and Samsung Smart TV's, Xbox 360 gaming consoles, as well as iOS and Android smart phones and tablets, and Windows 8 PC and Mac computers. Later in the year, we launched the French language version of the Cineplex Store, called *Boutique Cineplex*, which features the best in French language movies as well as the latest Hollywood releases.

Our website, Cineplex.com continued to be popular with Canadians, registering a 7% increase in unique visits and a 3% increase in visits during the year. The mobile app has now been downloaded over 11 million times and recorded over 570 million app sessions, which makes Cineplex the 9th most popular mobile brand in Canada.

Loyalty

After seven years, our SCENE loyalty program continues to evolve and grow beyond our greatest expectations. Membership in Canada's largest entertainment loyalty program increased by more than one million members, reaching the 6.3 million member mark as of December 31, 2014. Also during the year, SCENE announced its first strategic retail partnership with sports and active lifestyle retailer, Sport Chek. This program enables SCENE members to earn and redeem points on purchases made at more than 180 Sport Chek locations across Canada.

Subsequent to year-end, SCENE announced another new marketing partnership with CARA Operations Limited ("CARA") as the program's exclusive restaurant partner. Beginning this summer, SCENE members will be able to earn and redeem points at all 813 CARA restaurants, including *Swiss Chalet*, *Harvey's*, *Milestones*, *Kelsey's*, *East Side Mario's*, and all of their other brands. The addition of CARA is a great fit for our business, both in terms of proximity to our theatres and the opportunity for guests to enjoy "dinner and a movie." It also continues to increase the value of membership, enriching the program's overall value.

Amusement Games

Amusement Games are another key strategic area of growth for Cineplex. Due to the success of our XSCAPE Entertainment Centres, we opened eight new sites in 2014 (bringing our total to 18) with an additional five planned in 2015.

The acquisition of New Way Sales in 2011 and the subsequent creation of Cineplex Starburst Inc. ("CSI") in 2012, allowed us to vertically integrate our amusement game business. CSI now supplies and services all of the games in the Cineplex circuit, while also supplying equipment to third party arcades, amusement centres, bowling alleys, amusement parks and theatre circuits in Canada and the United States. CSI also owns and operates *Playdium*, a family entertainment centre located in Mississauga, Ontario. Later in 2015, we will complete the acquisition of the remaining 50% equity of Cineplex Starburst Inc., which in 2014 generated over $60 million in gross revenue (including revenues from Cineplex).

The Rec Room

Subsequent to year end, we announced plans to launch *The Rec Room* – a premier interactive entertainment and dining destination. *The Rec Room* will feature state of the art simulation games, redemption gaming, and a variety of recreational games like luxury bowling, billiards, shuffleboard and ping pong. There will also be an auditorium-style venue to watch live performances and a wide range of other entertainment; an upscale casual dining restaurant that will feature an open kitchen and a contemporary menu; and an impressive square-shaped centre bar, which will showcase a number of digital monitors and a large feature screen above. While variations of this concept have been rolled out on a wider scale in the US, our research shows a significant opportunity to develop and grow this business on a national scale in Canada.

Each of the components of this concept capitalize on both our operating expertise and the infrastructure we already have in place. We believe the culmination of all of these elements will position *The Rec Room* as the ultimate social playground for Canadians. Our first location will open in south Edmonton, AB, with plans to open another 10-15 locations over the next several years.

Community investment

In 2014, we officially launched our national partnership with *Free The Children* – a charity focused on enabling Canadian youth to make a difference within their local communities and abroad. Throughout the year, we supported many *Free The Children* initiatives including WE Day, our Mini Rafiki bracelet campaign, the WE are Silent campaign, as well as donating the proceeds from our annual charity golf tournament. Our Cast members also took the opportunity to get involved by participating in various other volunteer opportunities, including Cineplex's National Community Day. This year we raised a record $530,000 during our most successful National Community Day ever. Cineplex is proud to be recognized as one of *Free The Children*'s top five corporate supporters, raising a total of over $1 million on their behalf in 2014.

Strong operating results

Cineplex continues to focus on growth initiatives and management remains vigilant in controlling costs, while not compromising the guest experience. This financial discipline is what enables us to continue to deliver a strong balance sheet with low financial leverage, sustainable cash flow, and the ability to invest in new revenue generating activities and strategic acquisitions as they arise.

We are committed to providing consistent returns to our shareholders and in May 2014, increased our monthly dividend by 4.2% to $0.1250 per share ($1.50 annually).

Expressed in thousands of Canadian dollars except per share/unit, per patron and attendance data	2014	2013	2012	2011	2010(i)
Revenue	**$1,234,716**	$1,171,267	$1,091,866	$998,195	$1,006,426
Adjusted EBITDA	**201,002**	202,441	200,484	173,174	167,854
Net income	**76,271**	83,557	120,484	49,260	50,423
Total assets	**1,609,416**	1,591,378	1,327,456	1,245,077	1,292,672
Adjusted free cash flow per share/Distributable cash per unit	**2.31**	2.46	2.08	1.97	2.25
Cash dividends declared per share/Distributions declared per unit	**1.48**	1.41	1.33	1.28	1.26
Box office revenue per patron	**9.13**	9.15	8.97	8.74	8.67
Concession revenue per patron	**5.09**	4.82	4.63	4.41	4.27
Attendance	**73,648**	72,703	71,198	66,059	68,989

(i) results presented prior to January 1, 2011 are those of Cineplex Galaxy Income Fund, predecessor to Cineplex Inc.

In conclusion

Although the box office will fluctuate due to film product released throughout the year, we will continue to maximize opportunities from within theatre exhibition and will also focus on areas where we have more control, including the key growth areas mentioned throughout this letter. We are committed to our strategy of diversifying Cineplex through other related business areas as a means of offsetting the variability of the revenues derived from Hollywood film product.

I am encouraged by what appears to be a very strong film slate for 2015 and excited about the strategic opportunities scheduled to unfold throughout the year, including Cineplex's launch of a new premier social entertainment destination, *The Rec Room*. Opportunities such as these provide meaningful growth potential and enable us to deliver continued value to our shareholders moving forward.

Thank you to our investors, our board of directors, and to our guests for helping us achieve another successful year. And to our more than 11,000 dedicated Cineplex employees from coast-to-coast, thank you for your commitment and passion in helping make Cineplex one of the top entertainment brands in Canada.

Enjoy the show!

Ellis Jacob
President & CEO

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 11, 2015

Cineplex Inc. ("Cineplex") owns 100% of Cineplex Entertainment Limited Partnership (the "Partnership"). The following management's discussion and analysis ("MD&A") of Cineplex's 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, 2014.

Non-GAAP Measures
Cineplex reports on certain non-GAAP measures that are used by management to evaluate performance of the Partnership and 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 Cineplex's Annual Information Form ("AIF") and 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 or the Partnership, their financial or operating results or their securities. Additional information, including Cineplex's AIF, can be found on SEDAR at www.sedar.com.

1. OVERVIEW OF CINEPLEX

Cineplex Galaxy Income Fund (the "Fund") was formed on November 26, 2003. On January 1, 2011, the Fund effected a reorganization, converting to an Ontario corporation, Cineplex, for tax efficiency and business purposes. Cineplex is Canada's largest film exhibition operator with theatres in ten provinces.

Cineplex's theatre circuit is concentrated in major metropolitan and mid-sized markets. As of December 31, 2014, Cineplex owned, leased or had a joint venture interest in 1,639 screens in 161 theatres.

Cineplex Locations and screens at December 31, 2014							
Province	**Locations**	**Screens**	**Digital 3D Screens**	**UltraAVX**	**IMAX Screens**	**VIP Auditoriums**	**D-Box Locations**
Ontario	66	705	332	28	10	25	12
Quebec	20	256	100	9	2	4	6
British Columbia	23	215	107	12	3	8	3
Alberta	17	193	95	12	2	3	3
Nova Scotia	13	92	44	1	1	—	—
Saskatchewan	6	51	26	2	—	—	—
Manitoba	5	49	26	1	1	3	1
New Brunswick	6	45	22	1	—	—	—
Newfoundland & Labrador	3	20	9	—	1	—	—
Prince Edward Island	2	13	6	—	—	—	—
TOTALS	**161**	**1,639**	**767**	**66**	**20**	**43**	**25**
Percentage of screens			47%	4%	1%	3%	2%

Cineplex - Theatres, screens, and premium offerings in the last eight quarters								
	2014				**2013**			
	Q4	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Theatres	161	161	162	161	161	136	136	136
Screens	1,639	1,639	1,638	1,632	1,630	1,454	1,454	1,455
3D Digital Screens	767	767	764	738	723	633	632	551
UltraAVX Screens	66	66	66	60	55	50	50	44
IMAX Screens	20	20	20	20	20	18	18	17
VIP Auditoriums	43	43	38	33	28	25	25	25
D-Box Locations	25	21	21	21	21	21	21	21
Percentage of 3D Screens	47%	47%	47%	45%	44%	44%	43%	38%

1.1 FINANCIAL HIGHLIGHTS

Financial highlights	**Fourth Quarter**			**Full Year**		
(in thousands of Canadian dollars, except attendance in thousands of patrons and per Share and per patron amounts)	**2014**	**2013**	**Change (i)**	**2014**	**2013**	**Change (i)**
Total revenues	$ 332,211	$ 323,207	2.8%	$1,234,716	$1,171,267	5.4%
Attendance	19,037	18,872	0.9%	73,648	72,703	1.3%
Net income	$ 32,081	$ 20,168	59.1%	$ 76,271	$ 83,557	-8.7%
Box office revenues per patron ("BPP") (ii)	$ 9.06	$ 9.42	-3.8%	$ 9.13	$ 9.15	-0.2%
Concession revenues per patron ("CPP") (ii)	$ 5.14	$ 4.94	4.0%	$ 5.09	$ 4.82	5.6%
Adjusted EBITDA (ii)	$ 62,649	$ 54,144	15.7%	$ 201,002	$ 202,441	-0.7%
Adjusted EBITDA margin (ii)	18.9%	16.8%	2.1%	16.3%	17.3%	-1.0%
Adjusted free cash flow (ii)	$ 42,540	$ 36,274	17.3%	$ 145,506	$ 154,467	-5.8%
Adjusted free cash flow per common share of Cineplex ("Share") (ii)	$ 0.6753	$ 0.5769	17.1%	$ 2.3106	$ 2.4580	-6.0%
Earnings per Share ("EPS") - basic	$ 0.51	$ 0.32	59.4%	$ 1.21	$ 1.33	-9.0%
EPS - diluted	$ 0.51	$ 0.32	59.4%	$ 1.20	$ 1.32	-9.1%

(i) Throughout this MD&A, changes in percentage amounts are calculated as 2014 value less 2013 value.
(ii) See Section 17, Non-GAAP measures.

Total revenues for the fourth quarter of 2014 increased 2.8%, or $9.0 million compared to the prior year period, primarily due to higher media revenues ($7.7 million) and higher food service revenues ($4.5 million), partially

offset by lower box office revenues ($5.2 million). The majority of the media increase was due to Cineplex Digital Media, with revenue growth of $5.1 million in the quarter. Food service revenues increased primarily due to the CPP of $5.14, which is an all-time quarterly record of Cineplex. These increases were partially offset by the impact of the lower BPP in the period due to the film mix featuring less 3D films than the prior year period, resulting in lower box office revenues despite a 0.9% increase in attendance. Adjusted EBITDA increased $8.5 million or 15.7% to $62.6 million, due to the full period contribution from the 24 theatres acquired in the fourth quarter of 2013 from Empire Theatres Limited located in Atlantic Canada (the "Atlantic Theatres"), as well as the higher media revenues more than offsetting the impact of lower same-store attendance. Adjusted free cash flow per Share was $0.6753, a 17.1% increase from $0.5769 in the prior year period.

Total revenues for the year ended December 31, 2014 increased 5.4% compared to the prior year period due to incremental revenues from acquisitions more than offsetting the impact of weaker film product that resulted in lower same store attendance in the year. Same store attendance declined due to weaker film product in 2014 as compared to 2013 as well as the impact of certain highly anticipated films that shifted out of 2014 into the 2015 period. The Atlantic Theatres and Cineplex Digital Networks ("CDN"), acquired in the third quarter of 2013, contributed $65.1 million and $20.4 million, respectively, in incremental revenues in 2014. An annual CPP record helped partially mitigate the impact of the lower same store attendance. Adjusted EBITDA decreased 0.7%, from $202.4 million to $201.0 million and adjusted free cash flow per Share decreased 6.0%, from $2.4580 in 2013 to $2.3106 in 2014.

1.2 KEY DEVELOPMENTS IN 2014

The following describes certain key business initiatives undertaken and results achieved during 2014 in each of Cineplex's core business areas:

THEATRE EXHIBITION

- Reported Cineplex's highest ever box office revenues of $672.7 million and attendance of 73.6 million due to the acquisition of the Atlantic Theatres in the fourth quarter of 2013.
- Opened *Cineplex Cinemas Manning Town Centre* in Edmonton, Alberta featuring ten auditoriums including one UltraAVX auditorium.
- Opened *Cineplex VIP Cinemas Don Mills* in Toronto, Ontario, Canada's first stand-alone VIP movie theatre, featuring five VIP auditoriums. Added VIP Cinemas to *Cineplex Cinemas Queensway and VIP* and *Cineplex Cinemas Yonge Dundas and VIP*.
- Continued to invest in premium offerings, adding 11 UltraAVX screens and 15 VIP auditoriums in both new theatres and renovations to existing theatres, and D-Box seating to four theatres across the circuit.

MERCHANDISING

- Reported record annual food service revenues of $375.0 million and CPP of $5.09, exceeding the previous records of $350.4 million and $4.82, both set in 2013.
- Continued the expansion of Cineplex's proprietary brands *Outtakes* and *Poptopia*, bringing the total across the circuit to 90 *Outtakes* locations and 17 *Poptopia* locations at December 31, 2014.
- Completed the acquisition of a 50% stake in YoYo's Yogurt Cafe ("YoYo's"), a London, Ontario-based self-serve frozen yogurt chain. Rolled out YoYo's locations in select theatres across the circuit, owning and operating 53 YoYo's locations at December 31, 2014.
- Opened eight new XSCAPE Entertainment Centres in 2014, bringing the total number of XSCAPE locations at December 31, 2014 to 18.
- Committed to acquire the 50% of the issued and outstanding equity of Cineplex Starburst Inc. ("CSI") that Cineplex does not already own. After the transaction closes in the third quarter of 2015, Cineplex will own 100% of the issued and outstanding equity of CSI.
- Subsequent to the year end, Cineplex announced its plans for *The Rec Room*, a social entertainment destination featuring gaming, live entertainment, entertainment programming and upscale casual dining.

MEDIA

- Reported record annual media revenues of $134.2 million, 22.5% higher than the previous record set in 2013 with the increase primarily due to higher Cineplex Digital Media revenues (up $22.9 million) largely due to the full year inclusion of CDN and Cineplex Media revenues (up $1.7 million).
- Announced an expanded sponsorship agreement, naming the Bank of Nova Scotia ("Scotiabank") as the presenting sponsor for Cineplex VIP Cinemas, in addition to extending naming rights for Scotiabank Theatres to three additional locations.
- Completed the national rollout of Timeplay, the 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.
- Launched the Interactive Media Zone, an interactive media experience in the lobby of select Cineplex theatres that allows advertisers to engage and interact with Cineplex guests in high traffic lobby locations.
- Cineplex Digital Media partnered with Tim Hortons to launch TimsTV, one of the largest digital programming networks in the Canadian restaurant and retail sectors.
- Cineplex Digital Media partnered with Oxford Properties Group ("Oxford") to create North America's first place-based digital ecosystem to be added to 10 high-profile shopping centres across Canada.

ALTERNATIVE PROGRAMMING

- Alternative programming, which includes ethnic film programming and Event Cinema features, reported strong performances in both areas including the Metropolitan Opera: Live in HD series, concert films and performances from the National Theatre in London.
- Served as the national distributor for the films *Legends of Oz - Dorothy's Return* and *Corner Gas: The Movie*.
- Partnered with HBO Canada to exhibit the Season 4 finale of *Game of Thrones* live in participating theatres, as well as partnering with BBC Canada to present the season premiere of *Dr. Who*.

DIGITAL COMMERCE (formerly Interactive)

- Launched a new digital commerce platform for the Cineplex Store, supporting over 7,500 movies on an expanded range of devices and added download capabilities, with the Cineplex Store now supporting the widest range of devices in Canada to watch and enjoy content.
- Launched a French language version of the Cineplex Store called Boutique Cineplex, showcasing the very best in French language movies and also featuring French-language versions of the latest Hollywood releases.
- The Cineplex Store became the first movie on-demand service to be available on Roku players, which connect directly to televisions and internet services on home networks, making it easy to stream content on televisions directly from the internet.
- Cineplex.com registered a 7% increase in unique visitors and a 3% increase in visits during 2014 compared to 2013.
- At December 31, 2014, the Cineplex app had been downloaded 10.9 million times and recorded over 515 million app sessions, ranking it as the 9th most popular mobile brand in Canada with 18% penetration of the Canadian mobile market.

LOYALTY

- Entered into a strategic marketing partnership with sports and active lifestyle retailer SportChek, extending the benefits of SCENE by enabling members to earn and redeem points for products available at more than 180 SportChek locations across Canada.
- Membership in the SCENE loyalty program increased more than 1.0 million members in 2014, reaching a membership of 6.3 million at December 31, 2014.
- Subsequent to the year end, SCENE announced a strategic marketing partnership that will see CARA Operations Limited ("CARA") become SCENE's exclusive restaurant partner, allowing SCENE members to earn and redeem points at 813 CARA restaurants across Canada.

CORPORATE

- Effective with the May 2014 dividend, the board of directors of Cineplex (the "Board") announced a monthly dividend increase to $0.125 per Share ($1.50 on an annual basis) up from $0.12 per Share ($1.44 on an annual basis) effective with the May 2014 dividend.
- Cineplex hosted its most successful National Community Day in 2014 in support of Free the Children, its national charitable partner. Cineplex is one of Free the Children's top five corporate supporters, raising $0.8 million on their behalf in 2014.

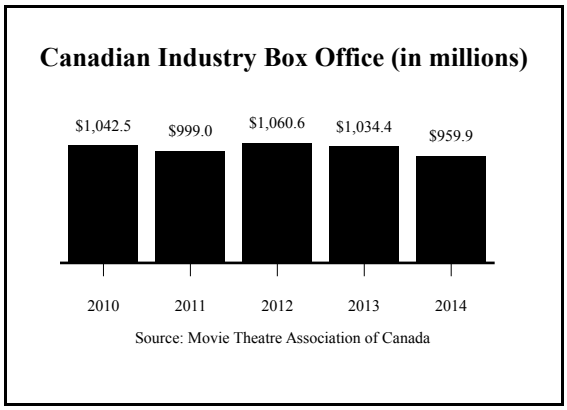
1.3 BUSINESS ACQUISITIONS

YoYo's Yogurt Cafe

On January 1, 2014, Cineplex completed the acquisition of a 50% stake in YoYo's for $1.0 million. Cineplex's investment in YoYo's is classified as a joint venture under IFRS 11, with Cineplex's share of the results of operations of YoYo's reported in 'Share of income of joint ventures' in the consolidated statements of operations.

2. THEATRE EXHIBITION INDUSTRY

The motion picture industry consists of three principal activities: production, distribution and exhibition. Production involves the development, financing and creation of feature-length motion pictures. Distribution involves the promotion and exploitation of motion pictures in a variety of different channels. Theatrical exhibition is the primary channel for new motion picture releases and is the core business function of Cineplex. The Canadian industry reported a decrease of 7.2% in box office revenues in 2014 compared to the prior year.



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

Importance of Theatrical Success in Establishing Movie Brands and Subsequent Movies

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

Continued Supply of Successful Films

Studios are increasingly producing film franchises, such as *Star Wars, James Bond* and *The Hunger Games*. Additionally, new franchises continue to be developed, such as *The Avengers, Guardians of the Galaxy* and *Divergent*. 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.

Looking forward to 2015, the studios are releasing a strong slate of films, such as *Avengers: Age of Ultron, Furious 7, Cinderella, Jurassic World, Minions, Insurgent, Mission: Impossible 5, The Hunger Games: Mockingjay, Part 2* and *Star Wars: The Force Awakens.*

Convenient and Affordable Form of Out-of-Home Entertainment

Cineplex's BPP was $9.13 and $9.15 in 2014 and 2013 respectively. Excluding the impact of Cineplex's premium-priced product, BPP was $8.27 and $8.29 in 2014 and 2013 respectively. The movie-going experience continues to provide value and compares favourably to alternative forms of out-of-home entertainment in Canada such as professional sporting events or live theatre.

Providing a Variety of Premium Theatre Experiences

Premium priced theatre offerings include 3D, UltraAVX, VIP, IMAX and D-Box. BPP for premium-priced product was $11.02 in 2014, and premium-priced product accounted for 37.8% of total box office revenues in 2014. In response to the increased demand for premium entertainment experiences, Cineplex added 11 UltraAVX auditoriums, 15 VIP auditoriums and four D-Box locations during 2014, bringing the circuit total to 66 UltraAVX, 43 VIP, 20 IMAX auditoriums and 25 D-Box enabled auditoriums at the end of the year. Cineplex increased its number of 3D screens from 723 at December 31, 2013 to 767 at December 31, 2014.

Reduced Seasonality of Revenues

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

3. BUSINESS STRATEGY

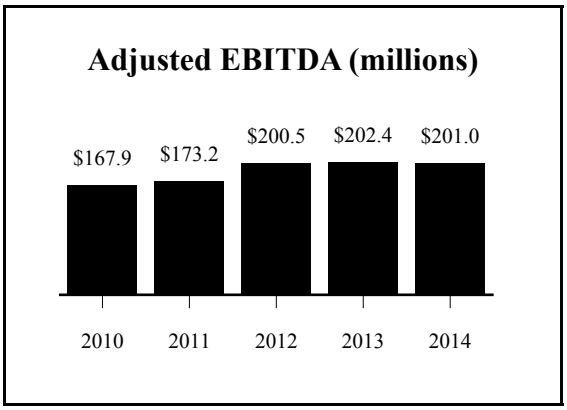
Cineplex's mission statement is "Passionately delivering an exceptional entertainment experience." All of its efforts are focused towards this mission and it is Cineplex's goal to consistently provide guests with an exceptional entertainment experience at a fair value. Cineplex's key strategic areas of focus include the following:

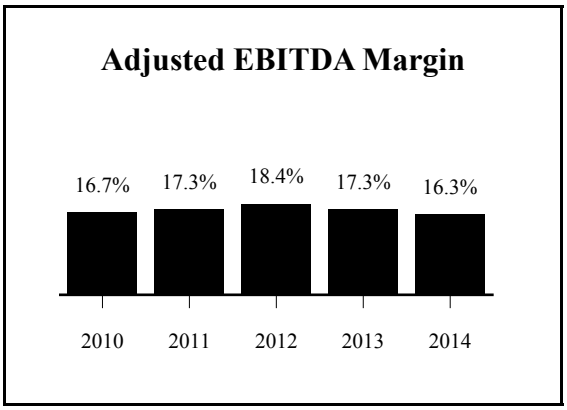
- Continue to enhance and expand existing exhibition infrastructure and service offerings to attract new customers, increase the frequency of visits by existing customers and maximize revenue per patron;
- Capitalize on core media strengths to provide continued growth of Cineplex's media business, with its own assets and with external clients;
- Continue to expand Cineplex's brand presence as an entertainment destination for Canadians, providing in-theatre, at home and on-the-go experiences - Cineplex Anywhere; and
- Pursue selective acquisitions and opportunities that are strategic, accretive and capitalize on Cineplex's core strengths

Key elements of this strategy include going beyond movies to reach customers in new ways and maximizing revenue per patron. With this in mind, 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 merchandising such as optimizing product offerings and improving service execution. The ultimate goal of these in-theatre customer service initiatives is to maximize revenue per patron and increase the frequency of movie-going at Cineplex's theatres.

While box office revenues (which include event cinema) continue to account for the largest portion of Cineplex's revenues, expanded food service offerings, in-theatre and out-of-home advertising, games, promotions and other revenue streams have increased as a share of total revenues. The margins on these other revenue streams, particularly advertising, are much higher than on admission sales and have enhanced Cineplex's profitability. Cineplex is committed to diversifying its revenue streams outside of the traditional theatre exhibition model through pre-show, show time and digital out-of-home advertising sales through Cineplex Media, as well as further expansion of digital signage installations, network support and advertising sales through Cineplex Digital Media. Additionally, at home and on-the-go entertainment options are available through the Cineplex Store, Cineplex's online digital commerce platform, which sells DTO and VoD movies online as well as DVDs and Blu-Ray discs.

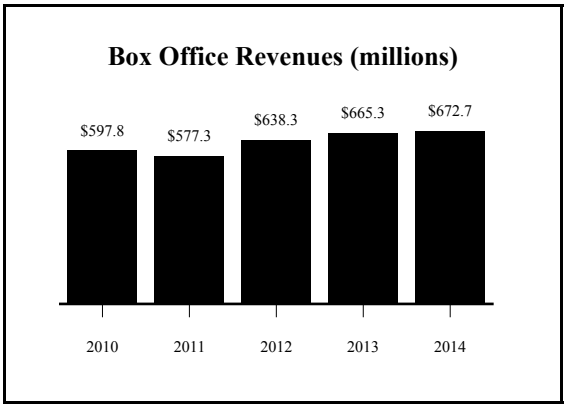
Although Cineplex focuses on growth initiatives, management remains vigilant in controlling costs without compromising the guest experience. Cineplex will continue to invest in new revenue generating activities, as it did in 2014. The following tables show Cineplex's adjusted EBITDA and adjusted EBITDA margin performance over the last five years (see Section 17, Non-GAAP measures, for a discussion of adjusted EBITDA and adjusted EBITDA margin).

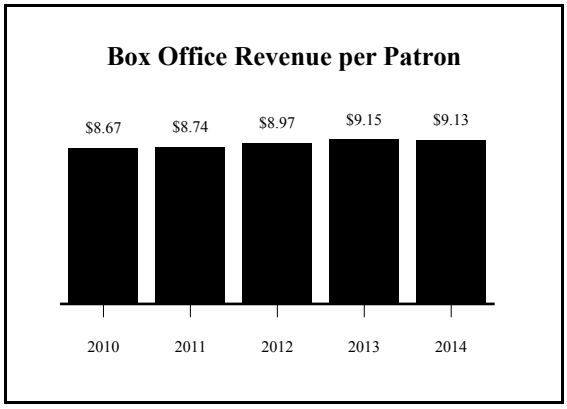




Theatre Exhibition

Theatre exhibition is, and remains, the core business of Cineplex. Theatre exhibition is the engine that drives the success of the Cineplex's other core businesses. Box office revenues are highly dependent on the marketability, quality and appeal of the film product released by the major motion picture studios.

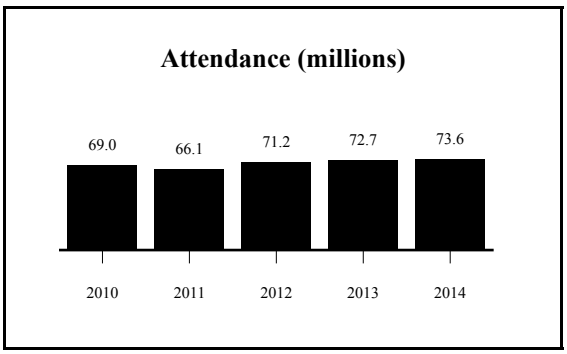




Cineplex is also focused on providing guests with a variety of premium viewing options through which to enjoy the theatre experience. These premium-priced offerings generate higher revenues per patron and also expand the customer base. In 2010, Cineplex launched its UltraAVX auditorium concept, which has proven to be popular with patrons, and added 11 UltraAVX screens to the circuit in 2014, bringing the total UltraAVX screens to 66. VIP auditoriums have been added to 12 theatres across the circuit, and will be incorporated into select new build and retrofit projects in 2014 and beyond. In 2014, Cineplex expanded its offering of D-BOX MFX seats from 609 seats in 20 theatres at December 31, 2013 to 766 seats in 25 theatres at December 31, 2014. Cineplex has 20 IMAX screens in the circuit at December 31, 2014.

In the next few years, Cineplex plans to open an average of two to three new theatres per year and continue to expand its premium offerings through these new theatres and existing locations. During 2014, Cineplex opened two new theatres, *Cineplex Cinemas Manning Town Centre* in Edmonton, Alberta and *Cineplex VIP Cinemas Don Mills* in Toronto, Ontario. Cineplex also acquired one theatre location in Barrie, Ontario.

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.

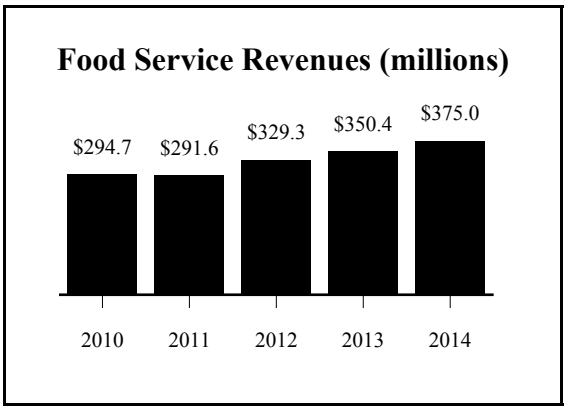


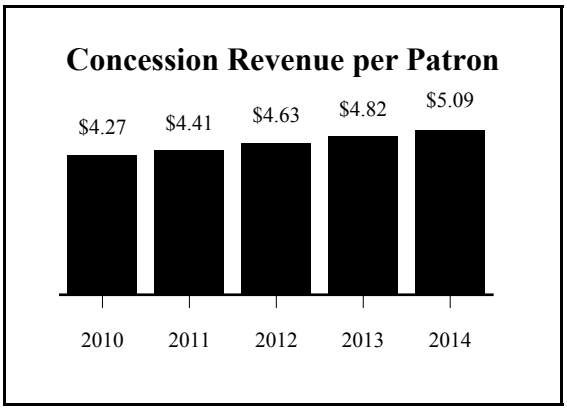
The development of premium experiences through design, structure and digital technology makes Cineplex theatres ideal locations for meetings and corporate events. Organizations, particularly corporations with offices across the country, can use Cineplex's theatres and digital technology for annual meetings,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

Merchandising

Cineplex's merchandising 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, acquired in 2014. Certain Cineplex theatres also feature popular fast food brand retail branded outlets ("RBO's") including Tim Hortons and Pizza Pizza, among others.

During 2014, Cineplex continued the implementation of process improvements designed to increase the speed of service at the concession counter in addition to ongoing optimization of RBO's available at Cineplex's theatres. Each of the wide range of menu items available at *Outtakes* locations as well as the expanded menu and the licensed lounge service available at VIP locations, are designed to reach a wider market, increase 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. These improvements contributed to a record CPP of $5.09 in 2014, an increase of $0.27 from the previous record of $4.82 achieved in 2013.





Merchandising also includes Cineplex's gaming business, which features Cineplex's 18 XSCAPE Entertainment Centres, arcade games in select Cineplex theatres and the operations of CSI, the largest distributor and supplier of arcade games to the amusement industry in Canada. The creation of CSI in 2012 allowed Cineplex to vertically integrate its gaming operations as well as expand Cineplex's gaming presence outside of its theatres, which will continue in 2015 when Cineplex acquires the 50% of the issued and outstanding equity of CSI that it does not already own. During the year ended December 31, 2014 CSI generated $60.6 million in gross gaming revenues inclusive of revenues earned from Cineplex (2013 - $58.3 million).

Subsequent to the year end, Cineplex announced its plans for *The Rec Room*, a social entertainment destination featuring a wide range of entertainment options including an attractions area featuring simulation, redemption and recreational gaming, an auditorium-style live entertainment venue and a theatre-sized high definition screen for watching a wide range of entertainment programming. These entertainment options will be complemented with an upscale casual dining environment, featuring an open kitchen and contemporary menu, as well as a centre bar with a wide range of digital monitors and a large screen above the bar for watching the big game or other major events.

Media

Cineplex's media businesses cover two major categories: traditional cinema media advertising, which incorporates advertising mediums related to theatre exhibition (Cineplex Media) and digital out-of-home advertising, which incorporates digital signage networks on both the path to purchase and at the point of purchase (Cineplex Digital Media).

a) Cineplex Media

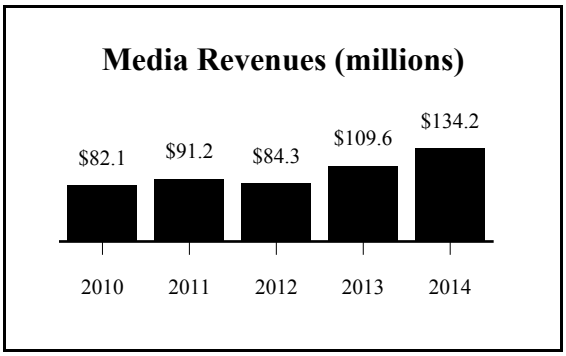
Cineplex Media, with its national presence and 93% market share of the Canadian movie-going attendance, is well positioned for continued growth and is the ideal channel for advertisers wanting to reach all demographics, especially the highly sought-after 17 to 25-year-old Canadian market. Cineplex Media includes showtime and pre-show advertising for Cineplex as well as other circuits through representation sales agreements, *Cineplex Magazine* and *Le magazine Cineplex,* website and mobile advertising as well as lobby advertising.

Cineplex Media is dominated by showtime and pre-show advertising, engaging guests with key advertising

messages and customizable content from 20 minutes prior to show time right up until the start of the Coming Attractions. With a distribution of approximately 750,000 copies per month through physical delivery as well as online distribution, *Cineplex Magazine* and *Le magazine Cineplex*, offer advertising opportunities in Canada's leading entertainment magazine. Cineplex.com recorded over 85.3 million visits and over 453 million page views in 2014, and the Cineplex app has been downloaded 10.9 million times and recorded over 515 million app sessions, providing advertisers with opportunities to engage with Cineplex's guests online and on-the-go.

Select Cineplex theatres offer the Interactive Media Zone, an interactive media experience allowing advertisers to engage and interact with Cineplex guests in high traffic lobby locations. In 2014 Cineplex completed the national rollout of Timeplay, the third-party app that allowed 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. Digital poster cases continue to be rolled out throughout the circuit providing integration of dynamic digital advertising options into what were previously static poster displays. Cineplex's theatres also provide opportunities for advertisers' special media placements (including floor and door coverings, window clings, standees, banners and lobby domination setups).

In addition to these individual offerings, Cineplex Media offers integrated solutions that can cross over some or all of the above mentioned platforms. Advertisers can either invest in any of these forms of media individually or take advantage of an integrated advertising program spanning multiple Cineplex Media platforms.



b) Cineplex Digital Media

CDM includes the operations of Cineplex Digital Solutions ("CDS") and CDN:

- CDS is a full-service digital solution company focused on digital-based ecosystems located on the path to purchase (such as in shopping malls, office complexes, and other path to purchase locations).
- CDN, a full-service digital signage and network company that is focused on servicing the quick-serve restaurant, financial and retail markets across North America.

Cineplex's advertising sales team combined with the project management, system design, network operations, and creative services teams at CDS and CDN, has Cineplex well positioned to expand its media reach throughout its current infrastructure as well as in numerous out-of-home advertising locations across the country. Cineplex believes that the strengths of CDS and CDN will make Cineplex a leader in the indoor digital signage industry and provide a platform for significant growth throughout North America.

Alternative Programming

Alternative programming includes Cineplex's ethnic film programming as well as content offered under its *Event Cinema* brand offering, including The Metropolitan Opera, WWE and UFC programming, sporting events and concerts.

Most alternative programming is premium-priced and attracts a more diverse audience, expanding Cineplex's demographic reach and enhancing revenues. The success of these events has led to further expansion of offerings

including its Classic Film Series, Family Favourites, the Bolshoi Ballet from Moscow and the National Theatre from London. As more content becomes available, Cineplex anticipates capitalizing on its digital infrastructure by screening additional event cinema events in 2015 and beyond.

Digital Commerce

Cineplex's digital commerce business consists of cineplex.com, mobile, the Cineplex Store and Boutique Cineplex. 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 smartphones and tablets, providing guests with information relating to the latest movie choices and showtimes, movie-related entertainment content and the ability to buy tickets. These features and others enable Cineplex to engage and interact with its guests online and on the go, allowing Cineplex to offer engaging, targeted, sponsored content to visitors and advertisers, resulting in opportunities to generate additional revenues.

The Cineplex Store and Boutique Cineplex sell movies in both physical form (DVDs and Blu-ray discs) and digital form (through DTO and VoD movies), as well as Cineplex gift cards. In 2013, Cineplex introduced SuperTicket, a first-ever bundled offering from multiple studios that allows movie-goers to purchase a movie admission ticket and pre-order the digital download of a movie at the same time. SuperTicket provides Cineplex with the flexibility to customize offerings to consumers, providing enhanced value above and beyond an in-theatre or at home experience.

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

SCENE Loyalty Program

In 2007, Cineplex entered into a joint venture agreement with Scotiabank to launch the SCENE loyalty program, providing Cineplex with a more comprehensive understanding of the demographics and movie going habits of its audience as well as new ways to engage its customers. Cineplex and Scotiabank each have a 50% interest in the program. SCENE is a customer loyalty program designed to offer members discounts and the opportunity to earn and redeem SCENE points. SCENE members can earn and redeem SCENE points on box office and concession purchases at Cineplex's theatres as well as receiving 10% off concession purchases. As part of the Cineplex Tuesdays program, SCENE members get 10% off all ticket prices on Tuesdays across the circuit, which are generally discounted. SCENE members can also earn and redeem points online at the Cineplex Store and Boutique Cineplex. 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.

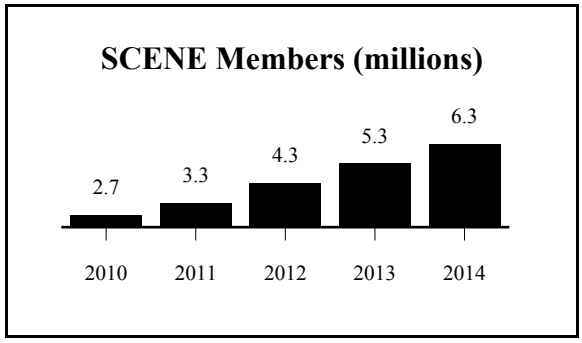
The SCENE program has been well received as evidenced by the strong membership growth and high engagement levels of the program members. Membership in the SCENE loyalty program at December 31, 2014 was approximately 6.3 million, an increase of approximately 1.0 million members during 2014. With the acquisition of the Atlantic Theatres, SCENE has focused on member acquisition and engagement in that region of Canada, to increase membership in the program and drive incremental frequency and spending at these Atlantic Canada theatre locations. Through SCENE, Cineplex has gained a more thorough understanding of its customers, driven increased customer frequency, increased overall spending at its theatres and provides Cineplex with the ability to communicate directly and regularly with customers. Management believes the benefits of the program are reflected in box office and food service revenues.

The SCENE customer database has allowed Cineplex to segment SCENE's member population and provide special offers to Cineplex's guests, implement targeted marketing programs and deliver tailored messages to

subsets of the membership base, providing members with relevant information and offers which in turn drive increased frequency of attendance at the theatres. Cineplex continues to influence consumer behaviour through the use of SCENE bonus points and experience upgrades for SCENE members in its initiatives as well as in partnership with movie studios.

During 2014, SCENE announced a strategic marketing partnership with sports and active lifestyle retailer SportChek, extending the benefits of SCENE by enabling members to earn and redeem points for products available at more than 180 SportChek locations across Canada. SCENE provides promotions and offerings with numerous additional partners, and continues to investigate potential reward partners to expand both the opportunity to collect and redeem SCENE points.

Subsequent to the year end, SCENE announced a strategic marketing partnership that will see CARA become SCENE's exclusive restaurant partner, allowing SCENE members to earn and redeem points at 813 CARA restaurants across Canada.



4. OVERVIEW OF OPERATIONS

Revenues

Cineplex generates revenues primarily from box office and concession sales. These revenues are affected primarily by attendance levels and by changes in BPP and CPP. Box office revenue represented 54.5% of revenue in 2014 and continues to represent Cineplex's largest revenue component.

Revenue mix % by year	2014	2013	2012	2011	2010
Box office	**54.5%**	56.8%	58.5%	57.9%	59.4%
Concessions	**30.4%**	29.9%	30.1%	29.2%	29.3%
Media	**10.9%**	9.4%	7.7%	8.7%	9.1%
Other	**4.2%**	3.9%	3.7%	4.2%	2.2%
Total	**100.0%**	100.0%	100.0%	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 78% based on Canadian industry box office revenues at December 31, 2014. As a result of Cineplex's focus on diversifying its business beyond the traditional movie exhibition model, the revenue mix has shifted from box office revenue to other revenue sources. These revenue sources typically provide higher incremental contribution margins than traditional exhibition revenues.

The commercial appeal of the films and alternative content released during a given period, and the success of marketing as well as promotion for those films by film studios, distributors and content providers all drive attendance. BPP is affected by the mix of film and alternative content product that appeals to certain audiences (such as children or seniors who pay lower ticket prices), the surcharge related to 3D film and other enhanced product offerings, ticket prices during a given period and the appeal of premium priced product available. While

BPP is negatively impacted by the SCENE loyalty program and the Cineplex Tuesdays program, these programs are designed to increase attendance frequency at Cineplex's theatres. Cineplex's main focus is to drive incremental visits to theatres, to employ a ticket price strategy which takes into account the local demographics at each individual theatre, and to maximize BPP through premium offerings.

Food service revenues are comprised primarily of concession revenues, arising from food sales at theatre locations. CPP represents food service revenues divided by theatre attendance, and is impacted by food service product mix, food service prices, film genre, promotions, the 10% SCENE discount and the issuance of SCENE points on the purchase of certain food service combos. Film product targeted to families and teenagers tends 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 10% SCENE discount offer and SCENE points issued on food service purchases both decrease food service revenues on individual purchases. However, Cineplex believes the program drives incremental attendance and purchase incidence, increasing overall revenues. Although pricing has an impact on CPP, Cineplex focuses on growing CPP by optimizing the product offerings and improving operational excellence to increase purchase incidence and transaction value.

Cineplex Media generates revenues primarily from selling pre-show and showtime advertising in Cineplex's theatres as well as other circuits through representation sales agreements and magazine advertising for *Cineplex Magazine* and *Le Magazine Cineplex*. Additionally Cineplex Media sells digital advertising for cineplex.com, the Cineplex mobile app and on third party networks; also offering special media placements throughout Cineplex's circuit including the Interactive Media Zones in select Cineplex theatre lobbies. Cineplex Digital Media designs, installs, maintains and operates digital signage networks through both CDS and CDN.

Games revenues include Cineplex's XSCAPE Entertainment Centres and game rooms in theatres, which generated $7.3 million of revenues in 2014 (2013 - $7.6 million). Cineplex also generates adjusted EBITDA from its 50% share of CSI. CSI supplies and services all of the games in Cineplex's circuit while also supplying equipment to third party arcades, amusement parks and centres, bowling alleys and theatre circuits, in addition to owning and operating *Playdium*, a family entertainment centre located in Mississauga, Ontario. Cineplex has a commitment to acquire the 50% of the issued and outstanding equity of CSI that it does not already own. After the transaction closes in the third quarter of 2015, Cineplex will own 100% of the issued and outstanding equity of CSI, which during the year ended December 31, 2014 generated $60.6 million in gross gaming revenues inclusive of revenues earned from Cineplex (2013 - $58.3 million).

Cineplex generates other revenues from the Cineplex Store, promotional activities, screenings, private parties, corporate events, breakage on gift card sales, revenues from enhanced in-theatre initiatives and 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. Although the film cost percentage is relatively stable when reviewed on an annual basis, there can be significant variances throughout the quarters.

Cost of food service represents the cost of concession items and other food service items sold and varies with changes in concession and other food service revenues as well as the quantity and mix of concession and other food service offerings sold. The 10% discount offered to members of the SCENE loyalty program affects the concession cost percentage, as concession revenues relating to these sales are reduced by 10% while the corresponding cost remains constant.

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 provided on the straight-line basis over the useful lives of the assets.

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

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

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

Other operating expenses consist of fixed and variable expenses, with the largest component being theatre salaries and wages. Although theatre salaries and wages include a fixed cost component, these expenses vary in relation to revenues as theatre staffing levels are adjusted to handle fluctuations in attendance. Other components of this category include marketing and advertising, media, loyalty including SCENE, digital commerce, gaming, 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 food service management, accounting and financial reporting, legal, treasury, design and construction, real estate development, information systems and administration. Included in these costs are payroll (including the LTIP and Share option plan costs) and occupancy costs related to Cineplex's corporate offices, professional fees (such as public accountant and legal fees) and travel and related costs. Cineplex maintains general and administrative staffing and associated costs at a level that it deems appropriate to manage and support the size and nature of its theatre portfolio and its business activities.

Accounting for Joint Arrangements

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

Under IFRS 11, Cineplex's 50% share of one theatre in Quebec and one IMAX screen in Ontario, its 78.2% interest in CDCP, 50% interest in CSI and 50% interest in YoYo's (acquired January 1, 2014) are classified as joint ventures. Through equity accounting, Cineplex's share of the results of operations for these joint ventures are reported as a single item in the statements of operations, 'Share of income of joint ventures'. Theatre attendance for theatres held in joint ventures is not reported in Cineplex's consolidated attendance as the line-by-line results of the joint ventures are not included in the relevant lines in the statement of operations.

Cineplex has a commitment to acquire 50% of the issued and outstanding equity of CSI that it does not already own, for a minimum of $17.5 million in cash. After the transaction closes in the third quarter of 2015, Cineplex will own 100% of the issued and outstanding equity of CSI.

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

5. RESULTS OF OPERATIONS

5.1 SELECTED FINANCIAL DATA

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

	Year ended December 31, 2014	Year ended December 31, 2013	Year ended December 31, 2012
Box office revenues	$ 672,678	$ 665,306	$ 638,296
Food service revenues	375,039	350,353	329,332
Media revenues	134,189	109,581	84,285
Other revenues	52,810	46,027	40,588
Total revenues	1,234,716	1,171,267	1,092,501
Film cost	349,564	346,373	331,281
Cost of food service	81,455	74,693	68,398
Depreciation and amortization	77,450	70,890	62,163
Loss (gain) on disposal of assets	3,393	4,372	(2,352)
Other costs (a)	606,677	551,819	495,537
Costs of operations	1,118,539	1,048,147	955,027
Net income	$ 76,271	$ 83,557	$ 120,484
Adjusted EBITDA (i)	$ 201,002	$ 202,441	$ 200,484
(a) Other costs include:			
Theatre occupancy expenses	202,085	188,388	174,259
Other operating expenses	345,907	297,594	263,571
General and administrative expenses	58,685	65,837	57,707
Total other costs	$ 606,677	$ 551,819	$ 495,537
Basic EPS	$ 1.21	$ 1.33	$ 1.98
Basic EPS excluding gain on acquisition (i)	$ 1.21	$ 1.33	$ 1.57
Diluted EPS	$ 1.20	$ 1.32	$ 1.97
Diluted EPS excluding gain on acquisition (i)	$ 1.20	$ 1.32	$ 1.57
Total assets	$ 1,609,416	$ 1,591,378	$ 1,335,221
Total long-term financial liabilities (ii)	$ 339,500	$ 327,500	$ 150,000
Shares outstanding at period end	63,015,023	62,934,028	62,783,002
Cash dividends declared per Share	$ 1.4800	$ 1.4100	$ 1.3300
Adjusted free cash flow per Share (i)	$ 2.3106	$ 2.4580	$ 2.0785
Box office revenue per patron (i)	$ 9.13	$ 9.15	$ 8.97
Concession revenue per patron (i)	$ 5.09	$ 4.82	$ 4.63
Film cost as a percentage of box office revenues	52.0%	52.1%	51.9%
Attendance (in thousands of patrons) (i)	73,648	72,703	71,198
Theatre locations (at period end)	161	161	134
Theatre screens (at period end)	1,639	1,630	1,449

(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, 2014

Total revenues

Total revenues for the three months ended December 31, 2014 increased $9.0 million (2.8%) to $332.2 million as compared to the prior year period. Total revenues for the year ended December 31, 2014 increased $63.4 million (5.4%) to $1.2 billion as compared to the prior year. A discussion of the factors affecting the changes in box office, food service, media and other revenues for the period is provided below.

Non-GAAP measures discussed throughout this MD&A, including adjusted EBITDA, adjusted free cash flow, attendance, BPP, premium priced product, same store 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, attendance and BPP for the quarter and the full year (in thousands of Canadian dollars, except attendance reported in thousands of patrons, and per patron amounts, unless otherwise noted):

Box office revenues	Fourth Quarter			Full Year		
	2014	2013	Change	2014	2013	Change
Box office revenues	$ 172,460	$ 177,692	-2.9%	$ 672,678	$ 665,306	1.1%
Attendance (i)	19,037	18,872	0.9%	73,648	72,703	1.3%
Box office revenue per patron (i)	$ 9.06	$ 9.42	-3.8%	$ 9.13	$ 9.15	-0.2%
BPP excluding premium priced product (i)	$ 8.39	$ 8.52	-1.5%	$ 8.27	$ 8.29	-0.2%
Canadian industry revenues (ii)			-5.7%			-7.1%
Same store box office revenues (i)	$ 158,472	$ 165,909	-4.5%	$ 607,509	$ 640,721	-5.2%
Same store attendance (i)	17,415	17,645	-1.3%	66,176	70,113	-5.6%
% Total box from premium priced product (i)	29.4%	40.3%	-10.9%	37.8%	38.7%	-0.9%

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

(ii) The Movie Theatre Association of Canada ("MTAC") reported that the Canadian exhibition industry reported a box office revenue decrease of 6.6% for the period from October 3, 2014 to January 1, 2015 as compared to the period from October 4, 2013 to January 2, 2014. On a basis consistent with Cineplex's calendar reporting period (October 1 to December 31), the Canadian industry box office revenue change is estimated to be a decrease of 5.7%. MTAC reported that the Canadian exhibition industry reported a box office revenue decrease of 7.2% for the period from January 3, 2014 to January 1, 2015 as compared to the period from January 4, 2013 to January 2, 2014. On a basis consistent with Cineplex's calendar reporting period (January 1 to December 31), the Canadian industry box office revenues are estimated to be a lower by 7.1% compared to the prior year.

Box office continuity	Fourth Quarter		Full Year	
	Box Office	Attendance	Box Office	Attendance
2013 as reported	$ 177,692	18,872	$ 665,306	72,703
Same store attendance change	(2,155)	(229)	(35,980)	(3,937)
Impact of same store BPP change	(5,282)	—	2,768	—
New and acquired theatres (i)	2,758	456	46,356	5,512
Disposed and closed theatres (i)	(553)	(62)	(5,772)	(630)
2014 as reported	$ 172,460	19,037	$ 672,678	73,648

(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 2014 Top Cineplex Films	3D	% Box		Fourth Quarter 2013 Top Cineplex Films	3D	% Box
1	The Hunger Games: Mockingjay - Part 1		11.1%	1	The Hunger Games: Catching Fire		14.2%
2	The Hobbit: The Battle of the Five Armies	✔	10.2%	2	The Hobbit: The Desolation of Smaug	✔	11.0%
3	Big Hero 6	✔	7.6%	3	Gravity	✔	10.6%
4	Interstellar		7.5%	4	Frozen	✔	9.3%
5	Gone Girl		6.6%	5	Thor: The Dark World	✔	8.8%

Box office revenues decreased $5.2 million, or 2.9%, to $172.5 million during the fourth quarter of 2014, compared to $177.7 million recorded in the same period in 2013. The decrease was due to the impact of the 3.8% BPP decrease in the current period more than offsetting the impact of the 0.9% increase in attendance. Film product during the period was weaker than the comparator period resulting in a decline in same store attendance. This decline was offset by the impact of the Atlantic Theatres (acquired in the fourth quarter of 2013), which contributed incremental revenues of $1.1 million to box office revenues during the period.

BPP for the three months ended December 31, 2014 was $9.06, a $0.36 decrease from the prior year period. The decrease in BPP was due to the film mix featuring less 3D films than in the prior year period, as the current period had two of the top five films screened in 3D compared to four of the top five screened in 3D in the prior year period. Box office revenues from premium product accounted for 29.4% of box office revenues in the current period, down from 40.3% in the prior year period. Despite the overall decrease in the percentage of premium priced product in the current period compared to the prior year, Cineplex's investments in these offerings contributed to Cineplex's same-store results declining less than the Canadian industry in the period, with the industry estimated to be down 5.7% in the period compared to Cineplex's same-store decline of 4.5%.

Full Year

	Full Year 2014 Top Cineplex Films	3D	% Box		Full Year 2013 Top Cineplex Films	3D	% Box
1	Guardians of the Galaxy	✔	4.0%	1	The Hunger Games: Catching Fire		3.6%
2	The Lego Movie	✔	3.1%	2	Iron Man 3	✔	3.6%
3	The Hunger Games: Mockingjay - Part 1		2.8%	3	Despicable Me 2	✔	3.0%
4	Captain America: The Winter Soldier	✔	2.8%	4	The Hobbit: The Desolation of Smaug	✔	2.8%
5	The Hobbit: The Battle of the Five Armies	✔	2.6%	5	Gravity	✔	2.7%

Box office revenues for the year ended December 31, 2014 were $672.7 million, an increase of $7.4 million or 1.1% over the prior year. The Atlantic Theatres contributed incremental revenues of $36.5 million in the year. This was partially offset by same store revenues decreasing 5.2% compared to the prior year due to a 5.6% decrease in same store attendance. The same-store attendance decrease was due to weaker film product in the period, as well as the impact of certain film titles being shifted out of 2014 into 2015, including *Furious 7* and the Pixar film *The Good Dinosaur, Fifty Shades of Grey* and *Jupiter Ascending* all originally scheduled for summer 2014 releases as well as *Minions* and *Paddington* originally scheduled for December 2014 releases.

Cineplex's BPP for the year ended December 31, 2014 decreased $0.02, or 0.2%, from $9.15 in 2013 to $9.13 in 2014. This decrease was primarily due to the decrease in revenues from premium-priced product. Premium-priced offerings accounted for 37.8% of Cineplex's box office revenues in the year ended December 31, 2014, compared to 38.7% in the prior year with the decrease due primarily to lower 3D attendance as a result of 3D films in the current year not performing as well as those released in 2013.

Despite the decrease in the percentage of premium priced product in the current period compared to the prior year, Cineplex's investment in premium-priced formats has contributed to Cineplex experiencing less of a decline in box office revenues than the Canadian industry during 2014.

Food service revenues

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

Food service revenues	Fourth Quarter			Full Year		
	2014	2013	Change	2014	2013	Change
Food service revenues	$ 97,778	$ 93,294	4.8%	$ 375,039	$ 350,353	7.0%
Attendance (i)	19,037	18,872	0.9%	73,648	72,703	1.3%
CPP (i)	$ 5.14	$ 4.94	4.0%	$ 5.09	$ 4.82	5.6%
Same store food service revenues (i)	$ 88,158	$ 86,453	2.0%	$ 334,766	$ 338,435	-1.1%
Same store attendance (i)	17,415	17,645	-1.3%	66,176	70,113	-5.6%

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

Food service revenue continuity	Fourth Quarter		Full Year	
	Food Service	Attendance	Concession	Attendance
2013 as reported	$ 93,294	18,872	$ 350,353	72,703
Same store attendance change	(1,123)	(229)	(19,005)	(3,937)
Impact of same store CPP change	2,828	—	15,335	—
New and acquired theatres (i)	3,073	456	30,915	5,512
Disposed and closed theatres (i)	(294)	(62)	(2,559)	(630)
2014 as reported	$ 97,778	19,037	$ 375,039	73,648

(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 sales at theatre locations as well as non-theatre locations. Food service revenues increased $4.5 million, or 4.8% as compared to the prior year period primarily due to the acquisition of the Atlantic Theatres, which contributed incremental revenues of $1.6 million to food service revenues in the period, and the CPP increase from $4.94 in the fourth quarter of 2013 to $5.14 in the same period in 2014. This represents a 4.0% increase and a quarterly record for Cineplex. Higher average transaction values led to the higher revenues in the period as expanded offerings outside of core food service products are driving a higher average order value. Despite a decline in same-store attendance of 1.3% as compared to the prior year period, same store food service revenues increased 2.0% due to the record CPP.

Full Year

Food service revenues increased $24.7 million, or 7.0% as compared to the prior year, due primarily to the full year inclusion of the Atlantic Theatres, which contributed incremental revenues of $24.6 million to food service revenues during the year. CPP increased from $4.82 in 2013 to $5.09 in 2014, an annual record for Cineplex. While same store attendance decreased 5.6% compared to the prior year, same store concession revenues decreased by only 1.1% due to the record CPP offsetting some of the impact of the same store attendance decline.

While the 10% SCENE discount and SCENE points issued on concession combo purchases reduce individual transaction values which impacts CPP, Cineplex believes that this loyalty program drives incremental visits and concession purchases, resulting in higher overall concession revenues.

Media revenues

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

Media revenues	Fourth Quarter			Full Year		
	2014	2013	Change	2014	2013	Change
Cineplex Media	$ 29,320	$ 26,740	9.6%	$ 88,236	$ 86,501	2.0%
Cineplex Digital Media	17,532	12,456	40.8%	45,953	23,080	99.1%
Total media revenues	$ 46,852	$ 39,196	19.5%	$ 134,189	$ 109,581	22.5%

Fourth Quarter

Total media revenues increased 19.5% to $46.9 million in the fourth quarter of 2014 compared to the prior year period. This increase was primarily due to higher Cineplex Digital Media revenues, up $5.1 million as compared to the prior year period. This growth came from CDN revenue growth of $1.9 million and CDS revenue growth of $3.2 million relating to revenues from the installation and operation of the Oxford malls and other new initiatives. Cineplex Media revenues increased due to higher showtime revenues, partially offset by lower pre-show revenues.

Full Year

Total media revenues increased $24.6 million in the year ended December 31, 2014 compared to the prior year. The increase was due to the $22.9 million increase in Cineplex Digital Media revenues, as a result of the incremental impact of CDN ($20.4 million), which was acquired in the third quarter of 2013, and CDS revenue growth in the year of $2.5 million.

Other revenues

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

Other revenues	Fourth Quarter			Full Year		
	2014	2013	Change	2014	2013	Change
Games	$ 1,867	$ 1,722	8.4%	$ 7,317	$ 7,616	-3.9%
Other	13,254	11,303	17.3%	$ 45,493	$ 38,411	18.4%
Total other revenues	$ 15,121	$ 13,025	16.1%	$ 52,810	$ 46,027	14.7%

Fourth Quarter

Other revenues include gaming revenues as well as revenues from the Cineplex Store, promotional activities, screenings, private parties, corporate events, breakage on gift card and voucher sales, revenues from in-theatre guest service initiatives and management fees. Games revenues do not include Cineplex's 50% share of the results of CSI, which are included in 'Share of income of joint ventures'.

Other revenues increased 16.1% to $15.1 million in the fourth quarter of 2014 compared to the prior year period. This increase was primarily due to additional revenues arising from enhanced guest service initiatives and new business initiatives. Games revenues increased due to eight more XSCAPE Entertainment Centres in the current period compared to the prior year period.

Full Year

Other revenues increased 14.7% from $46.0 million in 2013 to $52.8 million during 2014. This increase was primarily due to additional revenues arising from enhanced guest service initiatives and new business initiatives. Gaming revenues for 2013 include a life-to-date one-time increase to games revenue of $0.5 million recorded in the first quarter of 2013 due to a change in accounting policy regarding the recognition of revenue on the sale of XSCAPE gaming cards. Excluding this one-time item, gaming revenues increased in 2014 due to the full year inclusion of the Atlantic Theatres ($0.3 million) and the impact of eight new XSCAPE locations added in 2014.

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 Canadian dollars, except film cost percentage):

Film cost	Fourth Quarter			Full Year		
	2014	2013	Change	2014	2013	Change
Film cost	$ 88,657	$ 91,867	-3.5%	$ 349,564	$ 346,373	0.9 %
Film cost percentage (i)	51.4%	51.7%	-0.3%	52.0 %	52.1 %	-0.1 %
(i) See Section 17, Non-GAAP Measures.						

Fourth Quarter

Film cost varies primarily with box office revenues, and can vary from quarter to quarter based on the relative strength of the titles exhibited during the period. The decrease in the fourth quarter of 2014 compared to the prior year period was due to the decrease in box office revenues and the impact of the 0.3% decrease in film cost percentage. The decrease in film cost percentage is primarily due to the settlement rate on the top films during the fourth quarter of 2014 being lower than the average film settlement rate in the 2013 period.

Full Year

The full year increase in film cost was due to the 1.1% increase in box office revenues, partially offset by the 0.1% decrease in film cost percentage during the year. The decrease in the film cost percentage as compared to the prior year period is primarily due to the settlement rate on certain strong performing titles during 2013 period being higher than the average settlement rate in 2014.

Cost of food service

The following table highlights the movement in cost of food service and food service cost as a percentage of food service revenues ("concession cost percentage") for the quarter and the full year (in thousands of Canadian dollars, except percentages and margins per patron):

Cost of food service	Fourth Quarter			Full Year		
	2014	2013	Change	2014	2013	Change
Cost of food service	$ 21,579	$ 19,835	8.8%	$ 81,455	$ 74,693	9.1%
Concession cost percentage (i)	22.1%	21.3%	0.8%	21.7%	21.3%	0.4%
Concession margin per patron (i)	$ 4.00	$ 3.89	2.8%	$ 3.99	$ 3.79	5.3%
(i) See Section 17, Non-GAAP Measures						

Fourth Quarter

Cost of food service varies primarily with theatre attendance as well as the quantity and mix of offerings sold. The increase in the cost of food service as compared to the prior year period was due to the higher food service revenues and the 0.8% increase in the concession cost percentage during the period. The concession margin per patron increased from $3.89 in the fourth quarter of 2013 to $4.00 in the same period in 2014, reflecting the impact of the higher CPP during the period.

Full Year

The increase in the cost of food service as compared to the prior year was due to higher food service revenues and the 0.4% increase in the concession cost percentage during the year. The concession margin per patron increased from $3.79 in the prior year period to $3.99 in the current period, reflecting the impact of the higher CPP in the current year.

Despite the 10% discount offered to SCENE members and SCENE points offered on select offerings, which contributes to a higher concession cost percentage, Cineplex believes the SCENE program drives incremental attendance and purchase incidence which increases food service revenues and CPP.

Depreciation and amortization

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

Depreciation and amortization expenses	Fourth Quarter			Full Year		
	2014	2013	Change	2014	2013	Change
Depreciation of property, equipment and leaseholds	$ 18,019	$ 15,957	12.9%	$ 69,944	$ 58,588	19.4%
Amortization of intangible assets and other	1,903	3,791	-49.8%	7,506	12,302	-39.0%
Depreciation and amortization expenses as reported	$ 19,922	$ 19,748	0.9%	$ 77,450	$ 70,890	9.3%

The quarterly increase in depreciation of property, equipment and leaseholds of $2.1 million and year to date increase of $11.4 million is primarily due to the impact of equipment and leasehold improvements relating to assets acquired through acquisitions, new theatre construction and digital media asset acquisitions.

The decrease in amortization of intangible assets and other in the fourth quarter of 2014 and the full year compared to the prior year periods is due to the amortization of certain trade name assets included in the prior year period that were phased out by Cineplex at the end of 2013. These assets were previously classified as indefinite life assets however during the fourth quarter of 2012 their classification was changed to finite life with amortization recorded through December 31, 2013. The 2014 periods include intangible amortization relating to customer relationships and internally developed software acquired as part of the acquisition of CDN during the third quarter of 2013.

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 Canadian dollars):

Loss on disposal of assets	Fourth Quarter			Full Year		
	2014	2013	Change	2014	2013	Change
Loss on disposal of assets	$ 626	$ 432	44.9%	$ 3,393	$ 4,372	-22.4%

During the fourth quarter of 2014, Cineplex recorded a loss of $0.6 million on the disposal of assets that were sold or otherwise disposed (2013 - $0.4 million). For the year ended December 31, 2014, disposal of assets resulted in a loss of $3.4 million on the disposal of assets that were sold or otherwise disposed of (2013 - $4.4 million).

Other costs

Other costs include three main sub-categories of expenses, including theatre occupancy expenses, which capture the rent and associated occupancy costs for Cineplex's various operations; other operating expenses, which include the costs related to running Cineplex's theatres and ancillary businesses; and general and administrative expenses, which includes costs related to managing Cineplex's operations, including the 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 Canadian dollars):

Other costs	Fourth Quarter			Full Year		
	2014	2013	Change	2014	2013	Change
Theatre occupancy expenses	$ 50,051	$ 48,658	2.9%	$ 202,085	$ 188,388	7.3%
Other operating expenses	94,442	91,430	3.3%	345,907	297,594	16.2%
General and administrative expenses	15,787	17,937	-12.0%	58,685	65,837	-10.9%
Total other costs	$ 160,280	$ 158,025	1.4%	$ 606,677	$ 551,819	9.9%

Theatre occupancy expenses

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

Theatre occupancy expenses	Fourth Quarter			Full Year		
	2014	2013	Change	2014	2013	Change
Rent	$ 33,837	$ 32,540	4.0%	$ 134,594	$ 126,284	6.6%
Other occupancy	17,127	16,715	2.5%	70,361	65,340	7.7%
One-time items (i)	(913)	(597)	52.9%	(2,870)	(3,236)	-11.3%
Total	$ 50,051	$ 48,658	2.9%	$ 202,085	$ 188,388	7.3%

(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
2013 as reported	$ 48,658	$ 188,388
Impact of new and acquired theatres	1,296	13,147
Impact of disposed theatres	(477)	(1,890)
Same store rent change (i)	876	1,641
One-time items	(316)	367
Other	14	432
2014 as reported	$ 50,051	$ 202,085

(i) See Section 17, Non-GAAP Measures

Fourth Quarter

Theatre occupancy expenses increased $1.4 million during the fourth quarter of 2014 compared to the prior year period. This increase was primarily due to the impact of new and acquired theatres net of disposed theatres ($0.8 million, of which $0.9 million relates to the Atlantic Theatres). The remaining increase was due to higher same store rent expenses due to rent increases as certain theatre properties, partially offset by the impact of one-time items.

Full Year

The increase in theatre occupancy expenses of $13.7 million for 2014 compared to the prior year was primarily due to the impact of new and acquired theatres net of disposed theatres ($11.3 million, of which $10.1 million relates to the Atlantic Theatres). Higher same-store rent, one-time items and the impact of the Other category (which includes higher real estate taxes in the current year compared to the prior year) also contributed to the increase.

Other operating expenses

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

Other operating expenses	Fourth Quarter			Full Year		
	2014	2013	Change	2014	2013	Change
Theatre payroll	$ 32,899	$ 32,620	0.9%	$ 129,837	$ 121,087	7.2%
Media	19,708	14,692	34.1%	59,378	35,083	69.3%
Other	41,835	44,118	-5.2%	156,692	141,424	10.8%
Other operating expenses	$ 94,442	$ 91,430	3.3%	$ 345,907	$ 297,594	16.2%

Other operating continuity	Fourth Quarter Other Operating	Full Year Other Operating
2013 as reported	$ 91,430	$ 297,594
Impact of new and acquired theatres	2,144	20,661
Impact of disposed theatres	(305)	(2,029)
Same store payroll change (i)	(397)	(394)
Marketing change	(44)	283
Media acquisitions	2,763	21,996
Media change, excluding media acquisitions	2,253	2,299
New business initiatives change	(488)	4,565
Other	(2,914)	932
2014 as reported	$ 94,442	$ 345,907
(i) See Section 17, Non-GAAP Measures		

Fourth Quarter

Other operating expenses during the fourth quarter of 2014 increased $3.0 million or 3.3% compared to the prior year period. The major components of the increase were higher media costs due to higher media sales volumes and the impact of new and acquired theatres net of disposed theatres, partially offset by lower spending on new business initiatives, lower same store payroll due to lower theatre business volumes and other expenses ($2.9 million, discussed below).

The major movements in the Other category include the decrease in 3D attendance due to less 3D releases in the period resulted in lower 3D royalty costs ($0.8 million), lower costs relating to the SCENE loyalty program as the 2013 period included higher costs related to the launch of the SCENE program at the Atlantic Theatres, and lower other costs including ongoing theatre maintenance due to timing of repairs in the 2014 and 2013 periods.

Full Year

For the year ended December 31, 2014, other operating expenses increased $48.3 million, due to higher media costs from higher media sales volumes and acquisitions (primarily the $22.0 million incremental impact of CDN), the impact of new and acquired theatres net of disposed theatres ($18.6 million), higher spending on new business initiatives ($4.6 million), and other expenses ($0.9 million, discussed below).

The major movement in the Other category include higher credit card service fees due to higher sales volumes arising from the acquisition of the Atlantic Theatres ($0.7 million) and higher other costs including ongoing theatre maintenance.

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 Canadian dollars):

G&A expenses	Fourth Quarter			Full Year		
	2014	2013	Change	2014	2013	Change
G&A excluding LTIP and option plan expense	$ 12,321	$ 13,271	-7.2%	$ 51,535	$ 49,928	3.2%
LTIP (i)	3,042	4,263	-28.6%	5,435	14,321	-62.0%
Option plan	424	403	5.2%	1,715	1,588	8.0%
G&A expenses as reported	$ 15,787	$ 17,937	-12.0%	$ 58,685	$ 65,837	-10.9%

(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 $2.2 million during the fourth quarter of 2014 compared to the prior year period due to a $1.2 million decrease in LTIP expense and a $1.1 million decrease in head office payroll, with the changes primarily due to the variance in performance results for the 2014 period resulting in lower incentive program expenses.

Full Year

G&A expenses for 2014 decreased $7.2 million compared to the prior year, due to the $8.9 million decrease in LTIP expense due primarily to the variance in performance results for the 2014 period. This decrease was partially offset by higher head office payroll resulting from developing business initiatives and a $1.2 million increase in professional fees relating to new business opportunities and other ongoing initiatives.

Share of income of joint ventures

Cineplex's joint ventures in 2014 include its 78.2% interest in CDCP, 50% interest in CSI, 50% interest in one theatre in Quebec, 50% interest in one IMAX screen in Ontario and 50% interest in YoYo's. For the 2013 period, Cineplex's joint ventures included its 78.2% interest in CDCP, 50% interest in CSI, 50% interest in one theatre in Quebec and 50% interest in one IMAX screen in Ontario. The following table highlights the components of share of income of joint ventures during the quarter and the full year (in thousands of Canadian dollars):

Share of income of joint ventures	Fourth Quarter			Full Year		
	2014	2013	Change	2014	2013	Change
Share of (income) of CDCP	$ (380)	$ (688)	-44.8%	$ (1,388)	$ (2,336)	-40.6%
Share of (income) of CSI	(264)	(19)	1,289.5%	(1,400)	(1,254)	11.6%
Share of (income) of other joint ventures	(116)	(139)	-16.5%	(68)	(260)	-73.8%
Total (income) of joint ventures	$ (760)	$ (846)	-10.2%	$ (2,856)	$ (3,850)	-25.8%

Income from joint ventures in the fourth quarter of 2014 was in line with results from the prior year period, with the $0.3 million decrease in income from CDCP partially offset by an increase in income from CSI. The year to date decrease of $1.0 million is primarily due to lower CDCP income, with the decrease due in part to certain films during the period staying on screens for extended periods which decreases the virtual print fee revenues earned by CDCP.

Interest expense

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

Interest expense	Fourth Quarter			Full Year		
	2014	2013	Change	2014	2013	Change
Long-term debt interest expense	$ 2,392	$ 2,416	-1.0%	$ 9,086	$ 7,076	28.4%
Convertible debenture interest expense	1,220	755	61.6%	4,838	755	540.8%
Finance lease interest expense	330	371	-11.1%	1,384	1,576	-12.2%
Sub-total - cash interest expense	$ 3,942	$ 3,542	11.3%	$ 15,308	$ 9,407	62.7%
Deferred financing fee accretion and other non-cash interest	1,264	1,116	13.3%	4,845	2,001	142.1%
Convertible debenture accretion	460	274	67.9%	1,858	274	578.1%
Interest rate swap - non-cash	10	(158)	-106.3%	(63)	(939)	-93.3%
Sub-total - non-cash interest expense	1,734	1,232	40.7%	6,640	1,336	397.0%
Total interest expense	$ 5,676	$ 4,774	18.9%	$ 21,948	$ 10,743	104.3%

Interest expense increased $0.9 million for the quarter and $11.2 million for the full year compared to the prior year periods. Cash interest increased $0.4 million and $5.9 million, respectively, due to increased borrowings and the issuance of convertible debentures in the fourth quarter of 2013 to fund the acquisition of CDN and the Atlantic Theatres.

Non-cash interest increased in both the quarter and the full year periods, primarily due to the accretion of the earn-out payment for the CDN acquisition and the accretion of the convertible debentures.

Interest income

Interest income during the fourth quarter of 2014 was lower than the 2013 period due to lower average cash balances. For the full year of 2014, interest income was higher than the prior year due to one-time amounts received in the third quarter of 2014 relating to the settlement of prior year amounts due (in thousands of Canadian dollars):

Interest income	Fourth Quarter			Full Year		
	2014	2013	Change	2014	2013	Change
Interest income	$ 45	$ 83	-45.8%	$ 330	$ 307	7.5%

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 Canadian dollars):

Income taxes	Fourth Quarter			Full Year		
	2014	2013	Change	2014	2013	Change
Current income tax expense	$ 8,238	$ 1,077	664.9%	$ 10,625	$ 3,608	194.5%
Deferred income tax (recovery) expense	$ (4,043)	$ 8,210	NM	$ 10,519	$ 29,369	-64.2%
Provision for income taxes	$ 4,195	$ 9,287	-54.8%	$ 21,144	$ 32,977	-35.9%

Taxable income earned by Cineplex during 2014 and 2013 was offset by the use of loss carryforwards acquired through Cineplex's acquisition of AMC Ventures Inc. in 2012. As a result of the $147.0 million of non-capital losses acquired in this transaction, Cineplex's cash income taxes in 2013 and 2014 were substantially reduced. Based on estimated 2014 taxable income, none of the acquired losses are available to be used to reduce taxable income in 2015. As a result of reducing taxable income through losses, Cineplex is subject to minimum tax in certain jurisdictions which may be credited against income taxes payable on taxable income earned in periods after the losses have been fully used. In 2014, approximately $0.6 million of those credits have been utilized to

reduce provincial income taxes payable. Minimum income tax credits totalling $1.3 million through December 31, 2014 have been recorded as deferred income tax assets and a reduction of deferred income tax expense. Cineplex's blended federal and provincial statutory tax rate at December 31, 2014 and 2013 was 26.3%.

Net income

For the three months ended December 31, 2014, Cineplex reported net income of $32.1 million (2013 – $20.2 million). For the year ended December 31, 2014, Cineplex reported net income of $76.3 million (2013 - $83.6 million) (in thousands of Canadian dollars):

Net income	Fourth Quarter			Full Year		
	2014	2013	Change	2014	2013	Change
Net income	$ 32,081	$ 20,168	59.1%	$ 76,271	$ 83,557	-8.7%

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, 2014 as compared to the prior year periods (expressed in thousands of Canadian dollars, except adjusted EBITDA margin):

EBITDA	Fourth Quarter			Full Year		
	2014	2013	Change	2014	2013	Change
EBITDA	$ 61,829	$ 53,894	14.7%	$196,483	$197,860	-0.7%
Adjusted EBITDA	$ 62,649	$ 54,144	15.7%	$201,002	$202,441	-0.7%
Adjusted EBITDA margin	18.9%	16.8%	2.1%	16.3%	17.3%	-1.0%

Adjusted EBITDA for the fourth quarter of 2014 increased $8.5 million, or 15.7%, as compared to the prior year period. The increase as compared to the prior year period was primarily due to higher contribution from Cineplex Media and Cineplex Digital Media as well as lower LTIP and head office payroll costs in the current period compared to the prior year period. Adjusted EBITDA margin, calculated as adjusted EBITDA divided by total revenues, was 18.9% in the current period, an increase of 2.1% from 16.8% in the prior year period.

Adjusted EBITDA for the year ended December 31, 2014 decreased $1.4 million, or 0.7%, as compared to the prior year period due primarily to the weaker film product in the current period resulting in lower same store attendance. The contribution from the Atlantic Theatres partially offset the year-over-year decrease. Adjusted EBITDA margin was 16.3% in 2014 compared to 17.3% in 2013.

6. BALANCE SHEETS

The following sets out significant changes to Cineplex's consolidated balance sheets during the year ended December 31, 2014 as compared to December 31, 2013 (in thousands of Canadian dollars):

	December 31, 2014	December 31, 2013	Change ($)	Change (%)
Assets				
Current assets				
Cash and cash equivalents	$ 34,367	$ 44,140	$ (9,773)	-22.1%
Trade and other receivables	101,462	100,891	571	0.6%
Inventories	7,978	7,234	744	10.3%
Prepaid expenses and other current assets	8,102	6,838	1,264	18.5%
	151,909	159,103	(7,194)	-4.5%
Non-current assets				
Property, equipment and leaseholds	495,532	459,112	36,420	7.9%
Deferred income taxes	6,971	17,635	(10,664)	-60.5%
Fair value of interest rate swap agreements	—	92	(92)	-100.0%
Interests in joint ventures	46,457	44,359	2,098	4.7%
Intangible assets	109,746	113,601	(3,855)	-3.4%
Goodwill	798,801	797,476	1,325	0.2%
	$ 1,609,416	$ 1,591,378	$ 18,038	1.1%
Liabilities				
Current liabilities				
Accounts payable and accrued expenses	$ 159,152	$ 157,333	$ 1,819	1.2%
Share-based compensation	6,160	12,151	(5,991)	-49.3%
Dividends payable	7,877	7,552	325	4.3%
Income taxes payable	9,735	2,656	7,079	266.5%
Deferred revenue	149,644	136,373	13,271	9.7%
Finance lease obligations	2,670	2,394	276	11.5%
Fair value of interest rate swap agreements	692	635	57	9.0%
	335,930	319,094	16,836	5.3%
Non-current liabilities				
Share-based compensation	15,504	15,622	(118)	-0.8%
Long-term debt	229,754	217,151	12,603	5.8%
Fair value of interest rate swap agreements	2,117	—	2,117	NM
Finance lease obligations	15,008	17,722	(2,714)	-15.3%
Post-employment benefit obligations	6,977	6,522	455	7.0%
Other liabilities	173,550	170,125	3,425	2.0%
Convertible debentures	98,727	96,870	1,857	1.9%
	877,567	843,106	34,461	4.1%
Equity	731,849	748,272	(16,423)	-2.2%
	$ 1,609,416	$ 1,591,378	$ 18,038	1.1%

Property, equipment and leaseholds. The increase in property, equipment and leaseholds is due to new build and other capital expenditures ($89.8 million) and maintenance capital expenditures ($25.0 million), offset by amortization expenses ($69.9 million) and asset dispositions ($8.5 million).

Deferred income taxes. The decrease in the deferred income taxes primarily relates to the use of non-capital losses to offset taxable income during the year.

Interests in joint ventures. The increase is due to Cineplex's share of income of joint ventures as well as dividends received from joint ventures in the year.

Intangible assets. The decrease in intangible assets represents amortization of intangible assets with finite lives during the period, partially offset by the acquisition of intangible assets.

Accounts payable and accrued expenses. The increase in accounts payable and accrued expenses primarily relates to higher media business volumes in December 2014 compared to the prior year.

Share-based compensation. The decrease in share-based compensation is due in part to the payment of the 2011 LTIP, which vested in the first quarter of 2014, as well as lower LTIP liability recognized in 2014 compared to 2013.

Income taxes payable. The increase is due to the full use of the non-capital losses acquired in the acquisition of the theatres from AMC Ventures Inc. in 2012, which substantially reduced taxes in 2013 and 2014. Based on estimated 2014 taxable income, none of the acquired losses are available to be used to reduce taxable income in 2015.

Deferred revenue. Deferred revenue increased primarily due to the sale of gift cards and vouchers during the 2014 holiday season.

Long-term debt. The increase in long-term debt relates to borrowings under the Revolving Facility (defined and discussed in Section 7.4, Credit Facilities) and the deferred financing fee amortization recognized in the year.

Fair value of interest rate swap agreements. The increase in the fair value of interest rate swap agreements represents the fair value of the future settlements under the agreements.

Finance lease obligations. The decrease in finance lease obligations represents the payment of principal as well as the finance lease for an IMAX projector being declassified as the projector was retired and replaced with a new digital IMAX projector in the year.

Other liabilities. The increase is primarily due to the accretion of the deferred contingent consideration recognized as part of the EK3 acquisition, partially offset by the amortization of lease-related liabilities.

Convertible debentures. The increase is due to the accretion of the deferred financing fees relating to the issuance of the convertible debentures.

7. LIQUIDITY AND CAPITAL RESOURCES

7.1 OPERATING ACTIVITIES

Cash flow is generated primarily from the sale of admission tickets, concession sales, media sales and services and other revenues. Generally, this provides Cineplex with positive working capital, since 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, 2014 and 2013 (in thousands of Canadian dollars):

Cash flows provided by operating activities	Fourth Quarter			Full Year		
	2014	2013	Change	2014	2013	Change
Net income	$ 32,081	$ 20,168	$ 11,913	$ 76,271	$ 83,557	$ (7,286)
Adjustments to reconcile net income to net cash provided by operating activities:						
Non-cash amortization amounts (i)	20,084	19,121	963	76,545	66,156	10,389
Loss on disposal of assets	626	432	194	3,393	4,372	(979)
Deferred income taxes	(4,043)	8,210	(12,253)	10,519	29,369	(18,850)
Interest rate swap agreements - non-cash interest	10	(158)	168	(63)	(939)	876
Non-cash Share-based compensation	424	393	31	1,715	1,826	(111)
Accretion of convertible debentures	460	274	186	1,858	274	1,584
Net change in interests in joint ventures	(2,701)	(297)	(2,404)	(2,604)	(2,686)	82
Tenant inducements	818	500	318	4,215	5,417	(1,202)
Changes in operating assets and liabilities	87,666	85,812	1,854	8,409	37,302	(28,893)
Net cash provided by operating activities	**$ 135,425**	**$ 134,455**	**$ 970**	**$ 180,258**	**$ 224,648**	**$ (44,390)**

(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 increased $1.0 million in the fourth quarter of 2014 compared to the prior year period. While net income increased $11.9 million in the period, $12.3 million of this increase was due to the impact of deferred taxes, which is a non-cash item.

Full Year

For the year ended December 31, 2014, cash provided by operating activities decreased $44.4 million compared to the prior year, due to the lower net income in 2014 compared to 2013 and the impact of the movement in operating assets and liabilities.

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, 2014 and 2013 (in thousands of Canadian dollars):

Cash flows used in investing activities	Fourth Quarter			Full Year		
	2014	2013	Change	2014	2013	Change
Proceeds from sale of assets	$ 3,928	$ 1,451	$ 2,477	$ 4,333	$ 3,573	$ 760
Purchases of property, equipment and leaseholds	(22,035)	(15,845)	(6,190)	(106,196)	(62,410)	(43,786)
Acquisition of businesses, net of cash acquired	(139)	(195,704)	195,565	(2,605)	(238,338)	235,733
Deposit for business acquisition	—	5,000	(5,000)	—	—	—
Intangible assets additions	(950)	—	(950)	(3,700)	—	(3,700)
Net cash provided by (invested in) joint ventures	547	535	12	1,456	(50)	1,506
Net cash used in investing activities	**$ (18,649)**	**$(204,563)**	**$ 185,914**	**$(106,712)**	**$(297,225)**	**$ 190,513**

Fourth Quarter

Cash used in investing activities during the fourth quarter of 2014 decreased by $185.9 million compared to the prior year period. The 2014 period included nominal acquisition activity, whereas the prior year period included $195.7 million spent on acquiring the Atlantic Theatres. Purchases of property, equipment and leaseholds were higher in the 2014 period due primarily to equipment acquisition for select digital media projects in the period.

Full Year

For the full year, cash used in investing activities decreased $190.5 million due to less acquisition activity in 2014 compared to the acquisitions of the Atlantic Theatres and CDN in 2013. This decrease was partially offset by higher purchases of property, equipment and leaseholds in the current year due to new theatre construction and digital media projects.

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

Capital expenditures	Fourth Quarter			Full Year		
	2014	2013	Change	2014	2013	Change
Gross capital expenditures	$ 22,035	$ 15,845	$ 6,190	$ 106,196	$ 62,410	$ 43,786
Less: tenant inducements	(818)	(500)	(318)	(4,215)	(5,417)	1,202
Net capital expenditures	$ 21,217	$ 15,345	$ 5,872	$ 101,981	$ 56,993	$ 44,988
Net capital expenditures consists of:						
Growth and acquisition capital expenditures (i)	$ 13,639	$ 9,264	$ 4,375	$ 60,356	$ 22,715	$ 37,641
Tenant inducements	(818)	(500)	(318)	(4,215)	(5,417)	1,202
Media growth capital expenditures	5,959	—	5,959	22,513	—	22,513
Premium formats (ii)	75	1,389	(1,314)	7,348	8,363	(1,015)
Maintenance capital expenditures	7,214	11,833	(4,619)	24,974	27,826	(2,852)
Other (iii)	(4,852)	(6,641)	1,789	(8,995)	3,506	(12,501)
	$ 21,217	$ 15,345	$ 5,872	$ 101,981	$ 56,993	$ 44,988

(i) Growth and acquisition capital expenditures include expenditures on the construction of new theatre buildings (including VIP auditoriums) and other Board approved growth projects with the exception of premium formats and media growth capital expenditures discussed below, and improvements to the two theatres acquired from Festival in the first quarter of 2013 and the Atlantic Theatres acquired in the fourth quarter of 2013.

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

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

Cineplex funds maintenance capital expenditures through internally generated cash flow and cash on hand. Cineplex's Revolving Facility (defined and discussed in Section 7.4, Credit Facilities) is available to fund new theatre capital expenditures.

7.3 FINANCING ACTIVITIES

The following table highlights the movements in cash from financing activities for the three months and year ended December 31, 2014 and 2013 (in thousands of Canadian dollars):

Cash flows (used in) provided by financing activities	Fourth Quarter			Full Year		
	2014	2013	Change	2014	2013	Change
Dividends paid	$ (23,621)	$ (22,632)	$ (989)	$ (92,881)	$ (88,130)	$ (4,751)
Borrowings under credit facility, net	(67,000)	24,000	(91,000)	12,000	70,000	(58,000)
Repayment of debt acquired	—	—	—	—	(12,875)	12,875
Payments under finance leases	(660)	(615)	(45)	(2,438)	(2,277)	(161)
Issuance of convertible debentures	—	103,469	(103,469)	—	103,469	(103,469)
Deferred financing fees	—	(2,135)	2,135	—	(2,135)	2,135
Net cash (used in) provided by financing activities	**$ (91,281)**	**$ 102,087**	**$(193,368)**	**$ (83,319)**	**$ 68,052**	**$(151,371)**

Fourth Quarter

Cash flows used in financing activities were $91.3 million in the fourth quarter of 2014, a movement of $193.4 million from a source of cash of $102.1 million in the prior year period, with the movement due to the prior year issuance of convertible debentures and borrowings to complete the acquisition of the Atlantic Theatres.

Full Year

Cash flows used in financing activities were $83.3 million in 2014, a movement of $151.4 million from a source of cash of $68.1 million in the prior year, with the movement due to the prior year issuance of convertible debentures and borrowings to complete the acquisition of the Atlantic Theatres.

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 and the Partnership entered into certain credit facilities effective October 24, 2013 (the "Credit Facilities"). At December 31, 2014, the Credit Facilities consisted of the following (in millions of Canadian dollars):

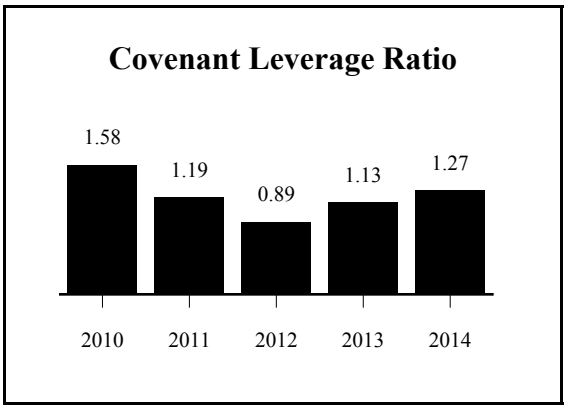
	Available	Drawn	Reserved	Remaining
(i) a five-year senior secured revolving credit facility ("Revolving Facility")	$ 250.0	$ 82.0	$ 5.4	$ 162.6
(ii) a five-year senior secured non-revolving term facility ("Term Facility")	$ 150.0	$ 150.0	$ —	$ —
Letters of credit outstanding at December 31, 2014 of $5.4 million are reserved against the Revolving Facility.				

There are provisions to increase the Revolving Facility commitment amount by an additional $150.0 million with the consent of the lenders.

The Credit Facilities bear interest at a floating rate based on the Canadian dollar prime rate, or bankers' acceptances rates plus, in each case, an applicable margin to those rates. The facilities mature in October 2018 and are payable in full at maturity, with no scheduled repayment of principal required prior to maturity.

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

One of the key financial covenants in the Credit Facilities is the leverage covenant. As at December 31, 2014, Cineplex's leverage ratio as calculated in accordance with the Credit Facilities definition was 1.27x, as compared to a covenant of 3.50x. The definition of debt in the Credit Facility includes long-term debt (excluding any convertible debentures), financing leases and letters of credit but does not include a reduction for cash on hand. For the purposes of the Credit Facility definition, EBITDA is adjusted for certain non-cash, non-recurring items and the annualized impact of new theatres or acquisitions.



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

Interest rate swap agreements. Effective August 24, 2011, Cineplex entered into three interest rate swap agreements. Under these agreements, Cineplex pays a fixed rate of 1.715% 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. These interest rate swap agreements have a term of five years that commenced in August 2011 and have an aggregate notional principal amount of $150.0 million. Based on the leverage ratio covenant at December 31, 2014, Cineplex's effective cost of borrowing on the $150.0 million Term Facility was 3.265% (December 31, 2013 - 3.215%).

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

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

7.5 FUTURE OBLIGATIONS

At December 31, 2014, Cineplex had the following contractual or other commitments authorized by the Board (expressed in thousands of Canadian dollars):

	Payments due by period				
Contractual obligations	**Total**	**Within 1 year**	**2-3 years**	**4-5 years**	**After 5 years**
Long-term debt	$ 232,000	$ —	$ —	$ 232,000	$ —
Convertible debentures	107,500	—	—	107,500	
Interest rate swap agreements	3,303	604	1,728	971	—
New theatre construction	90,881	18,116	72,765	—	—
Other theatre projects	9,474	9,474	—	—	—
Media projects	10,681	10,681	—	—	—
CSI acquisition	17,500	17,500	—	—	—
Deferred consideration - AMC	3,134	—	3,134	—	—
Deferred consideration - EK3	39,638	—	39,638	—	—
Equipment obligations	12,679	1,867	3,734	3,657	3,421
Finance lease obligations	21,530	3,872	7,910	7,910	1,838
Operating lease obligations	1,318,531	143,671	289,205	254,299	631,356
Total contractual obligations	**$ 1,866,851**	**$ 205,785**	**$ 418,114**	**$ 606,337**	**$ 636,615**

Cineplex has aggregate gross capital commitments of $90.9 million ($77.2 million net of tenant inducements) related to the completion of construction of nine theatre properties to include an aggregate of 88 screens (including 32 VIP auditoriums) over the next three years. In addition, Cineplex has gross commitments over the next two years of $20.2 million for other projects, including the conversion of regular auditoriums to VIP at certain theatres and certain digital media projects both in the theatre and for clients of CDS and CDN.

Subsequent to the year end, Cineplex announced plans to develop *The Rec Room*, Canada's premier social entertainment destination. The first location will open in late 2015 at South Edmonton Common in Edmonton, Alberta in a more than 40,000 square foot location adjacent to Cineplex's existing theatre at that location.

Cineplex has a commitment to acquire 50% of the issued and outstanding equity of CSI that it does not already own, for a minimum of $17.5 million in cash. After the transaction closes in the third quarter of 2015, Cineplex will own 100% of the issued and outstanding equity of CSI.

Cineplex's acquisition of CDN during the third quarter of 2013 includes an earn-out payment subject to an aggregate maximum purchase price of $78.0 million for both the initial payment and the earn-out payment. The earn-out payment will be based on 2015 operating results and will be paid in early 2016. Cineplex estimates that the maximum earn-out will be achieved, and at December 31, 2014, the deferred contingent consideration is recognized in Cineplex's balance sheet at an estimated fair value of $34.5 million, with an undiscounted value of $39.6 million. The deferred contingent consideration is being accreted to its maximum cap using the effective interest method as prescribed by IAS 39, *Financial Instruments: Recognition and Measurement.*

At December 31, 2014, Cineplex had $107.5 million principal amount of convertible debentures outstanding that have a maturity date of December 31, 2018. At December 31, 2014, the convertible debentures were recorded on Cineplex's balance sheet at $98.7 million. The convertible debentures are being accreted to their maturity value using the effective interest method as prescribed by IAS 39, *Financial Instruments: Recognition and Measurement*. On and after December 31, 2016 and prior to December 31, 2017, Cineplex may, at its option, redeem the debentures in whole or in part from time to time, subject to specified market conditions. On or after December 31, 2017, the convertible debentures may be redeemed in whole or in part from time to time at the option of Cineplex at a price equal to their principal amount plus accrued and unpaid interest. Redemptions may be in cash or in the form of Shares, at the option of Cineplex. See Section 9, Share activity, for more information regarding the convertible debentures.

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

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

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 2014 dividend, the Board approved a dividend increase to $0.1250 per month per Share.

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, 2014 and 2013:

Adjusted free cash flow	Fourth Quarter			Full Year		
	2014	2013	Change	2014	2013	Change
Adjusted free cash flow per Share	$ 0.6753	$ 0.5769	17.1%	$ 2.3106	$ 2.4580	-6.0%
Dividends declared per Share	$ 0.3750	$ 0.3600	4.2%	$ 1.4800	$ 1.4100	5.0%
Payout ratio - year ended December 31				64.1%	57.4%	6.7%

Adjusted free cash flow per Share and the payout ratios for the 2014 and 2013 periods are positively impacted by Cineplex's use of loss carryforwards acquired through Cineplex's acquisition of AMC Ventures Inc. in 2012, resulting in Cineplex's cash income taxes in 2013 and 2014 being substantially reduced.

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

	Fourth Quarter			Year to Date		
	2014	2013	Change	2014	2013	Change
Cash flows provided by operations	$ 135,425	$ 134,455	0.7%	$ 180,258	$ 224,648	-19.8%
Net income	$ 32,081	$ 20,168	59.1%	$ 76,271	$ 83,557	-8.7%
Standardized free cash flow	$ 117,318	$ 120,061	-2.3%	$ 78,395	$ 165,811	-52.7%
Adjusted free cash flow	$ 42,540	$ 36,274	17.3%	$ 145,506	$ 154,467	-5.8%
Cash dividends declared	23,625	$ 22,642	4.3%	$ 93,207	$ 88,619	5.2%
Average number of Shares outstanding	62,995,236	62,875,151	0.2%	62,973,074	62,843,248	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, 2014, Cineplex declared dividends totaling $0.3750 per Share and $1.4800 per Share, respectively. For the three months and year ended December 31, 2013, Cineplex declared dividends totaling $0.3600 per Share and $1.4100 per Share, respectively.

The following table outlines the Fund's and 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 (ii)	$ 0.1050
May 2011	$ 0.1075
May 2012	$ 0.1125
May 2013	$ 0.1200
May 2014	$ 0.1250

(i) For the 36 day period from November 26, 2003 (the inception of the Fund) to December 31, 2003, the Fund declared a distribution of $0.1118.
(ii) 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, 2014 and the transactions during the year is as follows (expressed in thousands of Canadian dollars except Share amounts):

	Shares	Amount		
	Number of common shares issued and outstanding	Common shares	Equity component of convertible debentures	Total
Balance - December 31, 2013	62,934,028	$ 848,940	$ 4,471	$ 853,411
Issuance of shares on exercise of options	80,995	662		662
Balance - December 31, 2014	63,015,023	$ 849,602	$ 4,471	$ 854,073

Officers and key employees are eligible to participate in the LTIP. For the three-year service period beginning January 1, 2011, the LTIP awards consist of a "phantom" stock plan awarding base Share equivalents which may decrease by approximately 67% or increase by 100% subject to certain performance and market conditions. The base Share equivalents attract compounding notional dividends at the same rate as outstanding Shares, which are notionally re-invested as additional base Share equivalents. The awards will be settled in cash at the end of the service period, within 30 days of the approval of the annual consolidated financial statements by the Board.

The initial grants of Share equivalents were as follows:

	Base Share equivalents
2014 LTIP award	135,602
2013 LTIP award	124,936
2012 LTIP award	137,302

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

Cineplex has an incentive Share option plan for certain employees. The aggregate number of Shares that may be issued under the option plan is limited to 5,250,000 Shares. All of the options must be exercised over specified periods not to exceed ten years from the date granted (five years for options granted on or before December 31, 2010). As of December 31, 2014, 1.8 million Share options are 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, 2014, 2.9 million Share options are available for grant under the plan.

A summary of option activities for the year ended December 31, 2014 and 2013 is as follows:

	2014			2013		
	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	7.96	1,459,772	$ 27.23	1,460,546	$ 24.38
Granted		540,519	40.45	405,834	33.77
Canceled		(18,964)	36.06	(7,568)	29.69
Exercised		(205,154)	25.39	(399,040)	23.40
Options outstanding – end of period	7.65	1,776,173	$ 31.37	1,459,772	$ 27.23

During the fourth quarter of 2013, Cineplex issued $107.5 million principal amount of convertible unsecured subordinated debentures, maturing on December 31, 2018 (the "Maturity Date") and bearing interest at a rate of 4.5% per annum, payable semi-annually in arrears on June 30 and December 31 in each year, commencing on December 31, 2013. At the holder's option, the debentures may be converted into Shares at a conversion price of $56 per Share at any time prior to the close of business five days before the earlier of the Maturity Date, the date fixed for redemption by Cineplex, or if called for repurchase in the event of a change in control, the payment date. The debentures are not redeemable by Cineplex prior to December 31, 2016. On and after December 31, 2016 and prior to December 31, 2017, Cineplex may, at its option, redeem the convertible debentures in whole or in part from time to time, subject to the market price of the Shares. On or after December 31, 2017, the convertible debentures may be redeemed in whole or in part from time to time at the option of Cineplex at a price equal to their principal amount plus accrued and unpaid interest. Redemptions may be in cash or in the form of Shares, at the option of Cineplex.

10. SEASONALITY AND QUARTERLY RESULTS

Historically, Cineplex's revenues have been seasonal, coinciding with the timing of major film releases by the major distributors. The most marketable motion pictures have traditionally been released during the summer and the late-November through December holiday season. This may cause changes, from quarter to quarter, in attendance levels, theatre staffing levels and reported results. The seasonality of motion picture exhibition attendance has become less pronounced as film studios have expanded the historical summer and holiday release windows and increased the number of heavily marketed films released during traditionally weaker periods. To meet working capital requirements during the traditionally lower-revenue quarters, Cineplex can draw upon the Revolving Facility. As of December 31, 2014, there was $82.0 million drawn on the Revolving Facility.

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

	2014				2013			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues								
Box office revenues	$ 172,460	$ 162,574	$ 181,419	$ 156,225	$ 177,692	$ 168,066	$ 174,383	$ 145,165
Food service revenues	97,778	92,094	98,024	87,143	93,294	91,487	89,693	75,879
Media revenues	46,852	31,992	30,990	24,355	39,196	27,725	26,350	16,310
Other revenues	15,121	12,330	13,063	12,296	13,025	11,080	11,206	10,716
	332,211	298,990	323,496	280,019	323,207	298,358	301,632	248,070
Expenses								
Film cost	88,657	85,499	94,950	80,458	91,867	88,144	92,973	73,389
Cost of food service	21,579	19,848	21,147	18,881	19,835	19,411	19,173	16,274
Depreciation and amortization	19,922	19,665	19,195	18,668	19,748	17,317	16,527	17,298
(Gain) loss on disposal of assets	626	834	1,989	(56)	432	1,564	1,314	1,062
Other costs	160,280	146,974	148,977	150,446	158,025	134,386	131,875	127,533
	291,064	272,820	286,258	268,397	289,907	260,822	261,862	235,556
Income from operations	41,147	26,170	37,238	11,622	33,300	37,536	39,770	12,514
Adjusted EBITDA (i)	62,649	48,042	59,430	30,881	54,144	57,896	58,711	31,690
Net income	$ 32,081	$ 15,914	$ 23,205	$ 5,071	$ 20,168	$ 26,030	$ 28,543	$ 8,816
Basic earnings per Share	$ 0.51	$ 0.25	$ 0.37	$ 0.08	$ 0.32	$ 0.41	$ 0.45	$ 0.14
Diluted earnings per Share (ii)	$ 0.51	$ 0.25	$ 0.37	$ 0.08	$ 0.32	$ 0.41	$ 0.45	$ 0.14
Cash provided by (used in) operating activities	135,425	22,910	40,440	(18,517)	134,455	22,546	74,444	(6,797)
Cash used in investing activities	(18,649)	(33,325)	(22,722)	(32,016)	(204,563)	(49,102)	(22,695)	(20,865)
Cash (used in) provided by financing activities	(91,281)	4,788	(13,578)	16,752	102,087	9,929	(37,233)	(6,731)
Net change in cash	$ 25,495	$ (5,627)	$ 4,140	$ (33,781)	$ 31,979	$ (16,627)	$ 14,516	$ (34,393)
Box office revenue per patron (i)	$ 9.06	$ 9.01	$ 9.40	$ 9.04	$ 9.42	$ 8.84	$ 9.36	$ 8.97
Concession revenue per patron (i)	$ 5.14	$ 5.11	$ 5.08	$ 5.05	$ 4.94	$ 4.81	$ 4.81	$ 4.69
Attendance (in thousands of patrons) (i)	19,037	18,038	19,301	17,272	18,872	19,011	18,629	16,191
Theatre locations (at period end)	161	161	162	161	161	136	136	136
Theatre screens (at period end)	1,639	1,639	1,638	1,632	1,630	1,454	1,454	1,455

(i) See Section 17, Non-GAAP measures.
(ii) Excludes the conversion of convertible debentures as such conversion would be anti-dilutive.

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) (expressed in thousands of Canadian dollars except per Share data and number of Shares outstanding):

	2014				2013			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Cash provided by (used in) operating activities	$ 135,425	$ 22,910	$ 40,440	$ (18,517)	$ 134,455	$ 22,546	$ 74,444	$ (6,797)
Less: Total capital expenditures net of proceeds on sale of assets	(18,107)	(33,465)	(19,225)	(31,066)	(14,394)	(10,254)	(17,292)	(16,897)
Standardized free cash flow	117,318	(10,555)	21,215	(49,583)	120,061	12,292	57,152	(23,694)
Add/(Less):								
Changes in operating assets and liabilities	(87,666)	20,746	12,106	46,405	(85,812)	30,609	(20,542)	38,443
Changes in operating assets and liabilities of joint ventures	1,941	(2,400)	(118)	325	(549)	317	(1,099)	167
Tenant inducements	(818)	(555)	—	(2,842)	(500)	(1,612)	(348)	(2,957)
Principal component of financing lease obligations	(660)	(592)	(595)	(591)	(615)	(571)	(551)	(540)
Growth capital expenditures and other	10,893	27,668	14,281	24,047	2,561	5,526	10,890	12,034
Share of income of joint ventures, net of non-cash depreciation	985	1,431	1,041	623	593	1,391	1,071	800
Net cash received from (invested in) CDCP	547	140	769	—	535	(36)	(403)	(146)
Adjusted free cash flow	$ 42,540	$ 35,883	$ 48,699	$ 18,384	$ 36,274	$ 47,916	$ 46,170	$ 24,107
Average number of Shares outstanding	62,995,236	62,987,992	62,966,909	62,941,405	62,875,151	62,848,551	62,844,730	62,803,716
Adjusted free cash flow per Share	$ 0.6753	$ 0.5697	$ 0.7734	$ 0.2921	$ 0.5769	$ 0.7624	$ 0.7347	$ 0.3838

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.

A member of the Board is the Chief Executive Officer of Riocan Real Estate Investment Trust ("Riocan"). During the three months and year ended December 31, 2014, Cineplex incurred theatre occupancy expenses for theatres under lease commitments with Riocan in the amounts of $10.8 million and $44.0 million, respectively (2013 - $11.7 million and $47.1 million, respectively).

12. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATION UNCERTAINTIES

Cineplex makes estimates and assumptions concerning the future that may not equal actual results. The most significant estimates made by management in the preparation of the financial statements relate to the estimated useful lives of property, equipment and leaseholds, the fair value of over-the-counter derivatives, revenue recognition for gift cards and gift certificates, the determination of income tax assets and liabilities, the assessment of the fair value of assets and liabilities acquired in business combinations, the determination of Share-based compensation expense and the assessment of theatre cash flows to identify potential asset impairments. 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.

Property, equipment and leaseholds - estimated useful lives

Management estimates the useful lives of property, equipment and leasehold improvements based on the period during which the assets are expected to be available for use. The amounts and timing of recorded expenses for depreciation of property, equipment and leasehold improvements for any period are affected by these estimated useful lives. The estimates are reviewed at least annually and are updated if expectations change as a result of physical wear and tear, technical or commercial obsolescence and legal or other limits to use. It is possible that changes in these factors may cause significant changes in the estimated useful lives of Cineplex's property, equipment and leaseholds in the future.

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.

Financial instruments - fair value of earn-out payment

Cineplex's acquisition of EK3 includes an earn-out payment subject to an aggregate maximum purchase price of $78.0 million for both the initial payment and the earn-out payment. The earn-out payment will be based on 2015 operating results and will be paid in early 2016. Management has estimated the fair value of the earn-out payment assuming that the 2015 operating results will result in the maximum earn-out payment of $39.6 million will be achieved. This maximum payment has been discounted to estimated current fair value.

Revenue recognition - gift cards and gift certificates

Management estimates the value of gift cards and gift certificates 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 balance sheet date. 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

13.1 ACCOUNTING STANDARDS ADOPTED IN 2014

The following standards and amendments to standards were adopted in the year ended December 31, 2014:

IFRIC 21, Levies

International Financial Reporting Interpretations Committee ("IFRIC") 21, *Levies*, provides guidance on when to recognise a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and those where the timing and amount of the levy is certain. IFRIC 21 did not have a significant impact on Cineplex's financial statements.

IAS 32, Financial Instruments

International Accounting Standards ("IAS") 32, *Financial Instruments - Presentation*, has been amended effective January 1, 2014 to clarify certain aspects of the existing guidance on offsetting financial assets and financial liabilities. IFRS 7, Financial Instruments - Disclosure, to require information about all recognized financial instruments that are set off in accordance with IAS 32. The amendments also require disclosure of information about recognized financial instruments subject to enforceable netting arrangements and similar agreements even if they are not set off under IAS 32. The amendments did not have a significant impact on Cineplex's financial statements.

13.2 FUTURE CHANGES IN ACCOUNTING POLICIES

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

IFRS 9, Financial Instruments

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

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

IFRS 9 was amended in November 2013 to: (i) include guidance on hedge accounting; (ii) allow entities to early adopt the requirement to recognize changes in fair value attributable to changes in an entity's own credit risk, from financial liabilities designated under the fair value option, in OCI (without having to adopt the remainder of IFRS 9); and (iii) remove the previous mandatory effective date of January 1, 2015, although the standard is available for early adoption. Cineplex has not yet assessed the impact of this standard and amendments or determined whether it will early adopt them.

IFRS 15, Revenue from Contracts with Customers

On May 28, 2014, the IASB issued the final revenue standard, IFRS 15 *Revenue from Contracts with Customers,* which will replace IAS 11 *Construction Contracts,* IAS 18 *Revenue,* IFRIC 13 *Customer Loyalty Programmes,* IFRIC 15 *Agreements for the Construction of Real Estate,* IFRIC 18 *Transfer of Assets from Customers,* and SIC 31 *Revenue - Barter Transactions Involving Advertising Services.*

The new standard will be mandatorily effective for fiscal years beginning on or after January 1, 2017, and interim periods within that year. Earlier application is permitted. Cineplex is analyzing the new standard to determine its impact on Cineplex's balance sheet and statement of operations.

14. RISK MANAGEMENT

Cineplex is exposed to a number of risks 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. 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 whole of the Board. The enterprise risk management framework sets out principles and tools for identifying, evaluating, prioritizing and managing risk effectively and consistently across Cineplex. In addition Cineplex monitors risks and changing economic conditions on an ongoing basis and adapts its operating strategies as required.

Industry Risk

Cineplex's ability to operate successfully depends upon the availability, diversity and appeal of films, the availability, diversity and appeal of 3D product, the ability of Cineplex to license films and the performance of these films in Cineplex's markets. Cineplex primarily licenses first-run films, the success of which is dependent upon their quality, as well as on the marketing efforts of film studios and distributors. Cineplex continues to diversify its entertainment offerings to include alternative programming and to move into other sources of revenue such as digital commerce and expanded media 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 or any disruption in the production or release of films, including a strike or threat of a strike, a reduction in the marketing efforts of film studios and distributors or a significant change in film release patterns, would have a negative effect on film attendance and adversely affect Cineplex's business and results of operations.

In 2014, seven major film distributors accounted for approximately 93% of Cineplex's box office revenues, which is consistent with industry standards. Deterioration in Cineplex's relationships with any of the major film distributors could affect its ability to negotiate film licenses on favourable terms or its ability to obtain commercially successful films. Cineplex actively works on maintaining good relations with these distributors, as this affects its ability to negotiate commercially favourable licensing terms for first-run films or to obtain licenses at all.

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

Exhibition Competition Risk

Cineplex competes in each of its local markets with other national and regional circuits and independent film exhibitors, particularly 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, renovation of older theatres or the addition of screens to existing theatres by competitors in areas in which Cineplex operates theatres may result in reduced attendance levels at Cineplex's theatres.

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

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 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.

Technology Risk

Technological advances and the conversion of films into digital formats have made it easier to create, transmit and "share" via downloading over the Internet or unauthorized copying, high quality copies of films in 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 and digital projection in order to further differentiate the theatrical product from the home product. Approximately 47% of Cineplex's auditoriums are currently equipped to screen 3D content. Cineplex has also diversified its offerings to customers by operating the Cineplex Store which sells DVDs, Blu-ray discs, as well as VoD and DTO movies online in order to participate in the in-home and on-the-go entertainment markets.

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

Customer Risk

Cineplex competes for the public's leisure time and disposable income with other forms of entertainment including home and online consumption of content, sporting events, live music concerts, live theatre and restaurants. Cineplex aims to deliver an affordable out of home entertainment experience. Cineplex monitors pricing in all markets to ensure that it offers a reasonably priced out of home experience compared to other entertainment alternatives. If Cineplex is too aggressive in raising ticket prices or concession prices, there may be an adverse effect on attendance and food service revenues. In addition, historical data shows that movie attendance has not been negatively affected by economic downturns over the past 25 years.

Cineplex monitors customer needs to ensure that the in-theatre experience meets the anticipated needs of key demographic groups. Cineplex is differentiating the movie-going experience by providing UltraAVX auditoriums, D-Box seating, VIP auditoriums and XSCAPE Entertainment Centres in select theatres and by providing alternative programming which 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 existing locations. In consideration of this risk, Cineplex continues to improve the quality of its theatre assets through ongoing theatre upgrades and retrofits.

Cineplex is dependent on its theatre locations to provide a satisfactory entertainment experience. If Cineplex's execution of processes does not consistently meet or exceed customer expectations due to poor customer service or poor quality of assets, movie attendance may be adversely affected. Cineplex monitors customer satisfaction through surveys, mystery shops and focus groups, and maintains a guest services department to address customer concerns. Guest satisfaction is tied to performance measures for theatre management ensuring alignment between corporate and operational objectives. There is the potential for misinformation to be spread virally through social media relating to Cineplex's theatre assets as well as the quality of its customer service. Cineplex monitors commentary on social media in order to respond quickly to potential social media misinformation.

Cineplex continues to pursue other revenue opportunities such as in-theatre and out of home advertising, gaming, promotions and alternative uses of its theatres during non-peak hours. Gaming includes in-theatre gaming locations, XSCAPE Entertainment Centres and *The Rec Room*, Cineplex's planned social entertainment destination, announced subsequent to the year end. Cineplex's ability to achieve its business objectives may depend in part on its ability to successfully increase these revenue streams.

Cineplex's offerings through the Cineplex Store of DVD's and Blu-ray discs relies on third party shipping to deliver the hard goods purchased by the consumer. The VoD and DTO movies are delivered online via third parties. Delays in shipping hard goods or delays or other technological issues relating to online delivery could negatively impact customer satisfaction. Cineplex monitors delivery times for both hard goods and electronic delivery in order to proactively manage any potential customer satisfaction issues.

Human Resources Risk

The success of Cineplex depends upon the retention of senior executive management, including the 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.

Cineplex employs approximately 11,000 people, of whom approximately 90% 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. 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.

Real Estate Risk

The acquisition and development of new theatre sites to be operated by Cineplex is dependent on the ability of Cineplex to identify, acquire and develop suitable sites for potential theatre locations in both new and existing markets. The cost to develop a new theatre is substantial, but its success is not assured. While Cineplex is careful in selecting sites for new theatres, the significant time lag from identifying a new site to theatre opening can result in a change in local market circumstances and could negatively impact the theatre's chance of success. In addition, the building of new theatres may draw audiences away from less appealing older theatres owned by Cineplex. Cineplex considers the overall return for the theatres in a geographic area when making the decision to build a new theatre.

The majority of Cineplex's theatres 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 theatre and property taxes associated with the theatre. 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.

Financial Markets Risk

Cineplex requires efficient access to capital in order to fuel growth, execute strategies, and generate future financial returns. For this reason Cineplex has the Revolving Facility available.

Cineplex hedges interest rates on the Term Facility, thereby minimizing the impact of significant fluctuations in the market rates. Cineplex's exposure to currency and commodity risk is minimal as the majority of its transactions are in Canadian dollars and commodity costs are not a significant component of the overall cost structure. Counter party risk on the interest rate swap agreements is minimized through entering into these transactions with Cineplex's lenders.

Sourcing Risk

Substantially all of Cineplex's 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 a single company for the distribution of a substantial portion of its concession supplies. If this distribution relationship 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 arrangement.

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

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

Health and Safety Risk

Cineplex is subject to risks associated with food safety, 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 theatres. For those risks that it can control, Cineplex has programs in place to mitigate its exposure.

Business Continuity Risk

Cineplex's primary source of revenue is derived from providing an out of home entertainment experience. A terrorist threat or the outbreak of a pandemic may cause people to stay away from public places including movie theatres which would significantly impact business results. Cineplex operates in ten provinces which mitigates the risk to a specific location or locations. Cineplex also has communications and public relations plans to deal with crises of this nature. Cineplex has updated its procedures to manage such events should they occur. These procedures identify risks, prioritize key services, plan for large staff absences and clarify communication processes. However, should there be a national threat, 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.

Legal, Taxation and Accounting Risk

Changes to any of the various federal, provincial and municipal laws, rules and regulations related to Cineplex's business could have a material impact on its financial results. Compliance with any proposed 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.

To mitigate these risks, Cineplex uses third party tax and legal experts to assist in structuring significant transactions and contracts. Cineplex also has systems and controls that ensure the timely production of financial information in order to meet regulatory requirements and has implemented disclosure controls and internal controls over financial reporting which are tested for effectiveness on an ongoing basis. Cineplex also promotes a strong ethical culture through its values and code of conduct.

Environment/Sustainability Risk

Cineplex's business is primarily a service and retail business which delivers guest experiences rather than physical commercial products. Cineplex operates multiple locations in major urban markets and does not anticipate any dramatic changes to operations due to climate change. Because of these factors, 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.

Information Management Risk

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

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

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

Cineplex recognizes that security breaches and other disruptions could compromise this information and expose Cineplex to liability, which would cause its business and reputation to suffer. Despite security measures, Cineplex's information technology and infrastructure may be vulnerable to unforeseen attacks by hackers or breached due to employee error, malfeasance or other disruptions. Any such breach could compromise Cineplex's networks and the information stored there could be accessed, publicly disclosed, lost or stolen.

Any such access, disclosure or other loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, regulatory penalties, disrupt Cineplex's operations and the services provided to customers, damage Cineplex's reputation and cause a loss of confidence in Cineplex's products and services, which could adversely affect Cineplex's business, financial condition, results of operations and cash flows.

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, 2014 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 developed by the Committee of Sponsoring Organizations of the Treadway Commissions ("COSO") in 1992, 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 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, 2014, 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, Risk management.

THEATRE EXHIBITION

Film product during 2014 was not as strong as 2013, resulting in an industry box office decline of 7.1% and Cineplex's same store box office revenue decline of 5.2%. Cineplex's overall box office revenues increased 1.1% with the inclusion of the Atlantic Theatres, which were acquired in the fourth quarter of 2013.

Box office revenues are highly dependent on the marketability, quality and appeal of the film product released by major motion picture studios. While film product in 2014 was weaker than the prior year, there is optimism for 2015, with certain highly anticipated releases originally scheduled for a 2014 release having been shifted to 2015, including *Furious 7, Minions, The Good Dinosaur, Paddington, Fifty Shades of Grey* and *Jupiter Ascending*. This is in addition to the already strong slate of films for 2015 including *Avengers: Age of Ultron, Jurassic World, Ted 2, Terminator, Magic Mike 2, Ant-Man, Sceptre*, *The Hunger Games: Mockingjay - Part 2* and *Star Wars: Episode VII*.

Cineplex believes its operating and programming expertise, combined with its merchandising, media, marketing, digital commerce and SCENE loyalty programs will continue to positively and significantly impact the business of the Atlantic Theatres in 2015 and beyond. Cineplex has rebranded these locations *Cineplex Cinemas* and will continue to invest in each of the locations, and may add UltraAVX auditoriums, VIP Cinemas, D-Box seating, expanded food offerings or XSCAPE Entertainment Centres to one or more of the locations.

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 and 3D, generate higher revenues per patron and expand the customer base. Cineplex believes that 3D, UltraAVX, IMAX and VIP formats provide an enhanced guest experience and will continue to charge a ticket price premium for films and events presented in these formats.

In the next few years, Cineplex plans to open two to three new theatres per year while also expanding its premium offerings across the circuit. Cineplex is also focused on providing guests with a variety of premium viewing options through which to enjoy the theatre experience, and will continue to expand premium viewing options throughout its circuit in 2015 and beyond. VIP auditoriums and other premium viewing options are a key component to Cineplex's theatre exhibition strategy, and have been well received by audiences. The opening of the stand-alone VIP theatre *Cineplex VIP Cinemas Don Mills* in Toronto, Ontario during the current year is the next evolution in Cineplex's premium exhibition strategy.

MERCHANDISING

Cineplex reported record food service revenues in 2014, due to the full year inclusion of the Atlantic Theatres and the record annual CPP. Same store food service revenues were lower than the prior year due to the weaker film product resulting in lower same store attendance. Cineplex has reported CPP growth in each year since the Fund's formation in 2003, with 2014 CPP of $5.09 representing an annual record. Although pricing does impact 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 in-house brands *Outtakes* and *Poptopia* across the circuit; as well as YoYo's locations in which Cineplex is a joint venture partner, both in-theatre and in other non-theatre locations. Cineplex also continues to roll-out new digital menu board technologies in its theatres which provide guests with more interactive messaging during visits to the concession stands.

The acquisition of New Way Sales during 2011 and the creation of CSI in the first quarter of 2012 has allowed Cineplex to vertically integrate its gaming business. CSI now supplies and services all of the games in Cineplex's circuit, while also supplying equipment to third party arcades, amusement centers, bowling alleys, amusement

parks and theatre circuits, in addition to owning and operating *Playdium*, a family entertainment centre located in Mississauga, Ontario. In 2015, this integration will continue as Cineplex has a commitment to acquire the 50% of the issued and outstanding equity of CSI that it does not already own. After the transaction closes in the third quarter of 2015, Cineplex will own 100% of the issued and outstanding equity of CSI, which during the year ended December 31, 2014 generated $60.6 million in gross gaming revenues, inclusive of revenues earned from Cineplex.

Subsequent to the year end, Cineplex announced its plans for *The Rec Room*, a social entertainment destination featuring a wide range of entertainment options including an attractions area featuring simulation, redemption and recreational gaming, an auditorium-style live entertainment venue and a theatre-sized high definition screen for watching a wide range of entertainment programming. These entertainment options will be complemented with an upscale casual dining environment, featuring an open kitchen and contemporary menu, as well as a centre bar with a wide range of digital monitors and a large screen above the bar for watching the big game or other major events.

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. Cineplex Media introduced new media opportunities within Cineplex's theatres in 2014, including digital poster cases, the national rollout of Timeplay and the introduction of the Interactive Media Zone in select theatres.

Cineplex continues to enhance its media offerings outside of the theatre setting through its Cineplex Digital Media business, which includes CDS and CDN. Cineplex Digital Media revenues almost doubled in 2014 primarily due to the full year inclusion of CDN which was acquired in the third quarter of 2013. CDN contributed $20.4 million in incremental revenues in 2014.

Cineplex Digital Media is poised for growth in 2015 and beyond with CDN's completion of the national launch of TimsTV in 2014 in partnership with Tim Hortons. Additionally, CDN has opened an office in the United States, in order to better service its current base of US customers and to expand its presence there. During the year, CDS and Oxford announced plans to create North America's first place-based digital ecosystem in 10 high-profile shopping centres across Canada, with installations beginning at select Oxford malls during 2014 and continuing in 2015. Cineplex believes that the strengths of Cineplex Digital Media will make Cineplex a leader in the indoor digital signage industry and provide a platform for significant growth throughout North America.

ALTERNATIVE PROGRAMMING

During 2014, Cineplex offered a wide variety of alternative programming, including the popular Metropolitan Opera live in HD series, ethnic film programming, sports programming and various concert performances by popular recording artists. Cineplex also partnered with HBO Canada and BBC Canada to present television programming on the big screen; and partnered with content producers to be the national distributor for select films in Canada.

The completion of Cineplex's conversion to digital projection provides increased flexibility to screen event cinema across the circuit, and the acquisition of the Atlantic Theatres has allowed Cineplex to expand its *Front Row Centre* programming to audiences in Atlantic Canada.

DIGITAL COMMERCE

As at home and on-the-go content distribution and consumption is an emerging and transforming market, Cineplex believes it is well positioned to take advantage of this exciting market with the new digital commerce platform launched via the Cineplex Store in 2014. This new platform offers enhanced device integration as well as download capabilities, supporting over 7,500 movies that can be rented, purchased or viewed on multiple devices. This new platform, which supports the widest range of devices in Canada on which to watch content, combined with the continued expansion of SuperTicket and other offerings, provides exciting opportunities for Cineplex in this emerging market. Also during 2014, Cineplex launched Boutique Cineplex, showcasing the very best in French language movies, celebrating home-grown Quebec filmmaking talent, as well as award-winning films from France and around the world. Boutique Cineplex will also feature French-language versions of the latest Hollywood releases.

During 2014, the Cineplex Store became the first movie on-demand service to be available on Roku. Roku players connect directly to televisions and internet service on home networks, making it easy to stream content on televisions directly from the internet.

Cineplex will continue to offer promotions to grow Cineplex Store revenues including tie-ins with the SCENE loyalty program through the new digital delivery platform with an expanded device ecosystem for DTO and VoD sales.

LOYALTY

The SCENE loyalty program continues to grow its membership base, with approximately 6.3 million members at December 31, 2014. As part of the Cineplex Tuesdays program, SCENE members get 10% off all ticket prices on Tuesdays across the circuit, which are already generally discounted.

During 2014, SCENE entered into a strategic marketing partnership with sports and active lifestyle retailer SportChek, extending the benefits of SCENE by enabling members to earn and redeem points for products available at more than 180 SportChek locations across Canada. Subsequent to the year end, SCENE announced a strategic marketing partnership that will see CARA become SCENE's exclusive restaurant partner, allowing SCENE members to earn and redeem points at 813 CARA restaurants across Canada.

Cineplex continues to integrate SCENE elements into various film and other promotion campaigns, applying the data accumulated in the SCENE database to provide members targeted offers. Cineplex expects these programs to encourage increased frequency of visitation by SCENE members and additional revenue opportunities through the use of the database and additional partnership agreements.

In 2015 and beyond, SCENE is focused on growing the member base and continuing to enhance member engagement with the program through various avenues including leveraging the partnership with SportChek and the addition of additional partner reward options and promotional programs.

FINANCIAL OUTLOOK

Effective with the May 2014 dividend, the Board announced a monthly dividend increase to $0.1250 per Share. On an annual basis, this represents a total annual dividend of $1.50, a 4.2% increase from the previous annual rate of $1.44. During 2014, Cineplex generated adjusted free cash flow per Share of $2.31, compared to $2.46 in the prior year. Cineplex declared dividends per Share of $1.48 and $1.41, respectively, in each year. The payout ratios for these periods were approximately 64.1% and 57.4%, respectively. The acquisition of AMC Ventures Inc. and its subsequent wind-up into Cineplex resulted in non-capital losses of $147.0 million being made available to offset taxable income earned by Cineplex beginning in 2013, positively impacting adjusted free cash flow per Share and the payout ratios for both 2014 and 2013. Based on estimated 2014 taxable income, none of the acquired losses are available to be used to reduce taxable income in 2015.

Under Cineplex's Credit Facilities, which mature in October 2018, Cineplex has a $150.0 million Term Facility and a $250.0 million Revolving Facility which is available to finance acquisitions, new construction, media growth projects, working capital and dividends. As at December 31, 2014, Cineplex had $162.6 million available on the Revolving Facility. As defined under the Credit Facilities, as at December 31, 2014, Cineplex reported a leverage ratio of 1.27x as compared to a covenant of 3.50x.

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

17. NON-GAAP MEASURES

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

17.1 EBITDA AND ADJUSTED EBITDA

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

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

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

	Year ended December 31,		
	2014	**2013**	**2012**
Net income	**$ 76,271**	**$ 83,557**	**$ 120,484**
Depreciation and amortization	77,450	70,890	62,163
Interest expense	21,948	10,743	12,585
Interest income	(330)	(307)	(205)
Current income tax expense	10,625	3,608	31,436
Deferred income tax (recovery) expense	10,519	29,369	1,189
EBITDA	**$ 196,483**	**$ 197,860**	**$ 227,652**
Loss (gain) on disposal of assets	3,393	4,372	(2,352)
(Gain) on acquisition of business	—	—	(24,752)
CDCP equity income (i)	(1,388)	(2,336)	(2,222)
Depreciation and amortization - joint ventures (ii)	2,115	2,139	1,822
Joint venture taxes and interest (ii)	399	406	336
Adjusted EBITDA	**$ 201,002**	**$ 202,441**	**$ 200,484**

(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 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 Canadian dollars except Shares outstanding, and per Share data):

	Year ended December 31		
	2014	**2013**	**2012**
Cash provided by operating activities	$ 180,258	$ 224,648	$ 175,634
Less: Total capital expenditures net of proceeds on sale of assets	(101,863)	(58,837)	(68,559)
Standardized free cash flow	78,395	165,811	107,075
Add/(Less):			
Changes in operating assets and liabilities (i)	(8,409)	(37,302)	(7,486)
Changes in operating assets and liabilities of joint ventures (i)	(252)	(1,164)	(7,619)
Tenant inducements (ii)	(4,215)	(5,417)	(7,615)
Principal component of finance lease obligations	(2,438)	(2,277)	(2,104)
Growth capital expenditures and other (iii)	76,889	31,011	41,959
Share of income of joint ventures, net of non-cash depreciation (iv)	4,080	3,855	3,152
Net cash received from (invested in) CDCP (iv)	1,456	(50)	(438)
Adjusted free cash flow	**$ 145,506**	**$ 154,467**	**$ 126,924**
Average number of Shares outstanding	62,973,074	62,843,248	61,065,540
Adjusted free cash flow per Share	**$ 2.3106**	**$ 2.4580**	**$ 2.0785**
Dividends declared	**$ 1.4800**	**$ 1.4100**	**$ 1.3300**

(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 as well as any expenditures for digital equipment that was contributed to CDCP, 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 and distributable cash using the income statement as a reference point would be as follows (expressed in thousands of Canadian dollars):

	Year ended December 31,		
	2014	2013	2012
Net income	$ 76,271	$ 83,557	$ 120,484
Adjust for:			
Depreciation and amortization	77,450	70,890	62,163
Loss (gain) on disposal of assets	3,393	4,372	(2,352)
(Gain) on acquisition of business	—	—	(24,752)
Non-cash interest (i)	6,640	1,336	2,370
Share of income of CDCP (ii)	(1,388)	(2,336)	(2,222)
Non-cash depreciation of joint ventures	2,115	2,139	1,822
Deferred income tax expense	10,519	29,369	1,189
Joint venture deferred income tax	497	202	289
Maintenance capital expenditures	(24,974)	(27,826)	(26,600)
Principal component of finance lease obligations	(2,438)	(2,277)	(2,104)
Net cash received from (invested in) CDCP (ii)	1,456	(50)	(438)
Non-cash items:			
Amortization of tenant inducements, rent averaging liabilities and fair value lease contract assets	(5,750)	(6,735)	(5,033)
Non-cash Share-based compensation	1,715	1,826	2,108
Adjusted free cash flow	**$ 145,506**	**$ 154,467**	**$ 126,924**

(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.

17.3 OTHER NON-GAAP MEASURES MONITORED BY MANAGEMENT

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

Per Patron Revenue Metrics

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

Attendance: Attendance is calculated as the total number of paying patrons that frequent Cineplex's theatres during the period.
BPP: Calculated as total box office revenues divided by total paid attendance for the period.
BPP excluding premium priced product: Calculated as total box office revenues for the period, less box office revenues from 3D, UltraAVX, VIP and IMAX product; divided by total paid attendance for the period, less paid attendance for 3D, UltraAVX, VIP and IMAX product.
CPP: Calculated as total food service revenues divided by total paid attendance for the period.
Premium priced product: Defined as 3D, UltraAVX, IMAX and VIP film product.
Concession margin per patron: Calculated as total food service revenues less total food service cost, divided by attendance for the period.

Same Store Analysis

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

Same store metrics are calculated by removing the results for all theatres that have been opened, acquired, closed or otherwise disposed of during the periods. For the three months ended December 31, 2014, the impact of the 28 locations that have been opened or acquired and the one location that have been closed or otherwise disposed of have been excluded, resulting in 134 theatres being included in the same store metrics. For the year ended December 31, 2014, the impact of the 32 locations that have been opened or acquired and the three locations that have been closed or otherwise disposed of have been excluded, resulting in 128 theatres being included in the same store 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.
Concession cost percentage: Calculated as total food service costs divided by total food service revenues for the period.

Management's Report to Shareholders

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

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

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

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

Ellis Jacob
Chief Executive Officer

Gord Nelson
Chief Financial Officer

Toronto, Ontario

February 11, 2015

February 11, 2015

Independent Auditor's Report

To the Shareholders of
Cineplex Inc.

We have audited the accompanying consolidated financial statements of Cineplex Inc. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2014 and December 31, 2013 and the consolidated statements of operations, comprehensive income, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

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

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

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

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Cineplex Inc. and its subsidiaries as at December 31, 2014 and December 31, 2013 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Cineplex Inc.
Consolidated Balance Sheets

(expressed in thousands of Canadian dollars)

	December 31, 2014	December 31, 2013
Assets		
Current assets		
Cash and cash equivalents (note 6)	$ 34,367	$ 44,140
Trade and other receivables (note 7)	101,462	100,891
Inventories (note 8)	7,978	7,234
Prepaid expenses and other current assets	8,102	6,838
	151,909	159,103
Non-current assets		
Property, equipment and leaseholds (note 9)	495,532	459,112
Deferred income taxes (note 10)	6,971	17,635
Fair value of interest rate swap agreements (note 4)	—	92
Interests in joint ventures (note 11)	46,457	44,359
Intangible assets (note 12)	109,746	113,601
Goodwill (note 13)	798,801	797,476
	$ 1,609,416	$ 1,591,378

Business acquisitions (note 3)

Commitments, guarantees and contingencies (note 27)

(expressed in thousands of Canadian dollars)

	December 31, 2014	December 31, 2013
Liabilities		
Current liabilities		
Accounts payable and accrued expenses (note 14)	$ 159,152	$ 157,333
Share-based compensation (note 15)	6,160	12,151
Dividends payable (note 16)	7,877	7,552
Income taxes payable (note 10)	9,735	2,656
Deferred revenue	149,644	136,373
Finance lease obligations (note 18)	2,670	2,394
Fair value of interest rate swap agreements (note 4)	692	635
	335,930	319,094
Non-current liabilities		
Share-based compensation (note 15)	15,504	15,622
Long-term debt (note 17)	229,754	217,151
Fair value of interest rate swap agreements (note 4)	2,117	—
Finance lease obligations (note 18)	15,008	17,722
Post-employment benefit obligations (note 19)	6,977	6,522
Other liabilities (note 20)	173,550	170,125
Convertible debentures (note 21)	98,727	96,870
	541,637	524,012
Total liabilities	877,567	843,106
Equity		
Share capital (note 22)	854,073	853,411
Deficit	(123,771)	(107,323)
Accumulated other comprehensive loss	(3,405)	(1,715)
Contributed surplus	4,952	3,899
	731,849	748,272
	$ 1,609,416	$ 1,591,378

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

Approved by the Board of Directors

Director

Director

Cineplex Inc.

Consolidated Statements of Operations
For the years ended December 31, 2014 and 2013

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

	2014	2013
Revenues		
Box office	$ 672,678	$ 665,306
Food service	375,039	350,353
Media	134,189	109,581
Other	52,810	46,027
	1,234,716	1,171,267
Expenses		
Film cost	349,564	346,373
Cost of food service	81,455	74,693
Depreciation and amortization	77,450	70,890
Loss on disposal of assets	3,393	4,372
Other costs (note 23)	606,677	551,819
Share of income of joint ventures	(2,856)	(3,850)
Interest expense	21,948	10,743
Interest income	(330)	(307)
	1,137,301	1,054,733
Income before income taxes	97,415	116,534
Provision for income taxes		
Current (note 10)	10,625	3,608
Deferred (note 10)	10,519	29,369
	21,144	32,977
Net income	$ 76,271	$ 83,557
Basic net income per share (note 24)	$ 1.21	$ 1.33
Diluted net income per share (note 24)	$ 1.20	$ 1.32

Cineplex Inc.

Consolidated Statements of Comprehensive Income
For the years ended December 31, 2014 and 2013

(expressed in thousands of Canadian dollars)

	2014	2013
Net income	$ 76,271	$ 83,557
Other comprehensive income (loss)		
Items that will be reclassified subsequently to net income:		
(Loss) on hedging instruments (note 4)	(2,296)	(782)
Associated deferred income taxes recovery	606	209
Items that will not be reclassified to net income:		
Actuarial gains of post-employment benefit obligations (note 19)	664	388
Associated deferred income taxes (expense)	(176)	(102)
Other comprehensive (loss)	(1,202)	(287)
Comprehensive income	$ 75,069	$ 83,270

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

Cineplex Inc.

Consolidated Statements of Changes in Equity
For the years ended December 31, 2014 and 2013

(expressed in thousands of Canadian dollars)

	Share capital (note 22)	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total
Balance - January 1, 2014	$ 853,411	$ 3,899	$ (1,715)	$ (107,323)	$ 748,272
Net income	—	—	—	76,271	76,271
Other comprehensive (loss) (page 4)	—	—	(1,690)	488	(1,202)
Total comprehensive income			**(1,690)**	**76,759**	**75,069**
Dividends declared (note 16)	—	—	—	(93,207)	(93,207)
Share option expense	—	1,715	—	—	1,715
Issuance of shares on exercise of options	662	(662)	—	—	—
Balance - December 31, 2014	$ 854,073	$ 4,952	$ (3,405)	$ (123,771)	$ 731,849
Balance - January 1, 2013	$ 847,235	$ 3,768	$ (1,142)	$ (102,547)	$ 747,314
Net income	—	—	—	83,557	83,557
Other comprehensive (loss) (page 4)	—	—	(573)	286	(287)
Total comprehensive income			**(573)**	**83,843**	**83,270**
Dividends declared (note 16)	—	—	—	(88,619)	(88,619)
Long-term incentive plan obligation	248	—	—	—	248
Issuance of convertible debentures	4,471	—	—	—	4,471
Share option expense	—	1,588	—	—	1,588
Issuance of shares on exercise of options	1,457	(1,457)	—	—	—
Balance - December 31, 2013	$ 853,411	$ 3,899	$ (1,715)	$ (107,323)	$ 748,272

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

Cineplex Inc.

Consolidated Statements of Cash Flows
For the years ended December 31, 2014 and 2013

(expressed in thousands of Canadian dollars)

	2014	2013
Cash provided by (used in)		
Operating activities		
Net income	$ 76,271	$ 83,557
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization of property, equipment and leaseholds, and intangible assets	77,450	70,890
Amortization of tenant inducements, rent averaging liabilities and fair value lease contract liabilities	(5,750)	(6,735)
Accretion of debt issuance costs and other non-cash interest	4,845	2,001
Loss on disposal of assets	3,393	4,372
Deferred income taxes	10,519	29,369
Interest rate swap agreements - non-cash interest	(63)	(939)
Non-cash share-based compensation	1,715	1,826
Accretion of convertible debentures	1,858	274
Net change in interests in joint ventures	(2,604)	(2,686)
Tenant inducements	4,215	5,417
Changes in operating assets and liabilities (note 26)	8,409	37,302
Net cash provided by operating activities	180,258	224,648
Investing activities		
Proceeds from sale of assets	4,333	3,573
Purchases of property, equipment and leaseholds	(106,196)	(62,410)
Acquisition of businesses, net of cash acquired (note 3)	(2,605)	(238,338)
Intangible assets additions	(3,700)	—
Net cash received from (invested in) CDCP	1,456	(50)
Net cash used in investing activities	(106,712)	(297,225)
Financing activities		
Dividends paid	(92,881)	(88,130)
Borrowings under credit facility, net	12,000	70,000
Repayment of debt acquired with business (note 3)	—	(12,875)
Payments under finance leases	(2,438)	(2,277)
Net proceeds from issuance of convertible debentures (note 21)	—	103,469
Deferred financing fees (notes 17 and 21)	—	(2,135)
Net cash (used in) provided by financing activities	(83,319)	68,052
Decrease in cash and cash equivalents	(9,773)	(4,525)
Cash and cash equivalents - Beginning of year	44,140	48,665
Cash and cash equivalents - End of year	$ 34,367	$ 44,140
Supplemental information		
Cash paid for interest	$ 14,945	$ 9,421
Cash paid for income taxes	$ 2,970	$ 14,148

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

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

1 General information

Cineplex Inc. ("Cineplex") an Ontario, Canada corporation, is Canada's largest film exhibition organization, with theatres in ten provinces. Cineplex operates primarily through its wholly owned subsidiaries, Cineplex Entertainment Limited Partnership (the "Partnership"), Famous Players Limited Partnership ("Famous Players"), Galaxy Entertainment Inc. ("GEI"), Cineplex Digital Media Inc. ("CDM"), and Cineplex Digital Networks Inc. ("CDN"). Cineplex is headquartered at 1303 Yonge Street, Toronto, Ontario, M4T 2Y9.

The Board of Directors approved these consolidated financial statements on February 11, 2015.

2 Significant accounting policies, judgments and estimation uncertainty

Significant accounting policies

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

Basis of preparation and measurement

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

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

Operating Segments

Cineplex is comprised of two reportable operating segments, Exhibition and Media. The reportable segments are business units offering differing products and services. Details of Cineplex's two reportable operating segments are provided in note 28.

Consolidation

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

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

Acquisition-related costs are expensed as incurred.

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

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

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

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

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

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

When Cineplex ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income ("OCI") in respect of that entity are accounted for as if Cineplex had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in OCI are reclassified to profit or loss.

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

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in OCI is reclassified to profit or loss where appropriate. Cineplex's share of post-acquisition profit or loss is recognised in the statement of operations, and its share of post-acquisition movements in OCI is recognised in OCI with a corresponding adjustment to the carrying amount of the investment. When Cineplex's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, Cineplex does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

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

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

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

Until 2013, Cineplex also consolidated a trust administered by a third party that acted as trustee for the long-term incentive plan ("LTIP"). When required under the terms of the LTIP, the Partnership funded the LTIP trust, subsequent to which, the trustee acquired shares on the open market. The unvested shares, recorded at their carrying value, were held in the LTIP trust to be

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

distributed under the terms of the LTIP. The LTIP trust was considered a special purpose entity, as the total investment at risk was not sufficient to permit the LTIP trust to finance its activities without additional support. The activities of the LTIP trust were conducted on behalf of Cineplex, and Cineplex obtained the benefits from the LTIP trust's operations and the right to receive the majority of the benefits of the LTIP trust. Therefore, Cineplex consolidated the LTIP trust. Cineplex did not guarantee the value of the shares held by the LTIP trust, had the fair value of the shares decreased from the value at which the LTIP trust acquired the shares. The LTIP trust distributed all of its assets in 2013.

Investments in joint ventures

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor.

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

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

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

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

Foreign currency translation

Functional and presentation currency

Items included in the consolidated financial statements of each consolidated entity in the Cineplex group are measured using Canadian dollars, the currency of the primary economic environment in which each entity operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Generally, foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at fiscal year-end exchange rates of monetary assets and liabilities denominated in currencies other than an operation's functional currency are recognized in the consolidated statements of operations.

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

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash equivalents are readily converted into known amounts of cash, and are subject to an insignificant risk of changes in value.

Financial instruments

Financial assets and financial liabilities are recognized when Cineplex becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and Cineplex has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the contractual obligations are discharged, canceled or expire. Regular purchases and sales of financial assets are recognized on the trade-date, the date on which Cineplex commits to purchase or sell the asset.

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheets when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the financial asset and settle the financial liability simultaneously.

At initial recognition, Cineplex classifies its financial instruments in the following categories depending on the purpose for which the financial instruments were acquired:

i. Financial assets and financial liabilities at fair value through profit or loss: The only instruments held by Cineplex classified in this category are certain equipment purchase liabilities, and the deferred consideration payable for business combinations. Derivatives are included in this category unless they are designated as hedges.

   Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the consolidated statements of operations. Gains and losses arising from changes in fair value are presented in the consolidated statements of operations. Financial assets and financial liabilities at fair value through profit or loss are classified as current, except for the portion expected to be realized or paid beyond 12 months of the consolidated balance sheet date, which is classified as non-current. Financial assets and liabilities at fair value through profit or loss are presented within changes in operating assets and liabilities in the consolidated statements of cash flows.

ii. Available-for-sale investments: Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. Cineplex has no available-for-sale investments.

iii. Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Cineplex's loans and receivables comprise trade receivables and cash and cash equivalents, and are included in current assets due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method, less a provision for impairment.

iv. Financial liabilities at amortized cost: Financial liabilities at amortized cost include trade payables, dividends and distributions payable, bank indebtedness and long-term debt and the non-derivative component of convertible debentures. Trade payables are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, trade payables are measured at amortized cost using the effective interest method. Bank indebtedness and long-term debt, and the non-derivative component of convertible debentures are recognized initially at fair value, net of any transaction costs incurred and, subsequently, at amortized cost using the effective interest method.

   Financial liabilities are classified as current liabilities if payment is due within 12 months. Otherwise, they are presented as non-current liabilities.

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

v. Derivative financial instruments: In addition to the conversion derivative discussed in (i), Cineplex uses derivatives in the form of interest rate swap agreements, which are designated as cash flow hedges to manage risks related to its variable rate debt. The effective portion of the change in fair value of the interest rate swap agreements is recognized in OCI or OCL until the hedged interest payment is recorded, while the ineffective portion is recognized as interest expense when incurred.

Impairment of financial assets

At each reporting date, Cineplex assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, Cineplex recognizes an impairment loss, as follows:

i. Financial assets carried at amortized cost: The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the financial instrument's original effective interest rate. The carrying value of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

ii. Available-for-sale financial assets: The impairment loss is the difference between the cost of the financial asset and its fair value at the measurement date.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent years if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method. Net realizable value is the estimated selling price less applicable selling expenses.

Impairment of non-financial assets

Property, equipment and leaseholds and intangible assets subject to amortization are tested for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Long-lived assets that are not amortized are subject to an annual impairment test. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows relating to the relevant intangible asset ("cash-generating units" or "CGUs"). Cineplex considers each theatre a CGU. The Media segment is considered a CGU, with CDN considered separately until the earn-out payment is finalized in 2016 (note 3e). Corporate assets are allocated to CGUs based on the proportionate carrying value of each theatre CGU. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset's carrying value exceeds its recoverable amount.

Goodwill is reviewed for impairment annually or at any time if an indicator of impairment exists.

Goodwill acquired through a business combination is allocated to each CGU or group of CGUs that is expected to benefit from the related business combination. A group of CGUs represents the lowest level within the entity at which the goodwill is monitored for internal management purposes, which is not higher than an operating segment. Cineplex groups theatre CGUs based on geographical regions of financial management responsibility in testing goodwill for impairments.

Cineplex groups CGUs based on trade name in testing indefinite-lived trade names for impairment.

Cineplex evaluates impairment losses, other than goodwill impairment, for potential reversals when events or circumstances warrant such consideration.

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

Property, equipment and leaseholds

Property, equipment and leaseholds are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying value or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Cineplex and the cost can be measured reliably. The carrying value of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to the consolidated statements of operations during the year in which they are incurred.

The major categories of property, equipment and leaseholds are depreciated on a straight-line basis as follows:

Buildings	40 years
Equipment	3 - 10 years
Leasehold improvements	term of lease but not in excess of the useful lives

For owned buildings constructed on leased property, the useful lives do not exceed the terms of the land leases.

Cineplex allocates the amount initially recognized in respect of an item of property, equipment and leaseholds to its significant parts and depreciates separately each such part. Residual values, method of depreciation and useful lives of the assets are reviewed at least annually or whenever events or circumstances suggest a change that may otherwise indicate an impairment exists and adjusted if appropriate. Construction-in-progress is depreciated from the date the asset is ready for productive use.

Gains and losses on disposals of property, equipment and leaseholds are determined by comparing the proceeds with the carrying value of the asset and are included as part of other gain or loss on the sale of assets in the consolidated statements of operations.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of Cineplex's share of the net identifiable assets of the acquired business at the date of acquisition.

Identifiable intangible assets

Intangible assets include trademarks, trade names, leases, software and customer relationships acquired by Cineplex. As Cineplex intends to use certain of the trademarks and trade names of the Partnership and GEI for the foreseeable future, the useful lives of those trademarks and trade names are indefinite and no amortization is recorded. Other trade names are expected to be substantially discontinued and are amortized over their expected useful lives (note 12). Management tests indefinite-lived intangible assets for impairment at least annually, and considers at least annually or whenever events or circumstances indicate that the life of an indefinite-lived intangible asset may be finite. The advertising contracts have limited lives and are amortized over their useful lives, estimated to be between five to nine years. The estimated fair value of lease contract assets is amortized on a straight-line basis over the remaining term of the lease into amortization expense.

Disposal of long-lived assets and discontinued operations

A long-lived asset must be classified as an asset held for sale in the period during which all required criteria have been met. A long-lived asset to be disposed of by sale must be measured at the lower of its carrying value or fair value less selling costs and should not be amortized as long as it is classified as an asset to be disposed of by sale. Financial assets and financial liabilities classified as held for sale are recorded in the consolidated balance sheets as financial assets held for sale and as financial liabilities related to property held for sale. A long-lived asset to be disposed of other than by sale continues to be classified as held and used until it is disposed. The operating results and cash flows of a major line of business or geographical area classified as a discontinued operation are presented separately in the consolidated financial statements.

Interest on any debt that is assumed by the buyer and interest on debt that is required to be repaid as a result of a disposal transaction is allocated to discontinued operations.

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

Leases

Leases are classified as either finance or operating. Leases that transfer substantially all of the risks and benefits of ownership to Cineplex and meet the criteria for finance leases are accounted for as an acquisition of an asset and an assumption of an obligation at the inception of the lease, measured at the present value of minimum lease payments. Related buildings, leasehold improvements and equipment are amortized on a straight-line basis over the term of the lease but not in excess of their useful lives. All other leases are accounted for as operating leases wherein rental payments are recorded in rent expense on a straight-line basis over the term of the related lease. Tenant inducements received are amortized into rent expense over the term of the related lease agreement. The unamortized portion of tenant inducements and the difference between the straight-line rent expense and the payments, as stipulated under the lease agreement, are included in other liabilities.

Borrowing costs

Borrowing costs attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognized as interest expense in the consolidated statements of operations in the year in which they are incurred.

Employee benefits

Cineplex is the sponsor of a number of employee benefit plans. These plans include a defined benefit pension plan, additional unfunded defined benefit obligations for former Famous Players employees, and until December 31, 2013, a defined contribution pension plan. The defined contribution plan was replaced by a group registered retirement savings plan.

i. Post-employment benefit obligations

For defined benefit plans, the level of benefit provided is based on the length of service and annual earnings of the person entitled.

The cost of defined benefit plans is determined using the projected unit credit method. The related benefit liability recognized in the consolidated balance sheets is the present value of the defined benefit obligation at the consolidated balance sheet dates less the fair value of plan assets. The cost of the defined contribution pension plan was charged to expense as the contributions became payable.

Actuarial valuations for defined benefit plans are carried out periodically and considered at each annual consolidated balance sheet date. The discount rate applied in arriving at the present value of the benefit liability represents yields on high-quality corporate bonds that are denominated in Canadian dollars, the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related benefit liability.

The net defined benefit liability (asset) is recognized on the balance sheet without any deferral of actuarial gains and losses. Past service costs are recognized in net income when incurred. Post-employment benefits expense includes the net interest on the net defined benefit liability (asset) calculated using a discount rate based on market yields on high quality bonds. Remeasurements consisting of actuarial gains and losses, the actual return on plan assets (excluding the net interest component) and any change in the asset ceiling are recognized in other comprehensive income without recycling to the consolidated statements of operations.

Employee benefits are classified as long-term employee benefits if payments are not expected to be made within the next 12 months.

ii. Share-based compensation - options

Cineplex grants stock options to certain employees. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is based on the number of awards expected to vest and is recognized over the

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

tranche's vesting period, included as employee benefits expense in other costs. The number of awards expected to vest is reviewed at least annually, with any impact being recognized immediately.

iii. Share-based compensation - other plans

Cineplex has a number of other cash-settled share-based compensation plans. The obligation for these plans is recorded at fair value on a percentage vested basis. Changes in the obligation are reflected in employee benefits in other costs on the consolidated statements of operations.

Provisions

Provisions for asset retirement obligations, theatre shutdowns and legal claims, where applicable, are recognized when Cineplex has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material. Cineplex performs evaluations to identify onerous contracts and, where applicable, records provisions for such contracts. Provisions are included in other liabilities on the consolidated balance sheets.

Income taxes

Income taxes comprise current and deferred income taxes. Income taxes are recognized in the consolidated statements of operations, except to the extent that they relate to items recognized directly in equity or in OCI, in which case, the income taxes are also recognized directly in equity or in OCI.

Current income taxes are the expected taxes payable on the taxable income for the year, using income tax rates enacted or substantively enacted, at the end of the reporting period, and any adjustment to income taxes payable in respect of previous years.

In general, deferred income taxes are recognized in respect of temporary differences arising between the income tax bases of assets and liabilities and their carrying values in the consolidated financial statements. Deferred income taxes are determined on a non-discounted basis using income tax rates and laws that have been enacted or substantively enacted at the consolidated balance sheet dates and are expected to apply when the deferred income tax asset or liability is settled. Deferred income tax assets are recognized to the extent that it is probable that the assets can be recovered.

Deferred income taxes are provided on temporary differences arising on investments in subsidiaries and joint ventures, except, in the case of subsidiaries, where the timing of the reversal of the temporary difference is controlled by Cineplex and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are presented as non-current.

Taxes on income in interim periods are accrued using the income tax rate that would be applicable to expected total annual income.

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of common shares are recognized as a deduction from equity. Shares held by the LTIP trust for the benefit of LTIP participants are considered treasury stock and presented at cost as a reduction of common share capital.

Dividends

Dividends on common shares are recognized in the consolidated financial statements in the year in which the dividends are approved by the Board of Directors of Cineplex.

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

Income per share

Basic income per share ("EPS") is calculated by dividing the net income for the year attributable to equity owners of Cineplex by the weighted average number of common shares outstanding during the year.

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options and similar instruments is computed using the treasury stock method. Cineplex's potentially dilutive common shares include stock options granted to employees and the conversion feature of the convertible debentures.

Revenues

Box office and concession sales are recognized, net of applicable taxes, when sales are recorded at the theatres. Media revenues including media and digital media sales are recognized when services are provided or goods are shipped or installed. Other revenues include revenues from games, online sales and rentals, and theatre rentals and are recognized when services are provided or goods are shipped. Amounts collected on advance ticket sales and screen advertising agreements are deferred and recognized in the year earned or redeemed.

Gift cards and vouchers

Cineplex sells gift cards and vouchers (collectively the "gift cards") to its customers. The proceeds from the sales of gift cards are deferred and recognized as revenue either on redemption of the gift card or in accordance with Cineplex's accounting policy for breakage. Breakage income is included in other revenues and represents the estimated value of gift cards that is not expected to be redeemed by customers. It is estimated based on the terms of the gift cards and historical redemption patterns, including available industry data.

Multiple component arrangements

Cineplex routinely sells combinations of box office, concession and online products for a single price. In the ordinary course of operations, Cineplex offers equipment sales, design and support services for media installations, and sales of advertising services across multiple media (theatre lobby and exhibition, magazine and digital online and out-of-home) for a single price. In addition, Cineplex receives payments from certain vendors for advertising contracts, auditorium rentals and ticket purchases. Revenue from the sale of advertising services, software licenses, network services, maintenance and equipment is generally recognized on delivery to the customer as these criteria are generally met. These multiple-element arrangements are assessed to determine whether they should be treated as more than one unit of accounting or element for the purposes of revenue recognition. Consideration from the arrangement is allocated in multiple-element arrangements to the separate units of accounting, or elements, on a relative fair value basis as determined by an internal analysis of prices. Where an arrangement is accounted for as a single unit of accounting, or evidence of fair value is only available for the delivered components but not the undelivered components, the arrangement is considered a single element arrangement and revenue is deferred and recognized over the term of the arrangement.

Film rental costs

Film rental costs are recorded based on the terms of the respective film licence agreements. In some cases, the final film cost is dependent on the ultimate duration of the film's play and, until this is known, management uses its best estimate of the final settlement of these film costs. Film costs and the related film costs payable are adjusted to the final film settlement in the year Cineplex settles with the distributors. Actual settlement of these film costs could differ from those estimates.

Consideration received from vendors

Cineplex receives rebates from certain vendors with respect to the purchase of concession goods. In addition, Cineplex receives payments from vendors for advertising undertaken by the theatres on behalf of the vendors. Cineplex recognizes rebates earned for purchases of each vendor's product as a reduction of concession costs and recognizes payments received for services delivered to the vendor as other revenue.

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

Significant accounting judgments and estimation uncertainties

Critical accounting estimates and judgments

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

a) Goodwill
Recoverable amount

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

b) Financial instruments
Fair value of over-the-counter derivatives

Cineplex's over-the-counter derivatives include interest rate swaps used to economically hedge exposure to variable cash flows associated with interest payments on Cineplex's borrowings. Management estimates the fair values of these derivatives as the present value of expected future cash flows to be received or paid, based on available market data, which includes market yields and counterparty credit spreads. The carrying value of the interest rate swaps liability was $2,809 at December 31, 2014. If interest rates changed 1% from existing estimates throughout the contract period, the carrying value would change to a liability of $5,908 or to an asset of $2,226, primarily affecting OCI.

c) Revenue recognition
Gift cards

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

d) Income taxes

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

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

Significant judgment is required in the identifying tangible and intangible assets and liabilities of the acquired businesses, as well as determining their fair values (note 3).

f) Contingent consideration for CDN

Cineplex recognized the fair value of contingent consideration relating to its acquisition of CDN at the date the transaction closed (note 3e), and management is required to revalue the contingent consideration at each subsequent reporting date until its settlement. The fair value of the consideration could vary based on CDN achieving a predetermined operating earnings target in 2015. Determining the fair value of the consideration involves significant judgments and estimates, including the estimated amount and timing of projected cash flows, the probability of the achievement of the operating earnings on which

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

the contingency is based, and the risk-adjusted discount rate. Significant increases or decreases in any of those inputs in isolation could result in a significantly different fair value measurement.

g) Share-based compensation

Management is required to make certain assumptions and to estimate future financial performance to estimate the fair value of share-based awards at each consolidated balance sheet date. Significant estimates and assumptions relating to the option plan are disclosed in note 15. The LTIP requires management to estimate future non-GAAP earnings measures, future revenue growth relative to specified industry peers, and total shareholder return, both absolutely and relative to specified industry peers. Future non-GAAP earnings are estimated based on current projections, updated at least annually, taking into account actual performance since the grant of the award. Future revenue growth relative to peers is based on historical performance and current projections, updated at least annually for actual performance since the grant of the award by Cineplex and its peers. Total shareholder return for Cineplex and its peers is updated at each consolidated balance sheet date based on financial models, taking into account financial market observable inputs.

Accounting standards adopted in the current year

The following amendments to standards were adopted in the current year:

IFRIC 21, *Levies* provides guidance on when to recognise a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and those where the timing and amount of the levy is certain. IFRIC 21 did not have a significant impact on Cineplex's financial statements.

IAS 32, *Financial Instruments - Presentation*, has been amended effective January 1, 2014 to clarify certain aspects of the existing guidance on offsetting financial assets and financial liabilities. IFRS 7, *Financial Instruments - Disclosure*, to require information about all recognized financial instruments that are set off in accordance with IAS 32. The amendments also require disclosure of information about recognized financial instruments subject to enforceable netting arrangements and similar agreements even if they are not set off under IAS 32. The amendments did not have a significant impact on Cineplex's financial statements.

Accounting standards issued but not yet applied

Unless otherwise noted, the following revised standards and amendments are effective for annual periods beginning on or after January 1, 2015 with earlier application permitted.

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

Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, *Financial Instrument: Recognition and Measurement* ("IAS 39"), except that fair value changes due to credit risk for liabilities designated at fair value through profit or loss are generally recorded in OCI. In July 2014, the effective date was revised to January 1, 2018 with earlier application permitted. Cineplex has not yet assessed the impact of this standard and amendments or determined whether it will early adopt them.

IFRS 9 was amended In November 2013, to (i) include guidance on hedge accounting, and (ii) allow entities to early adopt the requirement to recognize changes in fair value attributable to changes in an entity's own credit risk, from financial liabilities designated under the fair value option, in OCI (without having to adopt the remainder of IFRS 9).

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

On May 28, 2014, the IASB issued the final revenue standard, IFRS 15 *Revenue from Contracts with Customers,* which will replace IAS 11 *Construction Contracts,* IAS 18 *Revenue,* IFRIC 13 *Customer Loyalty Programmes,* IFRIC 15 *Agreements for the Construction of Real Estate,* IFRIC 18 *Transfer of Assets from Customers,* and SIC 31 *Revenue - Barter Transactions Involving Advertising Services.* The new standard will be mandatorily effective for fiscal years beginning on or after January 1, 2017, and interim periods within that year. Earlier application is permitted. Cineplex is analyzing the new standard to determine its impact on Cineplex's balance sheet and statement of operations.

3 Business acquisitions and formations

a) Empire Theatres

On October 24, 2013, Cineplex acquired 24 theatres located in Atlantic Canada from Empire Theatres Limited. The theatres have been rebranded as Cineplex Cinemas. The acquisition provided Cineplex with a national coast-to-coast presence, with theatres in ten provinces.

The total cash consideration paid was $196,583. All transaction costs associated with the transaction were expensed as incurred. In the first quarter of 2014, Cineplex revised the amount of equipment recognized by $961 to $43,131, and recognized a liability for licensing obligation of $961. Cash consideration and goodwill were not affected.

From the date of acquisition through December 31, 2013, the acquired business had total revenues of $17,450 and net income before taxes of $3,611, including amortization of $1,229.

Recognized amounts of identifiable assets acquired and liabilities assumed are as follows:

Assets acquired and liabilities assumed		
Net working capital, including cash of $173	$	2,547
Property and equipment, including leaseholds		43,131
Intangible assets - fair value of leases		17,344
Goodwill		139,562
Deferred income taxes		(4,516)
Other liabilities - licensing obligations		(961)
Other liabilities - asset retirement obligation		(356)
Other liabilities - fair value of leases		(168)
Net assets		196,583
Less: Cash from acquisition		(173)
	$	196,410
Consideration given - cash paid	$	196,583
Less: Cash from acquisition		(173)
	$	196,410

Cineplex recognized goodwill of $139,562, reflecting the cash flows management expects to generate through the growth of sales and improved operations resulting from its operating and programming expertise, combined with its merchandising, media, marketing, interactive and SCENE loyalty programs, all now available on a national platform. Approximately $104,672 of the goodwill is deductible for tax purposes.

b) YoYo's Yogurt Cafe

In January, 2014, Cineplex acquired 50% of the common shares of the YYC Franchise Corporation and YYC Wholesale Inc. ("YoYo's") for $950 cash. YoYo's is a frozen yogurt franchisor with operations in Ontario. Cineplex has opened and will continue to open YoYo's franchises within and outside existing and new theatre operations. Cineplex accounts for its

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

investment in YoYo's as equity-accounted, and includes revenues from Cineplex YoYo's franchises in food service revenues.

c) Cineplex Starburst Inc.

On April 10, 2014, Cineplex committed to acquire the 50% of the issued and outstanding equity of Cineplex Starburst Inc. ("CSI") that Cineplex does not already own, for a minimum of $17,500 cash. After the transaction closes in the third quarter of 2015, Cineplex will own 100% of the issued and outstanding equity of CSI.

Cineplex currently equity-accounts for its interest in CSI. At the acquisition date, Cineplex will recognize 100% of identifiable net assets of CSI. Cineplex's existing interest will be remeasured at fair value at the acquisition date, with any resulting gain or loss on equity interest recognized in the statement of operations. After the transaction closes, Cineplex will control CSI, and will begin consolidating it's financial results from the acquisition date.

d) Ontario Theatre

On May 2, 2014, Cineplex acquired one theatre located in Ontario. The total cash consideration paid was $1,516, including $1,325 goodwill, $994 of which is deductible for income tax purposes. All transactions costs associated with the transaction were expensed as incurred.

Cineplex would not have reported materially different revenues or net income for the year ended December 31, 2014 if the theatre acquisition occurred at January 1, 2014.

e) EK3 Technologies Inc.

On August 30, 2013, Cineplex acquired of 100% of the outstanding common shares of EK3 Technologies Inc. (subsequently renamed Cineplex Digital Networks Inc. ("CDN"), a London, Ontario-based, market leading in-store digital merchandising provider, with business in Canada, the United States and other countries.

The initial purchase price was $40,000, subject to certain adjustments made at closing, and an earn-out payment subject to a maximum cap of $78,000 in total for both payments. The earn-out payment will be based on 2015 operating results and will be paid in early 2016. All of the consideration will be cash. All transaction costs associated with the transaction were expensed as incurred.

Cineplex recognized goodwill of $45,744, reflecting the potential incremental cash flows management expects to generate through the growth of sales to existing and new customers. CDN has proprietary state-of-the-art technology and patented software that Cineplex expects to complement its existing digital signage business. The goodwill is not deductible for tax purposes.

At the time of acquisition, CDN had approximately $21,695 non-capital losses available to offset taxable income earned after acquisition.

From the date of acquisition through December 31, 2013, the acquired business had total revenues of $10,914, and net loss before taxes of $202, including amortization of $1,433 relating to the intangible assets acquired.

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

Recognized amounts of identifiable assets acquired and liabilities assumed are as follows:

Assets acquired and liabilities assumed		
Net working capital, including cash of $348	$	4,186
Equipment		1,279
Intangible assets, including customer relationships and software, both amortized on a straight-line basis over their seven-year estimated lives		30,100
Goodwill		45,744
Deferred income taxes liability, net		(419)
Debt assumed		(12,875)
Finance lease obligations		(229)
Net assets		67,786
Less: Cash from acquisition		(348)
	$	67,438

Consideration given - cash paid	$	39,160
Less: Estimated adjustment to initial consideration		(706)
Less: Cash from acquisition		(348)
Plus: Deferred contingent consideration, at fair value		29,332
	$	67,438

The estimated deferred consideration of $39,638 to be paid in 2016 is based on the total payment of $78,000, reflecting Cineplex's assumption that the maximum earn-out will be achieved. That estimate is based on management's calculation of the acquired business' operating results for the twelve months ending December 31, 2015 based on assumptions of revenue growth from existing and future customers, expenses, and required investment in equipment. If CDN does not achieve the maximum earn-out, the deferred consideration will be reduced, possibly to zero. If Cineplex's estimate of the acquired business' operating results were lower by 20%, the deferred consideration would be reduced by $7,333.

The deferred consideration is included in other liabilities on the balance sheet. It is being accreted to its estimated payment value using an effective interest rate of 12.5%, reflecting the risk-adjusted weighted-average cost of capital of the acquired business. The accretion is reflected in interest expense. Cineplex used its best estimate of the discount rate. Depending on risk and debt cost estimates, the weighted-average cost of capital could range as high as 14.5%, which would have resulted in fair value deferred consideration of $27,747, reducing goodwill recognized, and increasing interest expense in future periods due to higher accretion.

f) Festival Theatres

On March 1, 2013, Cineplex acquired the operations of two Vancouver theatres from Festival Cinemas Ltd. The total consideration was $3,822. All transaction costs associated with the transaction were expensed as incurred.

Cineplex recognized goodwill of $3,241, reflecting the potential efficiencies and incremental cash flows management expects to generate through the implementation of Cineplex standard operating procedures and growth initiatives. The amount deductible for tax purposes is approximately $2,431.

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

Recognized amounts of identifiable assets acquired and liabilities assumed are as follows:

Assets acquired and liabilities assumed		
Net working capital, including cash of $19	$	41
Equipment		559
Goodwill		3,241
Net assets		3,841
Less: Cash from acquisition		(19)
	$	3,822
Consideration given - cash paid	$	3,841
Less: Cash from acquisition		(19)
	$	3,822

4 Financial instruments

Fair value of financial instruments

The carrying value and fair value of Cineplex's financial instruments at December 31, 2014 and 2013 are as follows:

		2014		2013	
	Input level	Carrying value	Fair value	Carrying value	Fair value
Long-term debt	2	$ 229,754	$ 232,000	$ 217,151	$ 220,000
Convertible debentures	1	98,727	113,165	96,870	112,338
Other liabilities - equipment liabilities	2	11,563	11,563	13,538	13,538
Interest rate swap agreements, net	2	2,809	2,809	543	543
Deferred consideration - AMC	2	3,061	3,061	2,929	2,929
Deferred consideration - EK3	3	34,486	34,486	30,577	30,577

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

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

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

Effective August 24, 2011, Cineplex entered into three interest rate swap agreements. Under these interest rate swap agreements, Cineplex pays a fixed rate of 1.715% 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. Those interest rate swap agreements have a term of five years that commenced in August 2011 and an aggregate notional principal amount of $150,000, the principal balance of the Term Facility.

In the first quarter of 2014, Cineplex entered into three interest rate swap agreements which commence at the maturity of the 2011 interest rate swap agreements, and mature on October 24, 2018. Under these interest rate swap agreements, Cineplex pays a fixed rate of 2.62% per annum, plus an applicable margin, and receives a floating rate of interest equal to the three-month

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

Canadian deposit offering rate set quarterly in advance, with net settlements quarterly. The interest rate swap agreements have an aggregate notional principal amount of $150,000, the principal balance of the Term Facility.

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

The deferred consideration for AMC (an undiscounted amount of $3,134 based on estimated non-capital losses arising from the 2012 acquisition of AMC Ventures Inc.) and EK3 are recorded at fair value and included in other liabilities. The change in fair value during the years ended December 31, 2014 and 2013 are as follows:

	2014		2013	
	AMC	**EK3**	**AMC**	**EK3**
Fair value at beginning of year	$ 2,929	$ 30,577	$ 2,746	$ —
Fair value upon assumption of liability	—	—	—	29,332
Payments	—	(139)	—	—
Accretion	132	4,048	183	1,245
Fair value at end of year	$ 3,061	$ 34,486	$ 2,929	$ 30,577

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

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

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

Credit risk

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

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

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

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

The following schedule reflects the balance and age of trade receivables at December 31, 2014 and 2013:

		2014		2013
Trade receivables carrying value	$	81,905	$	85,211
Percentage past due		26%		21%
Percentage outstanding more than 120 days		—%		2%

The following schedule reflects the changes in the allowance for trade receivables during the years ended December 31, 2014 and 2013:

		2014		2013
Allowance for trade receivables - Beginning of year	$	177	$	339
Additional allowance recorded		180		70
Amounts written off		(125)		(232)
Allowance for trade receivables - End of year	$	232	$	177

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

Liquidity risk

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

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

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

	2014				
	Payments due by period				
Contractual obligations	**Total**	**Within 1 year**	**2 - 3 years**	**4 - 5 years**	**After 5 years**
Accounts payable and accrued expenses	$ 159,151	$ 159,151	$ —	$ —	$ —
Dividends payable	7,877	7,877	—	—	—
Interest rate swap agreements	3,303	604	1,728	971	—
Long-term debt	232,000	—	—	232,000	—
Convertible debentures	107,500	—	—	107,500	—
Equipment obligations	12,679	1,867	3,734	3,657	3,421
Finance lease obligations	21,530	3,872	7,910	7,910	1,838
Deferred consideration - AMC	3,134	—	3,134	—	—
Deferred consideration - EK3	39,638	—	39,638	—	—
Total contractual obligations	$ 586,812	$ 173,371	$ 56,144	$ 352,038	$ 5,259

	2013				
	Payments due by period				
Contractual obligations	**Total**	**Within 1 year**	**2 - 3 years**	**4 - 5 years**	**After 5 years**
Accounts payable and accrued expenses	$ 157,032	$ 157,032	$ —	$ —	$ —
Dividends payable	7,552	7,552	—	—	—
Interest rate swap agreements	1,110	675	435	—	—
Long-term debt	220,000	—	—	220,000	—
Convertible debentures	107,500	—	—	107,500	—
Equipment obligations	15,031	1,942	3,884	3,884	5,321
Finance lease obligations	25,355	3,779	7,867	7,916	5,793
Deferred consideration - AMC	3,134	—	3,134	—	—
Deferred consideration - EK3	39,638	—	39,638	—	—
Total contractual obligations	$ 576,352	$ 170,980	$ 54,958	$ 339,300	$ 11,114

Cineplex also has significant contractual obligations in the form of operating leases (note 25) and new theatre and other capital commitments (note 27), as well as contingent obligations in the form of letters of credit, guarantees and long-term incentive and option plans.

Cineplex expects to fund lease commitments through cash flows from operations. New theatre capital commitments not funded through cash flows from operations will be funded through Cineplex's committed Revolving Facility (note 17).

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

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

Currency risk

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

Substantially all of Cineplex's revenues and expenses are in Canadian dollars, except an insignificant portion of expenses, which are denominated in US dollars. Management considers currency risk to be low and does not hedge its currency risk. As variations in foreign currency exchange rates are not expected to have a significant impact on the results of operations, a sensitivity analysis is not presented.

Interest rate risk

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

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

Interest expense on the long-term debt is adjusted to include the payments made or received under the interest rate swap agreements. The interest rate swap agreements are recognized in the consolidated balance sheets at their estimated fair value. The effective portion of the change in fair value of the interest rate swap agreements is recognized in OCI until the hedged interest payment is recorded, while the ineffective portion is recognized in the consolidated statements of operations as interest expense when incurred. During the year ended December 31, 2014, Cineplex recorded non-cash interest expense recovery of $63 (2013 - $939 recovery) relating to the cash flow hedge. Cineplex expects to reclassify $1,117 from accumulated other comprehensive loss to the consolidated statement of operations in 2015 (2014 - $494), excluding the impact of income taxes.

The following table shows Cineplex's exposure to interest rate risk and the pre-tax effects on net income and OCI for the years ended December 31, 2014 and 2013 of a 1% change in interest rates management believes is reasonably possible:

						2014
		Pre-tax effects on net income and OCI - increase (decrease)				
		1% decrease in interest rates		1% increase in interest rates		
	Carrying value of financial liability	Net income	OCI	Net income	OCI	
Long-term debt	$ 229,754	$ 2,749	$ —	$ (2,749)	$ —	
Interest rate swap agreements - net	2,809	(1,500)	(1,599)	1,500	3,535	
		$ 1,249	$ (1,599)	$ (1,249)	$ 3,535	

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

		2013				
		Pre-tax effects on net income and OCI - increase (decrease)				
		1% decrease in interest rates		1% increase in interest rates		
	Carrying value of financial liability	Net income	OCI	Net income	OCI
Long-term debt	$ 217,151	$ 1,909	$ —	$ (1,909)	$ —
Interest rate swap agreements - net	543	(1,500)	(2,390)	1,500	2,700
		$ 409	$ (2,390)	$ (409)	$ 2,700

5 Capital disclosures

Cineplex's objectives when managing capital are to:

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

Cineplex defines its capital as follows:

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

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

Cineplex is subject to certain covenants on its credit facilities agreement, which defines certain non-GAAP terms and measures. The total leverage ratio may not exceed 3.50 to 1 unless an acquisition is undertaken, in which case, the ratio allowance increases to 4.00 to 1 for a 12-month period before reverting automatically to 3.50 to 1. The total leverage ratio is determined by dividing total debt at the period-end (as defined in the credit facilities agreement) by the adjusted earnings before interest, income taxes, depreciation and amortization ("EBITDA") (as defined in the credit facilities agreement) for the past four quarters. Cineplex also must maintain a fixed charge coverage ratio of greater than 1.25 to 1. The fixed charge coverage ratio (as defined in the credit facilities agreement) is computed by dividing the sum of adjusted EBITDA (as defined in the credit facilities agreement) and rent expense for the past four quarters by fixed charges for the same period. Fixed charges include interest expense, scheduled debt repayments, maintenance capital expenditures, rent expense and income taxes paid in the year. Management reviews the covenants on a quarterly basis in conjunction with filing requirements under its credit facilities agreement but also maintains a rolling projection to assess future growth capital commitments. Cineplex has complied with all covenant requirements during the years ended December 31, 2014 and 2013. Management also monitors the annualized payout ratio, calculated as dividends declared divided by adjusted free cash flow. All of these ratios are managed with certain target ranges determined by management to allow for flexibility in considering growth opportunities.

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

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

Objectives and strategies are reviewed periodically by management. During 2013, Cineplex increased its Revolving Facility and issued convertible debentures, partially funding the acquisition of the Empire theatres, while allowing for greater flexibility and effective use of cash reserves.

6 Cash and cash equivalents

Cash and cash equivalents comprise the following:

	2014	2013
Cash at bank and on hand, net of outstanding cheques	$ 34,367	$ 44,140

7 Trade and other receivables

Trade and other receivables comprise the following:

	2014	2013
Trade receivables	$ 81,905	$ 85,094
Other receivables	19,557	15,797
	$ 101,462	$ 100,891

8 Inventories

Inventories comprise the following:

	2014	2013
Concession inventories	$ 5,285	$ 5,500
Other inventories, including work-in-progress	2,693	1,734
	$ 7,978	$ 7,234

The cost of inventories recognized as an expense was $80,746 (2013 - $73,974).

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

9 Property, equipment and leaseholds

Property, equipment and leaseholds consist of:

	Land	Buildings and leasehold improvements	Buildings and leasehold improvements under finance lease	Equipment	Equipment under finance lease	Construction-in-progress	Total
At January 1, 2013							
Cost	$ 20,569	$ 493,543	$ 26,102	$ 388,511	$ 1,931	$ 5,981	$ 936,637
Accumulated depreciation	—	(226,605)	(11,033)	(278,570)	(1,931)	—	(518,139)
Net book value	$ 20,569	$ 266,938	$ 15,069	$ 109,941	$ —	$ 5,981	$ 418,498
Year ended December 31, 2013							
Opening net book value	$ 20,569	$ 266,938	$ 15,069	$ 109,941	$ —	$ 5,981	$ 418,498
Additions	2,867	42,388	—	56,001	222	3,632	105,110
Disposals	(1,150)	(3,561)	—	(1,197)	—	—	(5,908)
Depreciation for the year	—	(29,341)	(2,037)	(27,116)	(94)	—	(58,588)
Closing net book value	$ 22,286	$ 276,424	$ 13,032	$ 137,629	$ 128	$ 9,613	$ 459,112
At January 1, 2014							
Cost	$ 22,286	$ 530,529	$ 26,102	$ 437,481	$ 222	$ 9,613	$ 1,026,233
Accumulated depreciation	—	(254,105)	(13,070)	(299,852)	(94)	—	(567,121)
Net book value	$ 22,286	$ 276,424	$ 13,032	$ 137,629	$ 128	$ 9,613	$ 459,112
Year ended December 31, 2014							
Opening net book value	$ 22,286	$ 276,424	$ 13,032	$ 137,629	$ 128	$ 9,613	$ 459,112
Additions	1,583	32,171	—	62,576	—	18,556	114,886
Disposals	(4,607)	(1,901)	—	(1,657)	(44)	(313)	(8,522)
Depreciation for the year	—	(33,659)	(2,038)	(34,163)	(84)	—	(69,944)
Closing net book value	$ 19,262	$ 273,035	$ 10,994	$ 164,385	$ —	$ 27,856	$ 495,532
At December 31, 2014							
Cost	$ 19,262	$ 558,800	$ 26,102	$ 489,087	$ 108	$ 27,856	$ 1,121,215
Accumulated depreciation	—	(285,765)	(15,108)	(324,702)	(108)	—	(625,683)
Net book value	$ 19,262	$ 273,035	$ 10,994	$ 164,385	$ —	$ 27,856	$ 495,532

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

10 Deferred income taxes

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

	2014	2013
Deferred income tax assets		
Property, equipment and leaseholds and deferred tenant inducements - difference between net carrying value and undepreciated capital cost	$ 25,936	$ 25,402
Accounting provisions not currently deductible	11,736	13,893
Rent averaging liabilities	9,813	9,150
Deferred revenue	105	184
Interest rate swap agreements	797	626
Income tax credits available	1,751	2,148
Operating losses available for carry-forward	9,409	21,081
Total gross deferred income tax assets	59,547	72,484
Future deferred tax liabilities		
Intangible assets	(17,368)	(19,264)
Goodwill	(32,206)	(27,822)
Other	(3,002)	(7,763)
Total gross deferred income tax liabilities	(52,576)	(54,849)
Net deferred income tax asset	$ 6,971	$ 17,635

With the exception of operating losses used to reduce taxable income, which cannot be estimated, the net deferred income taxes are expected to be recognized after 2015.

The provision for income taxes included in the consolidated statements of operations differs from the statutory income tax rate for the years ended December 31, 2014 and 2013 as follows:

	2014	2013
Income before income taxes	$ 97,415	$ 116,534
Combined Canadian federal and provincial statutory income tax rates for the current year	26.33%	26.29%
Income taxes payable at statutory rate	25,649	30,637
Adjustments relating to prior periods	(4,244)	1,027
Other permanent differences	(261)	1,313
Provision for income taxes	$ 21,144	$ 32,977

Adjustments relating to prior periods include differences between the prior year provision and the income tax returns as filed, and in 2014, the recognition of deferred income tax assets associated with finance lease obligations.

At December 31, 2014, subsidiaries of Cineplex had recognized deferred tax assets associated with operating (non-capital) losses available for carry-forward. Cineplex believes the circumstances under which the losses occurred are unlikely to recur given the

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

existing business organization and projected operating results. Those losses expire as follows:

2023	$	297
2024	$	2,799
2026	$	7,005
2027	$	5,402
2028	$	8,822
2029	$	5,122
2030	$	2,184
2032	$	254
2034	$	3,969
	$	35,854

At December 31, 2014, Cineplex had not recognized deferred income tax assets associated with $15,480 (2013 - $14,263) of losses available for carry-forward from its joint venture SCENE, as under the current organizational structure the joint venture is not expected to generate sufficient taxable income to recover those losses in the foreseeable future.

Cineplex's purchase of AMC Ventures Inc. in 2012 resulted in the acquisition of $147,034 of non-capital losses available to offset taxable income. As a result of the non-capital losses acquired in this transaction, Cineplex's cash income taxes in 2013 and 2014 were substantially reduced. Based on estimated 2014 taxable income, none of the acquired losses are available to be used to reduce taxable income in 2015 (2013 - $43,249 non-capital losses remained to be used to reduce taxable income in 2014). As a result of reducing taxable income through losses, Cineplex is subject to minimum tax in certain jurisdictions which may be credited against income taxes payable on taxable income earned in periods after the losses have been fully used. In 2014, $576 of those credits have been utilized to reduce provincial income taxes payable. Minimum income tax credits totalling $1,325 through December 31, 2014 (2013 - $1,897) have been recorded as deferred income tax assets and a reduction of deferred income tax expense.

11 Interests in joint ventures

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

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

Cineplex Starburst Inc., ("CSI"), supplies and services all of the games in Cineplex's circuit. CSI also supplies equipment to third party sites, in addition to owning and operating Playdium, a family entertainment centre in Mississauga, Ontario.

Other joint ventures include 50% interest in two theatre operations, and in 2014, a 50% interest in YoYo's.
Each of the joint ventures is headquartered in Canada.

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

The net interest in joint ventures is summarized as follows as at December 31, 2014 and 2013:

	CDCP	CSI	Other	2014
Ownership percentage	78.2%	50%	50%	
Voting percentage	50%	50%	50%	
Interest at beginning of year	$ 30,958	$ 13,447	$ (46)	$ 44,359
Investments	733	—	950	1,683
Dividends or distributions	(2,190)	(2,500)	—	(4,690)
Net change in receivable or payable	2,413	—	(195)	2,218
Share of net income	1,388	1,400	68	2,856
Share of OCI	31	—	—	31
Net interest in joint ventures	$ 33,333	$ 12,347	$ 777	$ 46,457

	CDCP	CSI	Other	2013
Ownership percentage	78.2%	50%	50%	
Voting percentage	50%	50%	50%	
Interest at beginning of year	$ 28,571	$ 13,193	$ (141)	$ 41,623
Subsequent investments	597	—	—	597
Dividends or distributions	(547)	(1,000)	—	(1,547)
Net change in receivable or payable	88	—	(165)	(77)
Share of net income	2,336	1,254	260	3,850
Share of OCL	(87)	—	—	(87)
Net interest in joint ventures	$ 30,958	$ 13,447	$ (46)	$ 44,359

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

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

	CDCP	CSI	Other	2014
Assets				
Cash and cash equivalents	$ 902	$ 5,046	$ 507	$ 6,455
Trade and other receivables	7,073	1,677	567	9,317
Inventories	—	5,327	193	5,520
Prepaid expenses and other current assets	164	1,357	113	1,634
	8,139	13,407	1,380	22,926
Equipment	78,764	12,574	712	92,050
Intangible and other assets, including goodwill	—	1,618	—	1,618
Total assets	$ 86,903	$ 27,599	$ 2,092	$ 116,594
Liabilities				
Accounts payable and accrued expenses	$ 3,381	$ 2,824	$ 699	$ 6,904
Deferred revenue	155	—	100	255
Current portion of long-term debt	8,125	—	—	8,125
Fair value of interest rate contracts	87	—	—	87
	11,748	2,824	799	15,371
Long-term debt	34,818	17	2,069	36,904
Fair value of interest rate contracts	20	—	—	20
Total liabilities	46,586	2,841	2,868	52,295
Equity	40,317	24,758	(776)	64,299
Total liabilities and equity	$ 86,903	$ 27,599	$ 2,092	$ 116,594

	CDCP	CSI	Other	2013
Assets				
Cash and cash equivalents	$ 440	$ 4,167	$ 239	$ 4,846
Trade and other receivables	5,389	1,778	65	7,232
Inventories	—	5,431	8	5,439
Prepaid expenses and other current assets	495	1,389	7	1,891
	6,324	12,765	319	19,408
Equipment	91,545	13,189	61	104,795
Intangible and other assets, including goodwill	—	1,865	—	1,865
Total assets	$ 97,869	$ 27,819	$ 380	$ 126,068
Liabilities				
Accounts payable and accrued expenses	$ 1,496	$ 3,091	$ 221	$ 4,808
Deferred revenue	155	—	113	268
Current portion of long-term debt	4,875	—	—	4,875
Fair value of interest rate contracts	133	—	—	133
	6,659	3,091	334	10,084
Long-term debt	50,659	38	—	50,697
Fair value of interest rate contracts	11	—	—	11
Total liabilities	57,329	3,129	334	60,792
Equity	40,540	24,690	46	65,276
Total liabilities and equity	$ 97,869	$ 27,819	$ 380	$ 126,068

Lease commitments of the joint ventures are disclosed in note 25.

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

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

	CDCP	CSI	Other	2014
Revenues	$ 23,128	$ 60,628	$ 5,083	$ 88,839
Depreciation and amortization	13,582	4,114	118	17,814
Interest expense	2,677	—	—	2,677
Income taxes	—	993	—	993
Other expenses	5,094	52,721	4,829	62,644
Total expenses	21,353	57,828	4,947	84,128
Net income	$ 1,775	$ 2,800	$ 136	$ 4,711
Other comprehensive income	40	—	—	40
Comprehensive income	$ 1,815	$ 2,800	$ 136	$ 4,751

	CDCP	CSI	Other	2013
Revenues	$ 23,045	$ 58,305	$ 4,447	$ 85,797
Depreciation and amortization	13,498	4,263	13	17,774
Interest expense	3,012	—	—	3,012
Income taxes	—	508	—	508
Other expenses	3,547	50,624	3,917	58,088
Total expenses	20,057	55,395	3,930	79,382
Net income	$ 2,988	$ 2,910	$ 517	$ 6,415
Other comprehensive loss	(112)	—	—	(112)
Comprehensive income	$ 2,876	$ 2,910	$ 517	$ 6,303

On January 1, 2015, Cineplex acquired the 50% interest it did not already own in a theatre joint venture in Quebec for an immaterial amount. The impact on consolidated assets and results of operations will not be material.

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

SCENE

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

		2014		2013
Assets				
Cash and cash equivalents	$	223	$	2,601
Trade and other receivables		7,274		7,495
Inventories		2		13
Prepaid expenses		69		—
		7,568		10,109
Equipment		478		690
Total assets	$	8,046	$	10,799
Liabilities				
Accounts payable and accrued expenses	$	6,254	$	11,027
Deferred revenue		33,488		28,807
Total liabilities		39,742		39,834
Deficiency		(31,696)		(29,035)
	$	8,046	$	10,799

The summarized results of operations of SCENE are as follows:

		2014		2013
Revenues	$	41,899	$	35,190
Expenses		53,760		48,213
Net loss	$	(11,861)	$	(13,023)

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

12 Intangible assets

Intangible assets consist of the following:

	Customer relationships	Fair value of leases - assets	Other	Trademarks and trade names	Total
At January 1, 2013					
Cost	$ —	$ 9,809	$ 1,832	$ 76,385	$ 88,026
Accumulated amortization	—	(5,091)	(1,175)	(3,300)	(9,566)
Net book value	$ —	$ 4,718	$ 657	$ 73,085	$ 78,460
Year ended December 31, 2013					
Opening net book value	$ —	$ 4,718	$ 657	$ 73,085	$ 78,460
Additions	12,300	17,344	17,800	—	47,444
Amortization	(586)	(1,021)	(1,096)	(9,600)	(12,303)
Closing net book value	$ 11,714	$ 21,041	$ 17,361	$ 63,485	$ 113,601
At January 1, 2014					
Cost	$ 12,300	$ 27,153	$ 19,495	$ 76,385	$ 135,333
Accumulated amortization	(586)	(6,112)	(2,134)	(12,900)	(21,732)
Net book value	$ 11,714	$ 21,041	$ 17,361	$ 63,485	$ 113,601
Year ended December 31, 2014					
Opening net book value	$ 11,714	$ 21,041	$ 17,361	$ 63,485	$ 113,601
Additions	—	—	3,700	—	3,700
Disposals	—	(49)	—	—	(49)
Amortization for the year	(1,757)	(2,523)	(3,226)	—	(7,506)
Closing net book value	$ 9,957	$ 18,469	$ 17,835	$ 63,485	$ 109,746
At December 31, 2014					
Cost	$ 12,300	$ 27,004	$ 23,195	$ 63,485	$ 125,984
Accumulated amortization	(2,343)	(8,535)	(5,360)	—	(16,238)
Net book value	$ 9,957	$ 18,469	$ 17,835	$ 63,485	$ 109,746

Until the fourth quarter of 2012, the primary trademarks and trade names used by Cineplex were not amortized, as they had indefinite useful lives based on management expectations. In the fourth quarter of 2012, Cineplex began amortizing the Famous Player, Coliseum and Colossus trade names, reflecting finite lives based on plans to rebrand those theatre locations as Cineplex. No amortization was recognized in 2014 (2013 - $9,600), and the fully amortized assets were removed from the financial statements.

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

13 Goodwill

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

		2014		2013
Balance - Beginning of year	$	797,476	$	608,929
Goodwill acquired (note 3)		1,325		188,547
Balance - End of year	$	798,801	$	797,476

Cineplex performs its annual test for goodwill in the fourth quarter in accordance with its policy described in note 2. In assessing goodwill for impairment, Cineplex compared the aggregate recoverable amount of the assets included in the relevant CGUs to their respective carrying amounts. The recoverable amount was determined based on the fair value less costs of disposal of the groups of CGUs. This approach requires assumptions about revenue growth rates, operating margins, and discount rates.
For the purpose of impairment testing, goodwill has been allocated to the following CGUs or groups of CGUs:

		2014		2013
Exhibition	$	691,943	$	690,618
Media		106,858		106,858
	$	798,801	$	797,476

Revenue growth rates and operating margins are based on Cineplex's internal budget. Cineplex projects revenue, operating margins and cash flows for a period of five years, and applies a perpetual long-term growth rate thereafter. In arriving at its forecasts, Cineplex considers past experience, economic trends such as inflation, as well as industry and market trends. The projections also take into account the expected impact of new product and service initiatives. Discount rates applied to the groups of CGUs represent Cineplex's assessment of the risks specific to each group of CGUs regarding the time value of money and individual risks of the underlying assets. Cineplex used discount rates between 7.5% and 14.5% (2013 - 11%), and perpetual growth rates between 1% and 3% (2013 - 1%), which are consistent with the observed long-term average growth rates in the exhibition and digital media industries.

Based on a quantitative sensitivity analysis, management has concluded that no reasonably possible change in assumptions would cause the carrying amount of any group of CGU's to exceed its recoverable amount. As a result of these analyses, no goodwill impairments were identified in 2014 or 2013.

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

14 Accounts payable and accrued expenses

Accounts payable and accrued expenses consist of:

		2014		2013
Accounts payable - trade	$	80,333	$	51,049
Film payables and accruals		33,348		59,164
Accrued salaries and benefits		19,631		19,974
Sales taxes payable		7,813		11,409
Accrued occupancy costs		3,378		3,304
Other payables and accrued expenses		14,649		12,433
	$	159,152	$	157,333

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

15 Share-based compensation

Option plan

Cineplex has an incentive share option plan (the "Plan") for certain employees. The aggregate number of shares that may be issued under the Plan is limited to 5,250,000. All of the options must be exercised over specified periods not to exceed ten years from the date granted. As at December 31, 2014, 2,940,469 options are available for grant under the plan.
Shares options have been granted as follows:

Grant date	Number of options granted	Exercise price	Number of employees granted options	Vesting period	Expiry
February 12, 2008	1,250,000	$ 17.03	21	One third on each successive anniversary of the grant date	February 11, 2013
February 18, 2009	1,250,000	14.00	21	One third on each successive anniversary of the grant date	February 17, 2014
February 15, 2011	529,774	23.12	41	One third on each successive anniversary of the grant date	February 14, 2021
February 15, 2011	500,000	23.12	1	One fourth on each successive anniversary of the grant date	February 14, 2021
February 14, 2012	474,000	27.33	42	One third on each successive anniversary of the grant date	February 13, 2022
February 12, 2013	385,834	33.49	42	One third on each successive anniversary of the grant date	February 11, 2023
September 3, 2013	20,000	39.12	1	One third on each successive anniversary of the grant date	September 2, 2023
February 14, 2014	440,519	40.45	54	One third on each successive anniversary of the grant date	February 14, 2024
February 14, 2014	100,000	40.45	1	One fourth on each successive anniversary of the grant date	February 14, 2024

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

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

Cineplex recorded $1,715 of employee benefits expense with respect to the options during the year ended December 31, 2014 (2013 - $1,588). At December 31, 2014, $4,952 associated with the options is reflected in contributed surplus on the consolidated balance sheets (2013 - $3,680). The intrinsic value of vested share options at December 31, 2014 is $13,291 (2013 - $6,067), based on the market price of $44.83 per share (2013 - $44.06).

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

A summary of option activities in 2014 and 2013 is as follows:

		2014		2013	
	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	7.96	1,459,772	$ 27.23	1,460,546	$ 24.38
Granted		540,519	40.45	405,834	33.77
Cancelled		(18,964)	36.06	(7,568)	29.69
Exercised		(205,154)	25.39	(399,040)	23.40
Options outstanding, December 31	7.65	1,776,173	$ 31.37	1,459,772	$ 27.23

At December 31, 2014 and 2013, options are vested and exercisable as follows:

	2014	2013
Options vested and exercisable at $39.12	6,667	—
Options vested and exercisable at $33.49	105,668	—
Options vested and exercisable at $27.33	192,529	92,976
Options vested and exercisable at $23.12	400,052	228,054
	704,916	321,030

The fair values of options granted in 2014 and 2013 were determined using the Black-Scholes valuation model using the following significant inputs:

	2014	2013
Number of options granted	540,519	385,834
Share price	$ 40.45	$ 33.49
Exercise price	$ 40.45	$ 33.49
Expected option life (years)	3.0 - 4.0	3.0
Volatility	18%	23%
Dividend yield	3.54%	4.03%
Annual risk-free rate	1.42% - 1.66%	1.22%
Fair value of options granted	$3.56 - $3.96	$ 3.29

In the third quarter of 2013, Cineplex granted 20,000 additional options with an exercise price of $39.12, having a fair value of $3.14 per option.

Long-term incentive plan

The LTIP award for three-year service periods consists of a “phantom” stock plan, awarding 135,602 share equivalents in 2014 (2013 - 124,936), which, subject to certain performance and market conditions, may decrease approximately 67% or increase by 100% subject to certain performance and market conditions. The base share equivalents attract compounding notional dividends at the same rate as outstanding common shares, which are notionally reinvested as additional base share equivalents. The awards will be settled in cash at the end of service periods, within 30 days of the approval of the consolidated financial statements by the Board of Directors.

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

LTIP costs are estimated at the grant date based on expected performance results then accrued and recognized on a graded basis over the vesting period. The effects of changes in estimates of performance results are recognized in the year of change. Forfeitures are estimated at $nil. For the year ended December 31, 2014, Cineplex recognized $4,839 (2013 - $12,258) of compensation costs under the LTIP.

Deferred equity units

Members of the Board of Directors and certain officers of Cineplex may elect to defer a portion of their compensation in the form of deferred equity units. At December 31, 2014, $9,077 (2013 - $7,019) was included in share-based compensation liability.

16 Dividends payable

Cineplex has declared the following dividends during the years:

	2014		2013	
Record date	**Amount**	**Amount per share**	**Amount**	**Amount per share**
January	$ 7,552	$ 0.1200	$ 7,063	$ 0.1125
February	7,554	0.1200	7,065	0.1125
March	7,556	0.1200	7,070	0.1125
April	7,556	0.1200	7,070	0.1125
May	7,871	0.1250	7,541	0.1200
June	7,873	0.1250	7,542	0.1200
July	7,873	0.1250	7,542	0.1200
August	7,873	0.1250	7,542	0.1200
September	7,874	0.1250	7,542	0.1200
October	7,874	0.1250	7,542	0.1200
November	7,874	0.1250	7,548	0.1200
December	7,877	0.1250	7,552	0.1200

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

In January 2015, Cineplex declared a dividend of $7,877, or $0.1250 per share, payable in February 2015.

17 Long-term debt

In the fourth quarter of 2013, Cineplex entered into the fifth amended and restated credit agreement continuing the existing arrangement with the same syndicate of lenders, consisting of the following facilities (collectively the "Credit Facilities"):

a) a five-year, $250,000, senior, secured, revolving, (the "Revolving Facility"); and
b) a five-year, $150,000, senior, secured, non-revolving, credit facility, (the "Term Facility").

The Revolving Facility commitment of $350,000 was permanently reduced by $100,000 to $250,000 prior to year-end pursuant to the terms of the Credit Facilities. There are provisions to increase the Revolving Facility commitment amount by an additional $150,000 with the consent of the lenders.

The amendment of the previous amended credit facilities was considered a renegotiation of debt and as a result, deferred financing fees of $1,428 associated with the Credit Facilities were added to the unamortized deferred financing fees, associated with the previously amended credit facilities, and are being amortized over the remaining term on a straight-line basis.

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

The Credit Facilities mature on October 24, 2018 and are payable in full at maturity, with no scheduled repayment of principal required prior to maturity. The Credit Facilities bear interest at a floating rate, based on the Canadian dollar prime rate, or bankers' acceptances rates plus, in each case, an applicable margin to those rates. Borrowings on the Revolving Facility and the Term Facility can be made in either Canadian or US dollars.

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

The Credit Facilities are secured by all of the Partnership's and Cineplex's assets and are guaranteed by Cineplex.
Long-term debt consists of:

		2014		2013
Term Facility	$	150,000	$	150,000
Revolving Facility		82,000		70,000
Deferred financing fees		(2,246)		(2,849)
	$	229,754	$	217,151
Letters of credit reserved against Revolving Facility	$	5,420	$	3,406
Revolving Facility available		162,580		176,594

At December 31, 2014, Cineplex was subject to a margin of 0.55% (2013 - 0.40%) on the prime rate and 1.55% (2013 - 1.40%) on the bankers' acceptance rate, plus a 0.25% (2013 - 0.25%) per annum fee for letters of credit issued on the Revolving Facility. The average interest rate on borrowings under the Credit Facilities was 3.2% for the year ended December 31, 2014 (2013 - 3.2%). Cineplex pays a commitment fee on the daily unadvanced portion of the Revolving Facility, which will vary based on certain financial ratios and was 0.31% at December 31, 2014 (2013 - 0.28%).

18 Finance lease obligations

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

2015	$	3,872
2016	$	3,955
2017	$	3,955
2018	$	3,955
2019	$	3,955
Thereafter	$	1,838
		21,530
Less: Amount representing interest (average rate of 7.3%)		3,852
		17,678
Less: Current portion		2,670
	$	15,008

Cineplex previously had eight finance leases for theatre equipment. In 2012 and 2013, Cineplex entered into agreements with the lessor of the theatre equipment to purchase new equipment, replacing the leased equipment.

Interest expense related to finance lease obligations was $1,384 for the year ended December 31, 2014 (2013 - $1,576).

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

19 Post-employment benefit obligations

Pension and other retirement benefit plans

Cineplex sponsors the Defined Contribution Pension Plan for Employees of Cineplex Entertainment Limited Partnership ("Cineplex Entertainment Plan"), covering substantially all full-time employees. Effective December 31, 2013, the defined contribution plan converted to a group registered retirement plan, with employer contributions matching a portion of employee contributions. In addition, Cineplex sponsors a defined benefit supplementary executive retirement plan ("DB SERP").

Cineplex also sponsors the Retirement Plan for Salaried Employees of Famous Players Limited Partnership, a defined benefit pension plan, and the Famous Players Retirement Excess Plan (collectively known as the "Famous Players Plans"). Effective October 23, 2005, Cineplex elected to freeze future accrual of defined benefits under the Famous Players Plans and move continuing employees into the Cineplex Entertainment Plan for future accrual. Effective December 31, 2007, Cineplex declared a full windup of the Retirement Plan for Salaried Employees of Famous Players Limited Partnership. Regulatory approval was granted in December 2008 and all defined benefit pension entitlements were settled and recognized in 2009.

In addition, Cineplex has assumed sponsorship of certain post-retirement health care benefits for a closed group of grandfathered Famous Players retirees.

Cash contributions

Cash contributions to the various plans were as follows:

	2014	2013
Cineplex Entertainment Plan - defined contribution	$ —	$ 1,433
Cineplex Entertainment Plan - DB SERP	189	104
Famous Players Plans	129	115

At December 31, 2014, none of the remaining defined benefit plans were fully funded. Cineplex funds the Famous Players plans as benefits are claimed by plan members. The DB SERP is supported by a letter of credit.

Defined benefit and post-retirement plan provisions

Cineplex measures its accrued benefit obligations and the fair value of plan assets for accounting purposes at December 31 of each year. The most recent actuarial valuation of the defined benefit plans for funding purposes was at December 31, 2014.

Reconciliation of the accrued benefit obligations

	2014	2013
Accrued benefit obligations		
Balance - Beginning of year	$ 6,702	$ 6,402
Current service cost	295	339
Past service cost - vested benefits	855	273
Interest cost	287	243
Benefits paid	(129)	(115)
Actuarial (gains) losses	(759)	(440)
Balance - End of year	$ 7,251	$ 6,702

The accrued benefit obligation in respect of post-retirement health care benefits at the end of 2014 is $886 (2013 - $792). The aggregate accrued benefit obligations for the individual defined benefit plans that have a deficit, including the post-retirement health care benefits is $7,251 (2013 - $6,702) and the fair value of plan assets is $274 at December 31, 2014 (2013 - $180).

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

Reconciliation of the fair value of plan assets

	2014	2013
Fair value of plan assets		
Balance - Beginning of year	$ 180	$ 128
Actual return on plan assets	(95)	(52)
Employer contributions	318	219
Benefits paid	(129)	(115)
Balance - End of year	$ 274	$ 180

Plan assets consist of:

	Percentage of defined benefit plan assets	
	2014	2013
Asset category		
Equity securities	—	—
Debt securities	—	—
Other	100%	100%
	100%	100%

Reconciliation of the unfunded status of the defined benefit provisions

	2014	2013
Fair value of plan assets	$ 274	$ 180
Accrued benefit obligations	(7,251)	(6,702)
Accrued pension benefit liability	$ (6,977)	$ (6,522)

Elements of benefit costs for defined benefit provisions recognized in the year

	2014	2013
Current service cost - defined benefit provisions	$ 295	$ 339
Interest cost	287	243
Past service costs - vested benefits	855	273
Benefit cost recognized	$ 1,437	$ 855

In addition, in 2014 actuarial gains of $664 (2013 - $388 gains) were recognized in OCI. The benefit cost in respect of post-retirement health care benefits for 2014 is $34 (2013 - $27).

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

Significant assumptions

	2014	2013
Accrued benefit obligations at December 31		
Discount rate		
All plans	4.40% - 4.70%	4.40% - 4.70%
Rate of compensation increase	—	—
Benefit cost for the year ended December 31		
Discount rate		
All plans	4.40% - 4.70%	4.40% - 4.70%
Expected long-term rate of return on plan assets	—	—
Rate of compensation increase	—	—
Health care cost trend rates at December 31		
Initial rate	4.90%	5.50%
Ultimate rate	3.94%	4.00%
Year ultimate rate reached	2017	2016

Sensitivity analysis

	2014	
	Benefit obligation	Benefit expense
Impact of 1% increase in health care cost trend rate	$ 87	$ 4
Impact of 1% decrease in health care cost trend rate	$ (76)	$ (3)

Defined contribution provision

	2014	2013
Total cost recognized for defined contribution provision	$ —	$ 1,433

20 Other liabilities

Other liabilities consist of the following:

	2014	2013
Deferred tenant inducements	$ 54,193	$ 54,712
Excess of straight-line amortization over lease payments	34,963	30,982
Fair value of leases - liabilities	30,548	34,940
Asset retirement obligations	2,042	2,071
Deferred gain on sale of density rights	1,331	1,447
Licensing obligations - non-current	9,989	11,942
Deferred consideration - AMC business acquisition	3,061	2,929
Deferred consideration - EK3 business acquisition	34,486	30,577
Other, including provisions	2,937	525
	$ 173,550	$ 170,125

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

21 Convertible debentures

Convertible debentures consist of the following at December 31, 2014 and 2013:

	2014	2013
Face value of debentures outstanding	$ 107,500	$ 107,500
Unaccreted deferred financing fees and discount	(8,773)	(10,630)
	$ 98,727	$ 96,870

During the fourth quarter of 2013, Cineplex issued $107,500 convertible unsecured subordinated debentures, maturing on December 31, 2018 (the "Maturity Date") and bearing interest at a rate of 4.5% per annum, payable semi-annually in arrears on June 30 and December 31 in each year. The debentures will not be redeemable by Cineplex prior to December 31, 2016. After that date, at the holder's option, the debentures may be converted into shares at any time prior to the close of business five days before the earlier of the Maturity Date, the date fixed for redemption by Cineplex, or if called for repurchase in the event of a change in control, the payment date, at a conversion price of $56 per share.

The unaccreted deferred financing fees and discount include gross fees of $4,454 and the initial discount of $6,450, net of $1,857 accretion recognized in 2014 (2013 - $274).

22 Share capital

Cineplex is authorized to issue an unlimited number of common shares, and 10,000,000 preferred shares of which none are outstanding. Share capital at December 31, 2014 and 2013 and transactions during the years are as follows:

2014

	Shares			Amount				
	Number of common shares issued and outstanding	Number of common shares held by LTIP trust (i)	Common shares, net	Common shares	Equity component of convertible debentures	LTIP common shares	LTIP obligation	Total
Balance - December 31, 2013	62,934,028	—	62,934,028	$ 848,940	$ 4,471	$ —	$ —	$ 853,411
Issuance of shares on exercise of options	80,995	—	80,995	662	—	—	—	662
Balance - December 31, 2014	63,015,023	—	63,015,023	$ 849,602	$ 4,471	$ —	$ —	$ 854,073

2013

	Shares			Amount				
	Number of common shares issued and outstanding	Number of common shares held by LTIP trust (i)	Common shares, net	Common shares	Equity component of convertible debentures	LTIP common shares	LTIP obligation	Total
Balance - December 31, 2012	62,783,002	(139,727)	62,643,275	$ 847,483	$ —	$ (3,264)	$ 3,016	$ 847,235
Transfers and costs of LTIP obligation	—	—	—	—	—	—	248	248
Issuance of shares on exercise of options	151,026	—	151,026	1,457	—	—	—	1,457
Transfer of common shares to LTIP participants	—	139,727	139,727	—	—	3,264	(3,264)	—
Conversion option of convertible debentures, net of $1,695 deferred income taxes and $284 fees	—	—	—	—	4,471	—	—	4,471
Balance - December 31, 2013	62,934,028	—	62,934,028	$ 848,940	$ 4,471	$ —	$ —	$ 853,411

(i) All shares held by the LTIP Trust were transferred to participants in Q1 2013, at which time this plan ended.

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

23 Other costs

	Year ended December 31, 2014	Year ended December 31, 2013
Employee salaries and benefits	$ 205,674	$ 191,286
Rent	136,576	127,745
Realty and occupancy taxes and maintenance fees	66,173	61,448
Utilities	28,480	25,423
Purchased services	49,016	41,191
Other inventories consumed	19,416	11,969
Repairs and maintenance	22,154	19,157
Office and operating supplies	13,944	13,026
Licences and franchise fees	12,525	12,937
Insurance	2,490	2,380
Advertising and promotion	24,515	24,256
Professional and consulting fees	5,427	4,088
Telecommunications and data	4,946	4,204
Bad debts	562	403
Equipment rental	2,976	2,569
Other costs	11,803	9,737
	$ 606,677	$ 551,819

24 Net income per share

Basic

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

	Year ended December 31, 2014	Year ended December 31, 2013
Net income	$ 76,271	$ 83,557
Weighted average number of shares outstanding	62,973,074	62,816,451
Basic EPS	$ 1.21	$ 1.33

Diluted

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

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

	Year ended December 31, 2014	Year ended December 31, 2013
Net income	$ 76,271	$ 83,557
Weighted average number of shares outstanding	62,973,074	62,816,451
Adjustments for stock options	433,984	386,213
Weighted average number of shares for diluted EPS	63,407,058	63,202,664
Diluted EPS	$ 1.20	$ 1.32

25 Leases

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

Cineplex's minimum rental commitments at December 31, 2014 under the above-mentioned operating leases are set forth as follows:

2015	$ 143,671
2016	$ 146,072
2017	$ 143,133
2018	$ 133,209
2019	$ 121,090
Thereafter	$ 631,356
	$ 1,318,531

Minimum rent expense relating to operating leases on a straight-line basis in 2014 was $143,626 (2013 - $135,490). In addition to the minimum rent expense, in 2014 Cineplex incurred percentage rent charges of $1,738 (2013 - $2,072).

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

2015	$ 1,528
2016	$ 593
2017	$ 251
2018	$ 274
2019	$ 279
Thereafter	$ 568
	$ 3,493

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

26 Changes in operating assets and liabilities

The following summarizes the changes in operating assets and liabilities:

	Year ended December 31, 2014	Year ended December 31, 2013
Trade and other receivables	$ 186	$ (19,180)
Inventories	(730)	(356)
Prepaid expenses and other current assets	(50)	(1,669)
Accounts payable and accrued expenses	(5,483)	28,192
Income taxes payable	7,654	(10,998)
Deferred revenue	13,272	29,350
Post-employment benefit obligations	455	248
Share-based compensation	(7,744)	14,110
Other liabilities	849	(2,395)
	$ 8,409	$ 37,302
Non-cash investing activities:		
Property, equipment and leasehold purchases financed through accounts payable and accrued expenses	$ 19,718	$ 10,723

27 Commitments, guarantees and contingencies

Commitments

As of December 31, 2014, Cineplex has aggregate capital commitments as follows:

Capital commitments for 9 theatres to be completed during 2015 - 2017	$ 90,881
Other exhibition commitments	$ 9,474
Media capital commitments	$ 10,681
Letters of credit	$ 5,420

See note 3 c) for the commitment to acquire the equity of CSI that Cineplex does not own, and note 25 for theatre lease commitments.

Guarantees

During 2005 and 2006, Cineplex entered into agreements with third parties to divest a total of 36 theatres, 30 of which were leased properties, and to provide advertising services until December 31, 2013. Cineplex is guarantor under the leases for the remainder of the lease terms in the event that the purchaser of the theatres does not fulfill its obligations under the respective lease. Cineplex has also guaranteed certain advertising revenues based on attendance levels. Cineplex reacquired the leases for two theatres in 2010.

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

Cineplex has assessed the fair value of the lease guarantees and determined that the fair value of these guarantees at December 31, 2014 is nominal. As such, no additional amounts have been provided in the consolidated financial statements for

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

these guarantees. Should the purchasers of the theatres fail to fulfill their lease commitment obligations, Cineplex could face a substantial financial burden.

Other

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

28 Segment information

Cineplex has two reportable segments, Exhibition and Media. The reportable segments are business units offering differing products and services. Prior to 2014, Cineplex had determined that its operations comprised a single business segment. With the acquisition of digital media businesses in the past several years, and the increasing and ongoing integration of those media businesses with Cineplex's media and magazine sales which were historically associated primarily with theatres, these segments are now managed separately due to their distinct natures. These two reportable segments have been determined by Cineplex's chief operating decision makers effective January 1, 2014. Segment information for 2013 has been reclassified to reflect the current presentation.

Exhibition

The Exhibition reporting segment includes all direct and ancillary revenues from theatre attendance, including box office, food service and gaming revenues, and the associated costs to provide those products and services, including substantially all head office costs.

Media

The Media reporting segment is comprised of the aggregation of two operating segments, Cineplex Media and Cineplex Digital Media. Cineplex Media consists of all in-theatre advertising revenues and costs, including pre-show, showtime, magazine and lobby advertising. Cineplex Digital Media is comprised of revenues and costs associated with the design, installation and operations of digital signage networks, along with advertising on certain networks. Aggregation of these operating segments is based on the segments having similar economic characteristics. There are substantially no inter-segment transactions. The Exhibition reporting segment does not charge an access fee to the Media reporting segment, and no overhead is allocated to the Media reporting segment.

In accordance with IFRS 8, Operating Segments, Cineplex discloses information about its reportable segments based upon the measures used by management in assessing the performance of those reportable segments. Cineplex uses EBITDA to measure the performance of its reportable segments. Management defines EBITDA as earnings before interest income and expense, income taxes and amortization expense. EBITDA is a non-GAAP measure generally used as an indicator of financial performance and should not be seen as a measure of liquidity or a substitute for comparable metrics prepared in accordance with Canadian GAAP. Cineplex's EBITDA may differ from similar calculations as reported by other entities and accordingly may not be comparable to EBITDA as reported by other entities.

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

	Year ended December 31, 2014		
	Exhibition	Media	Consolidated
Revenues	$ 1,100,527	$ 134,189	$ 1,234,716
EBITDA (i)	121,672	74,811	196,483
Depreciation and amortization	70,652	6,798	77,450
Interest expense			21,948
Interest income			(330)
Income taxes expense			21,144
Net income			$ 76,271

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

	Year ended December 31, 2013		
	Exhibition	Media	Consolidated
Revenues	$ 1,061,686	$ 109,581	$ 1,171,267
EBITDA (i)	123,361	74,499	197,860
Depreciation and amortization	68,732	2,158	70,890
Interest expense			10,743
Interest income			(307)
Income taxes expense			32,977
Net income			$ 83,557

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

Cineplex's cash management and other treasury functions are centralized; interest expense and income are not allocated to segments.

Income taxes are accounted for by entity, and cannot be attributable to individual segments.

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

29 Barter transactions

Cineplex occasionally enters into barter arrangements with other parties to exchange goods or services. During the year ended December 31, 2014, Cineplex provided advertising and media services to third parties and recognized advertising revenues of $5,806 (2013 - $5,415). Cineplex received sponsorship and advertising services in exchange, recording marketing expenses of $5,619 (2013 - $5,269). The exchanges were measured at the estimated fair value of the services provided by Cineplex, by reference to similar services provided by Cineplex for monetary consideration to arm's-length third parties other than those with whom the transactions were entered into.

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

30 Related party transactions

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

Joint ventures

Cineplex leased digital projection systems from CDCP in the amount of $1,732 for the year ended December 31, 2014 (2013 - $1,437). Cineplex provides certain administrative services to CDCP, for which Cineplex charges an immaterial amount.

Cineplex performs certain management and film booking services for the joint ventures in which it is a joint venturer. During the year ended December 31, 2014, Cineplex earned revenue of $371 for these services (2013 - $399).

Compensation of key management

Compensation recognized in employee benefits for key management included:

		2014		2013
Salaries and short-term employee benefits	$	4,388	$	4,387
Post-employment benefits		1,415		889
Share-based payments		4,207		10,350
	$	10,010	$	15,626

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ANNUAL MEETING

Wednesday, May 13, 2015
10:30AM Eastern Standard Time
Cineplex Cinemas Yonge-Dundas and VIP
10 Dundas Street East
Toronto, Ontario

(1) Chair of the Board of Directors of Cineplex Inc.
(2) Chair of the Compensation, Nominating and Corporate Governance Committee
(3) Chair of the Audit Committee
(4) Member of the Audit Committee
(5) Member of the Compensation, Nominating and Corporate Governance Committee