2012

CINEPLEX
INC.

2012 ANNUAL REPORT

CONTENTS

Letter to shareholders

ELLIS JACOB | President and Chief Executive Officer

I am pleased to report that 2012 was the best year on record for Cineplex.

Our company established new records for total revenue, box office revenue, concession revenue, attendance, net income and adjusted EBITDA. Cineplex has delivered adjusted EBITDA growth each year since the company's IPO in 2003.

Total revenues increased 9.4% to $1.1 billion, largely on the strength of increased box office and concession revenues. Box office revenue, the company's largest revenue source, increased 10.6% to $638.3 million, while concession revenue increased 12.9% to $329.3 million.

Net income increased 144.6% to $120.5 million and adjusted EBITDA increased 15.8% to $200.5 million.

These record results were driven by great film product – titles like *Marvel's The Avengers*, *The Dark Knight Rises*, *Skyfall*, *The Hunger Games* and *The Amazing Spider-Man*. 2012's record setting performance was also a result of our focus on, and investment in, enhancing the entertainment experience.

From the completion of our digital projection rollout to the expansion of premium offerings, such as increased 3D capability, UltraAVX™ auditoriums and VIP Cinemas – we are on the forefront of innovation in the theatre experience.

Cineplex's mission is to "passionately deliver an exceptional entertainment experience." Delivering on this mission means continuing to align our efforts with our strategic areas of focus:

- Continuing 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 person.
- Capitalizing on core media strengths to provide continued growth of our media business, with our own assets and with external clients.
- Continuing to expand our brand presence as an entertainment destination for Canadians, providing in-theatre, at home and on-the-go experiences - a concept we call Cineplex Anywhere.
- Pursuing selective acquisitions that are strategic, accretive and capitalize on our core strengths.

*In 2012, we welcomed more than **71 MILLION** guests to our theatres*

While the core tenets of our strategy serve as our roadmap, I am proud of our flexibility and ability to bring new ideas to the fore. In 2012, we maximized our return on a strong slate of films by expanding our premium offerings, leveraging SCENE data to drive incremental attendance and concession sales, and refining operating systems to improve efficiencies and reduce expenses – to cite just a few examples.

As always, we did things "The Cineplex Way." The Cineplex Way is widely known among employees as our approach to delivering on our values – passion, integrity, community, excellence, teamwork, innovation and commitment. We do this in a few ways:

- By showing we care;
- By factoring a passion for excellence into everything we do; and
- By being the leader in out-of-home and interactive leisure entertainment.

It's all part of our effort to position Cineplex as Canada's movie authority and destination. When Canadians think of movies, we want them to think of Cineplex.

BUSINESS OVERVIEW

We look at our business in six key areas: exhibition, merchandising, loyalty, media, alternative programming and interactive.

EXHIBITION

Theatre exhibition is the core of Cineplex's business and our largest source of revenue, with box office representing approximately 59% of total revenues.

3D: A third dimension to the movie-going experience

A premium-priced option, 3D was a strong contributor to our box office results again in 2012.

Hollywood studios released more than 30 feature films in 3D – including some of the top grossing films in our theatres: *Marvel's The Avengers*, *The Hobbit: An Unexpected Journey*, *The Amazing Spider-Man*, *Brave* and *The Lorax*.

The addition of 3D screens and a consistent 3D pricing strategy contributed to our strong box office results.

At the end of 2012, we had 545 3D enabled projectors, representing approximately 38% of our auditoriums. We will continue adding 3D systems in 2013 – affording greater flexibility in film programming and creating operational efficiencies.

UltraAVX: Movies were made for this

UltraAVX is a premium movie-going experience targeting guests looking for an enhanced presentation experience. These auditoriums offer wall-to-wall screens, cutting edge surround sound, ultra high definition projection and upgraded seats that guests can reserve in advance.

In 2012, one of Canada's best movie-going experiences got even better – when Cineplex became the first Canadian theatre operator to offer Dolby® Atmos™ surround sound.

Dolby Atmos is a powerful new listening experience that truly envelops the movie-goer and enables them to "hear the whole picture." It will become the standard in our UltraAVX auditoriums as we continually strive to provide our guests with the ultimate audio-visual experience.

Cineplex added 16 new UltraAVX locations last year, bringing our total to 39 auditoriums at December 31, 2012.

Guests tell us they love the enhanced technical experience, combined with the opportunity to reserve seats in advance. We expect to add at least 12 additional UltraAVX auditoriums in 2013.

VIP Cinemas: Canada's premiere movie-going experience

With VIP Cinemas, we've created the most luxurious movie-going experience in Canada.

VIP Cinemas engage the adult movie-goer by providing a premium entertainment experience that includes: adult-only auditoriums, luxurious seats that guests can reserve in advance, in-seat service and an enhanced appetizer, entrée and beverage menu.

Auditoriums are licenced to serve alcohol, as is the private lounge, where guests can extend their stay before or after the movie.

In 2012, we opened VIP Cinemas in three locations, bringing our total to seven VIP Cinema locations and 25 screens at year end. Additionally, we have announced eight new VIP locations with 30 screens in the next three years.

VIP Cinemas provide an "affordable indulgence" for the adult demographic and are a key component of our growth strategy.

IMAX theatres: now with reserved seating

Cineplex now operates 17 IMAX theatres. IMAX is another premium offering and a well-known brand that remains a popular choice for some of Hollywood's hottest new releases.

IMAX has an established following among fans of the big screen format and generates strong box office results in each of our locations across our circuit. Our conversion to a digital IMAX format in 2012 has also expanded programming opportunities to drive incremental box office revenue.

During 2012, we introduced reserved seating in our IMAX theatres, adding a popular new feature to the experience.

*With VIP Cinemas, we've created the **most luxurious** movie-going experience in Canada*

Cineplex Odeon VIP Cinemas – Brossard, Québec

D-BOX: A fully immersive movie-going experience

D-BOX MFX Motion Seats are another premium entertainment offering that we have installed in many locations. Certain films are coded to command D-BOX seats to move in concert with the action on the big screen. These seats have been well received by our guests, as they offer one of the most technologically advanced, fully immersive experiences in cinema today.

As of December 31, 2012, we had 20 D-BOX locations with more than 600 seats.

Cineplex goes digital

In September 2012, we announced the completion of our digital projection rollout, financed through the Canadian Digital Cinema Partnership (CDCP), a joint venture between Cineplex and Empire Theatres.

Throughout 2012, we installed 543 digital projection systems – making our circuit fully digital. Digital projection provides a crystal clear picture, increases programming flexibility and affords the opportunity for 3D projection.

Theatre acquisitions, openings and renovations

The past year was a busy time for theatre acquisitions, openings and renovations.

In July 2012, we finalized the acquisition of AMC Ventures Inc. This transaction added four new theatres and 86 screens (including three IMAX screens) to the Cineplex circuit in Toronto, Mississauga and Oakville, Ontario and Montreal, Quebec.

All former AMC theatres have been converted to digital projection and offer the many benefits of Cineplex ownership, including access to our Front Row Centre Events and the SCENE loyalty program, among others. In addition, numerous upgrades are in progress or complete, such as the addition of UltraAVX auditoriums, digital signage and menu boards, food service upgrades and rebranding to Cineplex Cinemas.

In April, we opened *Cineplex Odeon Windermere and VIP Cinemas* in Edmonton, Alberta. This theatre features seven traditional auditoriums, an UltraAVX auditorium, three VIP Cinema auditoriums and a licensed lounge. We also opened the eight screen *Galaxy Cinemas Pergola Commons* in the south end of Guelph, Ontario in December. This theatre features eight screens, including an UltraAVX auditorium.

In November, we completed a total renovation of *Cineplex Odeon McGillivray and VIP Cinemas* in Winnipeg, Manitoba – transforming a 12 screen discount house into an enhanced entertainment experience featuring eight traditional auditoriums, three VIP Cinemas and a licensed lounge. In December, we completed the addition of four VIP Cinema auditoriums at *Cineplex Odeon Brossard and VIP Cinemas* in Brossard, Quebec.

FINANCIAL HIGHLIGHTS

Expressed in thousands of Canadian dollars except per share/unit, per patron and attendance data	2012	2011	2010(i)	2009(i)(ii)
Revenue	**$ 1,091,866**	$ 998,195	$ 1,006,426	$ 964,348
Adjusted EBITDA	**200,484**	173,174	167,854	159,927
Net income	**120,484**	49,260	50,423	53,446
Total assets	**1,327,456**	1,245,077	1,292,672	1,312,785
Adjusted free cash flow per share/Distributable cash per unit	**2.08**	1.97	2.25	2.14
Cash dividends declared per share/Distributions declared per unit	**1.33**	1.28	1.26	1.26
Box office revenue per patron	**8.97**	8.74	8.67	8.30
Concession revenue per patron	**4.63**	4.41	4.27	4.12
Other revenue per patron	**1.74**	1.96	1.65	1.36
Attendance	**71,198**	66,059	68,989	69,997

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

(ii) the 2012, 2011 and 2010 results are presented under IFRS, the 2009 results are presented under Canadian GAAP as it existed at the time.

Subsequent to year end, we acquired two Vancouver-based theatres from Festival Cinemas - the *Park Theatre* and *Fifth Avenue Cinemas*. Both locations complement our existing downtown Vancouver theatres – providing desirable locations and added programming flexibility.

In 2013, we plan to open two new theatres, *Cineplex Odeon Abbotsford and VIP Cinemas* in Abbotsford, British Columbia and *Galaxy Cinemas Sarnia* in Sarnia, Ontario. We will also add VIP Cinemas to our popular *Cineplex Odeon Queensway Cinemas* in Toronto, Ontario.

Our plans for 2014 include new theatres in Ontario near Fairview Park Mall in Kitchener, at the Downtown Markham development in Markham, and at Shops at Don Mills in Toronto. In Alberta, we will open at the new Seton development in Calgary. In 2015, new theatres will open at the Marine Gateway development in Vancouver, British Columbia and a second Galaxy Cinemas will open in North Barrie, Ontario.

As always, we will continue our focus on improving the quality of our assets by renovating and upgrading existing theatres. These renovations may include upgrading lobbies, box offices and concession areas, replacing seats and improving signage. We strongly believe in reinvesting in our business to provide an exceptional entertainment experience.

MERCHANDISING

Continued high margin growth

Merchandising includes our food service (concession) and gaming initiatives. Concession revenue is Cineplex's second largest revenue source, representing approximately 30% of total revenues. In fact, many investors are surprised to learn that Cineplex is among Canada's top 25 food service companies.

Our continued growth in 2012 was a result of our focus on efficiencies and enhanced speed of service, expanded menu offerings, product promotions and the continued the installation of digital menu boards across our circuit .

OUTTAKES™

These factors, combined with the optimization of our retail branded outlets such as Pizza Pizza, Tim Hortons, Yogen Fruz and our proprietary hot food offering, Outtakes, contributed to our record annual concession per patron of $4.63 – an increase of 5.0% versus 2011. During 2012, we renovated 19 Outtakes locations, transforming them into Outtakes Backstage Bistros. Outtakes Backstage Bistros provide expanded menu offerings and a more upscale look and feel. As of December 31, 2012, Cineplex owned and operated 68 Outtakes locations, of which 21 are Outtakes Backstage Bistros.

The past year also saw the expansion of our proprietary gourmet popcorn offering, Poptopia. Poptopia debuted in 2011 with two locations. Based on its success, we added four locations throughout 2012, bringing our total to six locations across the circuit, with plans for further expansion in 2013.

Both Outtakes and Poptopia have been well received by guests and the growth of these brands will remain a priority.

Cineplex Starburst Inc.

Gaming is another important part of our merchandising business. Cineplex has a 50% joint venture interest in Cineplex Starburst Inc. (CSI), the largest distributor and operator of arcade games in the Canadian amusement industry.

CSI was formed in 2012 as a result of the merger of Cineplex subsidiary New Way Sales and Starburst Coin Machines. CSI supplies and services all of the games in Cineplex's circuit, including the company's growing number of XSCAPE Entertainment Centres. CSI also supplies equipment to third party arcades, amusement centres, bowling alleys, amusement parks and theatre circuits, in addition to owning and operating *Playdium*, a family entertainment centre located in Mississauga, Ontario.

XSCAPE Entertainment Centres

XSCAPE Entertainment Centres offer the latest video and interactive games. In addition to dozens of games, some locations feature a full-service licenced lounge, table games like pool and foosball, and special event party suites.

During the year, we opened four XSCAPE Entertainment Centres: *SilverCity Coquitlam and VIP Cinemas* in British Columbia and *Galaxy Cinemas Sault Ste. Marie*, *Cineplex Odeon Queensway Cinemas* and *Coliseum Scarborough Cinemas* in Ontario. This brings our total to eight XSCAPE Entertainment Centres across the circuit.

This concept has been very successful and we expect to open additional XSCAPE Entertainment Centres in 2013.

LOYALTY

The SCENE entertainment loyalty program added more than 900,000 new members in 2012. As of December 31, 2012, SCENE counted 4.3 million members, a 28% increase from December 31, 2011.

SCENE is Canada's top loyalty program for movie lovers. The program is free to join and provides members across Canada with the opportunity to earn and redeem points for movie admissions, concession combos, music, DVDs, movie downloads and more. SCENE members enjoy a 10% discount on movie snacks and exclusive access to contests and special offers. Members also earn an extra 10% discount on Cineplex Tuesday admissions.

SCENE continues to lead all loyalty programs in member satisfaction – validation of the program's "Members Get More" value proposition.

Cineplex Magazine is the seventh- ***MOST READ*** *Canadian Magazine*

We created SCENE to gain a better understanding of our customers. The value of our member database grows each year – and affords the opportunity to introduce guests to new products and experiences, increase attendance frequency and spend, and enhance the guest experience for members.

Throughout 2012, SCENE established or continued partnerships with a number of key brands, including Cara Foods, Telus, Winners, Virgin Mobile, Rogers and Samsung.

SCENE wins prestigious loyalty awards

In 2012, SCENE became the only Canadian loyalty program to win a COLLOQUY Loyalty Award in two important, innovation-focused categories. These awards acknowledge the overwhelming success of the SCENEtourage and mobile SCENE card initiatives.

CINEPLEX MEDIA

Expanding the business beyond the theatre

Other revenues are the third largest revenue source for Cineplex, representing approximately 11% of total revenues. Cineplex Media accounts for approximately 70% of this revenue category and helps diversify the company beyond traditional theatre-based revenue.

Cineplex Media represents a 93% share of the cinema advertising market in Canada, and services all Cineplex theatres, as well as many others through representation agreements. The company provides advertising solutions to reach virtually all Canadian movie-goers. These solutions include:

- On-screen, showtime and digital pre-show campaigns;
- Online advertising through Cineplex.com;
- Mobile advertising through the Cineplex mobile app;
- Advertising in lobbies through our digital lobby network, on banners and back-lit posters;
- Specialty media such as in-theatre sampling, clings and popcorn bags; and
- Naming rights and sponsorship opportunities.

A key strength of our offering is the opportunity to provide clients with integrated campaigns across multiple types of media, which is a key focus of advertisers today.

One of Canada's top entertainment magazines

Cineplex Media also produces two premiere Canadian entertainment magazines, *Cineplex Magazine* and *Le magazine Cineplex.*

Cineplex Magazine is the seventh-most read Canadian magazine, with 725,000 copies distributed monthly in Cineplex theatres and through *The Globe and Mail* newspaper. There are more than 2.7 million readers per issue.

Le magazine Cineplex is one of Quebec's premier entertainment magazines, with 200,000 copies distributed in Cineplex theatres and

Front Row Centre Events bring ***WORLD CLASS*** *entertainment to your local Cineplex theatre*

Le Journal de Montréal. Le magazine Cineplex has more than 400,000 readers per issue.

In 2012, Cineplex Media also launched the Cineplex Magazine app – bringing the publication to a growing number of Canadians through their mobile devices and tablets.

Cineplex Digital Media

Our digital media business offers a full suite of digital media solutions, including our theatre lobby network, advertising-based digital networks and full service digital networks.

Our full service digital network, operating as Cineplex Digital Solutions, is an award-winning business that designs, installs, maintains and operates digital signage networks for the retail, financial, hospitality and entertainment industries. Our clients include some of the best known Canadian brands.

We also focused on increasing the number of locations and installations for our Media Plus advertising network – with an emphasis on office towers and shopping centres. Our goal is to leverage our media sales expertise along with our existing entertainment assets and differentiated content which we tailor to specific audiences.

Cineplex Digital Media saw significant growth in 2012, exceeding 2011 revenues by 28%.

Our plan is to grow this business across North America by increasing the scope of our existing full service-based networks and advertising based networks, providing creative solutions tailored to the needs of the client. We believe there remains a significant opportunity for growth in the digital media space.

TimePlay expands

In December 2012, we expanded our popular TimePlay interactive experience in Toronto and Vancouver. Before the movie starts, TimePlay allows movie-goers to use their smartphones to interact in real-time with the big screen. Guests can play games and participate in other on-screen challenges for the opportunity to win prizes.

TimePlay's expansion is a great opportunity for advertisers to connect with movie-going audiences in two of Canada's largest cities. Cineplex now offers TimePlay on 231 screens in 20 theatres.

ALTERNATIVE PROGRAMMING

Welcoming new guests – from Bollywood to opera

Front Row Centre Events bring world class entertainment to your local Cineplex theatre and other participating locations. Presented in high-definition with digital surround sound, guests can experience the best in non-Hollywood programming.

With the Metropolitan Opera, Broadway productions, live broadcasts direct from the stage of Britain's National Theatre, dance performances, classic films, concerts, live sporting events and documentaries – Front Row Centre Events put our guests in the centre of the action on the big screen.

These events encourage attendance by non-movie-goers and maximize capacity utilization in our theatres during non-peak periods.

The Met Opera *Live in HD* is now in its seventh year in our theatres. Britain's *National Theatre Live* wowed audiences with great stage performances, while the newly launched *Front Row Centre Events Dance Series* brought stunning performances from leading dance companies in the U.K., Russia and the Netherlands.

We also brought a number of great concerts to the big screen in 2012, including *André Rieu*, *Queen*, *The Rolling Stones* and *Led Zeppelin.*

The past year also saw the continuation of our popular *Classic Film Series,* which brings Hollywood's greatest films back to our theatres

– often for the first time in digital format. This concept is also behind our expanding Great Digital Film Festival – which presents a series of fan favourite movies for one week each February in select Cineplex theatres.

In early 2012, we launched our now popular *Family Favourites* series, which sees family friendly movies return to the big screen on Saturday mornings at a deeply discounted price. It's a great opportunity for whole families to enjoy the movie-going experience together. A portion of ticket sales from *Family Favourites* films are donated to our national charitable partner, *The Starlight Children's Foundation*.

In sports, WWE superstars battled their way across the big screen with major monthly events – and for the second consecutive year, we wowed tennis fans by showing the Wimbledon men's finals live in 3D. In November, Front Row Centre Events brought one of the year's premiere sporting events – the 100th Grey Cup – to audiences from British Columbia to Quebec.

Foreign movies also continued their strong performance in target locations across our circuit. Bollywood, Tamil, Korean, Filipino and Chinese films expand our offering to the many diverse communities across Canada. In certain theatres, new international releases outperform top Hollywood movies.

INTERACTIVE

Cineplex Anywhere

Our interactive business is comprised of three areas: online with cineplex.com, the Cineplex Store (cineplexstore.com) and our popular mobile offerings. Our interactive initiatives, combined with our core exhibition business, are the key tenets of our "Cineplex Anywhere" strategy. Our goal is to make Cineplex Canada's entertainment choice in-theatre, in-home and on-the-go.

Cineplex.com: Canada's online choice for movie-goers

Cineplex.com is the top online destination for Canadian movie-goers. Key metrics grew in all categories, including a 56% increase in page views and a 26% increase in unique visitors. We averaged more than three million unique visitors per month in 2012, thanks in part to the addition of more entertainment content, movie news, exclusive interviews, a movie archive database, movie trailers and more.

Our website was also a valuable tool for digital commerce – with more than 11% of our box office revenue coming from tickets sold online or through our mobile app in 2012. Online and mobile ticket sales were approximately $80 million in 2012, increasing 84% over the prior year. We will focus on growing online and mobile ticket sales as we strive to continually improve the guest experience.

Cineplex Store: Canada's one-stop destination for movies

The Cineplex Store is Canada's one-stop destination for Blu-ray discs, DVDs and digital downloads and the only site in Canada that provides the online sale of both hard good and digital movies. Our catalogue includes thousands of titles, including new releases that launch day-and-date with national home entertainment releases.

During 2012, we significantly expanded our ability to deliver digital rentals and downloads to our Cineplex Store customers. We also launched a digital streaming service that offered playback on Apple devices.

In December, we launched our most exciting Cineplex Store initiative yet, becoming the first Canadian retailer to launch *UltraViolet*. *UltraViolet* is a cloud-based digital library that allows customers to stream digital content on multiple devices, including computers, televisions, set top boxes, tablets and smartphones.
With the Cineplex Store, we're taking Cineplex outside the movie theatre and directly into Canadians' homes.

The Cineplex mobile app was the seventh- ***MOST POPULAR*** *mobile brand in Canada*

Mobile: A top brand for Canadians on-the-go

The Cineplex mobile app is available on all major devices and remains extremely popular among Canadians – ranking as the seventh most popular mobile brand in Canada, according to the latest comScore MobiLens figures. To-date, our mobile app had been downloaded by more than five million Canadians, recording more than 107.2 million app sessions.

Using the Cineplex mobile app, Apple iOS6 users can now purchase movie tickets and store them in Passbook. When they approach the movie theatre, their ticket will automatically appear on the Lock Screen on their iPhone or iPod touch, making it even easier to bypass the box office lines. In addition, Passbook users can add their SCENE membership and redeem points when making purchases at the theatre.

RECORD OPERATING RESULTS

The past year saw our company's strongest-ever operating performance.

We continued our focus on delivering sustainable cash flow, a strong balance sheet and ample liquidity – resulting in a consistent return for shareholders. We maintained a high dividend yield, and in May, announced a dividend increase of 4.7% to $1.35 per share.

Our covenant leverage ratio declined to 0.89x. We remain exceptionally well positioned to capitalize on strategic growth opportunities in 2013 and believe shareholders can count on the sustainability of their dividends.

COMMUNITY INVESTMENT AND SUSTAINABILITY

At Cineplex, we are committed to supporting the communities in which we operate through volunteerism, direct financial contributions and efforts to reduce our impact on the environment.

Community investment

For the past five years, we have focused our primary community investment efforts on our national charitable partner, *The Starlight Children's Foundation*. *Starlight* is a national, non-profit organization that strives to improve the quality of life for seriously ill children and their families. It provides entertainment, education and other family activities to help sick children cope with the pain, fear and isolation of illness.

All funds raised by Cineplex benefit *Starlight's* efforts in local theatre communities, so guests and employees know their efforts and contributions directly support the communities in which they live and work.

Throughout 2012, Cineplex raised more than $1.25 million in support of *Starlight* programs across Canada, a 25% increase versus 2011. In the five year history of the partnership, Cineplex has now donated more than $3.5 million to *Starlight*.

This total includes more than $425,000 raised on October 20, 2012 – as part of our second annual National Community Day – which saw thousands of Cineplex employees volunteer their time to provide families with a fun Saturday morning at the movies. On Community Day, guests are invited to all Cineplex theatres to enjoy a free movie and discounted popcorn, soft drinks and select candy items – with all proceeds benefiting *Starlight*.

starlight™
children's foundation canada

*Throughout 2012, Cineplex raised more than $1.25 million in support of **STARLIGHT** programs across Canada*

Guests purchased *Starlight* pins in record numbers and a portion of holiday gift card sales contributed to the impressive yearly total. In addition, 2012 saw the creation of two new fundraising opportunities: the ability for guests to donate when purchasing tickets online, as well as donations from a portion of Family Favourites ticket sales.

In addition to our efforts on behalf of *Starlight,* Cineplex supported a number of important art-and film-focused community events, including *The Toronto International Film Festival (TIFF)*, the *Film Circuit*, the *Canadian Film Centre*, many local film festivals and *Canada's Walk of Fame*.

There were many great moments for Cineplex this year, however the highlights are the two awards we received recognizing our commitment to our employees and theatre guests. The first recognizes Cineplex as one of Canada's Most Admired Corporate Cultures for 2012. This prestigious recognition is formal acknowledgement of something I've believed for years - that we have the most passionate employees in the motion picture exhibition business – not just in Canada, but anywhere in the world. That passion is the driving force behind the exceptional entertainment experience guests receive in our theatres.

Community Day 2012 at Colossus Langley Cinemas – Langley, BC

The second is the 2012 Corporate Award from the Canadian Foundation for Physically Disabled Persons. This award recognizes Cineplex for our company-wide commitment to hire people with disabilities and recognizes our work providing access to our theatres for guests with disabilities. In particular, the award celebrates our ongoing support of the *Access2Entertainment* program.

On behalf of all of us at Cineplex, we couldn't be more pleased to help make a difference in communities across the country.

Sustainability

At Cineplex, reducing our impact on the environment is an important part of the commitment we make to the communities in which we live and work.

To ensure we're making smart and environmentally responsible decisions, Cineplex recently adopted a comprehensive environmental position. Examples of the resulting efforts include:

- All Cineplex popcorn bags and the majority of print material are manufactured using sustainable, FSC certified paper.
- Ongoing conversion of incandescent lighting to energy efficient LED lighting in theatre lobbies, food service areas, offices and storage areas.
- Completing the installation of digital projection systems in all theatres means millions of feet of 35mm film have been diverted from landfill.
- Collecting 3D glasses and returning them to the manufacturer for recycling.
- Installing theatre automation systems in 40 locations to control and reduce electrical consumption.

We are proud of our efforts to reduce the impact of our business on the environment and look forward to continuing this important work in 2013 and beyond.

*Our balance sheet is **STRONGER** than ever before*

CONCLUSION

In just about every way imaginable, 2012 was a banner year for Cineplex. We marked 100 Years of Movie Memories – dating back to 1912, when our Famous Players brand first debuted in Canada. And what a way to celebrate:

We established new records for total revenue, box office revenue, concession revenue, net income and adjusted EBITDA. Our balance sheet is stronger today than ever before, meaning we are well positioned to capitalize on growth opportunities and weather periods of uncertainty.

With an ongoing focus on improving and expanding the guest experience in our theatres, we will welcome new guests and ensure existing guests return frequently. But our success doesn't end with box office and concession results.

We'll bring Cineplex into customers' homes with the Cineplex Store – offering an incredible selection of DVDs, Blu-rays and digital downloads. And we'll take in-home and on-the-go entertainment to the next level with the launch of UltraViolet. We'll also reach new commercial customers with Cineplex Digital Solutions, Canada's premier signage and interactive media company.

We are confident in our business model, which is different from that of other theatre exhibitors. We will continue our sharp focus on execution in our six core business areas: exhibition, merchandising, loyalty, media, alternative programming and interactive.

Thank you to our investors for your continued belief in Cineplex – and to our board of directors for thoughtful advice, good governance and continued due diligence.

Most importantly, thank you to the more than 10,000 Cineplex employees across the country. Your passion for delivering an exceptional entertainment experience is the most important reason for our success.

Thank you, and enjoy the show!

Ellis Jacob
President and CEO

Management's Discussion and Analysis

February 6, 2013

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").

Unless otherwise specified, all information in this MD&A is as of December 31, 2012.

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 our 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, 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.

Management's Discussion and Analysis

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 six provinces.

Cineplex's theatre circuit is concentrated in major metropolitan and mid-sized markets, with principal geographic areas being Toronto, Montreal, Vancouver, Calgary, Edmonton, Ottawa and Quebec City. The business of Cineplex is carried on through the Partnership and its subsidiaries. As of December 31, 2012, Cineplex owned, leased or had a joint venture interest in 1,449 screens in 134 theatres.

Cineplex Entertainment
Locations and screens at December 31, 2012

Province	Locations	Screens	Digital Screens	Digtal 3D Screens	UltraAVX	IMAX Screens	VIP Screens
Ontario	65	708	698	270	16	9	10
Quebec	22	260	255	84	7	2	4
British Columbia	20	198	198	80	7	3	5
Alberta	16	183	183	71	7	2	3
Saskatchewan	6	51	51	19	1	—	—
Manitoba	5	49	49	21	1	1	3
TOTALS	**134**	**1,449**	**1,434**	**545**	**39**	**17**	**25**
Percentage of screens			99%	38%	3%	1%	2%

Cineplex Entertainment - Locations and screens last eight quarters

	2012				2011			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Theatres	134	133	130	130	130	130	129	131
Screens	1,449	1,438	1,359	1,352	1,352	1,351	1,344	1,360
Digital Screens	1,434	1,411	1,320	1,110	891	671	483	466
3D Digital Screens	545	524	492	412	396	386	382	380
UltraAVX Screens	39	36	36	25	23	23	22	17
IMAX Screens	17	17	14	14	14	11	10	9
VIP Screens	25	18	18	15	15	10	10	10
Percentage of 3D Digital Screens	38%	36%	36%	30%	29%	29%	28%	28%

Management's Discussion and Analysis

1.1 FINANCIAL HIGHLIGHTS

Financial highlights (in thousands of Canadian dollars, except attendance in thousands of patrons, adjusted EBITDA margin and per Share amounts)	Fourth Quarter 2012	Fourth Quarter 2011	Fourth Quarter Change (ii)	Full Year 2012	Full Year 2011	Full Year Change (ii)
Total revenues	$ 298,690	$ 241,688	23.6 %	$ 1,091,866	$ 998,195	9.4%
Attendance	18,577	15,070	23.3 %	71,198	66,059	7.8%
Other revenues	41,757	39,792	4.9 %	124,238	129,209	-3.8%
Net income	32,704	10,931	199.2 %	120,484	49,260	144.6%
Adjusted EBITDA (i)	57,507	40,102	43.4 %	200,484	173,174	15.8%
Adjusted EBITDA margin (i)	19.3%	16.6%	2.7 %	18.4%	17.3%	1.1%
Adjusted free cash flow per Share (i)	$ 0.5403	$ 0.3570	51.3 %	$ 2.0785	$ 1.9657	5.7%
Earnings per Share - basic	$ 0.53	$ 0.19	178.9 %	$ 1.98	$ 0.86	130.2%
Earnings per Share - diluted	$ 0.52	$ 0.19	173.7 %	$ 1.97	$ 0.85	131.8%

(i) See Section 17, Non-GAAP measures.
(ii) Throughout this MD&A, changes in percentage amounts are calculated as 2012 value less 2011 value.

Total revenues for the fourth quarter of 2012 increased 23.6% compared to the prior year period due to higher box office and concession revenues as a result of the 23.3% increase in theatre attendance during the quarter. The acquisition of four theatres from AMC Entertainment Inc. ("AMC") in the third quarter of 2012 (See Section 1.3, Business formation and acquisition) also contributed to the higher revenues in the period. Media revenues increased 8.1% compared to the prior year period due to the continued growth of Cineplex's digital media business. Both box office revenues per patron ("BPP") and concession revenues per patron ("CPP") were fourth quarter records for Cineplex, coming in at $9.18 and $4.65, respectively. Adjusted EBITDA increased $17.4 million to $57.5 million and adjusted free cash flow per common share of Cineplex ("Share") was $0.5403, a $0.1833 increase from $0.3570 in the prior year period.

Total revenues for the year ended December 31, 2012 increased 9.4% compared to the prior year period due to a 7.8% increase in attendance resulting in higher box office and concession revenues as well as the acquisition of four theatres from AMC in the third quarter of 2012. Box office and concession revenues increased 10.6% and 12.9%, respectively, compared to 2011, representing annual records for Cineplex. Other revenues decreased 3.8% compared to the prior year period, primarily due to a 7.0% decrease in media revenues. Annual records have been achieved for BPP, CPP, attendance and adjusted EBITDA, which increased 15.8%, from $173.2 million to $200.5 million and represents the first time Cineplex has exceeded $200.0 million in adjusted EBITDA. Adjusted free cash flow per Share increased 5.7%, from $1.9657 in 2011 to $2.0785 in 2012.

Management's Discussion and Analysis

1.2 KEY DEVELOPMENTS IN 2012

The following describes certain key business initiatives and results undertaken and achieved during 2012 in each of Cineplex's core business areas:

THEATRE EXHIBITION

- Reported record annual box office revenues of $638.3 million and record annual BPP of $8.97 during 2012, up from the previous records of $597.8 million (set in 2010) and $8.74 (set in 2011). Attendance was also an annual record for Cineplex, with 71.2 million patrons exceeding the previous record of 70.0 million set in 2009.
- Opened two new theatres, *Cineplex Odeon Windermere and VIP Cinemas* in Edmonton Alberta, featuring 11 screens including one UltraAVX and three VIP auditoriums on April 17, and *Galaxy Cinemas Pergola Commons* in Guelph, Ontario featuring eight screens on December 14.
- Completed the renovation of *Cineplex Odeon McGillivray and VIP Cinemas* in Winnipeg, Manitoba on November 2, transforming the property into a cutting-edge, first run theatre complete with 11 screens and three VIP auditoriums. Also added four new VIP screens to *Cineplex Odeon Brossard and VIP Cinemas* in Brossard, Quebec, a suburb of Montreal, which opened on December 14.
- Continued the expansion of UltraAVX, the next evolution of the audio visual entertainment experience in Canada, with 16 new UltraAVX auditoriums added to the circuit in 2012. At December 31, 2012, Cineplex has 39 UltraAVX auditoriums.
- Completed the acquisition of AMC Ventures Inc., which owned four theatres located in Toronto, Mississauga and Oakville, Ontario and Montreal, Quebec.
- Cineplex completed the planned conversion of its theatre circuit to digital projection, including the theatres acquired from AMC, and added 149 3D screens during the year.

MERCHANDISING

- Recorded record annual concession revenues of $329.3 million and record annual CPP of $4.63, exceeding the previous records of $294.7 million (set in 2010) and $4.41 (set in 2011).
- Cineplex's subsidiary New Way Sales ("NWS") acquired Starburst Coin Machines Inc. ("SCM") in exchange for cash and a 50% interest in NWS, creating a joint venture named Cineplex Starbust Inc. ("CSI"). CSI supplies and services all of the games in Cineplex's circuit, while also supplying equipment to third party arcades, amusement centres, bowling alleys, amusement parks and theatre circuits, in addition to owning and operating *Playdium*, a family entertainment centre located in Mississauga, Ontario.
- Completed the retrofit of 19 *Outtakes* locations to *Outtakes Backstage Bistros*, which include expanded menu items and a more upscale look and feel. At December 31, 2012, Cineplex owned and operated 68 *Outtakes* locations, of which 21 are *Outtakes Backstage Bistros*.
- Added four *Poptopia* locations across the circuit, Cineplex's premium flavoured popcorn brand. At December 31, 2012, Cineplex owns and operates six *Poptopia* locations.
- Continued the roll-out of digital menu boards at concession stands throughout the circuit, providing a flexible platform to communicate pricing, promotions and merchandising programs.
- Opened four new XSCAPE entertainment centres in 2012, bringing the total number of XSCAPE entertainment centres to eight.

MEDIA

- Media revenues in the second half of 2012 exceeded the same period in 2011 by 6.1%. For the full year, media revenues decreased 7.0% compared to the record year for media revenues in 2011. The uncertain economic environment prevalent in the first half of 2012 contributed to the decrease in media revenues.
- Cineplex Digital Media Inc. ("CDM") continued to grow, with revenues in 2012 exceeding the prior year by 27.7%.
- Expanded Cineplex's exclusive partnership with Timeplay, a leading developer of mobile-based interactive marketing and content solutions, across theatres located in the Greater Toronto Area and Vancouver.
- In the 2012 Fall study by the Print Measurement Bureau, *Cineplex Magazine* and *Le magazine Cineplex* earned outstanding readership numbers, with *Cineplex Magazine* ranking as the 8th most read magazine in Canada. *Cineplex Magazine* has a circulation of over 725,000 copies per issue, and *Le magazine Cineplex* reaching circulation of over 200,000 copies per issue.
- *Cineplex Magazine* and *Le magazine Cineplex* were added to the Apple Newsstand at the App Store.

Management's Discussion and Analysis

ALTERNATIVE PROGRAMMING

- The highly successful Metropolitan Opera series continued its strong performance in Cineplex's theatres.
- Other alternative programming during the year included ethnic films, live sporting events such as World Wrestling Entertainment, the Wimbledon tennis finals in 3D and the 100th Grey Cup, the Family Favourites film series, the Classic Film Series and performances from the National Theatre Live from London.

INTERACTIVE

- Launched Apple MAC streaming capability and UltraViolet redemption on the Cineplex Store. Cineplex is the first retailer in Canada and the only motion picture exhibitor in the world offering UltraViolet redemption.
- Cineplex e-gift cards were added to the Cineplex Store.
- Added theatre ticketing, SCENE access and e-gift card access to the Apple Passbook.
- Integrated the Cineplex Store app on LG smart televisions and set-top boxes. In addition to LG products, the app is also available on select Samsung smart televisions and blu-ray players.
- Cineplex.com registered a 56% increase in page views and a 26% increase in unique visitors during 2012 compared to the prior year, registering 418.2 million page views and 36.5 million unique visitors during the year.
- The Cineplex mobile brand app ranks 9th in Canada and first among retailers based on the most recent ComScore MobiLens rankings.

LOYALTY

- Membership in the SCENE loyalty program surpassed the 4.0 million member mark during the year, increasing by approximately 0.9 million members during 2012 to 4.3 million.
- As part of the *Cineplex Tuesdays* program launched in 2012, SCENE members get 10% off all ticket prices on Tuesdays across the circuit, which are generally discounted.
- SCENE became the first Canadian loyalty program to win prestigious COLLOQUY Loyalty Awards, winning the award for "Innovation in Loyalty Marketing" with its SCENEtourage initiative, as well as the award for "Loyalty Innovation in Other Industries" for the mobile SCENE card.
- SCENE ran programs with various partners including Cara Foods, Telus, Sirius Satellite Radio, Virgin Mobile, Samsung, Winners, Rogers and Adidas.

During 2012, the board of directors of Cineplex (the "Board") announced a monthly dividend increase to $0.1125 per Share ($1.3500 on an annual basis) up from $0.1075 per Share ($1.2900 on an annual basis) effective with the May 2012 dividend.

On December 31, 2012, Cineplex's convertible debentures matured. At maturity, convertible debentures with a principal amount of $1.1 million were settled in cash (see Section 9, Shares outstanding).

In November, Cineplex was recognized as a national winner as one of Canada's 10 most admired corporate cultures in 2012 by Waterstone Human Capital, in the Enterprise division for companies with revenues in excess of $500 million. During 2011, Cineplex was recognized as a regional winner in the Enterprise division.

1.3 BUSINESS FORMATION AND ACQUISITION

New Way Sales - disposition of interest and formation of joint venture

During the first quarter of 2012, NWS merged its operations with the amusement game and vending assets of SCM. The new joint venture, CSI, formed the largest distributor and operator of arcade games to the amusement industry in Canada. Cineplex and SCM each have a 50% interest in CSI. SCM contributed operating assets in exchange for 50% of Cineplex's interest in the former NWS. Cineplex's additional cash investment in the transaction was approximately $7.4 million. Cineplex recognized a gain on the disposition of its 50% interest in NWS of approximately $0.9 million. Effective January 31, 2012, Cineplex deconsolidated the financial results of NWS and began recognizing the operations of CSI through equity accounting.

Acquisition of AMC Ventures Inc.

On July 12, 2012, Cineplex acquired 100% of the outstanding shares of AMC Ventures Inc., an indirect subsidiary of AMC. AMC Ventures Inc., which operated three leased theatres in Ontario and one leased theatre in Quebec, was immediately wound up into Cineplex. Cineplex believes its operating and programming expertise, combined with its merchandising, media, marketing, interactive and SCENE loyalty programs will positively and significantly improve the operations of these four theatres.

The total consideration payable is dependent on the amount of non-capital losses available for use at the time of closing. The estimated additional consideration payable by Cineplex is based on the excess of non-capital losses greater than $68.7 million. A portion of the consideration payable by Cineplex in relation to the non-capital losses will be paid upon initial determination, which occurred subsequent to year-end, and a portion will be paid later on final determination of the losses under the terms of the security purchase agreement. The undiscounted amount of deferred consideration is $3.1 million (fair value $2.7 million). The estimated non-capital losses of $147.0 million are available to offset taxable income earned by Cineplex beginning in 2013. The non-capital losses included in the purchase price allocation have been valued at 26.17%, Cineplex's effective tax rate. The recognition of the non-capital losses as deferred income tax assets is the primary reason Cineplex recognized a gain on the acquisition. As a result of these losses, Cineplex's cash income taxes payable in 2013 will be substantially reduced. All transaction costs associated with the transaction were expensed as incurred.

As at December 31, 2012, the fair value of deferred income tax losses associated with non-capital losses available to offset taxable income earned by Cineplex has been determined on a provisional basis, pending confirmation of those losses.

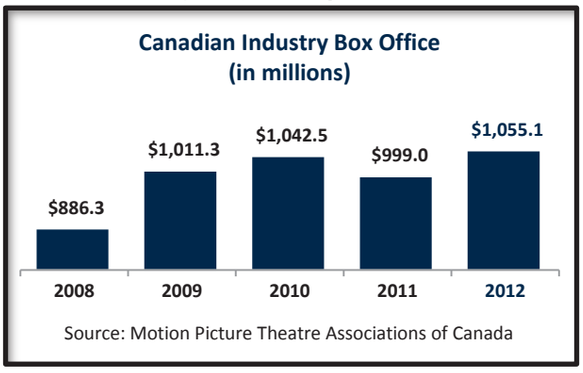
Recognized amounts of identifiable assets acquired and liabilities assumed are as follows (expressed in thousands of Canadian dollars):

Assets acquired and liabilities assumed		
Net working capital, including cash of $4,605	$	6,155
Equipment, including leaseholds		4,613
Deferred income taxes - non-capital losses		38,485
Deferred income taxes		5,883
Other liabilities - fair value of leases		(21,281)
Net assets	$	33,855
Consideration given		
Cash paid on closing	$	17
Current payable to AMC Entertainment Inc. - non-capital tax losses		4,702
Deferred payable to AMC Entertainment Inc. - non-capital tax losses		2,746
Payable to AMC - working capital		1,638
	$	9,103
(Gain) recognized on acquisition	$	(24,752)

The acquired theatres had total revenues of $21.0 million and a loss before taxes of $1.1 million, including depreciation and amortization of $0.9 million, included in the consolidated financial statements since the acquisition date. It is impracticable to determine the amount of revenues and income that would have been reported for the year ended December 31, 2012 as if the acquisition had occurred at January 1, 2012 because the financial statements of the acquired theatres for the period prior to the acquisition are not available to Cineplex. Prior to the acquisition by Cineplex, AMC Ventures Inc. operated several other theatres, and operations and financial results of the theatres acquired by Cineplex are not available separately.

2. THEATRE EXHIBITION INDUSTRY OVERVIEW

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 for Cineplex.



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 DVD, Blu-ray, download-to-own ("DTO"), video-on-demand ("VoD"), pay-per-view, network and syndicated television.

Continued Supply of Successful Films

Studios are increasingly producing film franchises, such as *The Dark Knight, James Bond* and *Twilight*. Additionally, new franchises continue to be developed, such as *The Avengers, The Hunger Games* and *The Hobbit*. 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. The expansion of 3D technology has created interest in the marketplace for the re-release of certain films that were originally presented in 2D in the 3D format, such as *Titanic* and *Monsters Inc. 3D* that were re-released in 2012 in 3D.

Looking forward to 2013, the studios are releasing a strong slate of franchise films to be released in 3D, such as *Iron Man 3, Star Trek Into Darkness, Man of Steel, Despicable Me 2, Thor: The Dark World* and *The Hobbit: The Desolation of Smaug.* Other highly anticipated films to be released in 2013 include *The Hangover Part III, Fast and Furious 6, The Wolverine* and *The Hunger Games: Catching Fire*.

Convenient and Affordable Form of Out-of-Home Entertainment

Cineplex's BPP was $8.97 and $8.74 in 2012 and 2011 respectively. Excluding the impact of Cineplex's premium-priced product, BPP was $8.26 and $8.10 in 2012 and 2011 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 and IMAX. BPP for premium-priced product was $11.06 and $10.79 in 2012 and 2011 respectively. In response to the increased demand for premium entertainment experiences, Cineplex added 16 UltraAVX auditoriums, 10 VIP auditoriums and three IMAX auditoriums during 2012, bringing the circuit total to 39 UltraAVX, 25 VIP and 17 IMAX auditoriums at the end of the year. The increased prevalence of 3D films has contributed to increases in BPP as 3D films are priced at a premium over regular ticket prices. Cineplex increased its number of 3D screens from 396 at December 31, 2011 to 545 at December 31, 2012.

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 its existing exhibition infrastructure and service offerings to attract new customers, increase the frequency of existing customers and maximize its revenue per patron.
- Capitalize on its core media strengths and infrastructure to provide continued growth of its media business both in and outside our theatres.
- Continue to expand its brand presence as an entertainment destination for Canadians, providing in-theatre, at home and on-the-go experiences.
- Pursue selective acquisitions that are strategic, accretive and capitalize on its core strengths.

Management's Discussion and Analysis

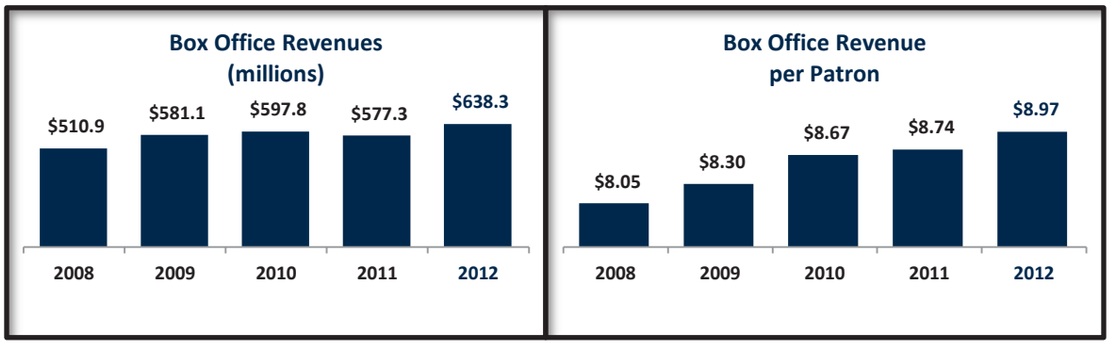
Key elements of this strategy include going beyond movies to reach customers in new ways and maximizing revenue per patron. With this in mind, Cineplex has implemented new in-theatre initiatives to improve the overall entertainment experience, including increased premium offerings, enhanced in-theatre 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 alternative programming) continue to account for the largest portion of Cineplex's revenues, expanded concession 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 digital pre-show, show time and digital out-of-home advertising sales through Cineplex's media business, as well as further expansion of digital signage installations, network support and advertising sales through CDM. Additionally, at home and on-the-go entertainment options are available through the Cineplex Store which sells DVDs, Blu-ray discs, DTO and VoD movies online.

Over the past five years, Cineplex has shown significant growth in EBITDA and in 2012 Cineplex is pleased to report the highest annual EBITDA since its inception. 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 2012.

Theatre Exhibition

Theatre exhibition is, and remains, the core business of Cineplex. Theatre exhibition is the engine that drives the train and fuels all of the 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.

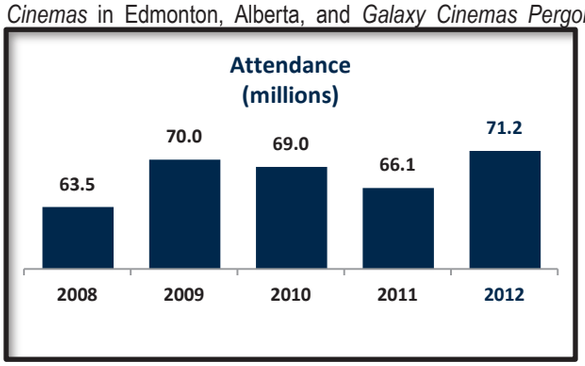


Digital and 3D projection is an enhancement to an established business and provides an additional element for growth. During 2012, Cineplex completed its conversion to digital projection through its investment in the Canadian Digital Cinema Partnership ("CDCP"), which was created in 2011. Digital technology enables Cineplex to present anything digital, including 3D movies and live or recorded events or programs. Cineplex has 1,434 digital projectors in 131 theatres installed across the circuit, with 545 of these screens being 3D capable. 3D film presentations are well received by audiences, add breadth to the overall film schedule and have a higher average ticket price.

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 been well received by patrons, and added 16 UltraAVX screens to the circuit in 2012, bringing the total UltraAVX screens to 39. VIP screens have been added to

seven theatres across the circuit, and will be incorporated into select new build and retrofit projects. Cineplex added three IMAX screens to the circuit in 2012, bringing the circuit total to 17 screens, and expanded its offering of D-BOX MFX seats from 323 seats in 11 theatres at December 31, 2011 to 609 seats in 20 theatres at December 31, 2012.

Cineplex plans to open an average of two to three new theatres per year, although in certain years opportunities may arise to exceed this number. During 2012, Cineplex opened two new theatres, *Cineplex Odeon Windermere and VIP Cinemas* in Edmonton, Alberta, and *Galaxy Cinemas Pergola Commons* in Guelph, Ontario. In addition, Cineplex converted the *Cineplex Odeon McGillivray and VIP Cinemas* from a second-run theatre to a first-run theatre complete with eight traditional auditoriums, three VIP Cinema auditoriums and a licensed lounge and added four VIP Cinema auditoriums to *Cineplex Odeon Brossard and VIP Cinemas* in Brossard, Quebec. Cineplex also acquired four new theatres in 2012 from AMC, located in Toronto, Mississauga and Oakville, Ontario and Montreal, Quebec. During 2011, Cineplex opened *Cineplex Odeon Westshore Cinemas* in Langford, British Columbia, a suburb of Victoria, the *Galaxy Chatham Cinemas* in Chatham, Ontario and converted five screens to VIP at the *SilverCity Coquitlam Cinemas* in Coquitlam, British Columbia.

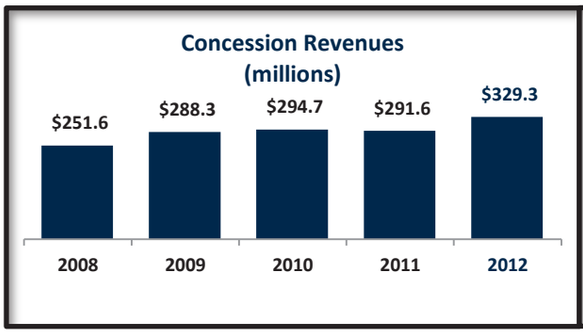


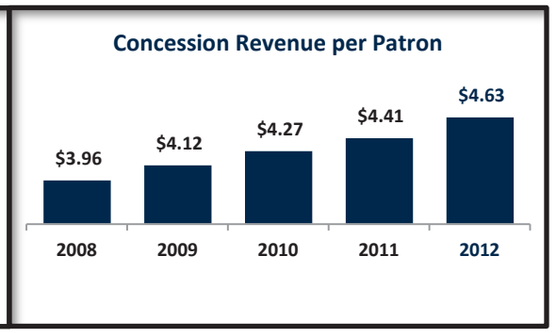
Cineplex's leading market position enables it to effectively manage film, concession and other theatre-level costs, thereby maximizing operating efficiencies. Cineplex seeks to continue to achieve incremental operating savings by, among other things, implementing best practices and negotiating improved supplier contracts. Cineplex also continues to evaluate its existing theatre assets 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 some of the most popular fast food brands in Canada including Tim Hortons, Pizza Pizza and Yogen Fruz, among others (collectively, Cineplex's retail branded outlets, or "RBO's"). In addition, Cineplex is focused on expanding its internally developed brands: *Outtakes*, *Outtakes Backstage Bistro* and *Poptopia*. During 2012, 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. Digital menu boards installed at select theatres 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 $4.63 in 2012, an increase of $0.22 from the previous record of $4.41 achieved in 2011.



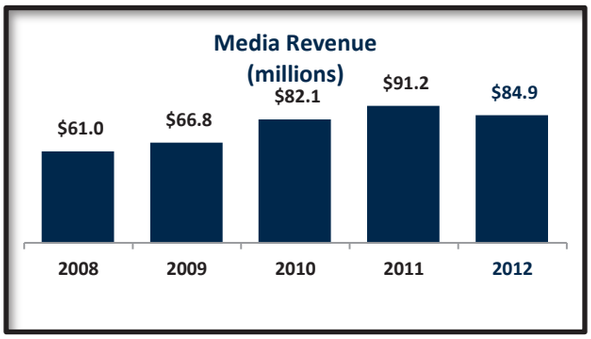


Merchandising also includes Cineplex's gaming business, which features arcade games in select Cineplex theatres, Cineplex's eight XSCAPE entertainment centres and the operations of CSI, the largest distributor and supplier of arcade games to the amusement industry in Canada. Prior to the formation of CSI, Cineplex owned 100% of NWS, which provided games and services to the Cineplex Odeon and Galaxy Cinemas locations. The acquisition of NWS in 2011 and the creation of CSI in 2012 has allowed Cineplex to vertically integrate its gaming operations as well as expanding Cineplex's gaming presence outside of Cineplex's theatres.

Media

Cineplex Media, with its national presence and 93% market share of the Canadian movie-going public, is well positioned for continued growth. Cineplex Media is the ideal channel for advertisers wanting to reach all demographics, especially the highly sought-after 17 to 25-year-old Canadian market. It is the only national coast-to-coast cinema sales representation that can offer advertisers fully integrated in-theatre media campaigns that include show time, digital pre-show, the digital lobby network ("DLN"), magazines, online and specialty media. With continued developments in digital projection, Cineplex can offer a more technologically advanced digital advertising pre-show to provide advertisers with the ability to present a national or local advertising campaign with a richer full screen, full motion experience. Cineplex Media also distributes Canada's leading entertainment magazine - *Cineplex Magazine*, in addition to its sister publication - *Le magazine Cineplex*, which are now available in all Cineplex locations, are distributed via various newspaper publications and are available on Apple Newsstand on the App Store. Combined, these magazines have a physical circulation of approximately 925,000 copies monthly.

CDM's business includes broadcasting, advertising and custom content to premium office towers, shopping malls, sports stadiums and other networks across Canada, as well as designing, installing, maintaining and operating digital signage networks on numerous software platforms in retail, financial, hospitality and entertainment markets across North America. The development of CDM and the implementation of its digital lobby network throughout Cineplex's theatres have positioned Cineplex to expand its media reach throughout its current infrastructure as well as in numerous out-of-home advertising locations across the country.



Alternative Programming

Through its *Front Row Centre* brand offering, Cineplex has been exhibiting alternative programming for several years, including The Metropolitan Opera, ethnic film programming, WWE and UFC programming, sporting events and concerts. Most of this programming is premium-priced and attracts a wider 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. Successful concert offerings included *Katy Perry; Part of Me* and *Led Zeppelin: Celebration Day*. Cineplex featured a live 3D broadcast of the 2012 Wimbledon tennis finals, as well as a live broadcast of the 100th Grey Cup. As more content becomes

available, Cineplex anticipates capitalizing on its 3D infrastructure by screening additional alternative programming events in 3D in 2013 and beyond.

Interactive

During 2007, in conjunction with the SCENE loyalty program, Cineplex re-launched and substantially expanded its website, www.cineplex.com, and in 2008 launched the online Cineplex Store, selling DVDs, Blu-ray discs and Cineplex gift cards. In addition to these items, during 2010 the Cineplex Store added digital download capabilities and started selling DTO and VoD movies. During 2011, the Cineplex Store added more studios to its online movie catalogue, expanding the number of titles and content offerings. In 2012, Cineplex became the first retailer in Canada and the only motion picture exhibitor in the world to offer UltraViolet integration with the Cineplex Store. UltraViolet is a free, online cloud-based account that gives the consumers greater flexibility to collect, access and watch the movies they purchase. Also in 2012, Cineplex expanded the availability of the Cineplex movie download application on select smart televisions and Blu-Ray players.

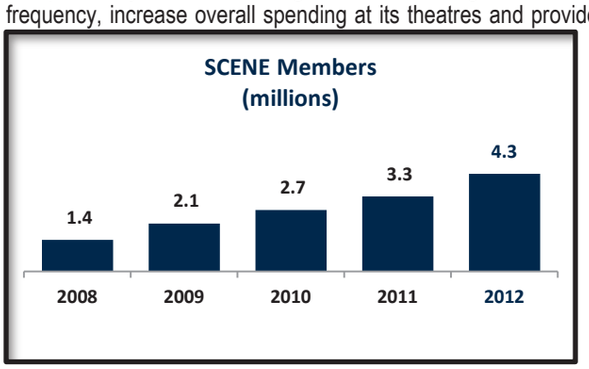
Cineplex continues to develop www.cineplex.com as the destination of choice for Canadians seeking movie entertainment information on the internet. The website offers streaming video, movie information, showtimes and the ability to buy tickets online for both Cineplex and its competitors, entertainment news and box office reports as well as advertising and e-commerce opportunities. These features and others enable Cineplex to engage and interact with its guests. This will also allow Cineplex to offer engaging, targeted, sponsored content to visitors and advertisers, resulting in opportunities to generate additional revenues.

The popularity of the Cineplex mobile app, which is available as a free download for a wide variety of smartphones, continued to grow in 2012. The Cineplex app provides guests with information relating to the latest movie choices and showtimes, as well as the ability to buy tickets, catch up on the latest movie news, view trailers and receive information on promotions. During 2012, *Cineplex Magazine* and *Le magazine Cineplex* became available through Apple Newsstand at the App Store, making the full print version of the magazine available through the Cineplex app.

SCENE Loyalty Program

In 2007, Cineplex entered into a joint venture agreement with the Bank of Nova Scotia ("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 points that can be redeemed for rewards, including free movies. The SCENE loyalty program also enables Cineplex to extend special offers to its guests, implement tailored marketing programs and deliver targeted messages.

Cineplex's objectives in creating SCENE were to gain a more thorough understanding of its customers, drive customer frequency, increase overall spending at its theatres and provide it with the ability to communicate directly and regularly with customers. To date, Cineplex is achieving all of these objectives and the program has been well received as evidenced by the growing membership in the program and the high engagement level of the program's members. Management believes the benefits of the program are reflected in box office and concession revenue respectively. Membership in the SCENE loyalty program at December 31, 2012 was approximately 4.3 million, an increase of approximately 0.9 million members during 2012. SCENE members can earn and redeem SCENE points on box office and concession purchases at Cineplex's theatres, as well as have the ability to earn and redeem SCENE points while purchasing DVDs, Blu-ray discs, DTO and VoD movies, and Cineplex gift cards online at the Cineplex Store. 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 provides promotions and offerings with numerous partners, and continues to investigate potential reward partners to expand both the opportunity to collect and redeem SCENE points. In addition to reward partnership opportunities, Cineplex is using the SCENE customer database to generate additional revenue opportunities.



Management's Discussion and Analysis

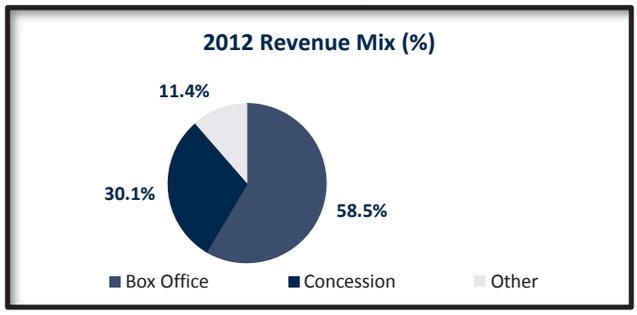
4. OVERVIEW OF OPERATIONS

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 58.5% of revenue in 2012 and continues to represent Cineplex's largest component of revenue. 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 current share of the Canadian theatre exhibition market is approximately 70% based on Canadian industry box office revenues. As a result of Cineplex's focus on diversifying the business beyond the traditional movie exhibition model, over the past five years the revenue mix has shifted from box office revenue to concession and other revenue sources. These revenue sources typically provide a higher incremental contribution margin than traditional exhibition revenues.

Revenue mix % by year	2012	2011	2010	2009	2008
Box office	**58.5 %**	57.9 %	59.4 %	60.3 %	60.1 %
Concessions	**30.1 %**	29.2 %	29.3 %	29.9 %	29.6 %
Other	**11.4 %**	12.9 %	11.3 %	9.8 %	10.3 %
Total	**100.0 %**	100.0 %	100.0 %	100.0 %	100.0 %

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 Cineplex's reduced price Tuesday 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.



CPP is impacted by concession product mix, concession prices, film genre, the 10% SCENE discount and the issuance of SCENE points on the purchase of certain concession 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 tends to fluctuate from quarter to quarter based on the genre of film product playing. The 10% SCENE discount offer and SCENE points issued on concession purchases both decrease concession revenue 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 has continued to grow BPP and CPP over the past five years.

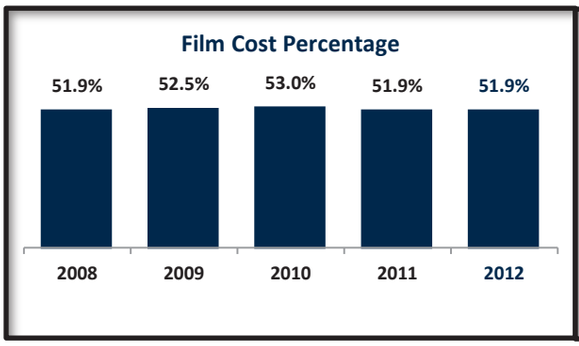
Cineplex's media business generates revenues from selling pre-show and showtime advertising in the theatres, magazine advertising for *Cineplex Magazine* and *Le Magazine Cineplex* and digital advertising for cineplex.com and the Cineplex app. CDM sells digital out-of-home advertising in addition to designing, installing, maintaining and operating digital signage networks.

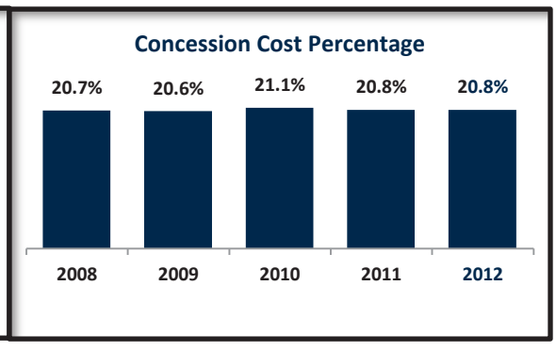
Games revenues include Cineplex's XSCAPE entertainment centres and game rooms in theatres. Cineplex also generated adjusted EBITDA from its share of CSI, which supplies and services all of the games in Cineplex's circuit while also supplying equipment to third party arcades, amusement parks and centres, bowling alleys and theatre circuits, in addition to owning and operating *Playdium*, a family entertainment centre located in Mississauga, Ontario.

Cineplex 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 based on the actual results versus the expected results for specific films playing during each quarter.





Concession cost represents the cost of concession items sold and varies with changes in concession revenue as well as the quantity and mix of concession offerings sold. Generally, during periods where the concession sales mix is dominated by core concession products (soft drinks, popcorn and candy), the concession cost percentage tends to be lower than during periods with higher proportional sales through RBO's. 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.

(Gain) loss on disposal of assets represents the gain or loss recognized on assets or components of assets that were sold or otherwise disposed.

(Gain) on acquisition of business represents the gain recognized on the acquisition of AMC Ventures Inc., as the value of the net assets acquired exceeded the consideration given for the acquisition.

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, which accounted for 44.4% of the category in 2012. 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, interactive, 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 concession management, accounting and financial reporting, legal, treasury, construction and design, real estate development, information systems and administration. Included in these costs are payroll (including the Long-Term Incentive Plan ("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 Ventures

The financial statements incorporate the operating results of joint ventures in which Cineplex has an interest using the equity accounting method as required by GAAP. Through equity accounting, results of operations for entities held through joint ventures by Cineplex are reported as a single item in the statements of operations, 'Share of loss (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's joint ventures in 2012 include its 50% share of one theatre in Quebec and one IMAX screen in Ontario, its 50% interest in SCENE LP, its 78.2% interest in CDCP (formed in June 2011) and its 50% interest in CSI (formed January 31, 2012). For the 2011 period, Cineplex's joint ventures included its 50% interest in one theatre in Quebec, one IMAX screen in Ontario and in SCENE LP and its 78.2% interest in CDCP (beginning in June). With the implementation of International Financial Reporting Standards ("IFRS") 11, *Joint Arrangements,* beginning in 2013, SCENE will be accounted for as a joint operation and Cineplex will recognize its share of the assets, liabilities, revenues and expenses of SCENE in its consolidated financial statements. This change will not result in any changes to net income or adjusted EBITDA. Under IFRS 11, all other joint ventures (CDCP, CSI, the theatre in Quebec and the IMAX screen in Ontario) will continue to be accounted for using the equity method of accounting in 2013. See Section 13, Accounting policies, for more details.

5. RESULTS OF OPERATIONS

5.1 SELECTED FINANCIAL DATA

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

	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010
Box office revenues	$ 638,296	$ 577,348	$ 597,827
Concession revenues	329,332	291,638	294,727
Other revenues	124,238	129,209	113,872
Total revenues	1,091,866	998,195	1,006,426
Film cost	331,281	299,404	316,722
Cost of concessions	68,398	60,737	62,247
Depreciation and amortization	62,058	68,115	82,359
(Gain) loss on disposal of assets	(2,352)	735	2,404
Other costs (a)	490,369	466,425	456,144
Costs of operations	949,754	895,416	919,876
Net income	$ 120,484	$ 49,260	$ 50,423
Adjusted EBITDA (i)	$ 200,484	$ 173,174	$ 167,854
(a) Other costs include:			
Theatre occupancy expenses	174,259	163,696	161,101
Other operating expenses	258,973	246,289	235,852
General and administrative expenses	57,137	56,440	59,191
Total other costs	$ 490,369	$ 466,425	$ 456,144
Basic net income per Share	$ 1.98	$ 0.86	$ 0.89
Diluted net income per Share	$ 1.97	$ 0.85	$ 0.89
Total assets	$ 1,327,456	$ 1,245,077	$ 1,292,672
Total long-term financial liabilities (ii)	$ 150,000	$ 247,700	$ 334,742
Shares/Units outstanding at year end	62,783,002	58,465,254	57,258,999
Cash dividends declared per Share/Cash distributions declared per Unit	$ 1.3300	$ 1.2800	$ 1.2600
Adjusted free cash flow per Share/Distributable cash per Unit	$ 2.0785	$ 1.9657	$ 2.2450
Box office revenue per patron	$ 8.97	$ 8.74	$ 8.67
Concession revenue per patron	$ 4.63	$ 4.41	$ 4.27
Film cost as a percentage of box office revenue	51.9%	51.9%	53.0%
Attendance (in thousands of patrons)	71,198	66,059	68,989
Theatre locations (at year end)	134	130	131
Theatre screens (at year end)	1,449	1,352	1,362

(i) See Section 17, Non-GAAP measures, for the definitions of adjusted EBITDA, adjusted free cash flow per Share and distributable cash per Unit.

(ii) Comprised of the principal components of long-term debt and the convertible debentures for 2011 and 2010 only as the convertible debentures matured in 2012. Excludes Share-based compensation, fair value of interest rate swap agreements, financing lease obligations, post-employment benefit obligations, other liabilities, deficiency interest in joint venture, deferred financing fees and transaction costs net against long-term debt and convertible debentures.

Management's Discussion and Analysis

5.2 OPERATING RESULTS FOR 2012

Total revenues

Total revenues for the three months ended December 31, 2012 increased $57.0 million (23.6%) to $298.7 million as compared to the prior year period. Total revenues for the year ended December 31, 2012 increased $93.7 million (9.4%) to $1.1 billion as compared to the prior year. Revenues for the current year periods were positively impacted by the acquisition of the four theatres from AMC during the third quarter of 2012 (revenues of $12.4 million for the three months ended December 31, 2012 and $21.0 million for the year ended December 31, 2012). A discussion of the factors affecting the changes in box office, concession and other revenues for the periods is provided on the following pages.

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		
	2012	2011	Change	2012	2011	Change
Box office revenues	$ 170,524	$ 133,735	27.5%	$ 638,296	$ 577,348	10.6%
Attendance	18,577	15,070	23.3%	71,198	66,059	7.8%
Box office revenue per patron	$ 9.18	$ 8.87	3.5%	$ 8.97	$ 8.74	2.6%
BPP excluding premium priced product	$ 8.57	$ 8.19	4.6%	$ 8.26	$ 8.10	2.0%
Canadian industry revenues (i)			18.0%			6.3%
Same store box office revenues	$ 160,495	$ 133,363	20.3%	$ 616,857	$ 573,501	7.6%
Same store attendance	17,573	15,026	17.0%	69,052	65,604	5.3%
% Total box from 3D, UltraAVX, VIP & IMAX	29.2%	30.2%	-1.0%	30.9%	29.4%	1.5%

(i) The Motion Picture Theatre Associations of Canada ("MPTAC") reported that the Canadian exhibition industry reported a box office revenue increase of 16.7% for the period from September 28, 2012 to December 27, 2012 as compared to the period from September 30, 2011 to December 29, 2011. On a basis consistent with Cineplex's calendar reporting period (October 1 to December 31), the Canadian industry box office revenue increase is estimated to be 18.0%. MPTAC reported that the Canadian exhibition industry reported a box office revenue increase of 5.6% for the period from December 30, 2011 to December 27, 2012 as compared to the period from December 31, 2010 to December 29, 2011. On a basis consistent with Cineplex's calendar reporting period (January 1 to December 31), the Canadian industry box office revenue is estimated to be an increase of 6.3%.

Box office continuity	Fourth Quarter		Full Year	
	Box Office	Attendance	Box Office	Attendance
2011 as reported	$ 133,735	15,070	$ 577,348	66,059
Same store attendance change	22,610	2,547	30,149	3,449
Impact of same store BPP change	4,522	—	13,208	—
New and acquired theatres	10,029	1,004	19,502	1,935
Disposed and closed theatres	(372)	(44)	(1,911)	(245)
2012 as reported	$ 170,524	18,577	$ 638,296	71,198

Fourth Quarter

	Fourth Quarter 2012 Top Cineplex Films	IMAX	3D	% Box		Fourth Quarter 2011 Top Cineplex Films	IMAX	3D	% Box
1	Skyfall	X		15.2%	1	The Twilight Saga: Breaking Dawn 1			9.4%
2	The Hobbit: An Unexpected Journey	X	X	10.6%	2	Mission: Impossible - Ghost Protocol	X		6.1%
3	The Twilight Saga: Breaking Dawn 2	X		8.0%	3	Puss in Boots	X	X	6.0%
4	Wreck-It Ralph		X	5.4%	4	Sherlock Holmes: A Game of Shadows			5.2%
5	Hotel Transylvania		X	4.7%	5	Immortals		X	4.3%

Box office revenues increased $36.8 million, or 27.5%, to $170.5 million during the fourth quarter of 2012, compared to $133.7 million recorded in the same period in 2011. The increase was primarily due to a 23.3% increase in attendance as a result of the strong slate of films in the current quarter compared to the prior year period, as well as the impact of the four theatres acquired from AMC in the third quarter of 2012. The $170.5 million in box office revenues is a quarterly record for Cineplex, exceeding the previous record of $162.5 million reported in the third quarter of 2011.

BPP increased 3.5% from $8.87 in the fourth quarter of 2011 to $9.18 in the current year period. Three of the top five releases during the period were screened in 3D and three in IMAX, compared to two of the top releases in the prior year period shown in 3D and two in IMAX. Outside of the top five, there were more 3D releases in the 2011 period which contributed to the percentage of box office from premium-priced product (3D, UltraAVX, IMAX and VIP), decreasing from 30.2% in the prior year period to 29.2% in the current quarter. The four theatres acquired from AMC which are located in major metropolitan areas and have higher ticket prices than those in smaller markets contributed to the higher BPP, as well as the composition of the film slate which featured less product catering to children in the current year period compared to the prior year, also increasing the BPP.

Full Year

	Full Year 2012 Top Cineplex Films	IMAX	3D	% Box		Full Year 2011 Top Cineplex Films	IMAX	3D	% Box
1	Marvel's The Avengers	X	X	5.7%	1	Harry Potter and the Deathly Hallows 2	X	X	4.4%
2	The Dark Knight Rises	X		4.5%	2	Transformers: Dark of the Moon	X	X	3.3%
3	Skyfall	X		4.1%	3	Pirates of the Caribbean: On Stranger Tides	X	X	2.5%
4	The Hunger Games	X		3.8%	4	The Twilight Saga: Breaking Dawn 1			2.2%
5	The Amazing Spider-Man	X	X	2.8%	5	The Hangover 2			2.1%

Box office revenues for 2012 were $638.3 million or 10.6% higher than the prior year period, and represent an annual record for Cineplex. The strong performance of the four major blockbusters released in 2012 (*Marvel's The Avengers, The Dark Knight Rises, Skyfall* and *The Hunger Games*) were the main contributors to the $60.9 million increase in box office revenue during the year. These four blockbusters were all released at different times during the year with one opening in each quarter, contributing to Cineplex's record annual attendance. The acquisition of the four theatres from AMC during the third quarter of 2012 also contributed to the box office revenue increase in the current year period.

Cineplex's BPP for 2012 increased $0.23, or 2.6%, from $8.74 in 2011 to $8.97, an annual record. This increase was primarily due to the increase in revenues from premium-priced product. Premium-priced offerings accounted for 30.9% of Cineplex's box office revenues in the 2012, compared to 29.4% in the prior year. The top five films in the 2012 period were all screened in IMAX and two in 3D (2011 - three in IMAX and three in 3D).

Cineplex's investment in premium-priced formats over the last four years has positioned it to take advantage of the price premiums offered in these formats, which has contributed to Cineplex's BPP growth in the current period compared to the prior year period. This investment in premium-priced offerings was a key factor resulting in Cineplex outperforming the Canadian industry box office revenue growth during 2012.

Concession revenues

The following table highlights the movement in concession 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):

Concession revenues	Fourth Quarter			Full Year		
	2012	2011	Change	2012	2011	Change
Concession revenues	$ 86,409	$ 68,161	26.8%	$ 329,332	$ 291,638	12.9%
Attendance	18,577	15,070	23.3%	71,198	66,059	7.8%
Concession revenue per patron	$ 4.65	$ 4.52	2.9%	$ 4.63	$ 4.41	5.0%
Same store concession revenues	$ 82,358	$ 68,043	21.0%	$ 319,637	$ 290,076	10.2%
Same store attendance	17,573	15,026	17.0%	69,052	65,604	5.3%

Concession revenue continuity	Fourth Quarter		Full Year	
	Concession	Attendance	Concession	Attendance
2011 as reported	$ 68,161	15,070	$ 291,638	66,059
Same store attendance change	11,535	2,547	15,249	3,449
Impact of same store CPP change	2,780	—	14,312	—
New and acquired theatres	4,051	1,004	8,795	1,935
Disposed and closed theatres	(118)	(44)	(662)	(245)
2012 as reported	$ 86,409	18,577	$ 329,332	71,198

Fourth Quarter

Concession revenues increased 26.8% as compared to the prior year quarter primarily due to the 23.3% increase in attendance. CPP increased from $4.52 in the fourth quarter of 2011 to $4.65 in the same period in 2012, a 2.9% increase and a quarterly record for Cineplex, a fourth quarter record. Cineplex believes a focus on revised concession offerings, its RBO program and improved product promotion through the expansion of a digital menu board program have all contributed to the higher CPP in the current period compared to the prior year period.

Full Year

Concession revenues increased 12.9% as compared to the prior year period, due to the 7.8% increase in attendance and the 5.0% increase in CPP. CPP increased from $4.41 in 2011 to $4.63 in 2012. This represents an annual CPP record for Cineplex, $0.22 higher than the previous record from 2011.

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

Other revenues

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

Other revenues	Fourth Quarter			Full Year		
	2012	2011	Change	2012	2011	Change
Media	$ 30,980	$ 28,667	8.1%	$ 84,870	$ 91,242	-7.0%
Games	1,361	2,128	-36.0%	6,379	7,584	-15.9%
Other	9,416	8,997	4.7%	32,989	30,383	8.6%
Total	$ 41,757	$ 39,792	4.9%	$ 124,238	$ 129,209	-3.8%

Fourth Quarter

Other revenues increased 4.9% to $41.8 million in the fourth quarter of 2012 compared to the prior year period. This increase was due to higher media revenues, which were $31.0 million, up $2.3 million, or 8.1%, when compared to the prior year period. This increase was primarily due to higher CDM revenues ($2.9 million), partially offset by decreases in other media categories. In addition to expanding its ongoing digital network management contracts, CDM completed several large equipment installation projects in the fourth quarter of 2012.

The games revenue decrease is due to the formation of CSI on January 31, 2012, with the acquisition by NWS of the gaming business of SCM. With the creation of the CSI joint venture, revenues from CSI are included in the 'Share of loss of joint ventures' line in the Statements of Operations. The games revenues for the fourth quarter of 2011 include the results of NWS ($0.9 million). The addition of four new XSCAPE entertainment centres since the fourth quarter of 2011 partially offset the decrease in games revenue due to the creation of CSI in the first quarter of 2012 and the reclassification of the NWS revenue to the share of loss of joint ventures line on the statements of operations. Other revenues increased primarily due to increased revenues from enhanced guest service initiatives and auditorium rentals, partially offset by lower breakage revenues.

Full Year

Other revenues decreased 3.8% from $129.2 million in 2011 to $124.2 million during 2012. Media revenues for 2012 decreased $6.4 million, or 7.0%, from the prior year period. Declines in Cineplex's media business were due in part to the challenging media environment prevalent during the first half of 2012, partially offset by a 6.1% increase in media revenues in the second half of 2012. Cineplex enjoys strong relationships with a number of national advertisers and during the first half of the year the reduction in campaigns from three major categories of these advertisers contributed to the decrease in media revenues. CDM continued to report growth in revenues, increasing from $10.8 million in 2011 to $13.7 million in 2012.

The decrease in games revenue was due to the impact of the acquisition of NWS and the subsequent formation of CSI. The results of NWS are included in the comparative period for May to December 2011 (following its acquisition in May 2011) and for January 2012 (prior to the formation of CSI described above - $0.4 million for the 2012 period and $2.5 million for the 2011 period). This decrease was partially offset by the impact of the four new XSCAPE entertainment centres added since the fourth quarter of 2011 as well as the higher attendance in the current year period bringing more games traffic through the theatres. The increase in the other category is primarily due to higher auditorium rental and screening revenues as well as additional revenue arising from enhanced guest service initiatives.

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		
	2012	2011	Change	2012	2011	Change
Film cost	$ 87,477	$ 68,757	27.2%	$ 331,281	$ 299,404	10.6%
Film cost percentage	51.3%	51.4%	-0.1%	51.9%	51.9%	NM

Fourth Quarter

Film cost varies primarily with box office revenue, and can vary from quarter to quarter based on the relative strength of the titles exhibited during the period. The increase in the fourth quarter of 2012 compared to the prior year period was due to the increase in box office revenue, partially offset by the impact of the 0.1% decrease in film cost percentage. The decrease in film cost percentage is primarily due to the settlement rate on certain strong performing titles during the fourth quarter of 2012 being lower than the average film settlement rate in the 2011 period.

Full Year

The year to date increase in film cost was due to the 10.6% increase in box office revenues. The film cost percentage was the same for both 2012 and 2011.

Cost of concessions

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

Cost of concessions	Fourth Quarter			Full Year		
	2012	2011	Change	2012	2011	Change
Concession cost	$ 18,077	$ 14,015	29.0%	$ 68,398	$ 60,737	12.6%
Concession cost percentage	20.9%	20.6%	0.3%	20.8%	20.8%	NM
Concession margin per patron	$ 3.68	$ 3.59	2.5%	$ 3.66	$ 3.50	4.6%

Fourth Quarter

Cost of concessions varies primarily with theatre attendance as well as the quantity and mix of concession offerings sold. The increase in concession cost as compared to the prior year period was due to the 26.8% increase in concession revenues and the 0.3% increase in the concession cost percentage during the period. The concession margin per patron increased from $3.59 in the fourth quarter of 2011 to $3.68 in the same period in 2012, reflecting the impact of the higher CPP during the period.

Full Year

The increase in concession cost during the period was due to the 12.9% increase in concession revenues. The concession cost percentage was 20.8% in each of the years.

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

Depreciation and amortization

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

Amortization expenses	Fourth Quarter			Full Year		
	2012	2011	Change	2012	2011	Change
Amortization of property, equipment and leaseholds	$ 13,412	$ 14,571	-8.0 %	$ 56,139	$ 59,145	-5.1%
Amortization of intangible assets and other	3,522	2,241	57.2 %	5,919	8,970	-34.0%
Amortization expenses as reported	$ 16,934	$ 16,812	0.7 %	$ 62,058	$ 68,115	-8.9%

The quarterly and year to date decrease in amortization of property, equipment and leaseholds of $1.2 million and $3.0 million respectively is due in part to the transfer of digital projection equipment to CDCP in June 2011 resulting in lower asset values to depreciate, as well as certain assets becoming fully amortized in the third quarter of 2012. Decommissioning the 35 millimeter projectors due to the circuit's conversion to digital also contributed to the decrease in amortization of property, equipment and leaseholds.

The increase in amortization of intangible assets and other in the fourth quarter of 2012 compared to the prior year period is due to the amortization of certain trade name assets that are being phased out by Cineplex. These assets were previously classified as indefinite lived assets however during the fourth quarter of 2012 their classification was changed to definite lived with amortization being recorded over the anticipated rebranding schedule of the associated theatres. For the year-to-date period, the decrease in amortization of intangible assets and other relates to certain intangible assets

that became fully amortized during the first quarter of 2012, offset by the amortization of the trade name assets discussed above.

(Gain) loss on disposal of assets

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

(Gain) loss on disposal of assets	Fourth Quarter			Full Year		
	2012	2011	Change	2012	2011	Change
(Gain) loss on disposal of assets	$ (3,138)	$ 731	NM	$ (2,352)	$ 735	NM

Fourth Quarter

During the fourth quarter of 2012, Cineplex recorded a gain of $3.1 million on the disposal of assets, including a gain of $3.7 million on the sale of land during the quarter, partially offset by losses on certain assets that were sold or otherwise disposed of. The fourth quarter of 2011 resulted in a loss of $0.7 million on certain assets that were sold or otherwise disposed.

Full Year

For the year ended December 31, 2012, disposal of assets resulted in a gain of $2.4 million on the disposal of assets, including a gain of $3.7 million on the sale of land discussed above, partially offset by losses on certain assets that were sold or otherwise disposed. For the year ended December 31, 2011, disposal of assets resulted in a loss of $0.7 million, comprised of losses recorded on assets that were sold or otherwise disposed of, offset by a gain on the sale of a theatre during the second quarter of 2011 ($1.4 million) and a nominal gain recorded on the transfer of digital projection assets to CDCP.

(Gain) on acquisition of business

The gain on acquisition represents the gain recorded on the acquisition of AMC Ventures Inc. (see Section 1.3, Business formation and acquisition). The gain was revised in the fourth quarter of 2012 based on the finalization of AMC Ventures Inc.'s final tax return.

(Gain) on acquisition of business	Fourth Quarter			Full Year		
	2012	2011	Change	2012	2011	Change
(Gain) on acquisition of business	$ (930)	$ —	NM	$ (24,752)	$ —	NM

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 the full year (in thousands of Canadian dollars):

Other costs	Fourth Quarter			Full Year		
	2012	2011	Change	2012	2011	Change
Theatre occupancy expenses	$ 45,498	$ 39,842	14.2%	$ 174,259	$ 163,696	6.5%
Other operating expenses	74,056	64,095	15.5%	258,973	246,289	5.2%
General and administrative expenses	15,200	12,981	17.1%	57,137	56,440	1.2%
Total other costs	$ 134,754	$ 116,918	15.3%	$ 490,369	$ 466,425	5.1%

Theatre occupancy expenses

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

Theatre occupancy expenses	Fourth Quarter			Full Year		
	2012	2011	Change	2012	2011	Change
Rent	$ 30,936	$ 27,334	13.2%	$ 116,586	$ 110,580	5.4%
Other occupancy	15,343	13,057	17.5%	59,628	55,148	8.1%
One-time items (i)	(781)	(549)	42.3%	(1,955)	(2,032)	-3.8%
Total	$ 45,498	$ 39,842	14.2%	$ 174,259	$ 163,696	6.5%

(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
2011 as reported	$ 39,842	$ 163,696
Impact of new and acquired theatres	5,082	10,169
Impact of disposed theatres	(122)	(1,386)
Same store rent change	280	507
One-time items	(232)	77
Other	648	1,196
2012 as reported	$ 45,498	$ 174,259

Fourth Quarter

Theatre occupancy expenses increased $5.7 million during the fourth quarter of 2012 compared to the prior year period. This increase was primarily due to the four theatres acquired from AMC in the third quarter of 2012 ($4.9 million). The increase in the Other category primarily relates to higher real estate taxes in the current quarter compared to the prior year period.

Full Year

The increase in theatre occupancy expenses of $10.6 million for 2012 compared to the prior year was primarily due to the four theatres acquired from AMC in the third quarter of 2012 ($9.1 million). The increase in the Other category primarily relates to higher real estate taxes in the current year compared to the prior year period.

Other operating expenses

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

Other operating expenses	Fourth Quarter			Full Year		
	2012	2011	Change	2012	2011	Change
Other operating expenses	$ 74,056	$ 64,095	15.5%	$ 258,973	$ 246,289	5.2%

Other operating continuity	Fourth Quarter Other Operating	Full Year Other Operating
2011 as reported	$ 64,095	$ 246,289
Impact of new and acquired theatres	2,853	6,119
Impact of disposed theatres	(212)	(1,815)
Same store payroll change	2,840	4,350
Marketing change	178	1,297
Media	1,786	(504)
New Way Sales	(855)	(1,868)
Theatre refurbishment payment	—	(1,014)
Other	3,371	6,119
2012 as reported	$ 74,056	$ 258,973

Fourth Quarter

Other operating expenses during the fourth quarter of 2012 increased $10.0 million or 15.5% compared to the prior year period. The impact of new and acquired net of disposed theatres was a $2.6 million increase to the category primarily due to the four theatres acquired from AMC which accounted for $2.1 million of the $2.6 million increase. As a result of higher business volumes during the current year period, same-store payroll costs increased $2.8 million and media costs increased $1.8 million due to higher equipment sales by CDM. These increases were partially offset by the impact of NWS ($0.9 million) as expenses for NWS are included in other operating expenses in 2011 but not in 2012 due to the creation of CSI.

The major movement in the Other category include the following:

- Higher credit card service fees due to the higher sales volumes during the period ($0.6 million).
- Increased spending for new business initiatives including Cineplex's interactive business ($0.6 million).
- Higher utility costs in the 2012 period compared to the prior year period ($0.2 million).
- Higher digital projector rental costs due to the roll-out of digital projectors by CDCP that commenced in June 2011 ($0.2 million).
- Higher theatre operating costs including cleaning, ticket paper, and projector bulb expense, due to the higher business volumes in the current year period.

Total theatre payroll costs accounted for 41.7% of total operating expenses during the fourth quarter of 2012 as compared to 41.4% for the same period one year earlier due in part to minimum wage increases.

Full Year

For the year ended December 31, 2012, other operating expenses increased $12.7 million, due in part to the higher business volumes in the 2012 period compared to the prior year. The impact of new and acquired net of disposed theatres was a $4.3 million increase to the category primarily due to the four theatres acquired from AMC which accounted for $3.9 million of the $4.3 million increase. Cost increases included higher same-store payroll expenses related to the increased business volumes ($4.4 million), higher marketing costs ($1.3 million) and the $6.1 million increase in the Other category. These cost increases were partially offset by lower media expenses due to the lower media sales during the period ($0.5 million) and the impact of NWS which was contributed into CSI in January 2012 ($1.9 million) as well as a $1.0 million termination payment paid to a landlord in the prior year period to refurbish theatre space for a disposed theatre.

The major movement in the Other category include the following:

- Higher credit card service fees due to higher sales volumes during the period ($1.6 million).
- Increased spending for new business initiatives including Cineplex's interactive business ($0.7 million).
- Higher utility costs during 2012 compared to the prior year ($1.3 million).
- Higher digital projector rental costs due to the roll-out of digital projectors by CDCP that commenced in June 2011 ($0.9 million).
- Higher theatre operating costs including cleaning, ticket paper, and projector bulb expense relating to the higher business volumes during the year.

Total theatre payroll accounted for 44.4% of total other operating expenses in 2012, compared to 43.7% in the prior year due in part to minimum wage increases.

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		
	2012	2011	Change	2012	2011	Change
G&A excluding LTIP and option plan expense	$ 12,591	$ 10,779	16.8%	$ 46,624	$ 40,832	14.2%
LTIP (i)	2,176	1,503	44.8%	8,442	7,542	11.9%
Option plan	433	699	-38.1%	2,071	8,066	-74.3%
G&A expenses as reported	$ 15,200	$ 12,981	17.1%	$ 57,137	$ 56,440	1.2%

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

Fourth Quarter

G&A expenses increased $2.2 million during the fourth quarter of 2012 compared to the prior year period, due to a $0.7 million increase in LTIP expenses, a $0.2 million increase in professional fees and a $1.6 million increase in payroll related and general cost increases. These increases were partially offset by lower expenses under the option plan ($0.3 million).

Effective January 1, 2012, the Board invoked Cineplex's right to substitute a cashless exercise for any requested exercise of options for cash, in accordance with the terms of the option plan. As a result of the change in administrative policy, 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. Existing options at the time of the change in administrative policy have their remaining expense determined at the time of the change in administrative policy, recognized over the remaining vesting periods.

Full Year

G&A expenses for 2012 increased $0.7 million compared to the prior year period, due to higher professional fees ($1.6 million) relating to the creation of CSI, an internal corporate reorganization effected on January 1, 2012 and the costs relating to the acquisition of AMC Ventures Inc., higher payroll related and general cost increases ($4.2 million) and higher LTIP expenses ($0.9 million). These increases were partially offset by the $6.0 million decrease in the option plan expense.

Share of loss of joint ventures

Cineplex's joint ventures in 2012 include its 50% share of one theatre in Quebec and one IMAX screen in Ontario, its 50% interest in SCENE LP, its 78.2% interest in CDCP (formed in June 2011) and its 50% interest in CSI (formed January 31, 2012). For 2011, Cineplex's joint ventures included one theatre in Quebec, one IMAX screen in Ontario, its interest in SCENE LP and its 78.2% interest in CDCP. The following table highlights the components of share of loss of joint ventures during the quarter and the full year (in thousands of Canadian dollars):

Share of loss of joint ventures	Fourth Quarter			Full Year		
	2012	2011	Change	2012	2011	Change
Share of (income) loss of CDCP	$ (834)	$ (560)	48.9%	$ (2,222)	$ 1,658	NM
Share of (income) of CSI	(170)	—	NM	(932)	—	NM
Share of loss (income) of SCENE	1,588	1,902	-16.5%	4,638	(1,440)	NM
Share of loss (income) of other joint ventures	2	19	-89.5%	(109)	51	NM
Total loss of joint ventures	$ 586	$ 1,361	-56.9%	$ 1,375	$ 269	411.2%

Fourth Quarter

The decrease from a loss of $1.4 million in the fourth quarter of 2011 to a loss of $0.6 million in the current period is primarily due to the activities of SCENE, CDCP and CSI:

- SCENE's loss in the fourth quarter of 2012 was $0.3 million smaller than the loss in the prior year period due to less marketing spend in the current year period compared to the prior year.
- CDCP generated income of $0.8 million in the fourth quarter of 2012, $0.3 million higher than the prior year period due in part to the full roll-out of digital projectors being completed in 2012.
- The results of CSI, formed January 31, 2012 and therefore not included in the prior year comparative, contributed a $0.2 million positive variance year over year.

Full Year

The increase from a loss of $0.3 million in 2011 to a loss of $1.4 million in the current year is mainly due to the activities of SCENE, CDCP and CSI:

- SCENE's results in the 2011 period include income relating to a change in accounting estimate for breakage resulting in a program-to-date adjustment to its outstanding points liability as well as the adjustment to SCENE's outstanding points balance due to certain members having their points expired due to inactivity in the program. When compared to the current year period the result is a negative variance of $6.1 million year over year.
- CDCP in the 2011 period includes $2.2 million of start-up costs offset by income of $0.5 million, which when compared to the income of $2.2 million generated in the current year period, results in a positive variance of $3.9 million year over year.
- The results of CSI, formed January 31, 2012 and therefore not included in the prior year comparative, contributed a $0.9 million positive variance year over year.

Interest expense

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

Interest expense	Fourth Quarter			Full Year		
	2012	2011	Change	2012	2011	Change
Long-term debt interest expense	$ 1,593	$ 1,761	-9.5%	$ 6,475	$ 10,887	-40.5%
Convertible debenture interest expense	200	1,165	-82.8%	1,950	5,318	-63.3%
Finance lease interest expense	425	541	-21.4%	1,790	2,226	-19.6%
Sub-total - cash interest expense	$ 2,218	$ 3,467	-36.0%	$ 10,215	$ 18,431	-44.6%
Deferred financing fee accretion and other non-cash interest	143	139	2.9 %	562	840	-33.1%
Convertible debenture accretion	24	290	-91.7%	323	1,368	-76.4%
Interest rate swap - non-cash	(295)	3,072	NM	1,485	4,215	-64.8%
Sub-total - non-cash interest expense	(128)	3,501	NM	2,370	6,423	-63.1%
Total interest expense	$ 2,090	$ 6,968	-70.0%	$ 12,585	$ 24,854	-49.4%

Interest expense decreased $4.9 million for the quarter and $12.3 million for the year to date period compared to the prior year. Cash interest decreased $1.2 million and $8.2 million, respectively, primarily due to the impact of Cineplex's fourth amended and restated credit agreement which was entered in the third quarter of 2011 and is subject to lower interest rates than its predecessor agreement (see section 7.4, Credit facilities, for more details). Convertible debenture interest was also lower due to a smaller principal balance of debentures outstanding as compared to the prior year period. The debentures matured on December 31, 2012 (see Section 9, Shares outstanding, for more information on the convertible debentures).

Interest income

The decrease in interest income during the fourth quarter of 2012 and the full year of 2012 compared to the prior year periods is due to the lower average cash balances in the 2012 periods (in thousands of Canadian dollars):

Interest income	Fourth Quarter			Full Year		
	2012	2011	Change	2012	2011	Change
Interest income	$ 58	$ 94	-38.3%	$ 205	$ 898	-77.2%

Income taxes

For the three months and year ended December 31, 2012, Cineplex recorded current income tax expense of $8.8 million and $31.4 million, respectively (2011 – $5.5 million and $17.5 million, respectively). For the three months and year ended December 31, 2012, Cineplex recorded deferred income tax expense (recovery) of $1.4 million and $1.2 million, respectively (2011 – $0.2 million and $11.8 million, respectively) (in thousands of Canadian dollars):

Income taxes	Fourth Quarter			Full Year		
	2012	2011	Change	2012	2011	Change
Current income tax expense	$ 8,795	$ 5,482	60.4%	$ 31,436	$ 17,493	79.7%
Deferred income tax expense (recovery)	$ 1,399	$ (193)	NM	$ 1,189	$ 11,801	-89.9%

The increase in current tax expense for the quarter and the year is due to the higher taxable income from higher business volumes and the timing of taxable deductions.

The deferred income tax expense for the year ended December 31, 2011 includes the 2011 impact of the Fund's conversion to a corporation on January 1, 2011. This resulted in Cineplex reducing its net deferred tax assets at December 31, 2010 by $7.8 million, of which $6.0 million was recorded as deferred income tax expense and $1.8 million in other comprehensive loss in the Statements of Operations in the first quarter of 2011. At December 31, 2012, Cineplex's blended federal and provincial statutory tax rate was 26.2% (2011 - 27.8%).

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. These losses have been valued using Cineplex's effective tax rate and are included in the purchase price allocation (see Section 1.3, Business formation and acquisition). As a result of these losses, Cineplex's cash income taxes in 2013 will be substantially reduced.

Net income

For the three months ended December 31, 2012, Cineplex reported net income of $32.7 million (2011 – $10.9 million). For the year ended December 31, 2012, Cineplex reported net income of $120.5 million (2011 - $49.3 million). Net income for the year ended December 31, 2012 included a gain on the acquisition of AMC Ventures Inc. of $24.8 million (in thousands of Canadian dollars):

Net income	Fourth Quarter			Full Year		
	2012	2011	Change	2012	2011	Change
Net income	$ 32,704	$ 10,931	199.2%	$ 120,484	$ 49,260	144.6%

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

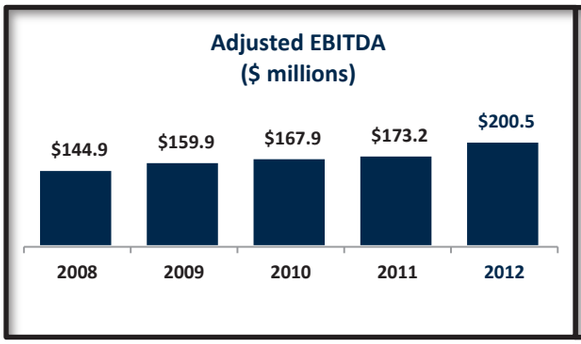
The following table represents EBITDA and adjusted EBITDA for the three months and year ended December 31, 2012 as compared to the three months and year ended December 31, 2011 (expressed in thousands of Canadian dollars, except adjusted EBITDA margin):

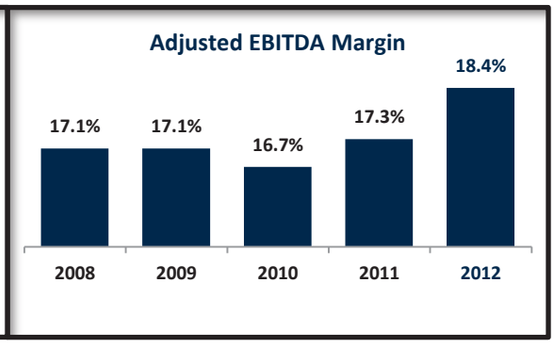
EBITDA	Fourth Quarter			Full Year		
	2012	2011	Change	2012	2011	Change
EBITDA	$ 61,864	$ 39,906	55.0%	$ 227,547	$ 170,625	33.4%
Adjusted EBITDA	$ 57,507	$ 40,102	43.4%	$ 200,484	$ 173,174	15.8%
Adjusted EBITDA margin	19.3%	16.6%	2.7%	18.4%	17.3%	1.1%

Adjusted EBITDA for the fourth quarter of 2012 increased $17.4 million, or 43.4%, as compared to the prior year period. The increase over the prior year period was primarily due to the record fourth quarter exhibition and concession revenues recorded in the period. The four theatres acquired from AMC in the third quarter of 2012 contributed $0.6 million to adjusted EBITDA in the fourth quarter. Adjusted EBITDA margin, calculated as adjusted EBITDA divided by total revenues, was 19.3%, up 2.7% from 16.6% in the prior year period.

Adjusted EBITDA for the year ended December 31, 2012 increased $27.3 million, or 15.8%, as compared to the prior year period. The increase is primarily due to the higher exhibition and concession revenues due to the record theatre attendance. The impact of the four theatres acquired from AMC had a $0.2 million, or 0.1%, negative impact on adjusted EBITDA in the year-to-date period. Adjusted EBITDA margin, calculated as adjusted EBITDA divided by total revenues, was 18.4%, compared to 17.3% in the prior year period. Excluding the impact of the AMC theatres, adjusted EBITDA margin was 18.7% for 2012.

Cineplex believes its operating and programming expertise, combined with its merchandising, media, marketing, interactive and SCENE loyalty programs will positively and significantly improve the operations of the four theatres acquired from AMC. Cineplex will invest in each of the locations and may add UltraAVX auditoriums, VIP auditoriums or XSCAPE entertainment centres to one or more of the locations.





6. BALANCE SHEETS

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

	December 31, 2012	December 31, 2011	Change ($)	Change (%)
Assets				
Current assets				
Cash and cash equivalents	$ 47,774	$ 48,992	$ (1,218)	-2.5%
Trade and other receivables	70,625	67,185	3,440	5.1%
Inventories	5,187	4,118	1,069	26.0%
Prepaid expenses and other current assets	3,047	3,727	(680)	-18.2%
	126,633	124,022	2,611	2.1%
Non-current assets				
Property, equipment and leaseholds	418,142	389,532	28,610	7.3%
Deferred income taxes	53,528	12,052	41,476	344.1%
Interests in joint ventures	41,764	26,163	15,601	59.6%
Intangible assets	78,460	84,379	(5,919)	-7.0%
Goodwill	608,929	608,929	—	—
	$ 1,327,456	$ 1,245,077	$ 82,379	6.6%
Liabilities				
Current liabilities				
Accounts payable and accrued expenses	$ 127,318	$ 112,285	$ 15,033	13.4%
Share-based compensation	—	1,331	(1,331)	-100.0%
Dividends payable	7,063	6,285	778	12.4%
Income taxes payable	13,654	17,485	(3,831)	-21.9%
Deferred revenue	94,397	83,907	10,490	12.5%
Finance lease obligations	2,222	2,411	(189)	-7.8%
Fair value of interest rate swap agreements	513	565	(52)	-9.2%
Convertible debentures	—	76,864	(76,864)	-100.0%
	245,167	301,133	(55,966)	-18.6%
Non-current liabilities				
Share-based compensation	12,223	9,466	2,757	29.1%
Long-term debt	148,066	167,531	(19,465)	-11.6%
Fair value of interest rate swap agreements	273	1,199	(926)	-77.2%
Finance lease obligations	20,548	26,474	(5,926)	-22.4%
Post-employment benefit obligations	6,274	5,688	586	10.3%
Other liabilities	141,319	103,727	37,592	36.2%
Deficiency interests in joint ventures	6,272	8,250	(1,978)	-24.0%
	580,142	623,468	(43,326)	-6.9%
Equity	747,314	621,609	125,705	20.2%
	$ 1,327,456	$ 1,245,077	$ 82,379	6.6%

Trade and other receivables. The increase in trade and other receivables is primarily due to higher sales of gift cards and coupons from the 2012 holiday period compared to the prior year. December represents the highest volume month for gift card and coupon sales and is one of the strongest months for media sales during the year.

Property, equipment and leaseholds. The increase in property, equipment and leaseholds is due to new build and other capital expenditures ($59.3 million) and maintenance capital expenditures ($26.6 million) as well as assets acquired as part of the acquisition of AMC Ventures Inc. ($4.6 million). These increases are partially offset by amortization expenses ($56.1 million) and asset dispositions ($5.7 million), including $2.5 million relating to NWS that was contributed into CSI during the period.

Deferred income taxes. The majority of the increase in deferred income taxes is due to the value of the non-capital losses acquired as part of the AMC aquisition during the period.

Interests in joint ventures. The increase in interests in joint ventures is primarily due to the formation of CSI during the first quarter of 2012.

Intangible assets. The decrease in intangible assets is due to amortization (see Section 5.2, Operating results for 2012, Depreciation and amortization).

Accounts payable and accrued expenses. The increase in accounts payable and accrued expenses primarily relates to business volumes during the last weeks of December 2012 being higher than the last weeks of December 2011.

Share or Unit-based compensation. The majority of the decrease is due to the change in the administrative policy with respect to the option plan effective January 1, 2012 (See Section 9, Shares outstanding), resulting in the obligation relating to the option plan being reclassified to equity.

Income taxes payable. Income taxes payable represents current income tax payable, net of installments made during the year. During 2011, Cineplex was not required to make any tax installments due to its prior year status as an income fund, resulting in the higher income taxes payable balance at December 31, 2011 despite lower net income in 2011 compared to 2012.

Convertible debentures. The convertible debentures matured on December 31, 2012. During 2012, debentures with a book value of $76.1 million were converted into Shares, with the remaining balance of $1.1 million repaid at maturity. See Section 9, Shares outstanding, for more information.

Long-term debt. The decrease in the long-term debt is due to the repayment of $20.0 million under Cineplex's revolving credit facility during 2012 (see Section 7.4, Credit facilities), partially offset by $0.5 million in accretion of deferred financing fees. At December 31, 2012, there were no amounts drawn on the revolving facility.

Finance lease obligations. The reduction in the finance lease obligation liability is substantially due to Cineplex entering into an agreement with the lessor of certain theatre equipment that was previously recorded as finance lease obligations in 2011 to purchase new equipment in 2012, replacing the leased equipment. The remaining lease payments terminated, resulting in a reduction of finance lease obligations of approximately $4.0 million.

Other liabilities. Other liabilities increased due to an additional $12.8 million recorded relating to licensing obligations, $21.3 million relating to the fair value lease obligations recorded for the theatres acquired from AMC, as well as a $1.1 million density payment received from a theatre landlord that is being amortized over the term of the theatre lease. These increases were partially offset by the amortization of long-term lease related liabilities.

Deficiency interests in joint ventures. The decrease in the deficiency interests in joint ventures is due to the timing of certain payments from SCENE to Cineplex that were accrued and unpaid at December 31, 2012 and cash invested in SCENE during the year, partially offset by Cineplex's share of SCENE's net loss in 2012.

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, 2012 and 2011 (in thousands of Canadian dollars):

Cash flows provided by operating activities	Fourth Quarter			Full Year		
	2012	2011	Change	2012	2011	Change
Net income	$ 32,704	$ 10,931	$ 21,773	$ 120,484	$ 49,260	$ 71,224
Adjustments to reconcile net income to net cash provided by operating activities:						
Non-cash amortization amounts (i)	15,645	15,940	(295)	57,587	65,000	(7,413)
(Gain) loss on disposal of assets	(3,138)	731	(3,869)	(2,352)	735	(3,087)
(Gain) on business acquisition	(930)	—	(930)	(24,752)	—	(24,752)
Deferred income taxes	1,399	(193)	1,592	1,189	11,801	(10,612)
Interest rate swap agreements - non-cash interest	(295)	3,072	(3,367)	1,485	4,215	(2,730)
Non-cash Share-based compensation	433	37	396	2,108	330	1,778
Accretion of convertible debentures	24	290	(266)	323	1,368	(1,045)
Net change in interests in joint ventures	1,160	984	176	5,987	(1,876)	7,863
Tenant inducements	1,643	1,565	78	7,615	7,150	465
Changes in operating assets and liabilities	64,498	59,395	5,103	9,653	38,294	(28,641)
Net cash provided by operating activities	**$ 113,143**	**$ 92,752**	**$ 20,391**	**$ 179,327**	**$ 176,277**	**$ 3,050**

(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 $20.4 million in the fourth quarter of 2012 compared to the prior year period primarily due to the $21.8 million increase in net income.

Full Year

Cash provided by operating activities increased $3.1 million during 2012 compared to the prior year. This increase was due to the $71.2 million increase in net income, which included the $24.8 million non-cash gain recognized on the acquisition of AMC Ventures Inc. The timing of certain payments including tax installments also affected the change in net cash from operating activities.

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, 2012 and 2011 (in thousands of Canadian dollars):

Cash flows used in investing activities	Fourth Quarter			Full Year		
	2012	2011	Change	2012	2011	Change
Proceeds from sale of assets	$ 2,550	$ 136	$ 2,414	$ 3,683	$ 1,958	$ 1,725
Purchases of property, equipment and leaseholds	(22,446)	(19,821)	(2,625)	(71,923)	(60,624)	(11,299)
Acquisition of businesses, net of cash acquired	—	51	(51)	(2,811)	(3,229)	418
Additional equity funding of joint ventures	(3,940)	22	(3,962)	(4,188)	(356)	(3,832)
Net cash used in investing activities	**$ (23,836)**	**$ (19,612)**	**$ (4,224)**	**$ (75,239)**	**$ (62,251)**	**$ (12,988)**

The increase in cash used in investing activities during the fourth quarter of 2012 compared to the prior year period is due to higher purchases of property, equipment and leaseholds net of proceeds from the sale of assets, and additional equity funding of joint ventures.

For the year to date period, the increase in cash used in investing activities is primarily due to higher purchases of property, equipment and leaseholds and additional equity funding of joint ventures, net of the proceeds from the sale of assets.

Capital expenditures during the year ended December 31, 2011 included $3.8 million in for digital projectors that were subsequently transferred into CDCP. Components of capital expenditures include (in thousands of Canadian dollars):

Capital expenditures	Fourth Quarter			Full Year		
	2012	2011	Change	2012	2011	Change
Gross capital expenditures	$ 22,446	$ 19,821	$ 2,625	$ 71,923	$ 60,624	$ 11,299
Less: tenant inducements	(1,643)	(1,565)	(78)	(7,615)	(7,150)	(465)
Net capital expenditures	$ 20,803	$ 18,256	$ 2,547	$ 64,308	$ 53,474	$ 10,834
Net capital expenditures consists of:						
Growth and acquisition capital expenditures (i)	$ 13,598	$ 9,416	$ 4,182	$ 27,822	$ 22,564	$ 5,258
Premium formats (ii)	1,451	1,949	(498)	9,129	10,932	(1,803)
Maintenance capital expenditures	11,242	8,847	2,395	26,600	17,897	8,703
Digital projection	—	—	—	—	3,782	(3,782)
Other (iii)	(5,488)	(1,956)	(3,532)	757	(1,701)	2,458
	$ 20,803	$ 18,256	$ 2,547	$ 64,308	$ 53,474	$ 10,834

(i) Growth and acquisition capital expenditures include expenditures on the construction of new theatre buildings (including VIP) and other Board approved growth projects with the exception of premium formats discussed below, as well as improvements to the four theatres acquired from AMC in the third quarter of 2012.
(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. The fourth quarter of 2012 and the full year 2012 also include $0.2 million and $5.0 million, respectively, relating to the purchase of and subsequent improvements made to an office property in the second quarter of 2012.

Cineplex funds maintenance capital expenditures through internally generated cash flow and cash on hand. Cineplex's Revolving Facility (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, 2012 and 2011 (in thousands of Canadian dollars):

Cash flows used in financing activities	Fourth Quarter			Full Year		
	2012	2011	Change	2012	2011	Change
Dividends paid	$ (20,955)	$ (18,858)	$ (2,097)	$ (80,794)	$ (68,059)	$ (12,735)
Repayments under credit facility, net	(20,000)	(65,000)	45,000	(20,000)	(65,000)	45,000
Payments under finance leases	(531)	(576)	45	(2,104)	(2,242)	138
Proceeds from issuance of Shares	—	—	—	501	—	501
Acquisition of LTIP Shares	—	—	—	—	(9,793)	9,793
Deferred financing fees	—	58	(58)	—	(1,857)	1,857
Shares repurchased and cancelled	—	(3,051)	3,051	(1,786)	(3,426)	1,640
Repayment of convertible debentures at maturity	(1,123)	—	(1,123)	(1,123)	—	(1,123)
Net cash used in financing activities	**$ (42,609)**	**$ (87,427)**	**$ 44,818**	**$ (105,306)**	**$ (150,377)**	**$ 45,071**

The $44.8 million movement in cash used in financing activities for the fourth quarter of 2012 compared to the prior year period was primarily due to the $45.0 million movement in repayments under the credit facility. During the fourth quarter of 2011, under the terms of the newly signed credit facility, Cineplex repaid $65.0 million of the revolving credit facility. During the fourth quarter of 2012, Cineplex repaid the remaining $20.0 million outstanding on the credit facility. During May 2012, Cineplex increased its dividend rate from $0.1075 per Share per month to $0.1125 per Share per month effective for the May distribution paid in June 2012. This is being paid on a higher base of Shares outstanding due to convertible debenture conversions. On December 31, 2012, the maturity date of the convertible debentures, Cineplex repaid $1.1 million to settle the unconverted balance. The prior year period included $3.1 million spent to purchase shares under Cineplex's normal course issuer bid ("NCIB", see Section 9, Shares outstanding).

The $45.1 million decrease in cash used in financing activities for 2012 compared to 2011 was due primarily to the credit facility repayments discussed above. The 2012 period included higher dividend payments ($12.7 million) and paid $1.1 million to settle the remaining convertible debentures. Cineplex made twelve dividend payments in 2012 whereas the prior year period included eleven due to the December 2010 distribution being paid in December 2010 prior to the wind-up of the Fund. These increases were more than offset by funding for the acquisition of LTIP Shares in 2011 ($9.8 million), the deferred financing fees paid on Cineplex's credit facilities ($1.9 million), proceeds from the issuance of Shares in 2012 ($0.5 million) and lower payments under finance leases ($0.1 million).

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 its credit facilities as described in Section 7.4, Credit facilities.

7.4 CREDIT FACILITIES

During December 2010, the Partnership entered into an amended and restated credit agreement (the "Third Amended Credit Facilities") effective January 1, 2011, the same date as the Fund's conversion to a corporation, reflecting the changes in its corporate structure. The terms of the Third Amended Credit Facilities were otherwise substantially similar to those contained in the preceding agreement. During 2011, Cineplex and the Partnership entered into an amended and restated credit agreement (the "Fourth Amended Credit Facilities") effective September 28, 2011. The Fourth Amended Credit Facilities consist of the following facilities (in millions of Canadian dollars):

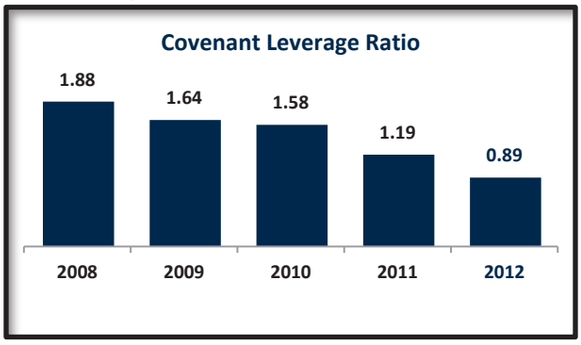
		Available	Drawn	Reserved	Remaining
(i)	a five-year senior secured revolving credit facility ("Revolving Facility")	$ 200.0	$ —	$ 2.9	$ 197.1
(ii)	a five-year senior secured non-revolving term facility ("Term Facility")	$ 150.0	$ 150.0	$ —	$ —
Letters of credit outstanding at December 31, 2012 of $2.9 million are reserved against the Revolving Facility.					

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

The Fourth Amended 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 September 2016 and are payable in full at maturity, with no scheduled repayment of principal required prior to maturity.

Cineplex's Fourth Amended 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.

One of the key financial covenants in the Fourth Amended Credit Facilities is the leverage covenant. As at December 31, 2012, Cineplex's leverage ratio as calculated in accordance with the Fourth Amended Credit Facility definition was 0.89x, as compared to a covenant of 3.50x. The definition of debt in the credit facility includes long-term debt, 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.



The Fourth Amended Credit Facilities are secured by all of Cineplex's assets.

Cineplex believes that the Fourth Amended Credit Facilities, in place until 2016, 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 April 23, 2008, the Partnership entered into three interest rate swap agreements. Under these interest rate swap agreements, Cineplex paid a fixed rate of 3.97% per annum, plus an applicable margin, and received a floating rate of interest equal to the three-month Canadian deposit offering rate set quarterly in advance, with gross settlements quarterly. These interest rate swap agreements had a term of three years that commenced in July 2009 and had an aggregate notional principal amount of $235.0 million. During 2011, these interest rate swap agreements were settled with the counterparties for $6.8 million.

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 gross 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, 2012, Cineplex's effective cost of borrowing on the $150.0 million Term Facility is 3.215% (December 31, 2011 – 3.215%).

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. The new interest rate swap agreements are considered an extension of the former agreements, and the $6.4 million previously recognized in other comprehensive loss at the time of the settlement of the former interest rate swap agreements was recognized in interest expense over the course of the remaining term of the former agreements (through the third quarter of 2012).

7.5 FUTURE OBLIGATIONS

At December 31, 2012, 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	$ 150,000	$ —	$ —	$ 150,000	$ —
Interest rate swap agreements	1,128	600	528	—	—
New theatre construction	98,875	14,406	84,469	—	—
Other theatre projects	15,450	7,389	8,061	—	—
Equipment obligations	13,266	1,493	2,986	2,986	5,801
Finance lease obligations	29,719	3,810	7,803	8,160	9,946
Operating lease obligations	1,194,826	127,693	248,466	241,973	576,694
Total contractual obligations	**$ 1,503,264**	**$ 155,391**	**$ 352,313**	**$ 403,119**	**$ 592,441**

Cineplex has aggregate gross capital commitments of $98.9 million ($76.5 million net of tenant inducements) related to the completion of construction of ten theatre properties to include an aggregate of 102 screens (including 26 VIP screens) over the next three years. In addition, Cineplex has gross commitments over the next two years of $15.5 million for other theatre projects, including the addition of three VIP screens at one theatre and the conversion of existing auditoriums to VIP at selected theatres.

At December 31, 2012, Cineplex's convertible debentures matured. The convertible debentures were accreted to their maturity value using the effective interest method as prescribed by IAS 39, *Financial Instruments: Recognition and Measurement*. During 2012, convertible debentures with a face value of $76.6 million were converted at the option of the holders for Shares (see Section 9, Shares outstanding, for details). At maturity on December 31, 2012, Cineplex repaid the principal outstanding on $1.1 million of convertible debentures, satisfying Cineplex's liability for 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 2012 dividend, the Board approved a dividend increase to $0.1125 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 fourth quarter of 2012 and the full year of 2012 compared to the fourth quarter of 2011 and the full year of 2011:

Adjusted free cash flow	Fourth Quarter			Full Year		
	2012	2011	Change	2012	2011	Change
Adjusted free cash flow per Share	$ 0.5403	$ 0.3570	51.3%	$ 2.0785	$ 1.9657	5.7%
Dividends declared per Share	$ 0.3375	$ 0.3225	4.7%	$ 1.3300	$ 1.2800	3.9%
Payout ratio	62.5%	90.3%	-27.8%	64.0%	65.1%	-1.1%

Measures relevant to the discussion of adjusted free cash flow per Share are as follows (2010: distributable cash per Unit) (expressed in thousands of Canadian dollars except Shares/Units outstanding):

	Year ended December 31,		
	2012	2011	2010
Cash flows from operations	$ 179,327	$ 176,277	$ 146,042
Net income	$ 120,484	$ 49,260	$ 50,423
Standardized free cash flow/Standardized distributable cash	$ 111,087	$ 117,611	$ 89,184
Adjusted free cash flow/Distributable cash	$ 126,924	$ 114,028	$ 128,545
Cash dividends/distributions declared	$ 81,572	$ 74,344	$ 71,878
Average number of Shares/Units outstanding	61,065,540	58,009,953	57,030,442

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 fourth quarter of 2012 and the full year of 2012, Cineplex declared dividends totaling $0.3375 and $1.3300 per Share, respectively. For the fourth quarter of 2011 and the full year of 2011, Cineplex declared dividends totaling $0.3225 and $1.2800 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

(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. SHARES OUTSTANDING

Cineplex had the following Shares outstanding for the year ended December 31, 2012 (expressed in thousands of Canadian dollars, except for numbers of Shares):

	2012							
	Shares			Amount				
	Number of common shares issued and outstanding	Number of common shares held by LTIP trust	Common shares, net	Common of shares	Equity component convertible debentures	LTIP common shares or units	LTIP obligation	Total
Balance - December 31, 2011	58,465,254	(443,916)	58,021,338	$ 751,042	15,182	$ (9,735)	$ 8,312	$ 764,801
Debenture conversions	4,087,811	—	4,087,811	91,026	(14,963)	—	—	76,063
Costs of LTIP obligation	—	—	—	—	—	—	1,653	1,653
Issuance of shares on exercise of options	301,337	—	301,337	5,873	—	—	—	5,873
Transfer of common shares to LTIP participants	—	304,189	304,189	478	—	6,471	(6,949)	—
Shares repurchased and cancelled under the normal course issuer bid	(71,400)	—	(71,400)	(936)	—	—	—	(936)
Reclassification of unconverted balance to contributed surplus	—	—	—	—	(219)	—	—	(219)
Balance - December 31, 2012	62,783,002	(139,727)	62,643,275	$ 847,483	$ —	$ (3,264)	$ 3,016	$ 847,235

During the year ended December 31 2012, convertible debentures issued by Cineplex with a principal amount of $76.6 million were converted into 4,087,811 Shares. The convertible debentures bore interest at a rate of 6% per annum paid semi-annually, were convertible at the option of the holder into Shares at $18.75 per Share, and matured on December 31, 2012. On maturity, Cineplex repaid approximately $1.1 million debenture principal, at face value. During the year ended December 31, 2011, convertible debentures issued by Cineplex with a principal amount of $22.0 million were converted into 1,171,820 Shares.

During 2011, Cineplex filed for a NCIB with the Toronto Stock Exchange allowing Cineplex to purchase up to 5,600,000 Shares through August 17, 2012. At the time of the filing, the Board had concluded that the market price of the Shares, from time to time, may not reflect the inherent value of Cineplex and purchases of Shares pursuant to the NCIB may represent an appropriate and desirable use of funds. Cineplex cancelled all Shares purchased through the NCIB. During the year ended December 31, 2012, 71,400 Shares were purchased and cancelled by Cineplex for $1.8 million, at an average price of $25.00 per Share. Throughout the term of the NCIB, which expired on August 17, 2012, 208,800 Shares were purchased and cancelled by Cineplex for $5.2 million, at an average price of $24.94 per Share.

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
2012 LTIP award	137,302
2011 LTIP award	227,649

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

Cineplex has an incentive Share option plan for certain employees. The aggregate number of Shares that may be issued under the option plan is limited to 5.3 million Shares. All of the options must be exercised over specified periods not to exceed ten years from the date granted (five years for options granted on or before December 31, 2010). Share 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

The exercise price was equal to the market price of the Shares or Units at the grant date. Forfeitures are estimated at nil (2011 - 0.5%) based on historical forfeitures.

Effective January 1, 2012, the Board invoked Cineplex's right to substitute a cashless exercise for any requested exercise of options for cash, in accordance with the terms of the option plan. As a result of the change in administrative policy, 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. Existing options at the time of the change in administrative policy had their remaining expense determined at the time of the change in administrative policy, recognized over the remaining vesting periods. The amount reclassified to contributed surplus from current and non-current Share-based compensation was $6.9 million at January 1, 2012.

A summary of option activities for the year ended December 31, 2012 and 2011 is as follows:

		2012		2011	
	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	6.65	1,587,538	$ 19.88	1,520,944	$ 15.15
Granted		474,000	27.33	1,029,774	23.12
Cancelled		—	—	(6,241)	23.12
Exercised		(600,992)	14.83	(956,939)	15.87
Options outstanding – end of period	8.37	1,460,546	$ 24.38	1,587,538	$ 19.88

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. More recently, 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 has available for its use the Revolving Facility. As of December 31, 2012, there was no amount 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):

	2012				2011			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues								
Box office revenues	$ 170,524	$ 162,133	$ 156,226	$ 149,413	$ 133,735	$ 162,522	$ 151,135	$ 129,956
Concession revenues	86,409	85,924	79,962	77,037	68,161	82,114	76,209	65,154
Other revenues	41,757	33,311	27,434	21,736	39,792	32,072	31,063	26,282
	298,690	281,368	263,622	248,186	241,688	276,708	258,407	221,392
Expenses								
Film cost	87,477	83,632	83,465	76,707	68,757	85,320	79,783	65,544
Cost of concessions	18,077	17,831	16,720	15,770	14,015	16,817	16,257	13,648
Depreciation and amortization	16,934	14,014	14,656	16,454	16,812	16,613	17,318	17,372
(Gain) loss on disposal of assets	(3,138)	114	727	(55)	731	487	(1,020)	537
Other costs	134,754	124,648	115,821	115,146	116,918	118,728	117,303	113,476
	254,104	240,239	231,389	224,022	217,233	237,965	229,641	210,577
Income from operations	44,586	41,129	32,233	24,164	24,455	38,743	28,766	10,815
Adjusted EBITDA (i)	57,507	54,575	47,263	41,139	40,102	57,441	44,393	31,238
Net income (loss)	$ 32,704	$ 51,712	$ 20,960	15,108	10,931	25,737	13,440	(848)
Basic earnings (loss) per Share	$ 0.53	$ 0.84	$ 0.34	$ 0.26	$ 0.19	$ 0.44	$ 0.23	$ (0.01)
Diluted earnings (loss) per Share (ii)	$ 0.52	$ 0.83	$ 0.34	$ 0.26	$ 0.19	$ 0.44	$ 0.23	$ (0.01)
Cash provided by operating activities	113,143	41,657	23,145	1,382	92,752	48,124	27,548	7,853
Cash used in investing activities	(23,836)	(11,290)	(19,691)	(20,422)	(19,612)	(12,352)	(17,873)	(12,414)
Cash used in financing activities	(42,609)	(41,428)	(576)	(20,693)	(87,427)	(21,660)	(18,882)	(22,408)
Net change in cash	$ 46,698	$ (11,061)	$ 2,878	$ (39,733)	$ (14,287)	$ 14,112	$ (9,207)	$ (26,969)
Box office revenue per patron	$ 9.18	$ 8.84	$ 9.11	$ 8.72	$ 8.87	$ 8.77	$ 8.80	$ 8.51
Concession revenue per patron	$ 4.65	$ 4.68	$ 4.66	$ 4.50	$ 4.52	$ 4.43	$ 4.44	$ 4.27
Attendance (in thousands of patrons)	18,577	18,348	17,146	17,127	15,070	18,542	17,175	15,272
Theatre locations (at period end)	134	133	130	130	130	130	129	131
Theatre screens (at period end)	1,449	1,438	1,359	1,352	1,352	1,351	1,344	1,360

(i) See Section 17, Non-GAAP measures for a description of adjusted EBITDA.
(ii) Excludes the conversion of the convertible debentures as such conversion would be anti-dilutive for all quarters with the exception of the second quarter of 2010 and the third quarter of 2011 where conversion was 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):

	2012				2011			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Cash provided by operating activities	$ 113,143	$ 41,657	$ 23,145	$ 1,382	$ 92,752	$ 48,124	$ 27,548	$ 7,853
Less: Total capital expenditures	(19,896)	(15,874)	(19,691)	(12,779)	(19,685)	(12,142)	(14,425)	(12,414)
Standardized free cash flow/standardized distributable cash	93,247	25,783	3,454	(11,397)	73,067	35,982	13,123	(4,561)
Add/(Less):								
Changes in operating assets and liabilities	(64,498)	2,178	16,218	36,449	(59,395)	181	3,041	17,879
Changes in operating assets and liabilities of joint ventures	(574)	(163)	(933)	(2,942)	377	(2,064)	3,837	(5)
Tenant inducements	(1,643)	(727)	(1,948)	(3,297)	(1,565)	(1,535)	(1,195)	(2,855)
Principal component of financing lease obligations	(531)	(520)	(512)	(541)	(576)	(566)	(555)	(545)
New build capital expenditures and other	8,654	9,733	13,593	9,660	10,838	8,166	11,675	10,090
Share of (loss) income of joint ventures, net of non-cash depreciation	(893)	(711)	(353)	576	(1,896)	1,598	(671)	2,514
Cash invested in CDCP	(190)	(4)	—	(244)	22	(159)	(219)	—
Adjusted free cash flow	$ 33,572	$ 35,569	$ 29,519	$ 28,264	$ 20,872	$ 41,603	$ 29,036	$ 22,517
Average number of Shares outstanding	62,137,513	61,996,063	61,289,181	58,847,728	58,461,523	58,323,720	57,770,425	57,468,588
Adjusted free cash flow per Share	$ 0.5403	$ 0.5737	$ 0.4816	$ 0.4803	$ 0.3570	$ 0.7133	$ 0.5026	$ 0.3918

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 President and Chief Executive Officer of Riocan Real Estate Investment Trust ("Riocan"). During the three months and year ended December 31, 2012, Cineplex incurred theatre occupancy expenses for theatres under lease commitments with Riocan in the amounts of $9.6 million and $46.8 million, respectively (2011 - $9.8 million and $46.6 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.

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.

Impairment

Cineplex tests annually whether goodwill has suffered any impairment, in accordance with its accounting policy. These calculations require the use of assumptions and estimates including future cash flows based on historical and budgeted operating results, growth rates and appropriate discount rates.

13. ACCOUNTING POLICIES

13.1 ACCOUNTING STANDARDS ADOPTED IN 2012

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

IAS 1, *Presentation of Financial Statements* ("IAS 1"), has been amended to require entities to separate items presented in OCI into two groups, based on whether or not items may be recycled in the future. Entities that choose to present OCI items before income taxes will be required to show the amount of income taxes related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted. The adoption of IAS 1 amendments did not have a significant impact on the consolidated financial statements.

IAS 12, *Income Taxes* ("IAS 12"), was amended to introduce an exception to the existing principle for the measurement of deferred income tax assets or liabilities arising on investment property measured at fair value. As a result of the amendment, there is a rebuttable presumption that the carrying amount of the investment property will be recovered through sale when considering the expected manner or recovery or settlement. SIC-21, *Income Taxes - Recovery of Revalued Non-depreciable Assets*, will no longer apply to investment properties carried at fair value. The amendment also incorporates into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn. The amendment is effective for annual periods beginning on or after January 1, 2012, with earlier application permitted. The adoption of IAS 12 amendments did not have a significant impact on the consolidated 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. Each of the new standards is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. Cineplex is in the process of assessing the impact that the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements. 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. In January 2012, the effective date was revised to January 1, 2015 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 10, Consolidated Financial Statements

IFRS 10, *Consolidated Financial Statements* ("IFRS 10") requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operational policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces Standing Interpretations Committee ("SIC") SIC-12, *Consolidation – Special Purpose Entities* and parts of IAS 27, *Consolidated and Separate Financial Statements* ("IAS 27"). The adoption of IFRS 10 will not have a significant impact on the consolidated financial statements of Cineplex.

IFRS 11, Joint Arrangements

IFRS 11, *Joint Arrangements* ("IFRS 11") requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting, whereas for a joint operation, the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures,* and SIC-13, *Jointly Controlled Entities – Non-monetary Contributions by Venturers.* The adoption of IFRS 11 will result in the classification of Cineplex's investment in SCENE as a joint operation. The consolidated financial statements will reflect Cineplex's share of SCENE's assets, liabilities, revenues and expenses, with no impact on net income or OCI.

IFRS 12, Disclosure of Interests in Other Entities

IFRS 12, *Disclosure of Interests in Other Entities* ("IFRS 12") establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, and unconsolidated structured entities The standard carries forward existing disclosures and also introduces significant additional disclosure that address the nature of, and risks associated with, an entity's interests in other entities. The adoption of IFRS 12 will not have a significant impact on Cineplex's consolidated financial statements.

IFRS 13, Fair Value Measurement

IFRS 13, *Fair Value Measurement* ("IFRS 13") is a comprehensive standard for fair value measurement and disclosure for use across all IFRS. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures. The adoption of IFRS 13 will not have a significant impact on Cineplex's consolidated financial statements.

Amendments to Other Standards

There have been amendments to existing standards, including IAS 27 and IAS 28, *Investments in Associates* ("IAS 28"). IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 to 13.

IAS 19, *Employee Benefits* ("IAS 19") has been amended to make significant changes to the recognition and measurement of defined benefit pension expense and termination benefits and to enhance the disclosure of all employee benefits. The amended standard requires immediate recognition of actuarial gains and losses in OCI as they arise, without subsequent recycling to net income. This is consistent with Cineplex's current accounting policy. Past service cost (which will now include curtailment gains and losses) will no longer be recognized over a service period but instead will be recognized immediately in the period of a plan amendment. Pension benefit cost will be split between (i) the cost of benefits accrued in the current year (service cost) and benefit changes (past-service cost, settlements and curtailments); and (ii) finance expense or income. The finance expense or income component will be calculated based on the net defined benefit asset or liability. A number of other amendments have been made to recognition, measurement and classification including redefining short-term and other long-term benefits, guidance on the treatment of taxes related to benefit plan, guidance on risk/cost sharing features, and expanded disclosures. The adoption of IAS 19 amendments will not have a significant impact on Cineplex's consolidated financial statements.

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, and is reported to 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 e-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 2012, eight major film distributors accounted for approximately 96.0% 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 film delivery methods, including cable, satellite television, DVDs and Blu-Rays, as well as DTO and VoD via the Internet. The release date of a film in other channels of distribution such as pay television or DVD is at the discretion of each distributor and earlier release windows for these or new alternative channels could have a negative impact on Cineplex's business. In the US market, certain studios have experimented with premium VoD offerings on select titles ahead of the traditional DVD release windows with limited success. No determination can be made on what the impact would be on Cineplex's revenue of this premium VoD window were it to be expanded into Canada.

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, show times available and the theatre's amenities. As a result, the building of new 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, reducing the risk of competition through development.

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 a 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 to stay home rather than attending a theatre.

3D televisions are available in the Canadian market, which could result in consumers choosing to consume 3D product in-the-home rather than in theatre, however the number of 3D televisions and 3D content available is extremely limited to date. To mitigate these risks, Cineplex continues to enhance the out-of-home experience through the addition of new technologies including 3D, VIP, UltraAVX and digital projection in order to further differentiate the theatrical product from the home product. Approximately 38% of Cineplex's screens are currently equipped to screen 3D content. During 2012, Cineplex completed the planned conversion of its theatre circuit to digital projection through CDCP. Cineplex has also diversified its offerings to customers by operating the Cineplex Store which sells DVDs, Blu-ray discs and digital downloads in order to participate in the in-the-home entertainment market.

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.

Customer Risk

Cineplex competes for the public's leisure time and disposable income with other forms of entertainment including home theatre systems, sporting events, live music concerts, live theatre and restaurants. If Cineplex is too aggressive in raising ticket prices or concession prices, there may be an adverse effect on attendance and concession revenues. 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. 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 MFX seating, VIP cinemas 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 will allow 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 advertising, games, promotions and alternative uses of its theatres during non-peak hours. Cineplex's ability to achieve its business objectives may depend in part on its ability to successfully increase these revenue streams. 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 monitors customer satisfaction with advertising through customer satisfaction surveys.

Human Resources Risk

The success of Cineplex depends upon the retention of senior executive management, including 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 10,000 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 in the province of Quebec. Because of the small percentage of employees represented by unions, the risk of labour disruption 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 may also continue to be liable for obligations under theatre leases in respect of divested theatres. If the transferee of 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 established credit facilities at favourable rates. Cineplex has a $200.0 million revolving credit facility which matures in September 2016.

Cineplex hedges interest rates, 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.

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 corn, 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 major 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 the theatre. 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 six provinces which somewhat mitigates the risk to a specific location. 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 and provincial 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. In addition Cineplex 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 the 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.

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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 the 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.

Highly anticipated 3D films to be released in 2013 include *Iron Man 3, Star Trek Into Darkness, Man of Steel, Despicable Me 2, Thor: The Dark World* and *The Hobbit: The Desolation of Smaug*. Other highly anticipated films to be released in 2013 include *The Hangover Part III, Fast and Furious 6, The Wolverine* and *The Hunger Games: Catching Fire.* 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.

The creation of CDCP enabled the conversion of the majority of Cineplex's 35mm projectors to digital projectors, which was completed during the 2012. This conversion to digital cinema has allowed for clearer picture quality, improved image consistency and increased programming flexibility. The costs of implementing digital projection systems in Cineplex's theatres has been funded by CDCP, through a separate credit facility which is non-recourse to Cineplex, and the ongoing collection of virtual print fees from distributors.

While the fourth quarter of 2012 and the full year of 2012 resulted in the highest quarterly and annual box office revenues in the history of North American theatre exhibition, box office revenues are highly dependent on the marketability, quality and appeal of the film product released by the major motion picture studios. Cineplex's future box office revenues will be dependent on the quality of the film product released in 2013 and beyond.

MERCHANDISING

Cineplex reported record concession revenues in 2012, due to the 7.8% increase in attendance and the 5.0% increase in CPP during the year. Cineplex has reported CPP growth in each year since the Fund's formation in 2003, with 2012 CPP of $4.63 representing Cineplex's new annual record. Although pricing does impact CPP, Cineplex's core focus is on operational execution and providing the optimal product mix to provide further growth in this area. As part of this strategy, Cineplex will continue to expand its in-house brands *Outtakes* and *Poptopia* across the circuit, and continues to roll-out new digital menu boards in its theatres which provide guests with more interactive messaging during visits to the concession stand.

The acquisition of NWS 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*, the family entertainment centre located in Mississauga, Ontario.

MEDIA

Cineplex believes that no other medium engages 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 reaches the most sought-after demographics, as well as Canada's high-income households and educated populations. Media revenues decreased 7.0% compared to the 2011 annual record due in part to reduced spending by advertisers in the first half of 2012 as a result of the uncertain economic climate. Media revenues in the third and fourth quarters of 2012 exceeded the 2011 period by 6.1%.

Cineplex continues to enhance its media offerings outside of the theatre setting, including enhanced website advertising at cineplex.com, which delivers the most unique visitors per month than any other Canadian movie site, and additional mobile opportunities through Cineplex mobile, as well as increasing its offerings in the digital signage business through CDM. CDM's business includes broadcasting, advertising and custom content to premium office towers, shopping malls, sports stadiums and other networks across Canada, as well as designing, installing, maintaining and operating digital signage networks on numerous software platforms in retail, financial, hospitality and entertainment markets across North America. This business continues to show impressive growth, with revenues increasing 27.7% in 2012, and Cineplex looks forward to further growth in this growing market in 2013 and beyond.

ALTERNATIVE PROGRAMMING

During 2012, Cineplex offered a wide variety of alternative programming, including the popular Metropolitan Opera live in HD series. Other highlights included the Wimbledon tennis finals live in 3D, live broadcast of the 100th Grey Cup, performances by the National Theatre in London and various concert performances by popular recording artists.

The completion of Cineplex's conversion to digital projection provides increased flexibility to screen alternative programming across the circuit. Aside from 3D feature films, it is expected that 3D alternative programming events such as sporting events and concerts will increase in frequency in the coming years, and Cineplex is well positioned to take advantage of these opportunities as they arise.

INTERACTIVE

Cineplex became the first retailer in Canada and the only motion picture exhibitor in the world to offer the UltraViolet service as part of an exciting new ecosystem that will forever change the way people watch movies. UltraViolet enables consumers to access their digital movies both at home and on-the-go, across a variety of apps and services, including PCs, mobile devices, smartphones, connected TVs, Blu-ray disc players and more. Customers can add UltraViolet-enabled DVDs and Blu-ray discs as well as digital downloads purchased at the Cineplex Store to their free UltraViolet locker.

Also during 2012, Cineplex added e-gift cards to the Cineplex Store and to Apple's Passbook and launched the Cineplex Store app on LG smart televisions and set-top boxes. In addition to LG products, the app is also available on select Samsung smart televisions and select blu-ray players.

As of December 31, 2012, the Cineplex app had been downloaded over 5 million times and recorded 107.2 million app sessions. The Cineplex mobile brand app ranks 9th in Canada and first among retailers based on the most recent ComScore MobiLens rankings.

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 launch of UltraViolet redemption in Canada and continued expansion of other offerings including the Apple Passbook.

LOYALTY

The SCENE loyalty program continues to grow its membership base, ending 2012 with approximately 4.3 million members. As part of the *Cineplex Tuesdays* program, SCENE members get 10% off all ticket prices on Tuesdays across the circuit, which are generally discounted.

During 2012, SCENE became the first Canadian loyalty program to win prestigious COLLOQUY loyalty awards, claiming the 2012 awards for "Innovation in Loyalty Marketing" for its SCENEtourage initiative, and "Loyalty Innovation in Other Industries" in recognition of the launch of the mobile SCENE card.

Cineplex continues to integrate SCENE elements into various film 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.

FINANCIAL OUTLOOK

Effective for the May 2012 dividend, the Board announced a monthly dividend increase to $0.1125 per Share. On an annual basis, this represents a total annual dividend of $1.3500, a 4.7% increase from the previous annual rate of $1.2900. During 2012, Cineplex generated adjusted free cash flow per Share of $2.0785, compared to $1.9657 in the prior year. Cineplex declared dividends of $1.3300 and $1.2800, respectively, in each year. The payout ratios for these periods were approximately 64.0% and 65.1%, 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. These losses have been valued using Cineplex's effective tax rate and are included in the purchase price allocation (Section 1.3, Business formation and acquisition). As a result of these losses, Cineplex's cash taxes in 2013 will be substantially reduced.

During 2011, Cineplex entered into the Fourth Amended Credit Facilities, which mature in September 2016. Cineplex has a $200.0 million revolving credit facility which is available to finance acquisitions, new theatre construction, working capital and distributions. As defined under its credit facility, as at December 31, 2012, Cineplex reported a leverage ratio of 0.89x as compared to a covenant of 3.50x. Between the free cash flow generated in excess of the dividends paid and amounts available under the Fourth Amended 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 (gain) loss on disposal of assets, the (gain) on the acquisition of business and the equity (income) loss of CDCP. 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 the Fourth Amended Credit Facilities.

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, 2012	Year ended December 31, 2011	Year ended December 31, 2010
Net income	**$ 120,484**	**$ 49,260**	**$ 50,423**
Depreciation and amortization	62,058	68,115	82,359
Interest expense	12,585	24,854	23,166
Interest income	(205)	(898)	(526)
Current income tax expense	31,436	17,493	30
Deferred income tax expense	1,189	11,801	19
EBITDA	**$ 227,547**	**$ 170,625**	**$ 155,471**
(Gain) loss on disposal of assets	(2,352)	735	2,404
(Gain) on acquisition of business	(24,752)	—	—
Change in fair value of financial instruments	—	—	9,782
CDCP equity (income) loss (i)	(2,222)	1,658	—
Depreciation and amortization - joint ventures (ii)	1,927	156	197
Future income taxes - joint ventures (ii)	289	—	—
Current income taxes - joint ventures (ii)	47	—	—
Adjusted EBITDA	**$ 200,484**	**$ 173,174**	**$ 167,854**

(i) CDCP equity (income) loss 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 AND DISTRIBUTABLE CASH

Free cash flow measures the amount of cash from operating activities net of capital expenditures available for activities such as repayment of debt, distributions 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. Due to Cineplex's 2010 status as an income fund, the figures presented for 2010 are for standardized distributable cash and distributable cash flow per Unit. Standardized distributable cash is a non-GAAP measure recommended by the CICA in its July 2007 interpretive release, *Standardized Distributable Cash in Income Trusts and Other Flow Through Entities*.

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

	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010
Cash provided by operating activities	$ 179,327	$ 176,277	$ 146,042
Less: Total capital expenditures net of proceeds on sale of assets (i)	(68,240)	(58,666)	(56,866)
Standardized free cash flow/Standardized distributable cash	111,087	117,611	89,176
Add/(Less):			
Changes in operating assets and liabilities (ii)	(9,653)	(38,294)	7,181
Changes in operating assets and liabilities of joint ventures (ii)	(4,612)	2,145	(1,537)
Tenant inducements (iii)	(7,615)	(7,150)	(2,490)
Principal component of finance lease obligations	(2,104)	(2,242)	(2,004)
Growth capital expenditures and other (iv)	41,640	40,769	41,635
Share of (loss) income of joint ventures, net of non-cash depreciation (v)	(1,381)	1,545	(3,416)
Cash invested in CDCP (v)	(438)	(356)	—
Adjusted free cash flow	**$ 126,924**	**$ 114,028**	**$ 128,545**
Less: Exchangeable interests share of distributable cash	—	—	(489)
Adjusted free cash flow/Distributable cash available to Shareholders/Unitholders	**$ 126,924**	**$ 114,028**	**$ 128,056**
Average number of Shares/Units outstanding	61,065,540	58,009,953	57,030,442
Adjusted free cash flow per Share/Distributable cash per Unit	**$ 2.0785**	**$ 1.9657**	**$ 2.2454**

(i) For 2010, proceeds on sale of assets were not net against total capital expenditures to conform with the definition of standardized distributable cash.

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

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

(iv) 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 for 2012 and 2011. The Revolving Facility (discussed above in Section 7.4, Credit facilities) was available to the Fund and is available to Cineplex to fund Board approved projects.

(v) Excludes the share of income or loss 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, 2012	Year ended December 31, 2011	Year ended December 31, 2010
Net income	$ 120,484	$ 49,260	$ 50,423
Adjust for:			
Depreciation and amortization	62,058	68,115	82,359
(Gain) loss on disposal of assets	(2,352)	735	2,404
(Gain) on acquisition of business	(24,752)	—	—
Change in fair value of financial instruments	—	—	9,782
Non-cash interest expense (i)	2,370	6,423	1,476
Share of (income) loss of CDCP (ii)	(2,222)	1,658	—
Non-cash depreciation of joint ventures	1,927	156	240
Deferred income tax expense	1,189	11,801	19
Joint venture deferred income tax expense	289	—	—
Maintenance capital expenditures	(26,600)	(17,897)	(15,231)
Principal component of finance lease obligations	(2,104)	(2,242)	(2,004)
Cash invested in CDCP (ii)	(438)	(356)	—
Non-cash items:			
Amortization of tenant inducements, rent averaging liabilities and fair value lease contract assets	(5,033)	(3,955)	(3,670)
Non-cash Share or Unit-based compensation	2,108	330	2,747
Adjusted free cash flow/Distributable cash	**$ 126,924**	**$ 114,028**	**$ 128,545**

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

(ii) Excludes the share of income or loss 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 MEASUREMENTS MONITORED BY MANAGEMENT

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

BPP: Calculated as total box office revenues divided by total paid attendance for the period.
CPP: Calculated as total concession revenues divided by total paid attendance for the period.
Film cost percentage: Calculated as total film cost expense divided by total box office revenues for the period.
Concession Cost Percentage: Calculated as total concession costs divided by total concession revenues for the period.
Concession margin per patron: Calculated as total concession revenues less total concession cost, divided by attendance.
Attendance: Attendance is calculated as the total number of paying patrons that frequent Cineplex's theatres during the period.
Payout ratio: Dividends paid per Share divided by adjusted free cash flow per Share.

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 6, 2013

February 6, 2013

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, 2012 and December 31, 2011 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.

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, 2012 and December 31, 2011 and their financial performance and their cash flows for the years ended December 31, 2012 and December 31, 2011 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

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Consolidated balance sheets

(expressed in thousands of Canadian dollars)

	December 31,	
	2012	**2011**
Assets		
Current assets		
Cash and cash equivalents (note 6)	$ 47,774	$ 48,992
Trade and other receivables (note 7)	70,625	67,185
Inventories (note 8)	5,187	4,118
Prepaid expenses and other current assets	3,047	3,727
	126,633	124,022
Non-current assets		
Property, equipment and leaseholds (note 9)	418,142	389,532
Deferred income taxes (note 10)	53,528	12,052
Interests in joint ventures (notes 3 and 11)	41,764	26,163
Intangible assets (note 12)	78,460	84,379
Goodwill (note 13)	608,929	608,929
	$ 1,327,456	$ 1,245,077

Business acquisitions and formations (note 3)

Commitments, guarantees and contingencies (note 27)

Consolidated balance sheets...continued

(expressed in thousands of Canadian dollars)

	December 31, 2012	December 31, 2011
Liabilities		
Current liabilities		
Accounts payable and accrued expenses (note 14)	$ 127,318	$ 112,285
Share-based compensation (notes 1 and 15)	—	1,331
Dividends payable (note 16)	7,063	6,285
Income taxes payable	13,654	17,485
Deferred revenue	94,397	83,907
Finance lease obligations (note 17)	2,222	2,411
Fair value of interest rate swap agreements (note 4)	513	565
Convertible debentures (note 21)	—	76,864
	245,167	301,133
Non-current liabilities		
Share-based compensation (notes 1 and 15)	12,223	9,466
Long-term debt (note 18)	148,066	167,531
Fair value of interest rate swap agreements (note 4)	273	1,199
Finance lease obligations (note 17)	20,548	26,474
Post-employment benefit obligations (note 19)	6,274	5,688
Other liabilities (note 20)	141,319	103,727
Deficiency interests in joint ventures (note 11)	6,272	8,250
	334,975	322,335
Total liabilities	580,142	623,468
Equity		
Share capital (notes 1 and 22)	847,235	764,801
Deficit	(102,547)	(140,469)
Accumulated other comprehensive loss	(1,142)	(2,723)
Contributed surplus (notes 1 and 15)	3,768	—
	747,314	621,609
	$ 1,327,456	$ 1,245,077

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

Approved by the Board of Directors

Director

Director

Consolidated statements of operations

For the years ended December 31, 2012 and 2011

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

	2012	2011
Revenues		
Box office	$ 638,296	$ 577,348
Concessions	329,332	291,638
Other	124,238	129,209
	1,091,866	998,195
Expenses		
Film cost	331,281	299,404
Cost of concessions	68,398	60,737
Depreciation and amortization	62,058	68,115
(Gain) loss on disposal of assets	(2,352)	735
(Gain) on acquisition of business (note 3a)	(24,752)	—
Other costs (note 23)	490,369	466,425
Share of loss of joint ventures	1,375	269
Interest expense	12,585	24,854
Interest income	(205)	(898)
	938,757	919,641
Income before income taxes	153,109	78,554
Provision for income taxes (notes 1 and 10)		
Current	31,436	17,493
Deferred	1,189	11,801
	32,625	29,294
Net income	$ 120,484	$ 49,260
Basic net income per share (note 24)	$ 1.98	$ 0.86
Diluted net income per share (note 24)	$ 1.97	$ 0.85

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

Consolidated statements of comprehensive income

For the years ended December 31, 2012 and 2011

(expressed in thousands of Canadian dollars)

	2012	2011
Net income	$ 120,484	$ 49,260
Other comprehensive income		
Income on hedging instruments (note 4)	2,486	3,704
Associated deferred income taxes expense	(905)	(2,893)
Actuarial losses of post-employment benefit obligations (note 19)	(190)	(812)
Associated deferred income taxes recovery	50	210
Other comprehensive income	1,441	209
Comprehensive income	$ 121,925	$ 49,469

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

Consolidated statements of changes in equity

For the years ended December 31, 2012 and 2011

(expressed in thousands of Canadian dollars)

	Unit capital (note 1)	Share capital (note 22)	Contributed surplus (notes 1 and 15)	Accumulated other comprehensive loss	Deficit	Total
Balance - January 1, 2012	$ —	$ 764,801	$ —	$ (2,723)	$ (140,469)	$ 621,609
Net income	—	—	—	—	120,484	120,484
Other comprehensive income	—	—	—	1,581	(140)	1,441
Total comprehensive income				**1,581**	**120,344**	**121,925**
Share options liabilities reclassified	—	—	6,850	—	—	6,850
Dividends declared (note 16)	—	—	—	—	(81,572)	(81,572)
Long-term incentive plan obligation	—	(4,818)	—	—	—	(4,818)
Long-term incentive plan shares	—	6,471	—	—	—	6,471
Share option expense	—	—	2,071	—	—	2,071
Issuance of shares on exercise of options	—	5,873	(5,372)	—	—	501
Issuance of shares on conversion of debentures	—	75,844	219	—	—	76,063
Shares repurchased and cancelled	—	(936)	—	—	(850)	(1,786)
Balance - December 31, 2012	$ —	$ 847,235	$ 3,768	$ (1,142)	$ (102,547)	$ 747,314
Balance - January 1, 2011	$ 710,121	$ —	$ 1,407	$ (3,534)	$ (113,120)	$ 594,874
Net income	—	—	—	—	49,260	49,260
Other comprehensive income	—	—	—	811	(602)	209
Total comprehensive income				**811**	**48,658**	**49,469**
Effect of corporate conversion (note 1)	(710,121)	744,760	(1,407)	—	—	33,232
Dividends declared (note 16)	—	—	—	—	(74,344)	(74,344)
Long-term incentive plan obligation	—	(1,599)	—	—	—	(1,599)
Long-term incentive plan shares	—	1,888	—	—	—	1,888
Issuance of shares on conversion of debentures	—	21,515	—	—	—	21,515
Shares repurchased and cancelled	—	(1,763)	—	—	(1,663)	(3,426)
Balance - December 31, 2011	$ —	$ 764,801	$ —	$ (2,723)	$ (140,469)	$ 621,609

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

Consolidated statements of cash flows

For the years ended December 31, 2012 and 2011

(expressed in thousands of Canadian dollars)

	2012	2011
Cash provided by (used in)		
Operating activities		
Net income	$ 120,484	$ 49,260
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization of property, equipment and leaseholds, and intangible assets	62,058	68,115
Amortization of tenant inducements, rent averaging liabilities and fair value lease contract liabilities	(5,033)	(3,955)
Accretion of debt issuance costs and other non-cash interest	562	840
(Gain) loss on disposal of assets	(2,352)	735
(Gain) on acquisition of business	(24,752)	—
Deferred income taxes	1,189	11,801
Interest rate swap agreements - non-cash interest (note 4)	1,485	4,215
Non-cash share or unit-based compensation	2,108	330
Accretion of convertible debentures	323	1,368
Net change in interests in joint ventures	5,987	(1,876)
Tenant inducements	7,615	7,150
Changes in operating assets and liabilities (note 26)	9,653	38,294
Net cash provided by operating activities	179,327	176,277
Investing activities		
Proceeds from sale of assets	3,683	1,958
Purchases of property, equipment and leaseholds	(71,923)	(60,624)
Acquisition of businesses, net of cash acquired (note 3)	(2,811)	(3,229)
Additional equity funding of joint ventures (note 11)	(4,188)	(356)
Net cash used in investing activities	(75,239)	(62,251)
Financing activities		
Dividends paid	(80,794)	(68,059)
Repayments under credit facility, net	(20,000)	(65,000)
Payments under finance leases	(2,104)	(2,242)
Proceeds from issuance of shares	501	—
Acquisition of long-term incentive plan shares	—	(9,793)
Deferred financing fees (note 18)	—	(1,857)
Shares repurchased and cancelled	(1,786)	(3,426)
Repayment of convertible debentures at maturity	(1,123)	—
Net cash used in financing activities	(105,306)	(150,377)
Decrease in cash and cash equivalents during the year	(1,218)	(36,351)
Cash and cash equivalents - Beginning of year	48,992	85,343
Cash and cash equivalents - End of year	$ 47,774	$ 48,992
Supplemental information		
Cash paid for interest	10,293	18,084
Cash paid for income taxes	35,268	95

Certain non-cash transactions occurred relating to exchanges of the non-controlling interests' Partnership units for Fund units or Cineplex shares (note 1), the formation of Cineplex Starburst Inc. (note 3), the derecognition of finance leases and the financial impact of the new agreements (note 17), and the conversion of debentures for shares (note 22). *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

Until December 31, 2010, Cineplex Galaxy Income Fund (the "Fund") was an unincorporated, open-ended, limited purpose trust established under the laws of the Province of Ontario on October 2, 2003 pursuant to the Fund Declaration of Trust. The Fund was established to invest, through Cineplex Galaxy Trust (the "Trust"), a newly constituted wholly owned trust, in Partnership units of Cineplex Entertainment Limited Partnership (the "Partnership") and shares of Cineplex Entertainment Corporation, the general partner of the Partnership.

The Partnership was formed on November 26, 2003 to acquire substantially all of the theatre business assets and liabilities of Cineplex Odeon Corporation and all of the shares of Galaxy Entertainment Inc. ("GEI"). In 2005, the Partnership acquired 100% of Famous Players Limited Partnership ("Famous Players") and its general partner, Famous Players Co. The Partnership is currently Canada's largest film exhibition organization, with theatres in six provinces.

On January 1, 2011, the Fund effected a reorganization for tax and business purposes, converting to an Ontario, Canada corporation, Cineplex Inc. ("Cineplex"). The assets of the Trust and the Fund were transferred to Cineplex on a tax-deferred basis, and the Trust was wound up. Additionally, on January 1, 2011, Cineplex acquired the 0.3% of the Partnership units it did not indirectly own, making the Partnership a wholly owned subsidiary of Cineplex. Cineplex is headquartered at 1303 Yonge Street, Toronto, Ontario, M4T 2Y9.

The Board of Directors approved these consolidated financial statements on February 6, 2013.

Financial effects of reorganization

As a result of the reorganization, unit capital of $710,121 and contributed surplus of $1,407 were reclassified to share capital on the consolidated balance sheet. In addition, the fair value of the conversion derivative associated with the convertible debentures of $19,470, the long-term incentive plan ("LTIP") obligation, recorded as share or unit-based compensation of $9,911, and the fair value of exchangeable interests of $3,851 were all reclassified to share capital on the consolidated balance sheet.

As a corporation, Cineplex's tax rate decreased to 25.84% from a tax rate of 46.41% as a mutual fund trust, reducing the net deferred income tax assets at December 31, 2010 by $7,777, which was recorded in the first quarter of 2011 as deferred income tax expense on the consolidated statement of operations of $5,979 and $1,798 in other comprehensive loss.

In addition, $28 of additional deferred income tax assets was recorded in the first quarter of 2011 as a recovery of deferred income taxes on the consolidated statement of operations, representing the portion relating to the former exchangeable interests.

Prior to the reorganization, holders of exchangeable Class B LP units of the Partnership received common shares in exchange for their Class B LP units, on a one-for-one basis. Additionally, pursuant to the reorganization, holders of Fund units received common shares in exchange for their Fund units, on a one-for-one basis, making the Partnership a wholly owned subsidiary of Cineplex. Cineplex also assumed all of the covenants and obligations of the Fund under its outstanding convertible debentures and entered into a supplemental trust indenture. The common shares are listed on the Toronto Stock Exchange ("TSX") under the symbol "CGX".

On conversion of the convertible debentures, debentureholders were entitled to receive common shares, rather than Fund units, on the basis of one common share in lieu of each Fund unit, which the holder was previously entitled to receive. The convertible debentures were listed on the TSX until December 31, 2012 under the symbol "CGX.DB."

Equity-based compensation arrangements of the Fund were continued by Cineplex with common shares, rather than Fund units, on the basis of one common share in lieu of each Fund unit where the employee was previously entitled to receive or on which to exercise an option.

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

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 Handbook of The Canadian Institute of Chartered Accountants. 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.

Consolidation

These financial statements consolidate the accounts of Cineplex and its subsidiaries. All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation.

Subsidiaries are those entities (including special purpose entities) that Cineplex controls by having the power to govern the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether Cineplex controls another entity. Subsidiaries are fully consolidated from the date on which control is obtained by Cineplex and are deconsolidated from the date that control ceases.

Cineplex also consolidates a trust administered by a third party that acts as trustee for the LTIP. When required under the terms of the LTIP, the Partnership funds the LTIP trust, subsequent to which, the trustee acquires shares on the open market. The unvested shares, recorded at their carrying value, are held in the LTIP trust to be distributed under the terms of the LTIP. The LTIP trust is considered a special purpose entity, as the total investment at risk is not sufficient to permit the LTIP trust to finance its activities without additional support. The activities of the LTIP trust are conducted on behalf of Cineplex, and Cineplex obtains the benefits from the LTIP trust's operations and the right to receive the majority of the benefits of the LTIP trust. Therefore, Cineplex has consolidated the LTIP trust. Cineplex has not guaranteed the value of the shares held by the LTIP trust, should the fair value of the shares decrease from the value at which the LTIP trust acquired the shares. At December 31, 2012, consolidating the LTIP trust resulted in a $3,264 (2011 - $9,735) decrease in assets and share capital and had no impact on the net income of Cineplex.

Exchangeable interests

Exchangeable interests represent equity interests in the Partnership owned by outside parties until January 1, 2011. The units of the Partnership not owned by Cineplex are considered liabilities, presented at fair value on the consolidated balance sheets. On January 1, 2011, Cineplex acquired the remaining exchangeable interests, and the balance was reclassified to share capital. Until January 1, 2011, the change in the fair value of the exchangeable interests was reflected in net income, as change in fair value of financial instruments.

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

Investments in joint ventures

Joint ventures are entities over which Cineplex has joint control. The financial results of Cineplex's investments in its joint ventures are included in Cineplex's results according to the equity method. Cineplex's share of profits or losses of joint ventures is recognized in the consolidated statements of operations and its share of other comprehensive income (loss) ("OCI" or "OCL") of joint ventures is included in OCI.

To the extent Cineplex's share of losses of a joint venture exceed Cineplex's net investment in the joint venture, and Cineplex has a legal or constructive obligation to continue to support the operations of the joint venture, a deficiency interest in joint ventures is recognized as a liability on the consolidated balance sheets.

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 cost to sell and value in use) and charged to the consolidated statements of operations.

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.

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. Regular purchases and sales of financial assets are recognized on the trade-date, the date on which Cineplex commits to purchase or sell the asset.

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

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

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

i. Financial assets and financial liabilities at fair value through profit or loss: The only instruments held by Cineplex classified in this category are certain equipment purchase liabilities, and until January 1, 2011 the conversion options associated with convertible debentures, the exchangeable interests in the Partnership and the LTIP obligation. Until January 1, 2011, the conversion options and the LTIP obligation were accounted for as financial liabilities because the underlying components were Fund units, which are not inherently equity instruments. On reorganization to a corporation, the conversion options applied to shares, the conversion component and the LTIP obligation are presented as equity. 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 as changes in fair value of financial instruments in the year in which they arise. 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. The non-derivative component of convertible debentures and the conversion derivative were presented as a single liability until the conversion component was reclassified to equity on January 1, 2011.

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

v. Derivative financial instruments: 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.

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

Impairment of financial assets

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

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

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

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

Inventories

Inventories 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. Corporate assets are allocated to CGUs based on the proportionate carrying value of each 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 CGUs based on geographical regions of financial management responsibility in testing goodwill for impairments.

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

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

Property, equipment and leaseholds

Property, equipment and leaseholds are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying value or

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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	30 - 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.

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.

Identifiable intangible assets

Intangible assets include trademarks, trade names, leases and advertising contracts 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.

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, a defined contribution pension plan, and additional unfunded defined benefit obligations for former Famous Players employees.

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 the defined contribution pension plan is charged to expense as the contributions become payable.

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.

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.

Actuarial gains and losses are recognized in full in the year in which they occur, in OCI or OCL and deficit without recycling to the consolidated statements of operations in subsequent years. Current service cost, the recognized element of any past service cost, the expected return on plan assets and the interest arising on the benefit liability are included in employee benefits in other costs on the consolidated statements of operations.

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

Past service costs are recognized immediately to the extent the benefits are vested, and otherwise are amortized straight-line over the average period until the benefits become vested.

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 recognized over the tranche's vesting period as employee benefits expense in other costs based on the number of awards expected to vest. 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. The discount rate applied in arriving at the present value of a provision represents the yields on high-quality corporate bonds denominated in Canadian dollars having terms to maturity approximating the estimated term to settlement of the provisions. 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, in which case, the income taxes are also recognized directly in equity.

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.

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

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.

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. Other revenues include revenues from advertising, games, online video 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 certificates and gift cards

Cineplex sells gift certificates and gift cards (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. Cineplex also enters into transactions with separately identifiable components related to certain sales of theatre assets, which may also include an advertising contract or an operational agreement. In addition, Cineplex receives payments from certain vendors for advertising contracts, auditorium rentals and ticket purchases. When a sales arrangement requires the delivery of more than one service, the individual components are accounted for separately, if applicable criteria are met. Specifically, the revenue is allocated to each component if reliable and objective evidence of fair value for each component is available. The amount allocated to each component is then recognized when each component is delivered, provided all other relevant revenue recognition criteria are met with respect to that component. If, however, evidence of fair value is only available for undelivered components, the revenue is allocated first to the undelivered components, with the remainder of the revenue being allocated to the delivered

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

components, according to a residual method calculation. If 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 recognized as the relevant recognition criteria are met.

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.

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) 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 year 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. At December 31, 2012, property, equipment and leaseholds had a carrying value of $418,142. If the estimated useful lives were 10% different from existing estimates, depreciation expense would increase or decrease by approximately $5,614 for the year.

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 was $786 at December 31, 2012. If interest rates changed 1% from existing estimates throughout the contract period, the carrying value would change to a liability of $6,785 or to an asset of $4,739, primarily affecting OCI.

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

c) 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.

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.

f) Share-based compensation
Management is required to make certain assumptions and to estimate future financial performance to estimate the fair value of share-based awards at each consolidated balance sheet date. Significant estimates and assumptions relating to the option plan are disclosed in note 15. Beginning in 2011, 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 account financial market observable inputs.

g) Impairment
Cineplex tests annually whether goodwill has suffered any impairment, in accordance with its accounting policy. The recoverable amounts of groups of CGUs have been determined based on value-in-use calculations. These calculations require the use of estimates (note 13).

Accounting standards adopted in the current year

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

IAS 1, *Presentation of Financial Statements* (“IAS 1”), has been amended to require entities to separate items presented in OCI into two groups, based on whether or not items may be recycled in the future. Entities that choose to present OCI items before income taxes will be required to show the amount of income taxes related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted. The adoption of IAS 1 amendments did not have a significant impact on the consolidated financial statements.

IAS 12, *Income Taxes* (“IAS 12”), was amended to introduce an exception to the existing principle for the measurement of deferred income tax assets or liabilities arising on investment property measured at fair value. As a result of the amendment, there is a rebuttable presumption that the carrying amount of the investment property will be recovered through sale when considering the expected manner or recovery or settlement. SIC-21, *Income Taxes - Recovery of Revalued Non-depreciable Assets*, will no longer apply to investment properties carried at fair

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value. The amendment also incorporates into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn. The amendment is effective for annual periods beginning on or after January 1, 2012, with earlier application permitted. The adoption of IAS 12 amendments did not have a significant impact on the consolidated 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, 2013 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 January 2012, the effective date was revised to January 1, 2015 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 10, *Consolidated Financial Statements* ("IFRS 10"), requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces Standing Interpretation Committee ("SIC") 12, *Consolidation - Special Purpose Entities,* and parts of IAS 27, *Consolidated and Separate Financial Statements* ("IAS 27"). The adoption of IFRS 10 will not have a significant impact on the consolidated financial statements.

IFRS 11, *Joint Arrangements* ("IFRS 11"), requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting, whereas for a joint operation, the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities - Non-monetary Contributions by Venturers*. The adoption of IFRS 11 will result in the classification of Cineplex's investment in SCENE LP "SCENE" as a joint operation. The consolidated financial statements will reflect Cineplex's share of SCENE's assets, liabilities, revenues and expenses, with no impact on net income or OCI.

IFRS 12, *Disclosure of Interests in Other Entities* ("IFRS 12"), establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure that address the nature of, and risks associated with, an entity's interests in other entities. The adoption of IFRS 12 will not have a significant impact on the consolidated financial statements.

IFRS 13, *Fair Value Measurement* ("IFRS 13"), is a comprehensive standard for fair value measurement and disclosure for use across all IFRS. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is

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

dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures. The adoption of IFRS 13 will not have a significant impact on the consolidated financial statements.

There have been amendments to existing standards, including IAS 27, and IAS 28, *Investments in Associates* ("IAS 28"). IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 to 13.

IAS 19, *Employee Benefits* ("IAS 19"), has been amended to make significant changes to the recognition and measurement of defined benefit pension expense and termination benefits and to enhance the disclosure of all employee benefits. The amended standard requires immediate recognition of actuarial gains and losses in OCI as they arise, without subsequent recycling to net income. This is consistent with Cineplex's current accounting policy. Past service cost (which will now include curtailment gains and losses) will no longer be recognized over a service period but instead will be recognized immediately in the period of a plan amendment. Pension benefit cost will be split between (i) the cost of benefits accrued in the current year (service cost) and benefit changes (past-service cost, settlements and curtailments); and (ii) finance expense or income. The finance expense or income component will be calculated based on the net defined benefit asset or liability. A number of other amendments have been made to recognition, measurement and classification including redefining short-term and other long-term benefits, guidance on the treatment of taxes related to benefit plans, guidance on risk/cost sharing features, and expanded disclosures. The adoption of IAS 19 amendments will not have a significant impact on the consolidated financial statements.

3 Business acquisitions and formations

a) AMC Ventures Inc.

On July 12, 2012, Cineplex acquired 100% of the outstanding shares of AMC Ventures Inc., an indirect subsidiary of AMC Entertainment Inc. AMC Ventures Inc., which operated three leased theatres in Ontario and one leased theatre in Quebec, was immediately wound up into Cineplex. Cineplex believes its operating and programming expertise, combined with its merchandising, media, marketing, interactive and SCENE loyalty programs will positively and significantly improve the operations of these four theatres.

The total consideration is dependent on the amount of non-capital losses available for use at the time of closing. The additional consideration payable by Cineplex is based on the excess of non-capital losses greater than $68,682. A portion of the consideration payable by Cineplex in relation to the non-capital losses will be paid on initial determination, which will occur subsequent to year-end, and a portion will be paid later on final determination of the losses under the terms of the security purchase agreement. The undiscounted amount of deferred consideration is $3,134 (fair value - $2,746). The estimated non-capital losses of $147,034 are available to offset taxable income earned by Cineplex beginning in 2013. The non-capital losses included in the purchase price allocation have been valued at 26.17%, Cineplex's effective tax rate. The recognition of the non-capital losses as deferred income tax assets is the primary reason Cineplex recognized a gain on the acquisition. All transaction costs associated with the transaction were expensed as incurred.

As at December 31, 2012, the fair value of deferred income tax losses associated with non-capital losses available to offset taxable income earned by Cineplex has been determined on a provisional basis, pending confirmation of those losses.

(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 $4,605	$	6,155
Equipment, including leaseholds		4,613
Deferred income taxes - non-capital losses		38,485
Deferred income taxes - other		5,883
Other liabilities - fair value of leases		(21,281)
Net assets	$	33,855
Consideration given		
Cash paid on closing	$	17
Current payable to AMC Entertainment Inc. - non-capital tax losses		4,702
Deferred payable to AMC Entertainment Inc. - non-capital tax losses		2,746
Payable to AMC Entertainment Inc. - working capital		1,638
	$	9,103
(Gain) recognized on acquisition	$	(24,752)

The acquired theatres had total revenues of $21,009 and loss before income taxes of $1,076, including depreciation and amortization of $859, included in the consolidated financial statements since the acquisition date. It is impracticable to determine the amount of revenues and income that would have been reported for the year ended December 31, 2012 as if the acquisition had occurred at January 1, 2012 because the financial statements of the acquired theatres for the period prior to the acquisition are not available to Cineplex. Prior to the acquisition by Cineplex, AMC Ventures Inc. operated several other theatres, and operations and financial results of the theatres acquired by Cineplex are not available separately.

b) New Way Sales - disposition of interest and formation of joint venture

During the first quarter of 2012, Cineplex's subsidiary, New Way Sales Games Inc. ("New Way Sales"), merged its operations with the amusement game and vending assets of Toronto-based Starburst Coin Machines Inc., ("SCMI"). The new joint venture, named Cineplex Starburst Inc. ("CSI"), formed the largest distributor and operator of arcade games to the amusement industry in Canada. Cineplex and SCMI equally own CSI. SCMI contributed operating assets in exchange for 50% of Cineplex's interest in the former New Way Sales, which became CSI. Cineplex's initial additional cash investment in the transaction was approximately $7,399, and Cineplex recognized a gain of approximately $1,471 on the disposition of its 50% interest in New Way Sales. In recognizing the gain, Cineplex elected to recognize any contributions of a business or subsidiary to jointly controlled entities under IAS 27. Effective January 31, 2012, Cineplex deconsolidated the financial results of New Way Sales and began recognizing the operations of CSI through equity accounting. All transaction costs associated with the transaction were expensed as incurred.

c) CDCP

During the second quarter of 2011, Cineplex formed Canadian Digital Cinema Partnership ("CDCP"), a joint venture with Empire Theatres Limited ("Empire"). The costs of implementing digital projection systems in the venturers' theatres will be funded by CDCP through a separate credit facility which is non-recourse to the venturers, and the collection of virtual print fees from distributors.

Cineplex contributed digital projectors and an immaterial amount of cash totalling $27,370 for a 78.2% interest in CDCP. Cineplex and Empire each have 50% of the voting rights of CDCP. Cineplex accounts for its investment in CDCP using the equity method.

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

Digital projection systems leased from CDCP replaced most of Cineplex's remaining 35 millimetre projection systems, and allowed Cineplex to add additional 3D screens to the circuit. Cineplex analyzed the depreciable lives of the existing 35 millimetre projection systems, and adjusted those depreciable lives to coincide with the projected timeline of the CDCP digital projector rollout.

d) New Way Sales

On May 19, 2011, Cineplex acquired 100% of the issued and outstanding shares of New Way Sales, one of the largest distributors and suppliers of arcade games to the amusement industry in Canada, for $3,229, net of cash acquired. Prior to Cineplex's acquisition of New Way Sales, New Way Sales provided games and services the Cineplex Odeon and Galaxy Cinemas locations. The acquisition of New Way Sales in 2011 allowed Cineplex to vertically integrate its gaming operations for these locations, as well as expand Cineplex's gaming presence. The transaction was accounted for as a purchase, and did not include contingent consideration. All transaction costs associated with the acquisition were expensed as incurred. Recognized amounts of identifiable assets acquired and liabilities assumed are as follows:

Assets acquired and liabilities assumed		
Net working capital, including cash of $71	$	306
Equipment, including leaseholds		2,211
Deferred income taxes		845
Other liabilities		(62)
Net assets		3,300
Less: Cash from acquisition		71
	$	3,229
Consideration given		
Cash paid for acquisition	$	3,300
Less: Cash from acquisition		71
	$	3,229

4 Financial instruments

Fair value of financial instruments

The carrying value and fair value of Cineplex's financial instruments at December 31, 2012 and 2011 are as follows:

		2012		2011	
	Input level	Carrying value	Fair value	Carrying value	Fair value
Long-term debt	2	$ 148,066	$ 150,000	$ 167,531	$ 170,000
Other liabilities - equipment liabilities	2	11,777	11,777	—	—
Convertible debentures	1	—	—	76,864	106,778
Interest rate swap agreements	2	786	786	1,764	1,764

Cash and cash equivalents, trade and other receivables, accounts payable and accrued expenses and distributions 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.

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

The long-term debt has a fair value approximately equal to its face value at December 31, 2012 and 2011, due to its market rate of interest.

The equipment liabilities are recorded at fair value, as derived from expected cash outflows and Cineplex's estimated incremental borrowing rate.

The convertible debentures were publicly traded on the TSX until December 31, 2012, and were recorded at amortized cost.

Effective April 23, 2008, Cineplex entered into three interest rate swap agreements. Under these interest rate swap agreements, Cineplex paid a fixed rate of 3.97% per annum, plus an applicable margin, and received a floating rate of interest equal to the three-month Canadian deposit offering rate set quarterly in advance, with gross settlements quarterly. Those interest rate swap agreements had a term of three years that commenced in July 2009 and an aggregate notional principal amount of $235,000. During the third quarter of 2011, those interest rate swap agreements were settled with the counterparties for $6,783.

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 gross 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 (note 18).

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 new interest rate swap agreements are considered an extension of the former agreements, and the $6,407 previously recognized in OCL through the settlement date was recognized as interest expense through the course of the remaining term of the former agreements (through the third quarter of 2012).

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. Cineplex had no financial instruments valued under Level 3 inputs on the 2012 or 2011 consolidated balance sheets.

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.

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

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

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

The following schedule reflects the balance and age of trade receivables at December 31, 2012 and 2011:

	2012	2011
Trade receivables carrying value	$ 59,255	$ 60,201
Percentage past due	8%	23%
Percentage outstanding more than 120 days	3%	1%

The following schedule reflects the changes in the allowance for trade receivables during the years ended December 31, 2012 and 2011:

	2012	2011
Allowance for trade receivables - Beginning of year	$ 73	$ 416
Additional allowance recorded	295	8
Amounts written off	(29)	(351)
Allowance for trade receivables - End of year	$ 339	$ 73

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

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

Liquidity risk

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

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

	2012				
	Payments due by period				
Contractual obligations	**Total**	**Within 1 year**	**2 - 3 years**	**4 - 5 years**	**After 5 years**
Accounts payable and accrued expenses	$ 127,318	$ 127,318	$ —	$ —	$ —
Interest rate swap agreements	1,128	600	528	—	—
Long-term debt	150,000	—	—	150,000	—
Equipment obligations	13,266	1,493	2,986	2,986	5,801
Finance lease obligations	29,719	3,810	7,803	8,160	9,946
Total contractual obligations	$ 321,431	$ 133,221	$ 11,317	$ 161,146	$ 15,747

	2011				
	Payments due by period				
Contractual obligations	**Total**	**Within 1 year**	**2 - 3 years**	**4 - 5 years**	**After 5 years**
Accounts payable and accrued expenses	$ 112,285	$ 112,285	$ —	$ —	$ —
Interest rate swap agreements	2,516	719	1,611	186	—
Long-term debt	170,000	—	—	170,000	—
Convertible debentures	77,770	77,770	—	—	—
Finance lease obligations	39,154	4,440	8,880	9,332	16,502
Total contractual obligations	$ 401,725	$ 195,214	$ 10,491	$ 179,518	$ 16,502

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 18).

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 are in Canadian dollars, as are all except an insignificant portion of expenses, which is 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 cash and cash equivalents and long-term debt, which earn and bear 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, 2012, Cineplex recorded non-cash interest expense of $1,485 (2011 - $4,215) relating to the cash flow hedge. Cineplex expects to reclassify $nil from accumulated other comprehensive loss to the consolidated statement of operations in 2013 (2012 - $2,519), 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, 2012 and 2011 of a 1% change in interest rates management believes is reasonably possible:

		2012			
		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	$ 148,066	$ 1,792	$ —	$ (1,792)	$ —
Interest rate swap agreements - net	786	(1,500)	(5,828)	1,500	4,739
		$ 292	$ (5,828)	$ (292)	$ 4,739

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

	2011				
		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	$ 167,531	$ 2,268	$ —	$ (2,268)	$ —
Interest rate swap agreements - net	1,764	(2,047)	(5,278)	2,047	7,033
		$ 221	$ (5,278)	$ (221)	$ 7,033

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 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, 2012 and 2011. 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.

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

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

Objectives and strategies are reviewed periodically by management. During 2011, Cineplex reduced its Term Facility by $85,000 and initially increased its Revolving Facility by the same amount, allowing for greater flexibility and effective use of cash reserves. Through 2012 and 2011, debentureholders exercised the option requiring Cineplex to issue shares, resulting in lower debt and higher equity. Consistent with its objective for managing capital, during 2011 the Board of Directors concluded that the market price of common shares, from time to time, may not reflect the inherent value of Cineplex and purchases of common shares may represent an appropriate and desirable use of funds. Cineplex filed for a normal course issuer bid with the TSX, allowing Cineplex to purchase up to 5,600,000 common shares through August 2012. Cineplex cancelled all common shares purchased through the normal course issuer bid (note 22).

6 Cash and cash equivalents

Cash and cash equivalents comprise the following:

	2012	2011
Cash at bank and on hand, net of outstanding cheques	$ 47,774	$ 48,992

7 Trade and other receivables

Trade and other receivables comprise the following:

	2012	2011
Trade receivables	$ 59,255	$ 60,201
Other receivables	11,370	6,984
	$ 70,625	$ 67,185

8 Inventories

Inventories comprise the following:

	2012	2011
Concession inventories	$ 4,211	$ 3,327
Other inventories, including work-in-progress	976	791
	$ 5,187	$ 4,118

The cost of inventories recognized as an expense and included in cost of sales was $68,137 (2011 - $60,962).

(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, 2011							
Cost	$ 16,344	$ 442,846	$ 26,102	$ 379,245	$ 17,977	$ 1,742	$ 884,256
Accumulated depreciation	—	(180,130)	(6,958)	(269,559)	(13,952)	—	(470,599)
Net book value	$ 16,344	$ 262,716	$ 19,144	$ 109,686	$ 4,025	$ 1,742	$ 413,657
Year ended December 31, 2011							
Opening net book value	$ 16,344	$ 262,716	$ 19,144	$ 109,686	$ 4,025	$ 1,742	$ 413,657
Additions	—	21,418	—	33,799	—	9,818	65,035
Disposals	—	(1,340)	—	(28,642)	—	(32)	(30,014)
Depreciation for the year	—	(25,193)	(2,037)	(29,343)	(2,573)	—	(59,146)
Closing net book value	$ 16,344	$ 257,601	$ 17,107	$ 85,500	$ 1,452	$ 11,528	$ 389,532
At January 1, 2012							
Cost	$ 16,344	$ 460,206	$ 26,102	$ 373,971	$ 17,977	$ 11,528	$ 906,128
Accumulated depreciation	—	(202,605)	(8,995)	(288,471)	(16,525)	—	(516,596)
Net book value	$ 16,344	$ 257,601	$ 17,107	$ 85,500	$ 1,452	$ 11,528	$ 389,532
Year ended December 31, 2012							
Opening net book value	$ 16,344	$ 257,601	$ 17,107	$ 85,500	$ 1,452	$ 11,528	$ 389,532
Additions	4,325	37,845	—	53,846	—	(5,547)	90,469
Disposals	(100)	(1,719)	—	(2,969)	(932)	—	(5,720)
Depreciation for the year	—	(26,825)	(2,038)	(26,756)	(520)	—	(56,139)
Closing net book value	$ 20,569	$ 266,902	$ 15,069	$ 109,621	$ —	$ 5,981	$ 418,142
At December 31, 2012							
Cost	$ 20,569	$ 493,501	$ 26,102	$ 388,003	$ 1,931	$ 5,981	$ 936,087
Accumulated depreciation	—	(226,599)	(11,033)	(278,382)	(1,931)	—	(517,945)
	$ 20,569	$ 266,902	$ 15,069	$ 109,621	$ —	$ 5,981	$ 418,142

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

10 Deferred income taxes

Until January 1, 2011, prior to conversion to a corporation, deferred income taxes were reported using the income tax rates applicable to the trust (46.41%), based on temporary timing differences expected to reverse in 2011 and thereafter. Beginning January 1, 2011, the estimated income tax rate for Cineplex was 25.84%, 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:

	2012	2011
Deferred income tax assets		
Property, equipment and leaseholds and deferred tenant inducements - difference between net carrying value and undepreciated capital cost	$ 27,967	$ 29,137
Accounting provisions not currently deductible	8,938	4,498
Rent averaging liabilities	8,653	8,015
Deferred revenue	262	336
Interest rate swap agreements	519	1,374
Operating losses available for carry-forward	43,027	6,528
Total gross deferred income tax assets	89,366	49,888
Future deferred tax liabilities		
Intangible assets	(9,030)	(15,916)
Goodwill	(23,017)	(19,990)
Other	(3,791)	(1,930)
Total gross deferred income tax liabilities	(35,838)	(37,836)
Net deferred income tax asset	$ 53,528	$ 12,052

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 2013.

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, 2012 and 2011 as follows:

	2012	2011
Income before income taxes	$ 153,109	$ 78,554
Combined Canadian federal and provincial statutory income tax rates for the current year	26.17%	27.81%
Income taxes payable at statutory rate	40,069	21,846
Gain on acquisition not taxable	(6,478)	—
Change in tax rate for deferred income taxes	—	5,545
Other permanent differences	(966)	1,903
Provision for income taxes	$ 32,625	$ 29,294

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

At December 31, 2012, subsidiaries of Cineplex had recognized deferred tax assets associated with operating (non-capital) losses available for carry-forward. Cineplex believes the circumstances under which the losses occurred are unlikely to recur given the existing business organization and projected operating results. Those losses expire as follows:

2024	$ 8,132
2025	8,835
2026	12,281
2027	17,290
2028	8,967
2029	9,386
2030	69,420
2031	29,983
	$ 164,294

At December 31, 2012, Cineplex had not recognized deferred income tax assets associated with $11,618 (2011 - $9,342) 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.

11 Interests (deficiency interest) in joint ventures

Cineplex participates in incorporated and unincorporated joint ventures with other parties and accounts for its interests using the equity method. Information on the financial position and results of operations for CDCP, CSI, SCENE and theatre joint ventures is presented below.

CDCP

The net interest in CDCP is summarized as follows:

	2012	2011
Interest at beginning of year	$ 26,050	$ —
Initial investment of equipment and cash	—	$ 26,985
Subsequent investments	448	356
Net change in receivable or payable to CDCP	(175)	588
Share of net income (loss) of CDCP	2,222	(1,658)
Share of OCI (OCL) of CDCP	26	(221)
Net interest	$ 28,571	$ 26,050

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

The summarized balance sheets of CDCP at December 31 are as follows:

	2012	2011
Assets		
Cash at bank and on hand	$ 2,504	$ 1,369
Trade and other receivables	5,026	4,361
Commodity taxes receivable	187	5,584
Prepaid expenses and other current assets	613	457
	8,330	11,771
Equipment	102,036	74,832
Total assets	$ 110,366	$ 86,603
Liabilities		
Accounts payable and accrued expenses	$ 4,390	$ 4,084
Deferred revenue	152	99
Fair value of interest rate contracts	119	103
	4,661	4,286
Long-term debt	69,064	49,140
Fair value of interest rate contracts	59	277
Total liabilities	73,784	53,703
Partners' equity	36,582	32,900
	$ 110,366	$ 86,603

The summarized results of operations for CDCP are follows:

	2012	2011
Revenue	$ 20,811	$ 6,738
Expenses	17,969	8,858
Net income (loss)	$ 2,842	$ (2,120)

CSI

The net interest in CSI is summarized as follows:

	2012
Interest at beginning of year	$ —
Initial investment of equipment and cash	12,261
Share of net income of CSI subsequent to formation of joint venture	932
Net interest	$ 13,193

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

The summarized balance sheet of CSI at December 31 is as follows:

		2012
Assets		
Cash at bank and on hand	$	4,477
Trade and other receivables		1,558
Inventories		4,872
Prepaid expenses and other current assets		1,276
		12,183
Equipment		14,214
Intangible and other assets, including goodwill		2,121
Total assets	$	28,518
Liabilities		
Accounts payable and accrued expenses	$	2,723
		2,723
Long-term debt		84
Total liabilities		2,807
Shareholders' equity		25,711
	$	28,518

The summarized results of operations for CSI are as follows:

		2012
Revenue	$	49,277
Expenses		47,382
Net income	$	1,895

SCENE

The deficiency interest in SCENE is as follows:

		2012		2011
Net deficiency interest at beginning of year	$	(8,250)	$	(12,338)
Cash contribution		3,750		—
Share of net (loss) income		(4,638)		1,440
Net change in payable to Cineplex		3,007		2,648
Net deficiency interest at end of year	$	(6,131)	$	(8,250)

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

The summarized balance sheets of SCENE at December 31 are as follows:

	2012	2011
Assets		
Cash and cash equivalents	$ 1,782	$ 2,306
Trade and other receivables	7,679	3,958
Inventories	13	12
	9,474	6,276
Equipment	712	285
Total assets	$ 10,186	$ 6,561
Liabilities		
Accounts payable and accrued expenses	$ 9,986	$ 8,200
Deferred revenue	23,712	20,096
Total liabilities	33,698	28,296
Deficiency	(23,512)	(21,735)
	$ 10,186	$ 6,561

The summarized results of operations of SCENE are as follows:

	2012	2011
Revenues	$ 31,502	$ 13,599
Expenses	40,779	10,720
Net (loss) income	$ (9,277)	$ 2,879

Theatre joint ventures

The net (deficiency) interest in theatre joint ventures is as follows:

	2012	2011
Net interest at beginning of year	$ 113	$ 92
Share of net income (loss)	109	(51)
Net change in payable to Cineplex	(363)	72
Net (deficiency) interest at end of year	$ (141)	$ 113

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

The summarized balance sheets of theatre joint ventures at December 31 are as follows:

	2012	2011
Assets		
Cash and cash equivalents	$ 251	$ 469
Trade and other receivables	68	51
Inventories	8	6
Prepaid expenses and other current assets	4	7
	331	533
Equipment	44	45
Total assets	$ 375	$ 578
Liabilities		
Accounts payable and accrued expenses	$ 103	$ 132
Deferred revenue	122	115
Total liabilities	225	247
Equity	150	331
	$ 375	$ 578

The summarized results of operations of theatre joint ventures are as follows:

	2012	2011
Revenues	$ 4,017	$ 3,416
Expenses	3,709	3,518
Net income (loss)	$ 308	$ (102)

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

12 Intangible assets

Intangible assets consist of the following:

	Advertising contracts	Fair value of leases - assets	Other	Trademarks and trade names	Total
At January 1, 2011					
Cost	$ 42,535	$ 9,974	$ 1,896	$ 76,385	$ 130,790
Accumulated amortization	(32,706)	(3,769)	(918)	—	(37,393)
Net book value	$ 9,829	$ 6,205	$ 978	$ 76,385	$ 93,397
Year ended December 31, 2011					
Opening net book value	$ 9,829	$ 6,205	$ 978	$ 76,385	$ 93,397
Additions	—	—	—	—	—
Disposals	—	(49)	—	—	(49)
Amortization	(8,086)	(721)	(162)	—	(8,969)
Closing net book value	$ 1,743	$ 5,435	$ 816	$ 76,385	$ 84,379
At January 1, 2012					
Cost	$ 42,535	$ 9,809	$ 1,896	$ 76,385	$ 130,625
Accumulated amortization	(40,792)	(4,374)	(1,080)	—	(46,246)
Net book value	$ 1,743	$ 5,435	$ 816	$ 76,385	$ 84,379
Year ended December 31, 2012					
Opening net book value	$ 1,743	$ 5,435	$ 816	$ 76,385	$ 84,379
Additions	—	—	—	—	—
Disposals	—	—	—	—	—
Amortization for the year	(1,743)	(717)	(159)	(3,300)	(5,919)
Closing net book value	$ —	$ 4,718	$ 657	$ 73,085	$ 78,460
At December 31, 2012					
Cost	$ —	$ 9,809	$ 1,832	$ 76,385	$ 88,026
Accumulated amortization	—	(5,091)	(1,175)	(3,300)	(9,566)
	$ —	$ 4,718	$ 657	$ 73,085	$ 78,460

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. Amortization of $9,600 will be recognized in 2013.

During 2012, fully amortized advertising contracts in the amount of $42,535 were removed from the consolidated 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:

	2012	2011
Balance - Beginning of year	$ 608,929	$ 608,929
Goodwill acquired (note 3)	—	—
Balance - End of year	$ 608,929	$ 608,929

Cineplex performs its annual test for goodwill in the fourth quarter in accordance with its policy described in note 1. Cineplex uses the income approach to estimate the recoverable value of each group of CGUs. The income approach is predicated on the value of the future cash flows that a business will generate going forward. The discounted cash flow method is used which involves projecting cash flows and converting them into a present value through discounting. The discounting performed uses a rate of return that is commensurate with the risk associated with the business and the time value of money. This approach requires assumptions about revenue growth rates, operating margins, tax rates and discount rates.

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. Cineplex assumes a discount rate to calculate the present value of projected cash flows, representing a pre-tax discount rate using a weighted average cost of capital ("WACC") for Cineplex adjusted for income taxes, and is an estimate of the total overall required rate of return on an investment for both debt and equity owners. Determination of the WACC requires separate analysis of the cost of equity and debt, and considers a risk premium based on an assessment of risks related to the projected cash flows of Cineplex. Cineplex used a single discount rate of 11% (2011 - 11%) for all groups of CGUs, reflecting management's judgment that the geographic markets have similarly volatile cash flows.

Cineplex projects cash flows net of income taxes using enacted of substantively enacted tax rates effective during the forecast periods. Tax assumptions are sensitive to changes in tax laws as well as assumptions about the jurisdictions in which profits are earned. It is possible that actual tax rates could differ from those assumed.

In 2011, the estimated fair value of groups of CGUs exceeded their carrying values with the excess ranging from 65% to 85% of the carrying value of the applicable group of CGUs. As a result, in 2012 management used the 2011 recoverable amounts as a component of the 2012 goodwill impairment test as the assets and liabilities making up the CGU's have not changed significantly since 2011 and there were no events or circumstances in 2012 that would indicate an impairment. Based on a quantitative sensitivity analysis performed in 2012, 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 2012 or 2011.

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

14 Accounts payable and accrued expenses

Accounts payable and accrued expenses consist of:

	2012	2011
Accounts payable - trade	$ 54,147	$ 55,550
Film and advertising payables	32,124	26,958
Accrued salaries and benefits	17,710	12,601
Sales taxes payable	6,175	5,818
Accrued occupancy costs	3,251	2,573
Other payables and accrued expenses	13,911	8,785
	$ 127,318	$ 112,285

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 (five years for options granted on or before December 31, 2010).

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

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

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

Until December 31, 2011, Cineplex anticipated that optionholders would exercise, and that the administrators of the Plan would settle, the options for cash. Cineplex, therefore, accounted for options issued under the Plan as cash-settled liabilities. The options were recorded at fair value at each consolidated balance sheet date, taking into the account the options vested on a graded schedule.

Effective January 1, 2012, the Board of Directors of Cineplex invoked Cineplex's right to substitute a cashless exercise for any requested exercise of options for cash, in accordance with the terms of the option plan. As a result of the change in administrative policy, 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. Existing options have their remaining expense determined at the time of the change in administrative policy, recognized over the remaining vesting periods. The amount reclassified to contributed surplus from current and non-current share-based compensation was $6,850 at January 1, 2012.

Forfeitures are estimated at nil (2011 - 0.5%), based on historical forfeitures.

Cineplex recorded $2,071 of employee benefits expense with respect to the options during the year ended December 31, 2012 (2011 - $8,066). At December 31, 2012, $3,549 associated with the options is reflected in contributed surplus on the consolidated balance sheets (2011 - $6,850 was accrued on the consolidated balance sheet in current and non-current share-based compensation payable). The intrinsic value of vested share options at December 31, 2012 is $2,447 (2011 - $1,720), based on the market price of $31.83 per share (2011 - $25.72).

A summary of option activities in 2012 and 2011 is as follows:

		2012		2011	
	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	6.65	1,587,538	$ 19.88	1,520,944	$ 15.15
Granted		474,000	27.33	1,029,774	23.12
Cancelled		—	—	(6,241)	23.12
Exercised		(600,992)	14.83	(956,939)	15.87
Options outstanding, December 31	8.37	1,460,546	$ 24.38	1,587,538	$ 19.88

At December 31, 2012 and 2011, options are vested and exercisable as follows:

	2012	2011
Options vested and exercisable at $23.12	244,873	—
Options vested and exercisable at $14.00	17,667	150,672
	262,540	150,672

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

The fair values of options granted in 2012 and outstanding at the end of 2011 were determined using the Black-Scholes valuation model using the following significant inputs:

	2012	2011
Share price	$ 27.33	$ 25.72
Exercise price	$ 27.33	$ 14.00 - $23.12
Volatility (measured at the standard deviation of continuously compounded share returns based on statistical analysis of weekly share prices over the past three years)	23%	23 %
Dividend yield	5.09%	5.02%
Expected option life (years)	3.0	2.1 - 4.1
Annual risk-free rate	2.41%	1.4%
Fair value of options granted in year	$ 2.48	$ 5.71

Long-term incentive plan

Officers and key employees are eligible to participate in the LTIP. For awards prior to the service period beginning on January 1, 2011, pursuant to the LTIP, Cineplex set aside a pool of funds based on the amount, if any, by which Cineplex's distributable cash per share, for the entire fiscal year, exceeded certain defined distributable cash threshold amounts. This pool of funds was transferred to a trustee, who purchased shares on the open market and holds the shares until such time as ownership vests to each participant. Generally, one third of these shares vests 30 days after the consolidated financial statements for the corresponding fiscal year are approved by the Board of Directors, with an additional one third vesting on the first and second anniversaries of that date. LTIP participants are entitled to receive dividends or distributions on all shares held for their accounts prior to the applicable vesting date. Unvested shares held by the trustee for LTIP participants will be forfeited if the participant resigns or is terminated for cause prior to the applicable vesting date and those shares will be sold and the proceeds returned to Cineplex and excluded from future LTIP calculations.

For the three-year service periods beginning on January 1, 2011, the LTIP award consists of a "phantom" stock plan, awarding 137,302 share equivalents in 2012 (2011 - 227,649), 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.

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, 2012, Cineplex recognized $7,774 (2011 - $7,422) 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, 2012, $3,469 (2011 - $1,312) was included in share-based compensation liability.

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

16 Dividends payable

Cineplex has declared the following dividends during the years:

	2012		2011	
Record date	Amount	Amount per share	Amount	Amount per share
January	$ 6,279	$ 0.1075	$ 6,033	$ 0.1050
February	6,303	0.1075	6,037	0.1050
March	6,558	0.1075	6,041	0.1050
April	6,561	0.1075	6,052	0.1050
May	6,945	0.1125	6,234	0.1075
June	6,955	0.1125	6,252	0.1075
July	6,974	0.1125	6,275	0.1075
August	6,979	0.1125	6,278	0.1075
September	6,982	0.1125	6,283	0.1075
October	6,983	0.1125	6,289	0.1075
November	6,990	0.1125	6,285	0.1075
December	7,063	0.1125	6,285	0.1075

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 2013, Cineplex declared a dividend of $7,063, $0.1125 per share, payable in February 2013.

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

17 Finance lease obligations

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

2013	$ 3,810
2014	3,810
2015	3,993
2016	4,080
2017	4,080
Thereafter	9,946
	29,719
Less: Amount representing interest (average rate of 7.3%)	6,949
	22,770
Less: Current portion	2,222
	$ 20,548

Until 2012, Cineplex had eight finance leases for theatre equipment. In the first quarter of 2012, Cineplex entered into agreements with the lessor of the theatre equipment to purchase new equipment in 2012 for seven of the leases, replacing the leased equipment. The new agreements contain licence payments, based on attendance and box office revenues, with fixed minimums over the term of the agreement. An amount of $6,152 was recognized as equipment and a total of $10,055 as other liabilities, including a reclassification of finance lease obligations of approximately $4,011 during the first quarter of 2012. In the third quarter of 2012, three additional theatres were included in the agreement. An amount of $2,666 was recognized as equipment and $2,666 as other liabilities. The estimated current portion of the minimum payments is included in accounts payable and accrued expenses.

Interest expense related to finance lease obligations was $1,790 for the year ended December 31, 2012 (2011 - $2,226).

18 Long-term debt

In 2011, Cineplex entered into the fourth 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, $200,000, senior, secured, revolving, (the “Revolving Facility”); and
b) a five-year, $150,000, senior, secured, non-revolving, credit facility, (the “Term Facility”).

There are provisions to increase the Revolving Facility commitment amount by an additional $150,000 with the consent of the lenders.

In 2011, the amendment of the previous amended credit facilities was considered a renegotiation of debt and as a result, deferred financing fees of $1,857 associated with the Credit Facilities were added to the unamortized deferred financing fees of $740, 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 in September 2016 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:

		2012		2011
Term Facility	$	150,000	$	150,000
Revolving Facility		—		20,000
Deferred financing fees		(1,934)		(2,469)
	$	148,066	$	167,531
Letters of credit reserved against Revolving Facility	$	2,885	$	1,978
Revolving Facility available		197,115		178,022

At December 31, 2012, Cineplex was subject to a margin of 0.50% (2011 - 0.50%) on the prime rate and 1.50% (2011 - 1.50%) on the banker's acceptance rate, plus a 0.25% (2011 - 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, 2012 (2011 - 4.5%). Cineplex pays a commitment fee on the daily unadvanced portion of the Revolving Facility, which will vary based on certain financial ratios and was 0.3375% at December 31, 2012 (2011 - 0.3375%).

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. In addition, Cineplex sponsors a defined benefit supplementary executive retirement plan.

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.

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

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:

	2012	2011
Cineplex Entertainment Plan - defined contribution	$ 1,361	$ 1,318
Cineplex Entertainment Plan - defined benefit	86	59
Famous Players Plans - defined benefit	113	134

At December 31, 2012, none of the remaining defined benefit plans were fully funded.

Defined benefit 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, 2012.

Reconciliation of the accrued benefit obligations

	2012	2011
Accrued benefit obligations		
Balance - Beginning of year	$ 5,772	$ 4,589
Current service cost	322	294
Interest cost	274	241
Benefits paid	(113)	(134)
Actuarial losses	147	782
Balance - End of year	$ 6,402	$ 5,772

The accrued benefit obligation in respect of post-retirement health care benefits at the end of 2012 is $847 (2011 - $810).

The aggregate accrued benefit obligations for the individual defined benefit plans that have a deficit is $6,402 (2011 - $5,772) and the fair value of plan assets is $128 at December 31, 2012 (2011 - $84).

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

Reconciliation of the fair value of plan assets

	2012	2011
Fair value of plan assets		
Balance - Beginning of year	$ 84	$ 55
Actual return on plan assets	(42)	(30)
Employer contributions	199	193
Benefits paid	(113)	(134)
Balance - End of year	$ 128	$ 84

Plan assets consist of:

	Percentage of defined benefit plan assets	
	2012	2011
Asset category		
Equity securities	—	—
Debt securities	—	—
Other	100%	100%
	100%	100%

Reconciliation of the unfunded status of the defined benefit provisions

	2012	2011
Fair value of plan assets	$ 128	$ 84
Accrued benefit obligations	(6,402)	(5,772)
Accrued pension benefit liability	$ (6,274)	$ (5,688)

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

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

	2012	2011
Current service cost - defined benefit provisions	$ 322	$ 294
Interest cost	274	241
Benefit cost recognized	$ 596	$ 535

In addition, in 2012 actuarial losses of $190 (2011 - $812) were recognized in OCI. The benefit cost in respect of post-retirement health care benefits for 2012 is $31 (2011 - $15).

Significant assumptions

	2012	2011
Accrued benefit obligations at December 31		
Discount rate		
All plans	3.30% - 3.75%	4.00% - 4.75%
Rate of compensation increase	—	—
Benefit cost for the year ended December 31		
Discount rate		
All plans	4.00% - 4.75%	5.00%
Expected long-term rate of return on plan assets	—	—
Rate of compensation increase	—	—
Health care cost trend rates at December 31		
Initial rate	6.00%	6.00%
Ultimate rate	4.00%	4.00%
Year ultimate rate reached	2016	2015

Sensitivity analysis

	2012	
	Benefit obligation	Benefit expense
Impact of 1% increase in health care cost trend rate	$ 88	$ 3
Impact of 1% decrease in health care cost trend rate	$ (76)	$ (3)

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

Defined contribution provision

	2012	2011
Total cost recognized for defined contribution provision	$ 1,361	$ 1,318

20 Other liabilities

Other liabilities consist of the following:

	2012	2011
Deferred tenant inducements	$ 56,219	$ 55,577
Excess of straight-line amortization over lease payments	27,698	24,115
Fair value of leases - liabilities	39,154	21,073
Asset retirement obligations	2,031	1,027
Deferred gain on sale of density rights	1,563	576
Licensing obligations - non-current	10,587	—
Deferred consideration - business acquisition	2,746	—
Other, including provisions	1,321	1,359
	$ 141,319	$ 103,727

21 Convertible debentures

Convertible debentures consist of the following at December 31, 2012 and 2011:

	2012	2011
Face value of debentures outstanding	$ —	$ 77,770
Deferred financing fees and unaccreted discount	—	(906)
	$ —	$ 76,864

The convertible debentures were issued on July 22, 2005, and matured on December 31, 2012. On maturity, Cineplex repaid approximately $1,123 debenture principal, at face value. Interest at a rate of 6.0% per annum was paid semi-annually on June 30 and December 31 each year. Each debenture was convertible into shares at the option of the holder at a conversion price of $18.75 per share.

During 2012, convertibles debentures with a liability carrying value of $76,063 were converted for shares (2011 - $21,515).

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

22 Share capital

Cineplex is authorized to issue an unlimited number of common shares, and 10,000,000 preferred shares, none of which are outstanding. Share capital at December 31, 2012 and 2011 and transactions during the years are as follows:

										2012
			Shares							Amount
	Number of common shares issued and outstanding	Number of common shares held by LTIP trust	Common shares, net	Common shares	Fund units	Equity component of convertible debentures	LTIP common shares or units	LTIP obligation		Total
Balance - December 31, 2011	58,465,254	(443,916)	58,021,338	$ 751,042	$ —	$ 15,182	$ (9,735)	$ 8,312		$ 764,801
Debenture conversions	4,087,811	—	4,087,811	91,026	—	(14,963)	—	—		76,063
Costs of LTIP obligation	—	—	—	—	—	—	—	1,653		1,653
Issuance of shares on exercise of options	301,337	—	301,337	5,873	—	—	—	—		5,873
Transfer of common shares to LTIP participants	—	304,189	304,189	478	—	—	6,471	(6,949)		—
Shares repurchased and cancelled under the normal course issuer bid	(71,400)	—	(71,400)	(936)	—	—	—	—		(936)
Reclassification of unconverted balance to contributed surplus	—	—	—	—	—	(219)	—	—		(219)
Balance - December 31, 2012	62,783,002	(139,727)	62,643,275	$ 847,483	$ —	$ —	$ (3,264)	$ 3,016		$ 847,235

										2011
			Shares							Amount
	Number of common shares issued and outstanding	Number of common shares held by LTIP trust	Common shares, net	Common shares	Fund units	Equity component of convertible debentures	LTIP common shares or units	LTIP obligation		Total
Balance - December 31, 2010	57,258,999	(540,023)	56,718,976	$ —	$ 719,589	$ —	$ (9,468)	$ —		$ 710,121
Reclassification of unit capital to share capital	—	—	—	719,589	(719,589)	—	—	—		—
Reclassification of exchangeable interests	171,835	—	171,835	3,851	—	—	—	—		3,851
Reclassification of equity component of convertible debentures	—	—	—	—	—	19,470	—	—		19,470
Reclassification of LTIP obligation	—	—	—	—	—	—	—	9,911		9,911
Reclassification of contributed surplus	—	—	—	1,407	—	—	—	—		1,407
Debenture conversions	1,171,820	—	1,171,820	25,803	—	(4,288)	—	—		21,515
Transfers and costs of LTIP obligation	—	—	—	—	—	—	—	10,082		10,082
Purchase of LTIP common shares	—	(419,178)	(419,178)	—	—	—	(9,793)	—		(9,793)
Transfer of common shares to LTIP participants	—	515,285	515,285	2,155	—	—	9,526	(11,681)		—
Shares repurchased and cancelled under the normal course issuer bid	(137,400)	—	(137,400)	(1,763)	—	—	—	—		(1,763)
Balance - December 31, 2011	58,465,254	(443,916)	58,021,338	$ 751,042	$ —	$ 15,182	$ (9,735)	$ 8,312		$ 764,801

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

23 Other costs

	2012	2011
Employee salaries and benefits	$ 168,875	$ 163,190
Rent	117,825	112,182
Realty and occupancy taxes and maintenance fees	56,190	51,723
Utilities	22,939	21,596
Purchased services	33,107	31,858
Other inventories consumed	9,756	10,676
Repairs and maintenance	17,620	16,279
Office and operating supplies	10,708	11,903
Licences and franchise fees	9,237	9,823
Insurance	2,112	2,244
Advertising and promotion	22,108	19,777
Professional and consulting fees	5,163	3,695
Telecommunications and data	3,796	3,143
Bad debts	513	193
Equipment rental	2,058	1,121
Other costs	8,362	7,022
	$ 490,369	$ 466,425

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 year.

	2012	2011
Net income	$ 120,484	$ 49,260
Weighted average number of shares outstanding	60,866,040	57,533,114
Basic EPS	$ 1.98	$ 0.86

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

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.

	2012	2011
Net income	$ 120,484	$ 49,260
Weighted average number of shares outstanding	60,866,040	57,533,114
Adjustments for stock options	241,709	315,889
Weighted average number of shares for diluted income per share	61,107,749	57,869,003
Diluted EPS	$ 1.97	$ 0.85

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, 2012 under the above-mentioned operating leases are set forth as follows:

2013	$ 127,693
2014	125,814
2015	122,652
2016	121,803
2017	120,170
Thereafter	576,694
	$ 1,194,826

Minimum rent expense relating to operating leases on a straight-line basis in 2012 was $123,639 (2011 - $116,944). In addition to the minimum rent expense, in 2012 Cineplex incurred percentage rent charges of $2,455 (2011 - $2,449).

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

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

2013	$ 1,865
2014	1,199
2015	514
2016	269
	$ 3,847

26 Changes in operating assets and liabilities

The following summarizes the changes in operating assets and liabilities:

	2012	2011
Trade and other receivables	$ (10,970)	$ (8,518)
Inventories	(1,070)	(291)
Prepaid expenses and other current assets	1,980	220
Accounts payable and accrued expenses	5,527	18,013
Income taxes payable	(3,831)	17,398
Deferred revenue	10,490	1,880
Post-employment benefit obligations	586	1,154
Share-based compensation	7,289	7,446
Other liabilities	(348)	992
	$ 9,653	$ 38,294
Non-cash investing activities		
Property, equipment and leasehold purchases financed through accounts payable and accrued expenses	$ 14,225	$ 10,041

27 Commitments, guarantees and contingencies

Commitments

As of December 31, 2012, Cineplex has aggregate capital commitments as follows:

Capital commitments for eight theatres to be completed during 2013 - 2015	$ 98,875
Other capital commitments	15,450
Letters of credit	2,885

See note 25 for theatre lease commitments.

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

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 leases 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, 2012 is nominal. As such, no additional amounts have been provided in the consolidated financial statements for these guarantees. Should the purchasers of the theatres fail to fulfill their lease commitment obligations, Cineplex could face a substantial financial burden.

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 determined that the theatre exhibition industry qualifies as a single business segment with all of its revenue and assets generated and held within Canada.

29 Barter transactions

Cineplex occasionally enters into barter arrangements with other parties to exchange goods or services. During the year ended December 31, 2012, Cineplex provided advertising and media services to third parties and recognized advertising revenues of $6,458 (2011 - $7,186). Cineplex received sponsorship and advertising services in exchange, recording marketing expenses of $6,708 (2011 - $7,217). 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.

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. Unless otherwise noted, these transactions are not considered related party transactions for financial statement purposes.

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

Joint ventures

Cineplex leased digital projection systems from CDCP in the amount of $1,240 for the year ended December 31, 2012 (2011 - $357). 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, 2012, Cineplex earned revenue of $389 for these services (2011 - $359).

Fund unit exchanges

During 2011 and on conversion to a corporation, investors related to Cineplex exchanged Partnership units for Fund units or Cineplex shares under the provisions of the exchange agreement (notes 1 and 22).

Compensation of key management

Compensation recognized in employee benefits for key management included:

	2012	2011
Salaries and short-term employee benefits	$ 4,506	$ 4,025
Post-employment benefits	621	568
Share-based payments	6,468	8,469
	$ 11,595	$ 13,062

Board of Directors

Robert Bruce

Mr. Bruce currently serves as President, Communications for Rogers Communications Inc., having previously served as President, Rogers Wireless from May 2005 to September 2009. In his current role, he is responsible for marketing, sales, distribution, retail stores, customer care and operations for both cable and wireless. Mr. Bruce joined Rogers Wireless in September 2001 as Executive Vice President and Chief Marketing Officer of Rogers Wireless and President, Wireless Data Services. Prior to joining Rogers Wireless, Mr. Bruce was Senior Vice President, Marketing at BCE Mobile Communications. Previously, he held senior operating and marketing roles with Pepsi-Cola Canada, Oshawa Foods Limited and Warner Lambert. In addition to his role as a Director of the Corporation, Mr. Bruce sits on the board of the Canadian Wireless Telecommunications Association and the United Way Campaign Cabinet.

Joan Dea

Ms. Dea is currently the Managing Director of Beckwith Investments, a private investment firm. From 2003 to 2008, Ms. Dea worked with BMO Financial Group, most recently as Executive Vice President, Head of Strategic Management and Corporate Marketing. In that capacity, she was responsible for strategy development, performance management, branding, customer experience, culture and major change initiatives. From 1989 to 2003, Ms. Dea worked at the Boston Consulting Group and its predecessor firm, Canada Consulting Group, where she held several leadership positions and consulted to Fortune 500 firms on strategy, transformative change and global competitiveness. She became partner in 1994. She began her career in Corporate Finance with Chemical Bank. In addition to her role as a Director of the Corporation, Ms. Dea is a member of the boards of directors of Torstar Corporation (serving on its nominating and corporate governance committee as well as salary and organization committee) and Charles Schwab Bank (serving on the audit and risk committee). She is actively involved in several charitable organizations, currently serving as the incoming Chair of Woman's Initiative, Director of Marin Academy, Member of the Yale University Development Council, and Member of the Advisory Board for the Pecaut Centre for Social Impact. Ms. Dea was named one of the 100 most powerful women in Canada in 2007.

Ian Greenberg

Mr. Greenberg founded Astral Media with his four brothers over 50 years ago and has been the President and Chief Executive Officer of Astral Media Inc. since 1996. He is a member of the Canadian Council of Chief Executives and is actively involved as a member of the board of directors of Astral Media Inc. in addition to his role as a Director of the Corporation. He is actively involved in a number of industry and charitable associations, including the MS Society of Canada, the Canadian Cancer Society, United Way, Centraide and the Montreal Museum of Fine Arts. A graduate of Harvard Business School's Advanced Management Program, Mr. Greenberg was named one of Québec's most influential business personalities by Revue Commerce in February 2001. In 2007, Mr. Greenberg received the prestigious Ted Rogers and Velma Rogers Graham Award for his unique contribution to the Canadian broadcasting system and in November 2008, he was inducted into the Canadian Association of Broadcasters' Hall of Fame. In 2013, he received a special award from the Academy of Canadian Cinema and Television for exceptional achievement in Canadian film and television.

Ellis Jacob, C.M.

Mr. Jacob has been working in the motion picture exhibition industry since 1987. Prior to assuming his current positions as President and Chief Executive Officer of the Corporation in 2003, Mr. Jacob was Chief Executive Officer and co-founder of Galaxy Inc. Prior to founding Galaxy, Mr. Jacob represented Alliance Atlantis Communications Inc. as Head of Integration during 1998 and 1999. From 1987 to 1998, Mr. Jacob held various positions with Cineplex Odeon Corporation as Vice President, Finance, Chief Financial Officer, Executive Vice President and, ultimately, Chief Operating Officer. Mr. Jacob is a director and member of the finance and audit committee of the Toronto International Film Festival Group. He is a member of the boards of directors of each of the Motion Picture Theatre Associations of Canada and the National Association of Theater Owners where he also sits as a member of its executive committee. In addition to his role as a Director of the Corporation, Mr. Jacob also is a member of the board of directors of Husky Injection Molding Systems Ltd. (where he serves as chair of the audit committee) and a member of the board of directors for Dundee Corporation (and serves on each of the audit committee and the corporate governance and nominating committee). Mr. Jacob is an active community member, currently serving as a member of the board of directors for the Baycrest Centre for Geriatrics, a member of Baycrest's strategic planning committee, chair of Baycrest's finance and audit committee and a member of the Board of Governors for Mount Sinai Hospital. He holds the ICD.D designation from the Institute of Corporate Directors and was appointed a Member of the Order of Canada in 2010.

Sarabjit Marwah

Mr. Marwah is currently the Vice-Chairman and Chief Operating Officer of The Bank of Nova Scotia ("Scotiabank"). He is responsible for many of Scotiabank's corporate functions, and is actively involved in developing Scotiabank's strategic plans and priorities. He joined Scotiabank's Finance Division in 1979, and over the years held successively more senior positions, including Deputy Comptroller, Senior Vice-President and Comptroller, and Executive Vice-President Finance. He was appointed Chief Financial Officer in 1998, Senior Executive Vice-President & Chief Financial Officer in 2002 and his current role in 2008. In addition to his role as a Director of the Corporation, Mr. Marwah is a member of the boards of directors of several Scotiabank subsidiaries as well as The Hospital for Sick Children. He was past chair of the Humber River Regional Hospital, a past member of the board of directors of the C.D. Howe Institute, Torstar Corporation, and the 2008 and 2009 United Way Cabinets, and is active in several community organizations.

Anthony Munk

Mr. Munk is currently a Senior Managing Director of Onex Corporation, a leading North American private equity firm. Prior to joining Onex Corporation in 1988, Mr. Munk was a vice-president with First Boston Corporation in London, England. He currently serves on the board of directors of Barrick Gold Corporation (where he serves on the finance committee) as well as JELD-WEN Holding, Inc.

Edward Sonshine, O.Ont., Q.C.

Mr. Sonshine is the Chief Executive Officer, as well as a member of the board of trustees of RioCan Real Estate Investment Trust, having held those positions since the company's founding in 1993. In addition to his Director role with the Corporation, Mr. Sonshine is a member of the board of directors of the Royal Bank of Canada where he serves as a member of the risk committee as well as the nominating and governance committee. Mr. Sonshine is also active in the community and currently serves as vice-chair of Mount Sinai Hospital and as Chair of the Israel Bonds Organization of Canada. Mr. Sonshine was appointed Queen's Counsel in 1983 and a Member of the Order of Ontario in 2011.

Robert J. Steacy

Mr. Steacy retired as Executive Vice President and Chief Financial Officer of Torstar Corporation in 2005, where he served as the senior financial officer for 16 years. Mr. Steacy has been a Chartered Accountant since 1976 (Institute of Chartered Accountants of Ontario). In addition to sitting on the Board of the Corporation, he currently serves as a director of each of Postmedia Network Canada Corporation (where he serves as chair of the audit committee and a member of the compensation and pension committee) and Domtar Corporation (where he serves as a member of the finance committee, a member of the nominating and corporate governance committee and as chair of the audit committee). Mr. Steacy also serves as a director OCP Holdings Corporation, a private investment company.

Phyllis Yaffe (Chair)

In 2007, Ms. Yaffe retired from the role of Chief Executive Officer of Alliance Atlantis Communications Inc., a position that she held from 2005. She has held a number of strategic positions in film and television in Canada since the 1980s including Chief Operating Officer of Alliance Atlantis Communications Inc. and Chief Executive Officer of Alliance Atlantis Broadcasting Inc. In addition to being Chair of the Board of the Corporation, she is the lead director on the board of directors of Torstar Corporation, serves on its salary and organization committee and is chair of its nominating and corporate governance committee. Ms. Yaffe is also member of the boards of directors of Astral Media Inc., Lions Gate Entertainment Corporation and Blue Ant Media, a privately held Canadian media company. She is also chair of the board of governors for Ryerson University and chair of Women Against Multiple Sclerosis. Ms. Yaffe was selected as the Canadian Women in Communications 1999 Woman of the Year and received the Lifetime Achievement Award from Women in Film and Television in 2000.

Investor Information

BOARD OF DIRECTORS

Robert Bruce (4)
President, Communications
Rogers Communications Inc.
Toronto, ON

Joan Dea (5)
Managing Director
Beckwith Investments
Ross, CA

Ian Greenberg (5)
President & Chief Executive Officer
Cineplex Entertainment
Toronto, ON

Ellis Jacob
President & Chief Executive Officer
Cineplex Entertainment
Toronto, ON

Sarabjit (Sabi) Marwah (4)
Vice Chairman &
Chief Operating Officer
Scotiabank
Toronto, ON

Anthony Munk (4)
Managing Director
Onex Corporation
Toronto, ON

Edward Sonshine, O.ONT.,QC (2)
Chief Executive Officer
RioCan Real Estate Investment Trust
Toronto, ON

Robert Steacy (3)
Corporate Director
Toronto, ON

Phyllis Yaffe (1) (5)
Corporate Director
Toronto, ON

INVESTOR RELATIONS

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STOCK EXCHANGE LISTING

The Toronto Stock Exchange
CGX

AUDITORS

PricewaterhouseCoopers LLP
Toronto, ON

TRANSFER AGENT

Canadian Stock Transfer Company
(formerly CIBC Mellon Trust Company)
Toronto, ON
416 643 5500
1 800 387 0852
Email: inquiries@canadastockta.com
www.canstockto.com

ANNUAL MEETING

Tuesday, May 14, 2013
10:30AM Eastern Standard Time
Scotiabank Theatre Toronto
259 Richmond Street West
Toronto, ON

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

BRITISH COLUMBIA

Burnaby
SilverCity Metropolis Cinemas (UltraAVX location), 4700 Kingsway Avenue

Chilliwack
Galaxy Cinemas Chilliwack (UltraAVX location), *8249 Eagle Landing Parkway*

Coquitlam
SilverCity Coquitlam and VIP Cinemas (UltraAVX location), 170 Schoolhouse Street

Kamloops
Cineplex Odeon Aberdeen Mall Cinemas, 700-1320 Trans Canada Highway

Kelowna
Famous Players Orchard Plaza 5 Cinemas, 160-1876 Cooper Road

Langford
Cineplex Odeon Westshore Cinemas (UltraAVX location), 2945 Jacklin Road

Langley
Colossus Langley Cinemas (IMAX location), 20090 91A Avenue

Mission
SilverCity Mission Cinemas, 32555 London Avenue

Nanaimo
Galaxy Cinemas Nanaimo, 213-4750 Rutherford Road

Pitt Meadows
Cineplex Odeon Meadowtown Cinemas, 19800 Lougheed Highway

Prince George
Famous Players 6 Cinemas, 172-1600 Fifth Avenue

Prince Rupert
Famous Players Prince Rupert Cinemas, 525 West 2nd Avenue

Richmond
SilverCity Riverport Cinemas (IMAX location), 14211 Entertainment Way

Surrey
Cineplex Odeon Strawberry Hill Cinemas, 12161 72nd Avenue

Vancouver
Cineplex Odeon Park and Tilford Cinemas, 200-333 Brooksbank Avenue
Cineplex Odeon International Village Cinemas, 88 W Pender St
Scotiabank Theatre Vancouver, 900 Burrard Street
Fifth Avenue Cinemas, 2110 Burrard Street
Park Theatre, 3440 Cambie Street

Vernon
Galaxy Cinemas Vernon, 2306 Highway 6

Victoria
Cineplex Odeon Victoria Cinemas, 780 Yates Avenue
SilverCity Victoria Cinemas (IMAX location), 3130 Tillicum Road

ALBERTA

Calgary
Cineplex Odeon Crowfoot Crossing Cinemas, 91 Crowfoot Terrace NW
Cineplex Odeon Eau Claire Market Cinemas, 90-200 Barclay Parade SW
Cineplex Odeon Sunridge Spectrum Cinemas (UltraAVX location), 400-2555 32nd Avenue
Cineplex Odeon Westhills Cinemas, 165 Stewart Green SW
Scotiabank Theatre Chinook (IMAX, UltraAVX, DBOX location), 6455 Macleod Trail SW
SilverCity CrossIron Mills Cinemas and XSCAPE Entertainment Centre, 261055 CrossIron Boulevard, Rocky View (Calgary), AB

Edmonton
Cinema City Movies 12, 5074-130 Avenue
Cineplex Odeon North Edmonton Cinemas (UltraAVX, DBOX location), 14231-137th Avenue NW
Cineplex Odeon South Edmonton Cinemas (UltraAVX, DBOX location), 1525-99th Street NW
Scotiabank Theatre Edmonton (IMAX, UltraAVX location), 8882-170 Street
Cineplex Odeon Windermere and VIP Cinemas(UltraAVX location), 6151 Currents Drive NW

Grande Prairie
Cineplex Odeon Grande Prairie Cinemas, 10330-109th Street

Lethbridge
Galaxy Cinemas Lethbridge, 501-1st Avenue SW

Medicine Hat
Galaxy Cinemas Medicine Hat, 3292 Dunmore Road SE

Red Deer
Galaxy Cinemas Red Deer, 357-37400 Highway #2

Sherwood Park
Galaxy Cinemas Sherwood Park, 2020 Sherwood Drive

MANITOBA

Winnipeg
Cineplex Odeon McGillivray and VIP Cinemas , 2190 McGillivray
Cinema City Northgate, 4000-1399 McPhillips Street
Famous Players Kildonan Place Cinemas, 1555 Regent Avenue
SilverCity Polo Park Cinemas (IMAX location), 817 St. James Street
SilverCity St. Vital and XSCAPE Entertainment Centre, 160-1255 St. Mary's Road

SASKATCHEWAN

Moose Jaw
Galaxy Cinemas Moose Jaw, 1235 Main Street N

Prince Albert
Galaxy Cinemas Prince Albert, 2995 2nd Avenue

Regina
Cineplex Odeon Southland Mall Cinemas, 3025 Gordon Road
Galaxy Cinemas Regina, 420 McCarthy Boulevard N

Saskatoon
Cineplex Odeon Centre Cinemas, 3510 8th Street
Galaxy Cinemas Saskatoon, 347 2nd Avenue

ONTARIO

Ajax
Cineplex Odeon Ajax Cinemas, 248 Kingston Road

Ancaster
SilverCity Ancaster Cinemas (IMAX location), 771 Golf Links Road

Aurora
Cineplex Odeon Aurora Cinemas, 15460 Bayview Avenue

Barrie
Galaxy Cinemas Barrie, 72 Commerce Park Drive

Belleville
Galaxy Cinemas Belleville, 160 Bell Boulevard

Bowmanville
Cineplex Odeon Clarington Place Cinemas, 111 Clarington Boulevard

Brampton
Cineplex Odeon Orion Gate Cinemas, 20 Biscayne Crescent
SilverCity Brampton Cinemas (UltraAVX location), 50 Great Lakes Drive

Brantford
Galaxy Cinemas Brantford, 300 King George Road

Brockville
Galaxy Cinemas Brockville, 2399 Parkedale Avenue

Burlington
SilverCity Burlington Cinemas, 1250 Brant Street

Cambridge
Galaxy Cinemas Cambridge, 355 Hespeler Road

Chatham
Galaxy Cinemas Chatham, 760 St Clair Street

Collingwood
Galaxy Cinemas Collingwood, 6 Mountain Road

Cornwall
Galaxy Cinemas Cornwall, 1325 Second Street E

Guelph
Galaxy Cinemas Guelph, 485 Woodlawn Road W
Galaxy Cinemas Pergola Commons (UltraAVX location), 85 Clair Road, Guelph, Ontario

Hamilton
SilverCity Hamilton Mountain Cinemas, 795 Paramount Drive

Kingston
Cineplex Odeon Gardiners Road Cinemas, 626 Gardiners Road

London
Cineplex Odeon Westmount and VIP Cinemas, 755 Wonderland Road S
SilverCity London Cinemas(IMAX location), 1680 Richmond Street

Markham
Cineplex Odeon First Markham Place Cinemas, 3275 Highway 7

Midland
Galaxy Cinemas Midland, 9226 County Road 93

Milton
Galaxy Cinemas Milton, 1175 Maple Avenue

Mississauga
Cineplex Cinemas Mississauga (IMAX location), 309 Rathburn Road W
SilverCity Mississauga Cinemas (UltraAVX location), 3055 Vega Boulevard
Cineplex Odeon Courtney Park Cinemas, 110 Courtney Park Drive

Newmarket
SilverCity Newmarket Cinemas and XSCAPE Entertainment Centre, 18151 Yonge Street

Niagara Falls
Cineplex Odeon Niagara Square Cinemas, 7555 Montrose Road

North Bay
Galaxy Cinemas North Bay, 300 Lakeshore Drive

Oakville
Cineplex Odeon Winston Churchill Cinemas, 2081 Winston Park Drive
SilverCity Oakville and VIP Cinemas, 3531 Wyecroft Road

Orangeville
Galaxy Cinemas Orangeville, 85 Fifth Avenue

Orillia
Galaxy Cinemas Orillia, 865 West Ridge Boulevard

Oshawa
Cineplex Odeon Oshawa Cinemas, 1351 Grandview Street N

Ottawa
Cineplex Odeon Barrhaven Cinemas, 131 Riocan Avenue
Cineplex Odeon South Keys Cinemas, 2214 Bank Street
Coliseum Ottawa Cinemas (UltraAVX location), 3090 Carling Avenue
SilverCity Gloucester Cinemas (IMAX location), 2385 City Park Drive

Owen Sound
Galaxy Cinemas Owen Sound, 1020 10th Street

Peterborough
Galaxy Cinemas Peterborough, 320 Water Street
Pickering
Famous Players Pickering 6 Cinemas, 1355 Kingston Road

Richmond Hill
SilverCity Richmond Hill Cinemas (UltraAVX location), 8725 Yonge Street

Sarnia
Famous Players Lambton 9 Cinemas, 1450 London Road

Sault Ste. Marie
Galaxy Cinemas Sault Ste. Marie, 293 Bay Street

St. Thomas
Galaxy Cinemas St. Thomas, 417 Wellington Street

Sudbury
SilverCity Sudbury Cinemas, 355 Barrydowne Road

Thunder Bay
SilverCity Thunder Bay Cinemas, 850 North May Street

Toronto
Cineplex Odeon Eglinton Town Centre Cinemas, 22 Lebovic Avenue
Cineplex Odeon Morningside Cinemas, 785 Milner Avenue
Cineplex Odeon Queensway Cinemas (UltraAVX, DBOX location), 1025 The Queensway
Cineplex Odeon Sheppard Cinemas, 4861 Yonge Street
Cineplex Odeon Varsity and VIP Cinemas, 55 Bloor Street W
Coliseum Scarborough Cinemas (UltraAVX location), 300 Borough Drive
Famous Players Canada Square Cinemas, 2190 Yonge Street
Scotiabank Theatre Toronto (UltraAVX, IMAX location), 259 Richmond Street W
SilverCity Fairview Mall Cinemas, 1800 Sheppard Avenue E
Cineplex Odeon Yonge & Dundas Cinemas, 10 Dundas Street East
SilverCity Yonge-Eglinton Cinemas, 2300 Yonge Street
SilverCity Yorkdale Cinemas (UltraAVX location), 3401 Dufferin Street

Vaughan
Colossus Vaughan Cinemas (IMAX, UltraAVX location), 3555 Highway 7 W

Waterloo
Galaxy Cinemas Waterloo, 550 King Street N

Welland
Cineplex Odeon Seaway Mall Cinemas, 800 Niagara Street

Windsor
Cineplex Odeon Devonshire Mall Cinemas, 3100 Howard Avenue
SilverCity Windsor Cinemas (IMAX location), 4611 Walker Road

QUEBEC

Beauport
*Cineplex Odeon Beauport Cinemas (*DBOX location), 825 rue Clemenceau

Brossard
Cineplex Odeon Brossard and VIP Cinemas (UltraAVX, DBOX location), 9350 boul. Leduc

Boucherville
Cineplex Odeon Boucherville Cinemas, 20 boul. de Montagne

Delson
Cineplex Odeon Delson Cinemas, 47 boul. George-Gagne

Dorion
Cineplex Odeon Carrefour Dorion Cinemas, 391 boul. Harwood

Gatineau
Starcité Gatineau Cinemas, 115 boul. Du Plateau

Kirkland
Coliseum Kirkland Cinemas, 3200 rue Jean Yves

La Salle
Cineplex Odeon Place La Salle Cinemas, 7852 boul. Champlain
Famous Players Carrefour Angrignon Cinemas, 7077 boul. Newman

Laval
Colossus Laval Cinemas (UltraAVX, DBOX location), 2800 rue Cosmodôme

Montreal
Cineplex Odeon Cavendish Mall Cinemas, 5800 boul. Cavendish
Cineplex Odeon Forum Cinemas, Montreal, 2313 St. Catherine Street West
Cineplex Odeon Latin Quarter Cinemas, 350 rue Emery
Scotiabank Theatre Montreal (UltraAVX, IMAX, DBOX location), 977 rue Ste-Catherine O
Starcité Montreal Cinemas, 4825 ave. Pierre de Coubertin

Sherbrooke
Galaxy Cinemas Sherbrooke, 4204 rue Bertrand-Fabi

St. Jean sur Richelieu
Galaxy Cinemas Capitol St. Jean, 286 rue Richelieu

St. Bruno
Cineplex Odeon St. Bruno Cinemas, 1495 boul. St. Bruno

Ste.Foy
Cineplex Odeon Ste. Foy Cinemas, 1200 boul. Duplessis

Victoriaville
Galaxy Cinemas Victoriaville, 1121 Jutras Est

DRIVE-INS

Boucherville
Odeon Boucherville Drive-In, 1700 rue Eiffel
St. Nicolas
Cineplex Odeon St. Nicolas Drive-In, 440 Claude Jutras

(As of April 5, 2013)

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