CINEPLEX®

2013 ANNUAL REPORT

Table of Contents

Letter to shareholders

I am pleased to report that 2013 was another record year for Cineplex in many key areas.

We exceeded prior year results in total revenue, which increased 7.2% to $1.2 billion. We also achieved our highest-ever annual adjusted EBITDA of $202.4 million – our eleventh consecutive year of adjusted EBITDA growth.

Box office revenue increased 4.2% to $665.3 million and concession revenue increased 6.4% to $350.4 million. Other revenue, which includes Cineplex Media, generated the strongest growth on a percentage basis, increasing 24.6% to $155.6 million.

Driving these strong results was the completion of two strategic acquisitions in 2013, which included 24 Empire theatres in Atlantic Canada, and the digital signage company, EK3 Technologies Inc. More information about these acquisitions is contained later in this letter.

Business Strategy

Cineplex's performance in 2013 was also a result of strong execution of the company's four point business strategy.

Strategic Initiative: Continue to enhance and expand our existing infrastructure and service offerings to attract new customers, increase the frequency of visits by existing customers and maximize revenue per guest.

In the fall of 2013, we completed the acquisition of 24 theatres in Atlantic Canada from Nova Scotia-based Empire Theatres Limited, making Cineplex a coast-to-coast company for the first time in our history. An Atlantic presence enables Cineplex to reach customers and clients in four new provinces – a strategic opportunity that extends beyond our theatre exhibition and merchandising businesses and will contribute positively to other areas of the business.

As of December 31, 2013, SCENE – Canada's top entertainment loyalty program – boasted more than 5.3 million members and our new coast-to-coast presence enables us to strike even stronger strategic partnerships to drive member value. SCENE is better positioned than ever before to promote theatre attendance and our digital commerce initiatives.

Our Alternative Programming efforts encourage attendance by non-movie-goers and maximize capacity utilization in our theatres during non-peak periods. This area of the business continued to deliver positive results in 2013 and will similarly benefit from an Atlantic presence. We can now present our popular Front Row Centre Events – the Met Opera, National Theatre Live, Classic Film Series and much more – to thousands of new guests in the Atlantic region.

Premium experiences

While the past year saw strong box office results, the picture was particularly bright for Cineplex's premium movie-going experiences – including 3D, UltraAVX, IMAX, D-BOX, and VIP Cinemas.

In 2013, premium offerings accounted for 38.7% of box office revenue, a number that speaks to the overwhelming popularity of these experiences across our circuit. Cineplex derives a higher percentage of box office revenue from premium offerings than any other exhibitor in North America – a driving force behind our record box office per person (BPP) of $9.15 in 2013.

These results are the outcome of our continued investment in our premium offerings. Throughout 2013, we significantly increased the number of RealD 3D capable auditoriums to 723 (44% of our auditoriums) and added 16 new UltraAVX auditoriums to the circuit, bringing our total to 55. We also opened a new VIP Cinemas in Abbotsford, British Columbia, bringing our total at December 31, 2013 to eight across Canada.

The growth of premium experiences will remain a strategic focus for Cineplex in the years ahead.

Strategic new builds, additions, renovations

Cineplex operates one of the most modern theatre exhibition circuits in North America. We view the quality of our theatre assets as strategically important to the guest experience.

We continue to upgrade and invest in our locations, focusing our efforts on improvements that have the most tangible impact on the guest experience and our bottom line. Among these improvements, we created new box office and concession areas, renovated lobbies, continued the implementation of digital menu boards and replaced theatre seating in several locations.

We also opened two new theatres in 2013 – in Abbotsford, British Columbia and Sarnia, Ontario. As of December 31, 2013, Cineplex operated 161 theatres and 1,630 auditoriums.

Our focus on improving the quality of our theatre assets will continue in 2014, through renovations, VIP Cinemas additions and the opening of new theatres.

Subsequent to year-end, we opened VIP Cinemas at our flagship *Cineplex Cinemas Queensway* location and will open Cineplex VIP Cinemas in four additional locations during 2014: one in downtown Saskatoon and two in Toronto, including Canada's first standalone VIP Cinemas at Shops at Don Mills. We will also open two new theatres: a 10-screen theatre in northeast Edmonton, and a theatre at Ottawa's Lansdowne Park, which will also include four VIP Cinemas auditoriums. The expansion of our VIP Cinemas program remains a key component of our exhibition growth strategy.

Continued strength in merchandising

In addition to record revenues in 2013, our merchandising business set a new record concession per patron (CPP) of $4.82. This is one of the highest CPP of any theatre exhibitor in North America.

Throughout 2013, we continued our strategic investment in our proprietary food service offerings, adding 12 Outtakes and four Poptopia locations. We also renovated a significant number of older Outtakes locations, transforming them into rebranded Outtakes Backstage Bistros. As of December 31, 2013, we operated 89 Outtakes and 12 Poptopia locations, in addition to other key retail branded outlets, such as Tim Hortons and Pizza Pizza.

Subsequent to year-end, we made another strategic investment in Cineplex's food service business, acquiring a 50 per cent stake in YoYo's Yogurt Café, a London, Ontario-based self-serve frozen yogurt chain with stores throughout the province. In 2013, we also opened our first standalone YoYo's Yogurt Cafe in Guelph, Ontario.

Our proprietary food service offerings have been overwhelmingly popular with our guests. In the years to come, as we build brand equity from coast to coast, we believe Cineplex's proprietary food service brands represent an opportunity to grow our merchandising business outside the walls of our theatres.

Gaming is another important part of our merchandising business, as we continue to leverage our joint-venture interest in Cineplex Starburst Inc. to enhance the gaming experience in our theatres.

Our XSCAPE Entertainment Centres ("XSCAPE") feature the latest video and interactive games, a redemption area with great prizes, and in some cases, even a full-service licensed lounge, table games and party suites. We currently have 10 XSCAPE locations across our circuit, with the potential for further expansion in the future.

Strategic Initiative: Capitalize on core media strengths to provide continued growth of Cineplex's media business with its own assets and with external clients.

Our Media business enjoyed a banner year in 2013.

On the strength of showtime and pre-show media sales and the contribution by the newly acquired EK3 Technologies Inc., since renamed Cineplex Digital Networks ("CDN"), the high margin media business achieved a 30% increase in revenue versus 2012. Media is a major contributor to adjusted EBITDA and a strategic priority for continued growth.

Cineplex's media business is split between two complementary businesses: traditional cinema media advertising ("Cineplex Media"), which includes advertising mediums related to theatre exhibition, and digital out-of-home advertising ("Cineplex Digital Media"), which includes digital signage networks both in Cineplex theatres and with external clients.

Cineplex Media

Cineplex Media represents 93 per cent of Canada's Box Office. In 2013, we grew revenues by securing new clients, improving client retention, and integrating advertising opportunities across Cineplex properties.

Increasingly, advertisers are recognizing the power of cinema advertising, and Cineplex's many other innovative in-theatre properties, including a fully digital pre-show and showtime advertising, as well as interactivity with the big screen through Cineplex TimePlay. Cineplex theatres also provide opportunities for special media placement, including window clings, standees, banners, in-lobby brand activations and sampling, while the Cineplex website (Cineplex.com) and mobile app allow advertisers to engage with Cineplex guests online and on-the-go. The combination of these media properties provide advertisers with an opportunity to create integrated campaigns to target guests at numerous touch points.

Our media business also publishes *Cineplex Magazine*, the seventh most-read Canadian magazine according to the latest Print Measurement Bureau study. Together with *Le magazine Cineplex*, these publications have a readership of more than 3.3 million per month, through physical delivery as well as online distribution. We also provide digital access to the publication through our Cineplex Magazine mobile app, which can be used on tablets and mobile devices.

Our media business will also benefit from the recent acquisition of the 24 theatres in Atlantic Canada, as we expand our media opportunities in the region.

The growth of our high-margin cinema advertising business remains a strategic priority in 2014. We will invest in the installation of digital in-theatre technology, such as digital poster cases and dedicated media space in lobbies, to provide advertisers even better opportunities to connect with our 77 million guests yearly.

Cineplex Digital Media

Where Cineplex Media focuses on our theatre assets, Cineplex Digital Media is one of North America's leading providers of digital out-of-home advertising solutions.

In 2013, we strengthened our digital media business with the acquisition of CDN. CDN is a full service indoor digital signage company, providing project management, system design, network operations and creative services to top-tier North American clients.

The company installs, manages and consults on some of the largest digital merchandising networks in Canada, with more than 2.0 billion annual impressions. Clients include Tim Hortons, McDonalds, Walmart, Target, and RBC Financial Group, among others. The acquisition of CDN has allowed Cineplex to combine its brand, resources and media sales, along with CDN's proprietary technology platform, network management, award-winning creative services and digital merchandise expertise, to deliver additional value to current customers as well as provide attractive offerings to prospective new clients.

Subsequent to year-end, Cineplex Digital Networks signed an agreement with Tim Hortons to install and program TimsTV, one of the largest in-place digital signage networks in Canadian retail. TimsTV will be broadcast to more than 2,200 existing Tim Hortons locations across Canada and Cineplex Media will provide advertising sales for the network.

Going forward, CDN will focus on the "in-store" digital media experience for clients in the Quick Service Restaurants ("QSR"), financial and retail sectors. Whereas Cineplex Digital Solutions ("CDS"), Cineplex's original digital signage business, will focus more on full-service digital place-based eco-systems that integrate digital signage, mobile, social media and experiential technologies via architectural media on the path to engaging consumers. CDS currently serves clients including Scotiabank, Rogers, Oxford Properties, Ivanhoe Cambridge, Morguard, Brookfield office towers, ONroute, Beer Store, and Holt Renfrew.

With a strong media sales business and the technical and network expertise of our digital media businesses, we see a bright future for Cineplex in the digital signage space in North America. The growth of these high margin businesses will be a strategic priority for Cineplex in 2014 and beyond as we look at acquiring new businesses, adding new clients, and expanding relationships with existing clients.

Strategic Initiative: Continue to expand Cineplex's brand presence as an entertainment destination for Canadians, providing in-theatre, at-home and on-the-go experiences- Cineplex Anywhere.

Our interactive business is comprised of three main areas – our digital commerce site, CineplexStore.com, our website, Cineplex.com, and our popular mobile offerings.

In December 2012, Cineplex became the first Canadian company to launch UltraViolet. UltraViolet provides Cineplex Store customers with device agnostic access to their digital movies on nearly any medium – PC, mobile, tablet and home television. We believe this new ecosystem has the power to forever change the way Canadians collect, store and watch movies.

In June 2013, we introduced SuperTicket, a first in the North American film industry. SuperTicket is a bundled offering that allows movie-goers to purchase a movie admission ticket and pre-order the digital download at the same time. The pre-ordered digital version is available when the movie is released for home viewing, but often before the DVD and Blu-ray release date. SuperTicket also provides additional value, such as bonus SCENE points, access to exclusive extras, special footage from the movie, cast interviews, and special offers on related catalogue movies. This is a great example of our unique opportunity to leverage our positioning as the first to touch the customer in order to drive downstream revenue opportunities.

We further enhanced offerings at the Cineplex Store in October 2013, launching Digital Tuesdays, a new take on the popular Cineplex Tuesday discounted admissions. With Cineplex Tuesdays, Cineplex Store customers can rent a standard definition digital movie for just $2.50, or receive $2.50 off a digital download.

Cineplex Store customers can also purchase and rent digital titles from the Cineplex app, which is embedded in many LG, Toshiba and Samsung devices. In 2013, we added Disney Digital content to our catalogue of digital downloads and secured rights for High Definition (HD) viewing as well as World Wide Fulfillment rights, enabling our customers to play Cineplex Store content anywhere in the world. Looking forward, we'll focus on embedding our app on even more devices as we continue to improve the Cineplex Store platform.

The newly re-launched Cineplex.com and Cineplex mobile app remain overwhelmingly popular with Canadian consumers, generating a 15% increase in page views and a 17% increase in unique visitors, respectively, in 2013. During this period, Cineplex.com drew more than 485 million page views and our mobile app, which has been downloaded more than 8.3 million times, recorded 255 million app sessions – ranking tenth in Canada among mobile brands by unique visitors.

When Canadians think of movies, be it in-theatre, at-home or on-the-go, we want them to think of Cineplex. It's a strategy we call "Cineplex Anywhere." We achieved a number of important milestones in support of this strategy in 2013, all of which position us for growth in the years ahead. The growth of our interactive offerings remains a strategic priority in 2014. We will continue to leverage the power of our theatrical bricks and mortar business and cross-promote it with our online assets, including the SCENE loyalty program and Cineplex Store.

Strategic Initiative: Pursue selective acquisitions that are strategic, accretive and capitalize on our core strengths.

With a strong balance sheet and a low leverage ratio, Cineplex is well positioned to pursue strategic acquisitions that are accretive and capitalize on our core business strengths.

We saw examples of this strategy throughout 2013, with the acquisition of 24 theatres in Atlantic Canada and our acquisition of EK3 Technologies Inc. We added two Festival Cinemas locations in Vancouver, British Columbia, to our circuit and we also acquired a 50 per cent stake in YoYo's Yogurt Café subsequent to year-end.

While we are focused on growing our theatre exhibition business organically, we remain well positioned to acquire other businesses in the digital signage, merchandising and gaming areas.

Community Investment

Cineplex is a proud supporter of the communities in which we operate.

In 2013, we named Free the Children our company's national charitable partner. Free the Children strives to empower Canadian youth to take action and create local and international change. Cineplex will support a number of Free the Children's domestic programs, with all funds raised benefitting the charity's efforts in Canada.

We look forward to helping Free the Children provide future generations with the skills and tools needed to truly make a difference.

Cineplex staff also stepped up and responded to two major Canadian disasters in 2013, raising funds to support Red Cross disaster relief efforts conducted on behalf of Alberta flood victims and those affected by the Lac-Mégantic railway disaster.

In November, Cineplex celebrated its third annual National Community Day, raising $375,000 for the Canadian Olympic Foundation. Cineplex was also proud to be the official movie partner of the Canadian Olympic Team for 2014.

As always, we thank you for your support and engagement in our many charitable initiatives. Together, we have demonstrated great community spirit and helped to make a difference in the lives of so many Canadians.

Expressed in thousands of Canadian dollars except per share/unit, per patron and attendance data	**2013**	2012	2011	2010(i)	2009(i)(ii)
Revenue	$1,171,267	$1,091.866	$998,195	$1,006,426	$964,348
Adjusted EBITDA	202,441	200,484	173,174	167,854	159,927
Net income	83,557	120,484	49,260	50,423	53,446
Total assets	1,591,378	1,327,456	1,245,077	1,292,672	1,312,785
Adjusted free cash flow per share/Distributable cash per unit	2.46	2.08	1.97	2.25	2.14
Cash dividends declared per share/Distributions declared per unit	1.41	1.33	1.28	1.26	1.26
Box office revenue per patron	9.15	8.97	8.74	8.67	8.30
Concession revenue per patron	4.82	4.63	4.41	4.27	4.12
Other revenue per patron	2.14	1.74	1.96	1.65	1.36
Attendance	72,703	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 2013, 2012, 2011 and 2010 results are presented under IFRS, the 2009 results are presented under Canadian GAAP as it existed at the time.

Strong Operating Results

The past year saw our company's eleventh consecutive year of adjusted EBITDA growth.

We continued our focus on delivering sustainable cash flow, a strong balance sheet and ample liquidity – resulting in consistent returns for shareholders. In May, we increased our monthly dividend 6.7% to $0.12 per share ($1.44 per year).

Our covenant leverage ratio remains strong at approximately 1.13x. Cineplex also entered into an amended and restated credit agreement and issued convertible subordinated debentures. The proceeds from this issuance of convertible debentures and the credit facilities were used to finance the acquisition of our Atlantic theatres in the fourth quarter of 2013.

Conclusion

2013 was another strong year for Cineplex. We established new milestones for all three revenue sources and adjusted EBITDA.

In addition to our financial results, we were named one of Canada's Most Admired Corporate Cultures as part of a national competition involving hundreds of Canadian companies. Cineplex was also named one of 10 national recipients of the Canada's Passion Capitalist award—an award that recognizes organizations that have achieved long-term success by creating Passion Capital.

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

We remain exceptionally well positioned to capitalize on strategic growth opportunities in 2014 and believe shareholders can count on the sustainability of their dividends.

Thank you to our investors for your ongoing belief in Cineplex – and to our board of directors for your continued thoughtful advice, good governance and due diligence. Thank you to our guests, especially our new guests in Atlantic Canada, for making Cineplex the top entertainment brand in Canada.

Most importantly, thank you to the more than 11,000 Cineplex employees across the country. Your passion for delivering an exceptional entertainment experience will always be the most important contributor to our success.

Enjoy the show!

Ellis Jacob

President & CEO

FINANCIAL REVIEW

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 10, 2014

Cineplex Inc. ("Cineplex") owns 100% of Cineplex Entertainment Limited Partnership (the "Partnership"). The following management's discussion and analysis ("MD&A") of Cineplex's financial condition and results of operations should be read together with the consolidated financial statements and related notes of Cineplex (see Section 1, Overview of Cineplex). These financial statements, presented in Canadian dollars, were prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), defined as International Financial Reporting Standards ("IFRS") as set out in the Handbook of the Canadian Institute of Chartered Professional Accountants.

Unless otherwise specified, all information in this MD&A is as of December 31, 2013.

Forward-Looking Statements

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

1. OVERVIEW OF CINEPLEX

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

Cineplex's theatre circuit is concentrated in major metropolitan and mid-sized markets. As of December 31, 2013, Cineplex owned, leased or had a joint venture interest in 1,630 screens in 161 theatres.

Cineplex
Locations and screens at December 31, 2013

Province	Locations	Screens	Digital 3D Screens	UltraAVX	IMAX Screens	VIP Auditoriums	DBOX Locations
Ontario	65	702	309	24	10	10	8
Quebec	22	260	94	9	2	4	6
British Columbia	23	215	104	9	3	8	3
Alberta	16	183	87	8	2	3	3
Nova Scotia	13	92	43	1	1	–	–
Saskatchewan	6	51	25	2	–	–	–
Manitoba	5	49	25	1	1	3	1
New Brunswick	6	45	21	1	–	–	–
Newfoundland & Labrador	3	20	9	–	1	–	–
Prince Edward Island	2	13	6	–	–	–	–
TOTALS	**161**	**1,630**	**723**	**55**	**20**	**28**	**21**
Percentage of screens			44%	3%	1%	2%	1%

Cineplex - Locations and screens in the last eight quarters

	2013				2012			
	Q4	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Theatres	161	135	136	136	134	133	130	130
Screens	1,630	1,454	1,454	1,455	1,449	1,438	1,359	1,352
Premium Screens & Auditoriums								
3D Digital Screens	723	633	632	551	545	524	492	412
UltraAVX Screens	55	50	50	44	39	36	36	25
IMAX Screens	20	18	18	17	17	17	14	14
VIP Auditoriums	28	25	25	25	25	18	18	15
DBOX Locations	21	21	21	21	20	20	20	20
Percentage of 3D Screens	44%	44%	43%	38%	38%	36%	36%	30%

1.1 FINANCIAL HIGHLIGHTS

Financial highlights	**Fourth Quarter**			**Full Year**		
(in thousands of Canadian dollars, except attendance in thousands of patrons and per Share and per patron amounts)	**2013**	**2012(i)**	**Change(ii)**	**2013**	**2012(i)**	**Change(ii)**
Total revenues	$323,207	$298,701	8.2%	$1,171,267	$1,092,501	7.2%
Attendance	18,872	18.577	1.6%	72,703	71,198	2.1%
Other revenues	52,221	41,768	25.0%	155,608	124,873	24.6%
Net income	20,168	32,704	-38.3%	83,557	120,484	-30.6%
Box office revenues per patron ("BPP) (iii)	$9.42	$9.18	2.6%	$9.15	$8.97	2.0%
Concession revenues per patron ("CPP) (iii)	$4.94	$4.65	6.2%	$4.82	$4.63	4.1%
Adjusted EBITDA (iii)	54,144	57,507	-5.8%	202,441	200,484	1.0%
Adjusted EBITDA margin (iii)	16.8%	19.3%	-2.5%	17.3%	18.4%	-1.1%
Adjusted free cash flow per Share (iii)	$0.5769	$0.5403	6.8%	$2.4580	$2.0785	18.3%
Earnings per Share ("EPS") - basic	$0.32	$0.53	-39.6%	$1.33	$1.98	-32.8%
EPS excluding gain on acquisition - basic (iii)	$0.32	$0.51	-37.3%	$1.33	$1.57	-15.3%
EPS - diluted	$0.32	$0.52	-38.5%	$1.32	$1.97	-33.0%
EPS excluding gain on acquisition - diluted (iii)	$0.32	$0.51	-37.3%	$1.32	$1.57	-15.9%

(i) Effective January 1, 2013, Cineplex implemented IFRS 11, Joint Arrangements, retrospectively. As a result, certain comparative items presented in this MD&A for 2012 have been revised. Throughout this MD&A, disclosures for periods prior to 2012 have not been revised for the implementation of IFRS 11.

(ii) Throughout this MD&A, changes in percentage amounts are calculated as 2013 value less 2012 value.

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

Total revenues for the fourth quarter of 2013 increased 8.2%, or $24.5 million compared to the prior year period, due to the impact of the 24 theatres acquired from Empire Theatres Limited located in Atlantic Canada (the "Atlantic Theatres"), which contributed $17.5 million to revenues during the period and the $8.3 million additional revenue from Cineplex Digital Networks ("CDN"), which was acquired by Cineplex in the third quarter of 2013. Both box office revenues per patron ("BPP") and concession revenues per patron ("CPP") were fourth quarter records for Cineplex, with the BPP of $9.42 and CPP of $4.94 exceeding the records of $9.18 and $4.65 set in the prior year period. Other revenues increased 25.0%, primarily due to media revenues which increased 27.3%. The majority of the increase in media revenues was due to the first full quarter inclusion of CDN. Adjusted EBITDA decreased $3.4 million or 5.8% to $54.1 million, due in part to professional fees relating to the acquisition of the 24 theatres from Empire and higher long-term incentive plan ("LTIP") costs due to the record price of a common share of Cineplex ("Share") achieved during the period. Adjusted free cash flow per Share was $0.5769, a $0.0366 increase from $0.5403 in the prior year period.

For the year ended December 31, 2013, total revenues increased 7.2%, or $78.8 million compared to the prior year. The four theatres acquired from AMC Entertainment Inc. ("AMC") in July 2012 and the Atlantic Theatres contributed to the increase in total revenues for the period ($28.9 million and $17.5 million, respectively). Media revenues during the year were 30.0% higher than 2012, increasing $25.3 million, with $10.9 million of this increase arising from CDN. Adjusted EBITDA was $202.4 million compared to $200.5 million in the prior year period due to the higher revenues partially offset by the higher Share-based compensation costs as well as the impact of certain operating expenses being higher due in part to the acquisitions of the four AMC theatres and the Atlantic Theatres, as well as professional fees relating to the acquisitions in during the year. Adjusted free cash flow per Share was $2.4580, an increase of 18.3% compared to $2.0785 in the prior year period.

1.2 KEY DEVELOPMENTS IN 2013

The following describes certain key business initiatives and results undertaken and achieved during 2013 in each of Cineplex's core business areas:

THEATRE EXHIBITION

- Reported both record annual box office revenues of $665.3 million and BPP of $9.15 during 2013, an increase over the previous records of $638.3 million and $8.97, each set in 2012. Attendance was also an annual record for Cineplex, with 72.7 million patrons exceeding the previous record of 71.2 million set in 2012.
- Acquired the Atlantic Theatres, providing Cineplex with a national coast-to-coast presence and theatres in ten provinces.
- Acquired two theatres located in Vancouver, British Columbia from Festival Theatres Ltd.
- Opened two new theatres, *Cineplex Cinemas Abbotsford and VIP* in Abbotsford, British Columbia which includes three VIP auditoriums, and *Galaxy Cinemas Sarnia* located in Sarnia, Ontario. The Sarnia location replaced an existing Cineplex theatre which was closed at the time of the new theatre opening.
- Added UltraAVX (16), 3D (178) and IMAX (3) screens in strategic locations across the circuit, which contributed to the percentage of box office revenues from premium-priced product (see Section 17, Non-GAAP measures) increasing to 38.7% in 2013 compared to 30.9% in 2012.

MERCHANDISING

- Reported record annual concession revenues of $350.4 million and CPP of $4.82, exceeding the previous records of $329.3 million and $4.63, both set in 2012.
- Opened two new XSCAPE entertainment centres in 2013, bringing the total number across the circuit to 10.
- Cineplex's first stand-alone food service business, *YoYo's Yogurt Café*, opened at the Pergola Commons complex in Guelph, Ontario.
- Continued the retail branded outlet ("RBO") optimization at theatre locations, with the continued expansion of Cineplex's *Outtakes* and *Poptopia* branded locations at select theatres. At December 31, 2013 there were 89 *Outtakes* and 12 *Poptopia* locations across Cineplex's circuit.
- Substantially completed the digital menu board rollout across the circuit.
- Deployed a comprehensive slate of promotional programs to drive purchase incidence and transaction value including new partnership and product launches with EA Sports and Toys "R" Us.

MEDIA

- Reported record annual media revenues of $109.6 million, which exceeded the prior year media revenues by $25.3 million (30.0%) with showtime and pre-show revenues as well as CDN revenues accounting for the majority of the increase.
- Completed the acquisition of EK3 Technologies Inc. ("EK3"), subsequently renamed CDN, in the third quarter. CDN designs, installs, manages and consults on some of the largest digital merchandising networks in North America, with networks viewed by more than 1.8 billion shoppers annually. CDN contributed $10.9 million to media revenues in 2013.
- Entered into an agreement to provide specialty media services to select Oxford Properties malls and shopping centres.

ALTERNATIVE PROGRAMMING

- Alternative programming in 2013 included strong performances from the Metropolitan Opera: Live in HD series, ethnic film programming, performances from the National Theatre in London (such as *The Audience* featuring Helen Mirren), sports programming as well as concert performances and the Classic Film Series.
- Hosted the first-ever Cineplex EA Sports NHL 14 Premiere Tournament at Cineplex Cinemas Yonge-Dundas, providing fans of EA Sports NHL game franchise an exclusive first opportunity to play one of the most anticipated video games of 2013.
- Distributed and presented the faith-based, family-focused film *Home Run* in select theatres.

INTERACTIVE

- Cineplex.com and the Cineplex Store websites were relaunched with a brand new responsive design format, providing customers with a more user-friendly experience including simplified search, stream lined purchase and payment functionality and consistency of experience across device types.
- Launched SuperTicket, a first-ever bundled offering that allows movie-goers to purchase a movie admission ticket and pre-order the UltraViolet digital download of a movie at the same time. SuperTicket was offered on select releases in 2013, including *Pacific Rim, The Smurfs 2, The Hobbit: The Desolation of Smaug and Anchorman 2.*
- During the fourth quarter, introduced the "$2.50 Digital Tuesday" marketing campaign and launched the annual Cineplex Store Holiday Campaign, with both campaigns delivering incremental visits and higher sales volumes compared to the prior year period.
- Cineplex, in partnership with Buyatab Online, was recognized with a national industry award for the Cineplex eGift Card and related marketing program at the 2013 PX Prepaid & Payment Awards.
- Cineplex.com registered a 15% increase in page views, a 17% increase in unique visitors and a 20% increase in visits 2013 compared to the prior year.
- As of December 31, 2013, the Cineplex mobile app has been downloaded 8.3 million times and recorded more than 255 million app sessions. The app is ranked 10th in Canada amongst all mobile brands by unique visitors.

LOYALTY

- Membership in the SCENE loyalty program increased more than 1.0 million members in 2013, reaching a membership of 5.3 million at December 31, 2013.
- SCENE ran programs with various partners including Telus, Winners, The Stratford Shakespeare Festival, Virgin Mobile, Cara Foods and Rogers during 2013.

CORPORATE

- During 2013, the board of directors of Cineplex (the "Board") announced a monthly dividend increase to $0.1200 per Share ($1.4400 on an annual basis) up from $0.1125 per Share ($1.3500 on an annual basis) effective with the May 2013 dividend.
- Cineplex entered into an amended and restated credit agreement (the "Credit Facilities") (see Section 7.4, Credit facilities) and issued convertible subordinated debentures (see Section 9, Share activity). The proceeds from the issuance of the convertible debentures and the Credit Facilities were used to finance the acquisition of the Atlantic Theatres acquired in the fourth quarter of 2013 (see Section 1.3, Business acquisitions).

- During 2013, Cineplex was named one of Canada's 10 Most Admired Corporate Cultures in the large enterprise category, one of 10 national recipients of the Canada's Passion Capitalist award, and winner of the Canadian Foundation for Physically Disabled Persons' Corporate Award.

1.3 BUSINESS ACQUISITIONS

Empire Theatres Limited

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

The total cash consideration paid was $196.6 million. All transaction costs associated with the transaction 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 $173	$	2,547
Property and equipment, including leaseholds		42,170
Intangible assets - fair value of leases		17,344
Goodwill		139,562
Deferred income taxes - other		(4,516)
Other liabilities - asset retirement obligation		(356)
Other liabilities - fair value of leases		(168)
Net assets		196,583
Less: Cash from acquisition		(173)
	$	196,410
Consideration given - cash paid	$	196,583
Less: Cash from acquisition		(173)
	$	196,410

Cineplex recognized goodwill of $139.6 million, reflecting the incremental cash flows management expects to generate through the growth of sales and improved operations resulting from its operating and programming expertise, combined with its merchandising, media, marketing, interactive and SCENE loyalty programs, all now available on a national platform. Approximately $104.7 million of the goodwill is deductible for tax purposes.

EK3 Technologies Inc.

On August 30, 2013, Cineplex completed the acquisition of 100% of the outstanding common shares of EK3 (subsequently renamed CDN), a London, Ontario-based, market leading in-store digital merchandising provider, with operations in Canada, the United States and other countries.

The initial purchase price was $40.0 million, subject to certain adjustments made at closing, and an earn-out payment subject to a maximum cap of $78.0 million in total for both payments. The earn-out payment will be based on 2015 operating results and will be paid in early 2016. All of the consideration will be cash. All transaction costs associated with the transaction were expensed as incurred.

Cineplex recognized goodwill of $45.7 million, reflecting the potential incremental cash flows management expects to generate through the growth of sales to existing and new customers. CDN has proprietary state-of-the-art technology and patented software that Cineplex expects to complement its existing digital signage business. The goodwill is not deductible for tax purposes.

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

Assets acquired and liabilities assumed		
Net working capital, including cash of $348	$	4,186
Equipment		1,279
Intangible assets, including customer relationships and software, both amortized on a straight-line basis over their seven-year estimated lives		30,100
Goodwill		45,744
Deferred income taxes liability, net		(419)
Debt assumed		(12,875)
Finance lease obligations		(229)
Net assets		67,786
Less: Cash from acquisition		(348)
	$	67,438
Consideration given - cash paid	$	39,160
Less: Estimated adjustment to initial consideration		(706)
Less: Cash from acquisition		(348)
Plus: Deferred contingent consideration, at fair value		29,332
	$	67,438

The estimated deferred consideration of $39.6 million to be paid in 2016 is based on the total payment of $78.0 million, reflecting Cineplex's assumption that the maximum earn-out will be achieved. That estimate is based on management's calculation of the acquired business' operating results for the 12 months ending December 31, 2015 based on assumptions of revenue growth from existing and future customers, expenses and required investment in equipment. If CDN does not achieve the maximum earn-out, the deferred consideration will be reduced, possibly to zero. If Cineplex's estimate of the acquired business' operating results were lower by 20%, the deferred consideration would be reduced by $7.3 million.

The deferred consideration is reflected in other liabilities on the balance sheet. It is being accreted to its nominal value using an effective interest rate of 12.5%, reflecting the risk-adjusted weighted-average cost of capital of the acquired business. The accretion is reflected in interest expense. Cineplex used its best estimate of the discount rate. The weighted-average cost of capital could range as high as 14.5%, which would have resulted in fair value deferred consideration of $27.7 million, reducing goodwill recognized, and increasing interest expense in future periods due to higher accretion.

Festival Theatres

On March 1, 2013, Cineplex acquired the operations of two Vancouver theatres from Festival Cinemas Ltd. The total consideration was $3.8 million. All transaction costs associated with the transaction were expensed as incurred.

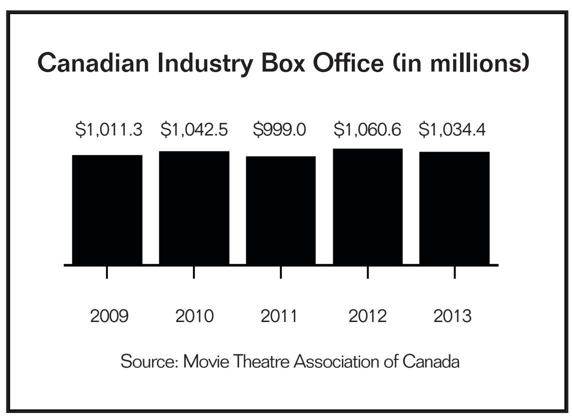
Cineplex recognized goodwill of $3.2 million, reflecting the potential efficiencies and incremental cash flows management expects to generate through the implementation of Cineplex standard operating procedures and growth initiatives. The amount deductible for tax purposes is approximately $2.4 million. Recognized amounts of identifiable assets acquired and liabilities assumed are as follows:

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

Since the acquisitions, the Atlantic Theatres and CDN have contributed $6.5 million to Cineplex's adjusted EBITDA (See Section 17, Non-GAAP measures, for a discussion of adjusted EBITDA). Cineplex would have been reported revenues of $1.3 billion and net income of $88.0 million for the year ended December 31, 2013 if the Empire, EK3 and Festival acquisitions had occurred at January 1, 2013.

2. THEATRE EXHIBITION INDUSTRY

The motion picture industry consists of three principal activities: production, distribution and exhibition. Production involves the development, financing and creation of feature-length motion pictures. Distribution involves the promotion and exploitation of motion pictures in a variety of different channels. Theatrical exhibition is the primary channel for new motion picture releases and is the core business function of Cineplex.



The Canadian industry reported a decrease of 2.5% in box office revenues from a record annual total of $1.1 billion reported in 2012 to $1.0 billion in 2013.

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 *James Bond, Transformers* and *X-Men*. 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.

Looking forward to 2014, the studios are releasing a strong slate of franchise films to be released in 3D, such as *The Amazing Spider-Man 2, Captain America: The Winter Soldier, X-Men: Days of Future Past, Transformers: Age of Extinction* and *The Hobbit*: *There and Back Again*. Other highly anticipated films to be released in 2014 include *The Lego Movie* and *The Hunger Games: Mockingjay, Part 1.*

Convenient and Affordable Form of Out-of-Home Entertainment

Cineplex's BPP was $9.15 and $8.97 in 2013 and 2012 respectively. Excluding the impact of Cineplex's premium-priced product, BPP was $8.29 and $8.26 in 2013 and 2012 respectively. The movie-going experience continues to provide value and compares favourably to alternative forms of out-of-home entertainment in Canada such as professional sporting events or live theatre.

Providing a Variety of Premium Theatre Experiences

Premium priced theatre offerings include 3D, UltraAVX, VIP, IMAX and DBOX. BPP for premium-priced product was $10.94 in 2013. In response to the increased demand for premium entertainment experiences, Cineplex added 16 UltraAVX auditoriums, three VIP auditoriums, three IMAX auditoriums and one DBOX location during 2013, bringing the circuit total to 55 UltraAVX, 28 VIP, 20 IMAX auditoriums and 21 DBOX enabled 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 545 at December 31, 2012 to 723 at December 31, 2013.

Reduced Seasonality of Revenues

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

3. BUSINESS STRATEGY

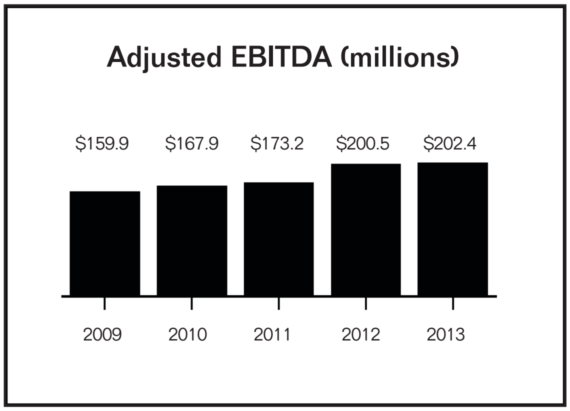
Cineplex's mission statement is "Passionately delivering an exceptional entertainment experience." All of its efforts are focused towards this mission and it is Cineplex's goal to consistently provide guests with an exceptional entertainment experience at a fair value. Cineplex's key strategic areas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

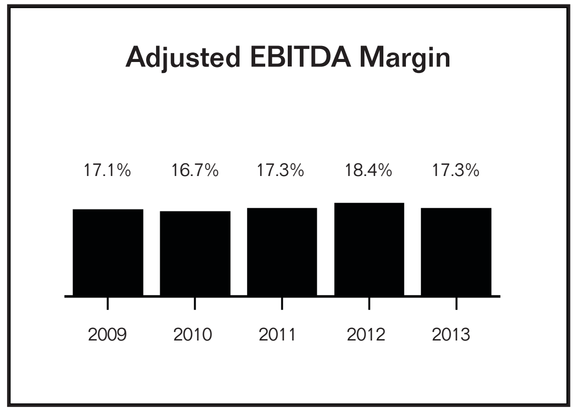
- Continue to enhance and expand existing exhibition infrastructure and service offerings to attract new customers, increase the frequency of visits by existing customers and maximize revenue per patron
- Capitalize on core media strengths to provide continued growth of Cineplex's media business, with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

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

While box office revenues (which include 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 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 Cineplex Digital Media ("CDM"), Cineplex Digital Solutions ("CDS") and CDN. Additionally, at home and on-the-go entertainment options are available through the Cineplex Store, Cineplex's online digital commerce platform, which sells DVDs, Blu-ray discs, DTO and VoD movies online.

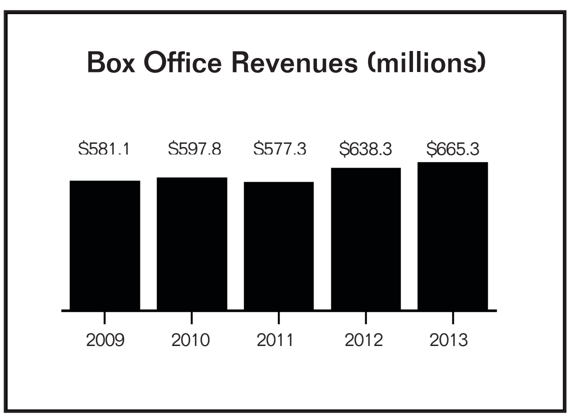
Since the formation of the Fund in 2003, Cineplex has increased its adjusted EBITDA each year and in 2013 Cineplex is pleased to report the highest annual adjusted EBITDA since its inception (see Section 17, Non-GAAP measures, for a discussion of adjusted EBITDA). Although Cineplex focuses on growth 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 2013.

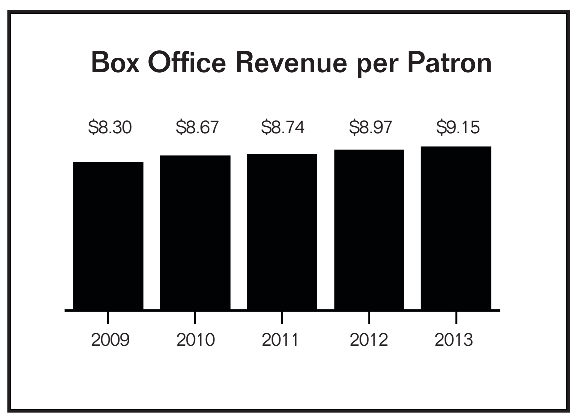




Theatre Exhibition

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.





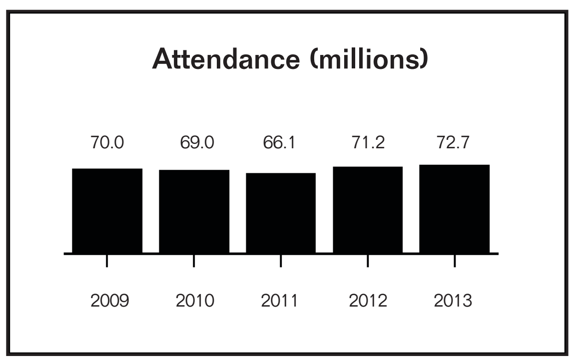
Digital and 3D projection is an enhancement to an established business and provides an additional element for growth. During 2012, Cineplex completed its conversion to digital projection through its investment in the Canadian Digital Cinema Partnership ("CDCP"). Digital technology enables Cineplex to present anything digital, including 3D movies and live or recorded events or programs. Cineplex is 100% digital, with 1,630 digital projectors in 161 theatres installed across the circuit, with 723 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 than 2D presentations.

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 2013, bringing the total UltraAVX screens to 55. VIP auditoriums have been added to eight theatres across the circuit, and will be incorporated into select new build and retrofit projects in 2014 and beyond. Cineplex added three IMAX screens to the circuit in 2013, bringing the circuit total to 20 screens, and expanded its offering of D-BOX MFX seats from 609 seats in 20 theatres at December 31, 2012 to 637 seats in 21 theatres at December 31, 2013.

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 2013, Cineplex opened two new theatres, *Galaxy Cinemas Sarnia* in Sarnia, Ontario, which replaced an existing Cineplex theatre which closed at the time of the opening of the new theatre, and *Cineplex Cinemas Abbotsford* and *VIP* in Abbotsford, British Columbia. With the acquisition of the Atlantic Theatres, Cineplex has achieved a national coast-to-coast presence for the first time. Cineplex also acquired two theatres located in Vancouver, British Columbia and acquired *Cineplex Cinemas Empress Walk* in Toronto, Ontario, which replaced an existing Cineplex theatre which was closed at the time of the opening of the acquired theatre under Cineplex's name.

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* in Winnipeg, Manitoba 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 theatres in 2012 from AMC, located in Toronto, Mississauga and Oakville, Ontario and Montreal, Quebec.

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 theatres as it continues to replace or upgrade older theatres to state-of-the-art entertainment complexes.



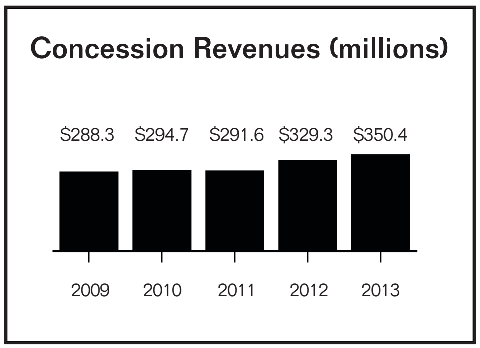
The development of premium experiences through design, structure and digital technology makes Cineplex theatres ideal locations for meetings and corporate events. Organizations, particularly corporations with offices across the country, can use Cineplex's theatres and digital technology for annual meetings,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

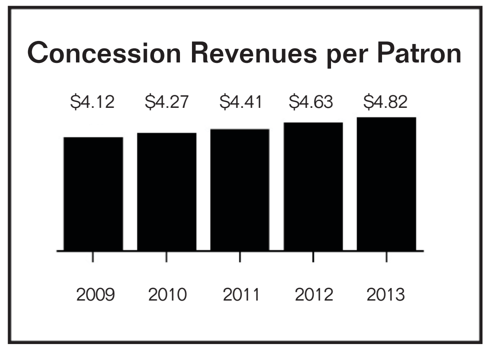
Merchandising

Cineplex's merchandising business offers guests a range of food choices to enhance their theatre experience while generating strong profit margins for the company. Cineplex's theatres feature its internally developed brands: *Outtakes, Outtakes Backstage Bistro* and *Poptopia*. Certain Cineplex theatres also feature popular fast food brand RBO's including Tim Hortons and Pizza Pizza, among others.

During 2013, 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. Additional menu items were added to the *Outtakes Backstage Bistro* locations, designed to reach a wider market and to increase purchase incidence. 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 $4.82 in 2013, an increase of $0.19 from the previous record of $4.63 achieved in 2012.

Also during 2013, Cineplex opened its first stand-alone food service location, *YoYo's Yogurt Café* at the Pergola Commons development in Guelph, Ontario. In 2014, Cineplex will look at opportunities to incorporate *YoYo's* offerings into its existing theatres as well as potentially adding other non-theatre stores. Subsequent to the year end, Cineplex announced that it had acquired a 50% ownership in YoYo's Yogurt Café (YYC Franchise Corporation and YYC Wholesale Corporation), a London, Ontario-based self-serve frozen yogurt chain with stores throughout the province.





Merchandising also includes Cineplex's gaming business, which features Cineplex's ten XSCAPE entertainment centres, arcade games in select Cineplex theatres and the operations of Cineplex Starburst Inc. ("CSI"), the largest distributor and supplier of arcade games to the amusement industry in Canada. The creation of CSI in 2012 allowed Cineplex to vertically integrate its gaming operations as well as expand Cineplex's gaming presence outside of its theatres.

Media

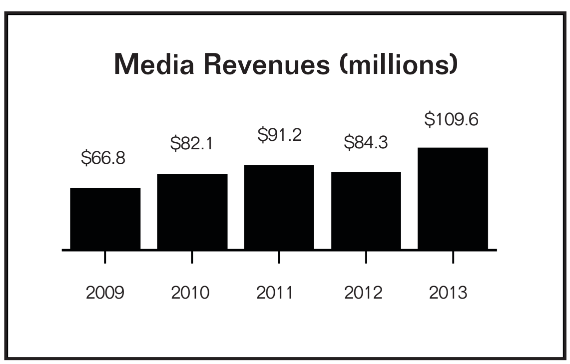
Cineplex's media businesses cover two major categories: traditional cinema media advertising, which incorporates advertising mediums related to theatre exhibition (Cineplex Media) and digital out-of-home advertising, which incorporates digital signage networks both in Cineplex theatres and with external clients (Cineplex Digital Media).

a) Cineplex Media

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

Cineplex Media is dominated by show time and pre-show advertising, engaging guests with key advertising messages and customizable content from 20 minutes prior to show time right up until the start of the Coming Attractions. With a distribution of approximately 750,000 copies per month through physical delivery as well as online distribution, *Cineplex Magazine* and *Le magazine Cineplex*, offer advertising opportunities in Canada's leading entertainment magazine. Cineplex.com recorded over 82 million visits and over 484 million page views in 2013, and the Cineplex app has been downloaded 8.3 million times and recorded 255 million app sessions, providing advertisers with opportunities to engage with Cineplex's guests online and on-the-go. Cineplex's theatres also provide opportunities for special media placements (including floor and door coverings, window clings, standees, banners and lobby domination setups).

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



b) Cineplex Digital Media

CDM incorporates three digital media operations:

- The Cineplex digital lobby network, providing opportunities for in-lobby digital signage on state-of-the-art digital screens.

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

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

CDM's location count at December 31, 2013 was as follows:

Cineplex Media - Channel and Location Count As at December 31, 2013	**Digital Player Locations**
Exhibition	124
Cineplex Digital Solutions	1,244
Cineplex Digital Networks	7,811
Total	**9,179**

Alternative Programming

Through its *Front Row Centre Events* 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 alternative 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. As more content becomes available, Cineplex anticipates capitalizing on its digital infrastructure by screening additional alternative programming events in 2014 and beyond.

Interactive

Cineplex's interactive business consists of cineplex.com, mobile and digital commerce. Cineplex has developed cineplex.com into one of the leading entertainment sites in Canada, 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 digital commerce opportunities. To complement cineplex.com, the Cineplex mobile app is available as a free download for a wide variety of smartphones and tablets, providing guests with information relating to the latest movie choices and showtimes, movie-related entertainment content and the ability to buy tickets. These features and others enable Cineplex to engage and interact with its guests online and on the go, allowing Cineplex to offer engaging, targeted, sponsored content to visitors and advertisers, resulting in opportunities to generate additional revenues.

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

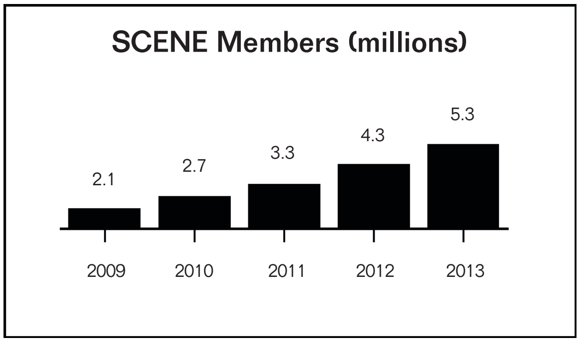
Cineplex's strong brand association with movies and well established partnerships with movie studios combined with Cineplex's website, app and the Cineplex Store provide Cineplex with the ability to bundle various forms of content to appeal to consumers. As disruptive technologies continue to change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

SCENE Loyalty Program

In 2007, Cineplex entered into a joint venture agreement with 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 and redeem SCENE points. SCENE members can earn and redeem SCENE points on box office and concession purchases at Cineplex's theatres, and as part of the *Cineplex Tuesdays* program, SCENE members get 10% off all ticket prices on Tuesdays across the circuit, which are generally discounted. SCENE members can also earn and redeem points online at the Cineplex Store. SCENE is a key differentiator and source of competitive advantage for the Cineplex Store versus competitors for the in-home and on-the-go movie market.

The SCENE program has been well received as evidenced by the strong membership growth and high engagement levels of the program members. Membership in the SCENE loyalty program at December 31, 2013 was approximately 5.3 million, an increase of approximately 1.0 million members during 2013. With the acquisition of the Atlantic Theatres, SCENE will focus on member acquisition and engagement in that region of Canada, to increase membership in the program and drive incremental frequency and incremental spending at these Atlantic Canada theatre locations. Through SCENE, Cineplex has gained a more thorough understanding of its customers, driven increased customer frequency, increased overall spending at its theatres and provides Cineplex with the ability to communicate directly and regularly with customers. Management believes the benefits of the program are reflected in box office and concession revenues.

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



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 56.8% of revenue in 2013 and continues to represent Cineplex's largest revenue component.

Revenue mix % by period	2013	2012	2011	2010	2009
Box Office	56.8%	58.5%	57.9%	59.4%	60.3%
Concessions	29.9%	30.1%	29.2%	29.3%	29.9%
Other	13.3%	11.4%	12.9%	11.3%	9.8%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

A key component of Cineplex's business strategy is to position itself as the leading exhibitor in the Canadian market by focusing on providing customers with an exceptional entertainment experience. Cineplex's current share of the Canadian theatre exhibition market is approximately 77% based on Canadian industry box office revenues. As a result of Cineplex's focus on diversifying the business beyond the traditional movie exhibition model, the revenue mix has shifted from box office revenue to other revenue sources. This revenue source typically provides a higher incremental contribution margin than traditional exhibition revenues.

The commercial appeal of the films and alternative content released during a given period, and the success of marketing as well as promotion for those films by film studios, distributors and content providers all drive attendance. BPP is affected by the mix of film and alternative content product that appeals to certain audiences (such as children or seniors who pay lower ticket prices), the surcharge related to 3D film and other enhanced product offerings, ticket prices during a given period and the appeal of premium priced product available. While BPP is negatively impacted by the SCENE loyalty program and the Cineplex Tuesdays program, these programs are designed to increase attendance frequency at Cineplex's theatres. Cineplex's main focus is to drive incremental visits to theatres, to employ a ticket price strategy which takes into account the local demographics at each individual theatre, and to maximize BPP through premium offerings.

CPP is impacted by concession product mix, concession prices, film genre, promotions, 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 can fluctuate from quarter to quarter depending 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 Media generates revenues from selling pre-show and showtime advertising in Cineplex's theatres as well as other circuits through representation sales agreements, magazine advertising for *Cineplex Magazine* and *Le Magazine Cineplex*, digital advertising for cineplex.com and the Cineplex mobile app and special media placements throughout Cineplex's circuit. CDM designs, installs, maintains and operates digital signage networks through both CDS and CDN, as well as selling digital out-of-home advertising on certain of these networks as well as on Cineplex's digital lobby network.

Games revenues include Cineplex's XSCAPE entertainment centres and game rooms in theatres. Cineplex also generates adjusted EBITDA from its 50% share of CSI. CSI supplies and services all of the games in Cineplex's circuit while also supplying equipment to third party arcades, amusement parks and centres, bowling alleys and theatre circuits, in addition to owning and operating Playdium, a family entertainment centre located in Mississauga, Ontario.

Cineplex 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-up-on 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 shifts more to core concession products (soft drinks, popcorn and candy), the concession cost percentage tends to be lower than during periods with higher proportional sales through Cineplex's 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.

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

(Gain) on acquisition of business represents the one-time gain recognized in 2012 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. Although theatre salaries and wages include a fixed cost component, these expenses vary in relation to revenues as theatre staffing levels are adjusted to handle fluctuations in attendance. Other components of this category include marketing and advertising, media, loyalty including SCENE, 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 LTIP and Share option plan costs) and occupancy costs related to Cineplex's corporate offices, professional fees (such as public accountant and legal fees) and travel and related costs. Cineplex maintains general and administrative staffing and associated costs at a level that it deems appropriate to manage and support the size and nature of its theatre portfolio and its business activities.

Accounting for Joint Arrangements

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

Under IFRS 11, which was applied retrospectively as at January 1, 2012, Cineplex's 50% share of one theatre in Quebec and one IMAX screen in Ontario, its 78.2% interest in the CDCP and its interest in CSI (formed

January 31, 2012) are classified as joint ventures. Through equity accounting, Cineplex's share of the results of operations for these joint ventures are reported as a single item in the statements of operations, 'Share of income of joint ventures'. Theatre attendance for theatres held in joint ventures is not reported in Cineplex's consolidated attendance as the line-by-line results of the joint ventures are not included in the relevant lines in the statement of operations.

Under IFRS 11, Cineplex's 50% interest in SCENE LP is classified as a joint operation and Cineplex recognizes its share of the assets, liabilities, revenues and expenses of SCENE in its consolidated financial statements. This change did not result in any changes to net income or adjusted EBITDA for the prior year periods. More detailed disclosure relating to the implementation of IFRS 11 can be found in note 2 to the annual consolidated financial statements.

5. RESULTS OF OPERATIONS

5.1 SELECTED FINANCIAL DATA

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

	Year ended December 31, 2013	Year ended December 31,2012	Year ended December 31,2011
Box office revenues	$ 665,306	$ 638,296	$ 577,348
Concession revenues	350,353	329,332	291,638
Other revenues	155,608	124,873	129,209
Total revenues	1,171,267	1,092,501	998,195
Film cost	346,373	331,281	299,404
Cost of concessions	74,693	68,398	60,737
Depreciation and amortization	70,890	62,163	68,115
Loss (gain) on disposal of assets	4,372	(2,352)	735
Other costs (a)	551,819	495,537	466,425
Costs of operations	1,048,147	955,027	895,416
Net income	$ 83,557	$ 120,484	$ 49,260
Adjusted EBITDA (i)	$ 202,441	$ 200,484	$ 173,174
(a) Other costs include:			
Theatre occupancy expenses	188,388	174,259	163,696
Other operating expenses	297,594	263,571	246,289
General and administrative expenses	65,837	57,707	56,440
Total other costs	$ 551,819	$ 495,537	$ 466,425
Basic EPS	$ 1.33	$ 1.98	$ 0.86
Basic EPS excluding gain on acquisition (i)	$ 1.33	$ 1.57	$ 0.86
Diluted EPS	$ 1.32	$ 1.97	$ 0.85
Diluted EPS excluding gain on acquisition (i)	$ 1.32	$ 1.57	$ 0.85
Total assets	$ 1,591,378	$ 1,335,221	$ 1,245,077
Total long-term financial liabilities (ii)	$ 327,500	$ 150,000	$ 247,700
Shares outstanding at year end	62,934,028	62,783,002	58,465,254
Cash dividends declared per Share	$ 1.4100	$ 1.3300	$ 1.2800
Adjusted free cash flow per Share (i)	$ 2.4580	$ 2.0785	$ 1.9657
Box office revenue per patron (i)	$ 9.15	$ 8.97	$ 8.74
Concession revenue per patron (i)	$ 4.82	$ 4.63	$ 4.41
Film cost as a percentage of box office revenue	52.1%	51.9%	51.9%
Attendance (in thousands of patrons) (i)	72,703	71,198	66,059
Theatre locations (at year end)	161	134	130
Theatre screens (at year end)	1,630	1,449	1,352

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

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

5.2 OPERATING RESULTS FOR THE THREE MONTHS AND YEAR ENDED DECEMBER 31, 2013

Total revenues

Total revenues for the three months ended December 31, 2013 increased $24.5 million (8.2%) to $323.2 million as compared to the prior year period. Total revenues for the year ended December 31, 2013 increased $78.8 million (7.2%) to $1.2 billion as compared to the prior year period. A discussion of the factors affecting the changes in box office, concession and other revenues for the period is provided on the following pages.

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

Box office revenues

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

Box office revenues	Fourth Quarter			Full Year		
	2013	2012	Change	2013	2012	Change
Box office revenues	$ 177,692	$170,524	4.2%	$ 665,306	$ 638,296	4.2%
Attendance (i)	18,872	18,577	1.6%	72,703	71,198	2.1%
Box office revenue per patron (i)	$ 9.42	$ 9.18	2.6%	$ 9.15	$ 8.97	2.0%
BPP excluding premium priced product (i)	$ 8.52	$ 8.57	-0.6%	$ 8.29	$ 8.26	0.4%
Canadian industry revenues (ii)			-6.2%			-2.8%
Same store box office revenues (i)	$ 162,918	$168,623	-3.4%	$ 603,282	$ 613,202	-1.6%
Same store attendance (i)	17,343	18,367	-5.6%	66,333	68,589	-3.3%
% Total box from premium priced product (i)	40.3%	29.2%	11.1%	38.7%	30.9%	7.8%

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

(ii) The Movie Theatre Association of Canada ("MTAC") reported that the Canadian exhibition industry reported a box office revenue decrease of 6.7% for the period from October 4, 2013 to January 2, 2014 as compared to the period from October 5, 2012 to January 3, 2013. On a basis consistent with Cineplex's calendar reporting period (October 1 to December 31), the Canadian industry box office revenue change is estimated to be a decrease of 6.2%. MTAC reported that the Canadian exhibition industry reported a box office revenue decrease of 2.5% for the period from January 4, 2013 to January 2, 2014 as compared to the period from January 6, 2012 to January 3, 2013. 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 a decrease of 2.8%.

Box office continuity	Fourth Quarter		Full Year	
	Box Office	Attendance	Box Office	Attendance
2012 as reported	$ 170,524	18,577	$ 638,296	71,198
Same store attendance change	(9,401)	(1,024)	(20,168)	(2,256)
Impact of same store BPP change	3,697	—	10,248	—
New and acquired theatres	14,590	1,510	40,820	4,241
Disposed and closed theatres	(1,718)	(191)	(3,890)	(480)
2013 as reported	**$ 177,692**	**18,872**	**$ 665,306**	**72,703**

Fourth Quarter

Fourth Quarter 2013 Top Cineplex Films		3D	% Box	Fourth Quarter 2012 Top Cineplex Films		3D	% Box
1	The Hunger Games: Catching Fire		14.2%	1	Skyfall		15.2%
2	The Hobbit: The Desolation of Smaug	√	11.0%	2	The Hobbit: An Unexpected Journey	√	10.6%
3	Gravity	√	10.6%	3	The Twilight Saga: Breaking Dawn 2		8.0%
4	Frozen	√	9.3%	4	Wreck-It Ralph	√	5.4%
5	Thor: The Dark World	√	8.8%	5	Hotel Transylvania	√	4.7%

Box office revenues increased $7.2 million, or 4.2%, to $177.7 million during the fourth quarter of 2013, compared to $170.5 million recorded in the same period in 2012. The increase was due to the impact of the Atlantic Theatres, which contributed $10.4 million to box office revenues during the period, net of a 3.4% decrease in same store box office revenues due to a 5.6% decrease in same store attendance as compared to the prior year period. The film slate in the current period lacked the depth of the prior year period, resulting in the lower same store attendance in the current period.

BPP for the three months ended December 31, 2013 was $9.42, a $0.24 increase from the prior year period. The increase in BPP was due in part to the impact of premium priced product, which accounted for 40.3% of box office revenues in the current period, compared to 29.2% in the prior year period. The increase in the percentage of box office revenues from premium priced product was positively impacted by additional installations of UltraAVX, 3D, IMAX and VIP screens since the end of 2012, as the film slate in the current period had four of the top five films screened in 3D and four in IMAX, as compared to three in 3D and three in IMAX in the prior year period. Cineplex continues to invest in premium priced formats including 3D, UltraAVX, IMAX and VIP thereby positioning itself to benefit from the premiums charged for these offerings. The strong performance of Cineplex's premium-priced product resulted in Cineplex's same-store results outperforming the Canadian industry in the period, with the industry estimated to be down 6.2% in the period.

Full Year

Full Year 2013 Top Cineplex Films		3D	% Box	Full Year 2012 Top Cineplex Films		3D	% Box
1	The Hunger Games: Catching Fire		3.6%	1	Marvel's The Avengers	√	5.7%
2	Iron Man 3	√	3.6%	2	The Dark Knight Rises		4.5%
3	Despicable Me 2	√	3.0%	3	Skyfall		4.1%
4	The Hobbit: The Desolation of Smaug	√	2.8%	4	The Hunger Games		3.8%
5	Gravity	√	2.7%	5	The Amazing Spider-Man	√	2.8%

Box office revenues for the year ended December 31, 2013 were $665.3 million, an increase of $27.0 million or 4.2% over the prior year. The Atlantic Theatres and the full year inclusion of the results of the four theatres acquired from AMC in July 2012, contributed $10.4 million and $18.6 million, respectively, to the increase. Same store revenues decreased 1.6% compared to the prior year due to a 3.3% same store attendance decline. The prior year was a record year for box office results in North America with film product in 2013 was not as strong as 2012 resulting in the same store attendance and revenue decrease.

Cineplex's BPP for the year ended December 31, 2013 increased $0.18, or 2.0%, from $8.97 in 2012 to an annual Cineplex record of $9.15. This increase was primarily due to the increase in revenues from premium -priced product. Premium-priced offerings accounted for 38.7% of Cineplex's box office revenues in the year ended December 31, 2013, compared to 30.9% in the prior year period. The top five films in the year ended December 31, 2013 were all screened in IMAX and four in 3D (2012 period - five in IMAX and two in 3D).

Cineplex's investment in premium-priced formats over the last five years has positioned it to take advantage of the price premiums charged for 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 during 2013.

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		
	2013	2012	Change	2013	2012	Change
Concession revenues	$ 93,294	$ 86,409	8.0%	$ 350,353	$ 329,332	6.4%
Attendance (i)	18,872	18,577	1.6%	72,703	71,198	2.1%
Concession revenue per patron (i)	$ 4.94	$ 4.65	6.2%	$ 4.82	$ 4.63	4.1%
Same store concession revenues (i)	$ 85,351	$ 85,673	-0.4%	$ 322,191	$ 318,492	1.2%
Same store attendance (i)	17,343	18,367	-5.6%	$ 66,333	$ 68,589	-3.3%

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

Concession revenue continuity	Fourth Quarter		Full Year	
	Concession	Attendance	Concession	Attendance
2012 as reported	$ 86,409	18,577	$ 329,332	71,198
Same store attendance change	(4,776)	(1,024)	(10,475)	(2,256)
Impact of same store CPP change	4,454	—	14,174	—
New and acquired theatres	7,841	1,510	18,914	4,241
Disposed and closed theatres	(634)	(191)	(1,592)	(480)
2013 as reported	**$ 93,294**	**18,872**	**$ 350,353**	**72,703**

Fourth Quarter

Concession revenues increased $6.9 million, or 8.0% as compared to the prior year period primarily due to the acquisition of the Atlantic Theatres, which contributed $6.0 million to concession revenues in the period. CPP increased from $4.65 in the fourth quarter of 2012 to $4.94 in the same period in 2013, a 6.2% increase and a quarterly record for Cineplex. Higher average transaction values led to the record concession revenues in the period, as expanded offerings outside of core concession products are driving higher average order value. Despite a decline in same-store attendance of 5.6% in the period compared to the prior year period, same store concession revenues decreased 0.4% as record CPP mitigated the attendance decline.

Full Year

Concession revenues increased $21.0 million, or 6.4% as compared to the prior year, due to the 2.1% increase in attendance and the 4.1% increase in CPP. CPP increased from $4.63 in 2012 to $4.82 in 2013, an annual record for Cineplex, exceeding the previous record set last year. The Atlantic Theatres contributed $6.0 million to concession revenues during the period and the impact of the four theatres acquired from AMC in July 2012, and therefore not fully reflected in the prior year period, contributed $7.0 million. Same store attendance decreased 3.3% compared to the prior year, however same store concession revenues increased 1.2% due to the record CPP in 2013 more than offsetting the same store attendance decline in 2013.

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		
	2013	2012	Change	2013	2012	Change
Media	$ 39,196	$ 30,801	27.3%	$ 109,581	$ 84,285	30.0%
Games	1,722	1,361	26.5%	7,616	6,379	19.4%
Other	11,303	9,606	17.7%	38,411	34,209	12.3%
Total	**$ 52,221**	**$41,768**	**25.0%**	**$ 155,608**	**$ 124,873**	**24.6%**

Fourth Quarter

Other revenues increased 25.0% to $52.2 million in the fourth quarter of 2013 compared to the prior year period. This increase was primarily due to higher media revenues, which were $39.2 million, up $8.4 million, or 27.3%, when compared to the prior year period. The increase was due to the newly acquired CDN, which contributed $8.3 million to media revenues in the period. Cineplex Media revenues, including pre-show and showtime, exceeded the prior year period by $2.6 million. While Cineplex sold pre-show and showtime advertising for the Atlantic Theatres prior to their acquisition, the acquisition benefited the current period results as Cineplex now retains 100% of the media revenue where previously only a share was received. The increases were offset by a $2.5 million decrease in CDM revenues due to several large equipment installation projects completed in the prior year period.

The games revenue increase is primarily due to the addition of two new XSCAPE entertainment centres in 2013. On January 31, 2012, Cineplex deconsolidated New Way Sales ("NWS") and merged its operations with the amusement game and vending assets of Starburst Coin Machines Inc. ("SCM"), to create CSI. Cineplex and SCM both have a 50% interest in CSI. Cineplex's share of revenues and expenses from CSI for the periods subsequent to January 31, 2012 are included in the 'Share of income of joint ventures' line in the statements of operations.

The increase in the other category is primarily due to additional revenues arising from enhanced guest service initiatives and new business initiatives.

Full Year

Other revenues increased 24.6% from $124.9 million in 2012 to $155.6 million during 2013. The largest component of this increase was media revenues, which increased $25.3 million, or 30.0%, from the prior year period. This increase was primarily due to Cineplex Media revenues, which increased $15.9 million year over year. Digital out-of-home media revenues contributed $9.4 million to the increase. CDN contributed $10.9 million to this increase, offset by a $1.6 million decline in CDM revenues due to several large equipment installation projects completed in the prior year.

The full year of 2013 includes a life-to-date one-time increase to games revenue of $0.5 million recorded in the first quarter of 2013 due to a change in accounting policy regarding the recognition of revenue on the sale of XSCAPE gaming cards, which was substantially offset by the games revenues for the first quarter of 2012 including the results of NWS for January 2012 ($0.4 million). The remainder of the games revenue increase is due to the six XSCAPE locations added since January 1, 2012, two of which were added in 2013. The increase in the other category is primarily due to higher auditorium rental and screening revenues as well as additional revenues arising from enhanced guest service initiatives and new business 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		
	2013	2012	Change	2013	2012	Change
Film cost	$ 91,867	$ 87,477	5.0%	$ 346,373	$ 331,281	4.6%
Film cost percentage (i)	51.7%	51.3%	0.4%	52.1%	51.9%	0.2%
(i) See Section 17, Non-GAAP measures.						

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 2013 compared to the prior year period was due to the increase in box office revenue and the impact of the 0.4% increase in film cost percentage. The increase in film cost percentage is primarily due to the settlement rate on the top films during the fourth quarter of 2013 being higher than the average film settlement rate in the 2012 period.

Full Year

The year to date increase in film cost was primarily due to the 4.2% increase in box office revenues during the period. The increase in the film cost percentage as compared to the prior year period is primarily due to the settlement rate on certain strong performing titles during 2013 being higher than the average settlement rate in 2012.

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		
	2013	2012	Change	2013	2012	Change
Concession cost	$ 19,835	$ 18,077	9.7%	$ 74,693	$ 68,398	9.2%
Concession cost percentage (i)	21.3%	20.9%	0.4%	21.3%	20.8%	0.5%
Concession margin per patron (i)	$ 3.89	$ 3.68	5.7%	$ 3.79	$ 3.66	3.6%

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

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 0.4% increase in the concession cost percentage during the period. The concession margin per patron increased from $3.68 in the fourth quarter of 2012 to $3.89 in the same period in 2013, reflecting the impact of the higher CPP during the period.

Full Year

The increase in concession cost during the period was due to the 6.4% increase in concession revenues and the 0.5% increase in the concession cost percentage during the period. The concession margin per patron increased from $3.66 in the 2012 period to $3.79 in the current period, reflecting the impact of the higher CPP during the period.

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		
	2013	2012	Change	2013	2012	Change
Amortization of property, equipment and leaseholds	$ 15,957	$ 13,446	18.7%	$ 58,588	$ 56,244	4.2%
Amortization of intangible assets and other	3,791	3,522	7.6%	12,302	5,919	107.8%
Amortization expenses as reported	$ 19,748	$ 16,968	16.4%	$ 70,890	$ 62,163	14.0%

The quarterly increase in amortization of property, equipment and leaseholds of $2.5 million is primarily due to the impact of the purchases of equipment and leasehold improvements relating to assets acquired through acquisitions and new theatre construction. The year-to-date increase of $2.3 million is due to the impact of the assets acquired through acquisitions and new theatre construction, partially offset by certain assets becoming fully amortized in the third quarter of 2012.

The increase in amortization of intangible assets and other in the fourth quarter of 2013 and the full year compared to the prior year periods is due to the amortization of certain trade name assets that are being phased out by Cineplex. These assets were previously classified as indefinite life assets however during the fourth quarter of 2012 their classification was changed to finite life with amortization being recorded over the anticipated rebranding schedule of the associated theatres. The 2013 periods also include intangible amortization relating to customer relationships and internally developed software acquired as part of the EK3 acquisition which closed during the third quarter of 2013 (See Section 1.3, Business Acquisitions).

Loss (gain) on disposal of assets

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

Loss (gain) on disposal of assets	Fourth Quarter			Full Year		
	2013	2012	Change	2013	2012	Change
Loss (gain) on disposal of assets	$ 432	$ (3,138)	NM	$ 4,372	$ (2,352)	NM

During the fourth quarter of 2013, Cineplex recorded a loss of $0.4 million on the disposal of assets that were sold or otherwise disposed (2012 - gain of $3.1 million due to a gain of $3.7 million recognized on the sale of land, offset by losses on certain assets that were sold or otherwise disposed of). For the year ended December 31, 2013, disposal of assets resulted in a loss of $4.4 million on the disposal of assets that were sold or otherwise disposed, including the disposition of two properties in Ontario (2012 - gain of $2.4 million due to the sale of land offset by losses on certain assets that were sold or otherwise disposed of).

(Gain) on acquisition of business

The gain on acquisition represents the gain recorded on the acquisition of AMC Ventures Inc., which operated three leased theatres in Ontario and one leased theatre in Quebec. The gain was revised in the fourth quarter of 2012 based on the finalization of AMC Ventures Inc.'s final tax return (in thousands of Canadian dollars):

(Gain) on acquisition of business	Fourth Quarter			Full Year		
	2013	2012	Change	2013	2012	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		
	2013	2012	Change	2013	2012	Change
Theatre occupancy expenses	$ 48,658	$ 45,498	6.9%	$ 188,388	$ 174,259	8.1%
Other operating expenses	91,430	75,495	21.1%	297,594	263,571	12.9%
General and administrative expenses	17,937	15,326	17.0%	65,837	57,707	14.1%
Total other costs	**$ 158,025**	**$136,319**	**15.9%**	**$ 551,819**	**$ 495,537**	**11.4%**

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		
	2013	2012	Change	2013	2012	Change
Rent	$ 32,540	$ 30,936	5.2%	$ 126,284	$ 116,586	8.3%
Other occupancy	16,715	15,343	8.9%	65,340	59,628	9.6%
One-time items (i)	(597)	(781)	-23.6%	(3,236)	(1,955)	65.5%
Total	**$ 48,658**	**$45,498**	**6.9%**	**$ 188,388**	**$ 174,259**	**8.1%**

(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
2012 as reported	$ 45,498	$ 174,259
Impact of new and acquired theatres	3,274	15,850
Impact of disposed theatres	(517)	(1,082)
Same store rent change (i)	36	315
One-time items	184	(1,281)
Other	183	327
2013 as reported	$ 48,658	$ 188,388

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

Fourth Quarter

Theatre occupancy expenses increased $3.2 million during the fourth quarter of 2013 compared to the prior year period. This increase was primarily due to the impact of new and acquired theatres net of disposed theatres ($2.8 million, of which $2.2 million relates to the Atlantic Theatres).

Full Year

The increase in theatre occupancy expenses of $14.1 million for 2013 compared to the prior year was due to the new and acquired theatres, primarily the four theatres acquired from AMC in the third quarter of 2012 and the Atlantic Theatres (net increase of $10.5 million for the AMC theatres and net increase of $2.2 million for the Atlantic Theatres). This increase was partially offset by the impact of favourable real estate tax reassessments included in the one-time items line.

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		
	2013	2012	Change	2013	2012	Change
Theatre payroll	$ 32,620	$ 30,863	5.7%	$ 121,087	$ 115,013	5.3%
Media	14,692	8,769	67.5%	35,083	24,287	44.5%
Other	44,118	35,863	23.0%	141,424	124,271	13.8%
Other operating expenses	$ 91,430	$ 75,495	21.1%	$ 297,594	$ 263,571	12.9%

Other operating continuity	Fourth Quarter Other Operating	Full Year Other Operating
2012 as reported	$ 75,495	$ 263,571
Impact of new and acquired theatres	5,434	13,749
Impact of disposed theatres	(583)	(1,661)
Same store payroll change (i)	(950)	(471)
Marketing change	1,455	724
Media, excluding Cineplex Digital Networks	(1,103)	1,571
Cineplex Digital Networks	7,026	9,225
New Way Sales	–	(299)
New business initiatives	1,447	2,288
Other	3,209	8,897
2013 as reported	$ 91,430	$ 297,594

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

Fourth Quarter

Other operating expenses during the fourth quarter of 2013 increased $15.9 million or 21.1% compared to the prior year period. The major components of the increase were the impact of the newly acquired CDN ($7.0 million), of new and acquired theatres net of disposed theatres ($4.9 million), higher marketing costs ($1.5 million), new business initiatives including the Cineplex Store ($1.4 million) and other expenses ($3.2 million, discussed below). These increases were partially offset by lower media costs ($1.1 million) due to the prior year period including several large equipment installation projects by CDM, and lower same-store payroll costs ($0.9 million).

The major movements in the Other category include the following:

- The increase in 3D attendance due to stronger 3D product and the additional 178 3D screens added since December 31, 2012 resulted in higher 3D royalty costs ($0.7 million) as well as contributing to the higher cost of projector bulbs ($0.5 million) as 3D features require bulbs with higher output which significantly reduces the life of the bulbs.
- Higher card costs for gift cards due to the record sales of Cineplex gift cards during the period ($0.6 million).
- Higher IMAX costs related to the higher number of IMAX screens in the circuit in the period ($0.3 million).
- Higher same-store utility costs ($0.3 million) due in part to the cold temperatures across parts of the country during the period.
- Higher credit card service fees due to higher sales volumes ($0.2 million).

Total theatre payroll costs accounted for 35.7% of total operating expenses during the fourth quarter of 2013 as compared to 40.9% for the same period one year earlier.

Full Year

For the year ended December 31, 2013, other operating expenses increased $34.0 million. The impact of new and acquired net of disposed theatres was a $12.1 million increase to the category primarily due to the four theatres acquired from AMC which accounted for $5.2 million of the increase and the Atlantic Theatres which accounted for $3.6 million of the increase. Cost increases included higher media costs due to the higher media sales during the year ($10.8 million, with CDN contributing $9.2 million to this increase), new business initiatives including the Cineplex Store ($2.3 million), higher marketing expenses ($0.7 million) , and a $8.9 million increase in the Other category (discussed below). These increases were partially offset by lower same-store payroll expenses ($0.5 million).

The major movements in the Other category include the following:

- The increase in 3D attendance due to stronger 3D product and the additional 178 3D screens added since December 31, 2012 resulted in higher 3D royalty costs ($2.2 million) as well as contributing to the higher cost of projector bulbs ($1.3 million) as 3D features require bulbs with higher output which significantly reduces the life of the bulbs.
- Higher same-store utility costs during 2013 compared to the prior year period ($1.1 million).
- Higher credit card service fees due to higher sales volumes during the year ($0.8 million).
- Higher card costs for gift cards due to record sales of Cineplex gift cards during the period ($0.8 million).
- Costs relating to converting Cineplex's theatre circuit to energy-efficient lighting systems ($0.6 million).

Total theatre payroll accounted for 40.7% of total other operating expenses in the 2013 period, compared to 43.6% in the prior year period.

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		
	2013	2012	Change	2013	2012	Change
G&A excluding LTIP and option plan expense	$ 13,271	$ 12,717	4.4%	$ 49,928	$ 47,194	5.8%
LTIP (i)	4,263	2,176	95.9%	14,321	8,442	69.6%
Option plan	403	433	-6.9%	1,588	2,071	-23.3%
G&A expenses as reported	$ 17,937	$ 15,326	17.0%	$ 65,837	$ 57,707	14.1%

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

Fourth Quarter

G&A expenses increased $2.6 million during the fourth quarter of 2013 compared to the prior year period, due to a $2.1 million increase in LTIP expenses. Cineplex's Share price increased $5.85 per Share, or 15.3%, during the quarter and was the main contributor to the increase in LTIP expense. The remainder of the increase was due in part to higher head office payroll due to new business initiatives resulting in additional headcount.

Full Year

G&A expenses for 2013 increased $8.1 million compared to the prior year period, primarily due to the $5.9 million increase in LTIP expenses, primarily due to the Share price increase of $12.23 per Share, or 38.4%, during 2013. The remainder of the increase was due in part to head office payroll expenses which increased due to new business initiatives resulting in additional headcount.

Share of income of joint ventures

Cineplex's joint ventures in the 2013 period include its 50% share of one theatre in Quebec and one IMAX screen in Ontario, its 78.2% interest in CDCP and its 50% interest in CSI. For the 2012 period, Cineplex's joint ventures included one theatre in Quebec, one IMAX screen in Ontario, its 78.2% interest in CDCP and its 50% interest in CSI following its formation on January 31, 2012. The following table highlights the components of share of income of joint ventures during the quarter and the full year (in thousands of Canadian dollars):

Share of income of joint ventures	Fourth Quarter			Full Year		
	2013	2012	Change	2013	2012	Change
Share of (income) of CDCP	$ (688)	$ (834)	-17.5%	$ (2,336)	$ (2,222)	5.1%
Share of (income) of CSI	(19)	(170)	-88.8%	(1,254)	(932)	34.5%
Share of (income) loss of other joint ventures	(139)	2	NM	(260)	(109)	138.5%
Total (income) of joint ventures	$ (846)	$ (1,002)	-15.6%	$ (3,850)	$ (3,263)	18.0%

Fourth Quarter

The decrease from income of $1.0 million in the fourth quarter of 2012 to income of $0.8 million in the current period is due to a decreases in income from CSI and CDCP, partially offset by income from the theatre joint ventures.

Under IFRS 11, Cineplex's 50% interest in SCENE LP is classified as a joint operation and not a joint venture resulting in Cineplex recognizing its share of the assets, liabilities, revenues and expenses of SCENE in its consolidated financial statements on a line-by-line basis.

Full Year

The increase from income of $3.3 million in the 2012 period to income of $3.9 million in the current year is due to income increases in all of Cineplex's joint ventures, with the largest dollar increase coming from CSI.

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		
	2013	2012	Change	2013	2012	Change
Long-term debt interest expense	$ 2,416	$ 1,593	51.7%	$ 7,076	$ 6,475	9.3%
Convertible debenture interest expense	755	200	277.5%	755	1,950	-61.3%
Finance lease interest expense	371	425	-12.7%	1,576	1,790	-12.0%
Sub-total - cash interest expense	$ 3,542	$ 2,218	59.7%	$ 9,407	$ 10,215	-7.9%
Deferred financing fee accretion and other non-cash interest	1,116	143	680.4%	2,001	562	256.0%
Convertible debenture accretion	274	24	1,041.7%	274	323	-15.2%
Interest rate swap - non-cash	(158)	(295)	-46.4%	(939)	1,485	NM
Sub-total - non-cash interest expense	1,232	(128)	NM	1,336	2,370	-43.6%
Total interest expense	**$ 4,774**	**$ 2,090**	**128.4%**	**$ 10,743**	**$ 12,585**	**-14.6%**

Interest expense increased $2.7 million for the quarter compared to the prior year, as cash interest increased $1.3 million due to borrowings and the issuance of new convertible debentures to fund the acquisitions of EK3 and the Atlantic Theatres. Non-cash interest increased $1.4 million primarily due to the accretion of the earn-out payment for the purchase of EK3.

For the full year, interest expense decreased $1.8 million compared to 2012. Cash interest decreased $0.8 million, primarily due to lower convertible debenture interest as the former convertible debentures were outstanding all of 2012 and the current convertible debentures only for November and December in 2013. Non-cash interest decreased $1.0 million primarily due to the impact of the non-cash swap interest, where 2012 includes amounts relating to the accounting for the unwinding of the previous swap agreements which were settled during the third quarter of 2011 (see Section 7.4, Credit Facilities, for more details on the interest rate swap agreements settlement). This movement of $2.4 million was partially offset by accretion of the earn-out payment for the purchase of EK3 ($1.2 million).

Interest income

The increase in interest income during the fourth quarter of 2013 and the year ended December 31, 2013 compared to the prior year periods is primarily due to higher average cash balances in the current year periods (in thousands of Canadian dollars):

Interest income	Fourth Quarter			Full Year		
	2013	2012	Change	2013	2012	Change
Interest income	$ 83	$ 58	43.1%	$ 307	$ 205	49.8%

Income taxes

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

Income taxes	Fourth Quarter			Full Year		
	2013	2012	Change	2013	2012	Change
Current income tax expense	$ 1,077	$ 8,795	-87.8%	$ 3,608	$ 31,436	-88.5%
Deferred income tax expense	$ 8,210	$ 1,399	486.8%	$ 29,369	$ 1,189	2,370.1%

Taxable income earned by Cineplex during the 2013 periods has been offset by the use of loss carry forwards acquired through Cineplex's acquisition of AMC Ventures Inc. in 2012. As a result of the $147.0 million of non-capital losses acquired in this transaction, Cineplex's cash income taxes in 2013 were substantially reduced. Based on estimated 2013 taxable income, approximately $43.2 million of non-capital losses remain and are expected to be used to reduce taxable income in 2014. As a result of reducing taxable income through losses, Cineplex is subject to minimum tax in certain jurisdictions which may be credited against income taxes payable on taxable income earned in periods after the losses have been fully used. Those credits, totaling $1.9 million through December 31, 2013 have been recorded as deferred income tax assets and a reduction of deferred income tax expense.

Cineplex's blended federal and provincial statutory tax rate at December 31, 2013 was 26.3% (December 31, 2012 - 26.2%).

Net income

For the three months ended December 31, 2013, Cineplex reported net income of $20.2 million (2012 – $32.7 million, $31.8 million excluding the gain on acquisition). For the year ended December 31, 2013, Cineplex reported net income of $83.6 million (2012 - $120.5 million, $95.7 million excluding the gain on acquisition) (in thousands of Canadian dollars):

Net income	Fourth Quarter			Full Year		
	2013	2012	Change	2013	2012	Change
Net income	$ 20,168	$ 32,704	-38.3%	$ 83,557	$ 120,484	-30.6%

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

The following table presents EBITDA and adjusted EBITDA for the three months and year ended December 31, 2013 as compared to the three months and year ended December 31, 2012 (expressed in thousands of Canadian dollars, except adjusted EBITDA margin):

EBITDA	Fourth Quarter			Full Year		
	2013	2012	Change	2013	2012	Change
EBITDA	$ 53,894	$ 61,898	-12.9%	$ 197,860	$ 227,652	-13.1%
Adjusted EBITDA	$ 54,144	$ 57,507	-5.8%	$ 202,441	$ 200,484	1.0%
Adjusted EBITDA margin	16.8%	19.3%	-2.5%	17.3%	18.4%	-1.1%

Adjusted EBITDA for the fourth quarter of 2013 decreased $3.4 million, or 5.8%, as compared to the prior year period. The decrease as compared to the prior year period was primarily due higher LTIP costs of $2.1 million due to the increase in Cineplex's Share price during the period. Adjusted EBITDA margin, calculated as adjusted EBITDA divided by total revenues, was 16.8% in the current period, down from 19.3% in the prior year period.

Adjusted EBITDA for the year ended December 31, 2013 was $202.4 million compared to $200.5 million in the prior year period. This increase was due to the strong media revenues recorded throughout 2013 compared to the prior year, as well as impact of CDN and the Atlantic Theatres, partially offset by higher LTIP costs of $5.9 million.

6. BALANCE SHEETS

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

	December 31,2013	December 31, 2012	Change($)	Change(%)
Assets				
Current assets				
Cash and cash equivalents	$ 44,140	$ 48,665	$ (4,525)	-9.3%
Trade and other receivables	100,891	77,278	23,613	30.6%
Inventories	7,234	5,193	2,041	39.3%
Prepaid expenses and other current assets	6,838	3,047	3,791	124.4%
	159,103	134,183	24,920	18.6%
Non-current assets				
Property, equipment and leaseholds	459,112	418,498	40,614	9.7%
Deferred income taxes	17,635	53,528	(35,893)	-67.1%
Fair value of interest rate swap agreements	92	—	92	NM
Interests in joint ventures	44,359	41,623	2,736	6.6%
Intangible assets	113,601	78,460	35,141	44.8%
Goodwill	797,476	608,929	188,547	31.0%
	$ 1,591,378	$ 1,335,221	$ 256,157	19.2%
Liabilities				
Current liabilities				
Accounts payable and accrued expenses	$ 157,333	$ 129,499	$ 27,834	21.5%
Share-based compensation	12,151	—	12,151	NM
Dividends payable	7,552	7,063	489	6.9%
Income taxes payable	2,656	13,654	(10,998)	-80.5%
Deferred revenue	136,373	106,253	30,120	28.3%
Finance lease obligations	2,394	2,222	172	7.7%
Fair value of interest rate swap agreements	635	513	122	23.8%
	319,094	259,204	59,890	23.1%
Non-current liabilities				
Share-based compensation	15,622	12,223	3,399	27.8%
Long-term debt	217,151	148,066	69,085	46.7%
Fair value of interest rate swap agreements	—	273	(273)	-100.0%
Finance lease obligations	17,722	20,548	(2,826)	-13.8%
Post-employment benefit obligations	6,522	6,274	248	4.0%
Other liabilities	170,125	141,319	28,806	20.4%
Convertible debentures	96,870	—	96,870	NM
	843,106	587,907	255,199	43.4%
Equity	748,272	747,314	958	0.1%
	$ 1,591,378	$ 1,335,221	$ 256,157	19.2%

Trade and other receivables. The increase in trade and other receivables is primarily due to higher sales of gift cards and vouchers from the 2013 holiday period compared to the prior year as well as the increased media sales primarily due to CDN media sales. December represents the highest volume month for gift card and voucher sales and is one of the strongest months for media sales during the year.

Property, equipment and leaseholds. The increase in property, equipment and leaseholds is due to new build and other capital expenditures ($33.3 million) and maintenance capital expenditures ($27.8 million) as well as assets acquired as part of the acquisition of the Atlantic Theatres, the acquisition of EK3 and the two theatres acquired from Festival Cinemas ($42.2 million, $1.3 million and $0.5 million, respectively). These increases were partially offset by amortization expenses ($58.6 million) and asset dispositions ($5.9 million).

Deferred income taxes. The decrease in the deferred income taxes primarily relates to the use of non-capital losses to offset taxable income during the year. As a result of the $147.0 million of non-capital losses acquired in the acquisition of the theatres from AMC Ventures Inc., Cineplex's cash income taxes in 2013 were substantially reduced. Based on estimated 2013 taxable income, approximately $43.2 million of non-capital losses remain and are expected to be used to reduce taxable income in 2014.

Intangible assets. The increase in intangible assets is due to the $30.1 million of intangible assets acquired as part of the acquisition of EK3 and $17.3 million of intangible assets acquired as part of the acquisition of the Atlantic Theatres, partially offset by amortization.

Goodwill. The increase in goodwill arises from the purchase of the Atlantic Theatres ($139.6 million), the acquisition of EK3 ($45.7 million) as well as the purchase of two theatres from Festival Cinemas ($3.2 million).

Accounts payable and accrued expenses. The increase in accounts payable and accrued expenses primarily relates to the increased business volumes due to the inclusion of the Atlantic Theatres and CDN in the 2013 balances.

Share-based compensation. Share-based compensation included in current liabilities represents amounts relating to the 2011 LTIP which are payable in the first quarter of 2014 and deferred share unit plan amounts payable in the fourth quarter of 2014.

Income taxes payable. Income taxes payable decreased due to the final installments for 2012 being paid in the first quarter of 2013. Current income taxes in 2013 were substantially reduced due to the use of non-capital losses acquired in the acquisition of the theatres from AMC Ventures Inc.

Deferred revenue. Deferred revenue increased primarily due to the sale of gift cards and vouchers during the 2013 holiday season.

Long-term debt. The increase in long-term debt primarily relates to borrowings under the Revolving Facility (defined and discussed in Section 7.4, Credit Facilities) to fund the acquisition of EK3 and the Atlantic Theatres.

Convertible debentures. The convertible debentures were issued in the fourth quarter of 2013, with the proceeds of the issuance used to finance a portion of the acquisition of the Atlantic Theatres.

Finance lease obligations. The decrease in finance lease obligations relates to finance leases for certain IMAX projectors being declassified as the projectors have been retired and replaced with new digital IMAX projectors.

Other liabilities. The increase is primarily due to the $29.3 million deferred contingent consideration recognized as part of the EK3 acquisition, partially offset by the amortization of lease-related liabilities.

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, 2013 and 2012 (in thousands of Canadian dollars):

Cash flows provided by operating activities	**Fourth Quarter**			**Full Year**		
	2013	**2012**	**Change**	**2013**	**2012**	**Change**
Net income	$ 20,168	$ 32,704	$ (12,536)	$ 83,557	$ 120,484	$ (36,927)
Adjustments to reconcile net income to net cash provided by operating activities:						
Non-cash amortization amounts (i)	19,121	15,679	3,442	66,156	57,692	8,464
Loss (gain) on disposal of assets	432	(3,138)	3,570	4,372	(2,352)	6,724
(Gain) on business acquisition	—	(930)	930	—	(24,752)	24,752
Deferred income taxes	8,210	1,399	6,811	29,369	1,189	28,180
Interest rate swap agreements - non-cash interest	(158)	(295)	137	(939)	1,485	(2,424)
Non-cash Share-based compensation	393	433	(40)	1,826	2,108	(282)
Accretion of convertible debentures	274	24	250	274	323	(49)
Net change in interests in joint ventures	(297)	(639)	342	(2,686)	4,356	(7,042)
Tenant inducements	500	1,643	(1,143)	5,417	7,615	(2,198)
Changes in operating assets and liabilities	85,812	62,706	23,106	37,302	7,486	29,816
Net cash provided by operating activities	**$ 134,455**	**$ 109,586**	**$ 24,869**	**$ 224,648**	**$ 175,634**	**$ 49,014**

(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 $24.9 million in the fourth quarter of 2013 compared to the prior year period primarily due to the movement in operating assets and liabilities, with the majority of that movement due to a large increase in accounts payable and accrued expenses. The increased business volumes associated with the acquisition of EK3 and the Atlantic Theatres contributed to this increased balance of accounts payable and accrued expenses at the year end. The use of non-capital losses acquired as part of the acquisition of the theatres from AMC Ventures Inc. has substantially reduced 2013 current income taxes, contributing to the higher cash flows provided by operating activities.

Full Year

Cash provided by operating activities increased $49.0 million in the year ended December 31, 2013 compared to the prior year period due in part to the lower cash paid for income taxes in the current year period compared to the prior year period ($21.1 million). This decrease was due to the use of non-capital losses against current taxable income. Also contributing to the increase was cash collected from the sale of more gift cards and vouchers in the current period compared to the prior year as well as the impact of the increase in accounts payable and accrued expenses in the year due to the increased business volumes associated with the acquisition of EK3 and the Atlantic Theatres. The use of non-capital losses acquired as part of the acquisition of the theatres from AMC Ventures Inc. has substantially reduced 2013 current income taxes, contributing to the higher cash flows provided by 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, 2013 and 2012 (in thousands of Canadian dollars):

Cash flows used in investing activities	Fourth Quarter			Full Year		
	2013	2012	Change	2013	2012	Change
Proceeds from sale of assets	$ 1,451	$ 2,550	$ (1,099)	$ 3,573	$ 3,683	$ (110)
Purchases of property, equipment and leaseholds	(15,845)	(22,457)	6,612	(62,410)	(72,242)	9,832
Acquisition of businesses, net of cash acquired	(195,704)	—	(195,704)	(238,338)	(2,811)	(235,527)
Deposit for business acquisition	5,000	—	5,000	—	—	—
Net cash received from (invested in) joint ventures	535	(190)	725	(50)	(438)	388
Net cash used in investing activities	**$(204,563)**	**$(20,097)**	**$(184,466)**	**$(297,225)**	**$ (71,808)**	**$(225,417)**

Cash used in investing activities during the fourth quarter of 2013 increased by $184.5 million compared to the prior year period. The increase was primarily due to the cash paid in the fourth quarter of 2013 to complete the acquisition of the Atlantic Theatres.

For the year to date period, cash used in investing activities increased $225.4 million compared to the prior year period, due to a $235.5 million increase in cash paid relating to business acquisitions (2013 acquisitions including $196.4 million, net of cash acquired, for the purchase of the Atlantic Theatres, $38.1 million paid for the acquisition of EK3, and $3.8 million for the purchase of two theatres from Festival Cinemas; as compared to 2012 acquisition spending of $2.8 million. This increase was partially offset by lower cash spent on purchases of property, equipment and leaseholds. Cineplex opened two new theatres in both 2013 and 2012, however 2012 also included a major theatre retrofit and the addition of three VIP screens to an existing theatre, which contributed to the higher spending in the prior year.

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

Capital expenditures	Fourth Quarter			Full Year		
	2013	2012	Change	2013	2012	Change
Gross capital expenditures	$ 15,845	$ 22,457	$ (6,612)	$ 62,410	$ 72,242	$ (9,832)
Less: tenant inducements	(500)	(1,643)	1,143	(5,417)	(7,615)	2,198
Net capital expenditures	$ 15,345	$ 20,814	$ (5,469)	$ 56,993	$ 64,627	$ (7,634)
Net capital expenditures consists of:						
Growth and acquisition capital expenditures (i)	$ 9,264	$ 15,252	$ (5,988)	$ 22,715	$ 35,756	$ (13,041)
Tenant inducements	(500)	(1,643)	1,143	(5,417)	(7,615)	2,198
Premium formats (ii)	1,389	1,451	(62)	8,363	9,129	(766)
Maintenance capital expenditures	11,833	11,242	591	27,826	26,600	1,226
Other (iii)	(6,641)	(5,488)	(1,153)	3,506	757	2,749
	$ 15,345	$ 20,814	$ (5,469)	$ 56,993	$ 64,627	$ (7,634)

(i) Growth and acquisition capital expenditures include expenditures on the construction of new theatre buildings (including VIP auditoriums) and other Board approved growth projects with the exception of premium formats discussed below, as well as improvements to the four theatres acquired from AMC in the third quarter of 2012, the two theatres acquired from Festival in the first quarter of 2013 and the Atlantic Theatres acquired in the fourth quarter of 2013.

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

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

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

7.3 FINANCING ACTIVITIES

The following table highlights the movements in cash from financing activities for the three months and year ended December 31, 2013 and 2012 (in thousands of Canadian dollars):

Cash flows provided by (used in) financing activities	Fourth Quarter			Full Year		
	2013	2012	Change	2013	2012	Change
Dividends paid	$ (22,632)	$ (20,955)	$ (1,677)	$ (88,130)	$ (80,794)	$ (7,336)
Borrowings (repayments) under credit facility, net	24,000	(20,000)	44,000	70,000	(20,000)	90,000
Repayment of debt acquired	—	—	—	(12,875)	—	(12,875)
Payments under finance leases	(615)	(531)	(84)	(2,277)	(2,104)	(173)
Proceeds from issuance of Shares	—	—	—	—	501	(501)
Issuance of convertible debentures	103,469	—	103,469	103,469	—	103,469
Deferred financing fees	(2,135)	—	(2,135)	(2,135)	—	(2,135)
Shares repurchased and canceled	—	—	—	—	(1,786)	1,786
Repayment of convertible debentures at maturity	—	(1,123)	1,123	—	(1,123)	1,123
Net cash provided by (used in) financing activities	**$ 102,087**	**$ (42,609)**	**$ 144,696**	**$ 68,052**	**$(105,306)**	**$ 173,358**

The issuance of convertible debentures net of deferred financing fees and transaction costs of $101.3 million as well as net borrowings of $24.0 million during the fourth quarter of 2013 compared to net repayments of $20.0 million in the prior year period is the main cause of the movement from cash used to cash provided by financing activities. The proceeds of the convertible debenture issuance and net borrowings were used to fund the acquisitions of EK3 and the Atlantic Theatres. The increase in cash was partially offset by higher dividend payments. The increase in dividends paid of $1.7 million was due to Cineplex increasing its dividend rate from $0.1125 per Share per month to $0.1200 per Share per month, effective with the May 2013 dividend paid in June 2013 ($1.4 million) and the higher number of Shares outstanding compared to the prior year period due to the convertible debentures that were converted into Shares during 2012 as well as option exercises ($0.3 million).

The $173.4 million movement from cash used in financing activities to cash provided by financing activities was primarily due to the issuance of convertible debentures net of deferred financing fees and transaction costs of $101.3 million as well as $70.0 million in net borrowings under Cineplex's credit facility in the current period. This increase was offset by Cineplex repaying $12.9 million of debt acquired as part of the EK3 acquisition, and the $7.3 million increase in dividend payments due to the higher base of Shares outstanding due to debenture conversions in 2012 and option exercises ($5.2 million) as well as the dividend increase effective for the May 2013 dividend paid in June 2013 ($2.1 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

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

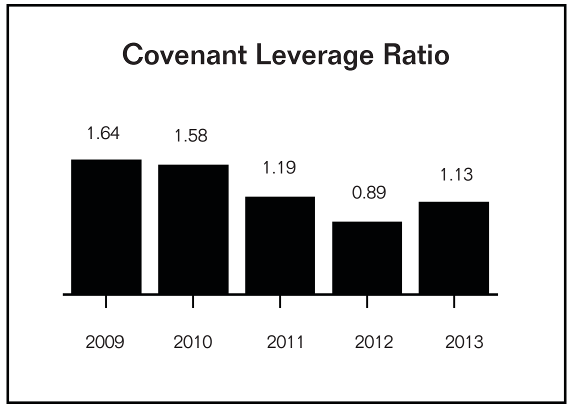
	Available	Drawn	Reserved	Remaining
(i) a five-year senior secured revolving credit facility ("Revolving Facility")	$ 250.0	$ 70.0	$ 3.4	$ 176.6
(ii) a five-year senior secured non-revolving term facility ("Term Facility")	$ 150.0	$ 150.0	$ —	$ —
Letters of credit outstanding at December 31, 2013 of $3.4 million are reserved against the Revolving Facility.				

On October 24, 2013, the Revolving Facility commitment was $350.0 million. Subsequent to that date and prior to December 31, 2013, the Revolving Facility commitment was permanently reduced by $100.0 million to $250.0 million pursuant to the terms of the Credit Facilities. There are provisions to increase the Revolving Facility commitment amount by an additional $150.0 million with the consent of the lenders.

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

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

One of the key financial covenants in the Credit Facilities is the leverage covenant. As at December 31, 2013, Cineplex's leverage ratio as calculated in accordance with the Credit Facilities definition was 1.13x, as compared to a covenant of 3.50x. The definition of debt in the Credit Facility includes long-term debt (excluding any convertible debentures), financing leases and letters of credit but does not include a reduction for cash on hand. For the purposes of the Credit Facility definition, EBITDA is adjusted for certain non-cash, non-recurring items and the annualized impact of new theatres or acquisitions.



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

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

Interest rate swap agreements. Effective 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 covenants at December 31, 2013 and 2012, Cineplex's effective cost of borrowing on the $150.0 million Term Facility was 3.215% for both periods.

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, 2013, Cineplex had the following contractual or other commitments authorized by the Board (expressed in thousands of Canadian dollars):

Contractual obligations	Payments due by period				
	Total	Within 1 year	2-3 years	4-5 years	After 5 years
Long-term debt	$ 220,000	$ —	$ —	$ 220,000	$ —
Convertible debentures	107,500	—	—	107,500	—
Interest rate swap agreements	1,110	675	435	—	—
New theatre construction	125,248	37,999	87,249	—	—
Other theatre projects	18,604	5,977	12,627	—	—
Equipment obligations	15,031	1,942	3,884	3,884	5,321
Finance lease obligations	25,355	3,779	7,867	7,916	5,793
Deferred consideration - EK3	39,638	—	39,638	—	—
Deferred consideration - AMC	3,134	—	3,134	—	—
Operating lease obligations	1,412,206	141,669	288,750	273,082	708,705
Total contractual obligations	**$ 1,967,826**	**$ 192,041**	**$ 443,584**	**$ 612,382**	**$ 719,819**

Cineplex has aggregate gross capital commitments of $125.3 million ($111.6 million net of tenant inducements) related to the completion of construction of eleven theatre properties to include an aggregate of 121 screens (including 40 VIP auditoriums) over the next three years. In addition, Cineplex has gross commitments over the next two years of $18.6 million for other theatre projects, including the addition of three VIP auditoriums at one theatre and the conversion of existing auditoriums to VIP at selected theatres.

At December 31, 2013, Cineplex had $107.5 million principal amount of convertible debentures outstanding that have a maturity date of December 31, 2018. At December 31, 2013, the convertible debentures were recorded on Cineplex’s balance sheet at $96.9 million. The convertible debentures are being accreted to their maturity value using the effective interest method as prescribed by IAS 39, *Financial Instruments: Recognition and Measurement.* On and after December 31, 2016 and prior to December 31, 2017, Cineplex may, at its option, redeem the debentures in whole or in part from time to time, subject to specified market conditions. On or after December 31, 2017, the convertible debentures may be redeemed in whole or in part from time to time at the option of Cineplex at a price equal to their principal amount plus accrued and unpaid interest. Redemptions may be in cash or in the form of Shares, at the option of Cineplex. See Section 9, Share activity, for more information regarding the convertible debentures.

Cineplex’s acquisition of EK3 during the third quarter of 2013 includes an earn-out payment subject to an aggregate maximum purchase price of $78.0 million for both the initial payment and the earn-out payment. The earn-out payment will be based on 2015 operating results and will be paid in early 2016. Cineplex estimates that the maximum earn-out will be achieved, and at December 31, 2013, the deferred contingent consideration is recognized in Cineplex’s balance sheet at an estimated fair value of $30.6 million, with an undiscounted value of $39.6 million. The deferred contingent consideration is being accreted to its maximum cap using the effective interest method as prescribed by IAS 39, *Financial Instruments: Recognition and Measurement.*

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 2013 dividend, the Board approved a dividend increase to $0.1200 per month per Share.

8.1 ADJUSTED FREE CASH FLOW

Cineplex distributes cash to its shareholders on a monthly basis. The following table illustrates adjusted free cash flow per Share, dividends paid per Share, and the payout ratio of dividends relative to adjusted free cash flow for the three months and year ended December 31, 2013 and 2012:

Adjusted free cash flow	**Fourth Quarter**			**Full Year**		
	2013	**2012**	**Change**	**2013**	**2012**	**Change**
Adjusted free cash flow per Share	$ 0.5769	$ 0.5403	6.8%	$ 2.4580	$ 2.0785	18.3%
Dividends declared per Share	$ 0.3600	$ 0.3375	6.7%	$ 1.4100	$ 1.3300	6.0%
Payout ratio-three months and year ended December 31	62.4%	62.5%	-0.1%	57.4%	64.0%	-6.6%

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

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

	Fourth Quarter			Full Year		
	2013	2012	Change	2013	2012	Change
Cash flows provided by operations	$ 134,455	$ 109,586	22.7%	$ 224,648	$ 175,634	27.9%
Net income	$ 20,168	$ 32,704	-38.3%	$ 83,557	$ 120,484	-30.6%
Standardized free cash flow	$ 120,061	$ 89,679	33.9%	$ 165,811	$ 107,075	54.9%
Adjusted free cash flow	$ 36,274	$ 33,572	8.0%	$ 154,467	$ 126,924	21.7%
Cash dividends declared	22,642	$ 21,036	7.6%	$ 88,619	$ 81,572	8.6%
Average number of Shares outstanding	62,875,151	62,137,513	1.2%	62,843,248	61,065,540	2.9%

8.2 DIVIDENDS

Subject to the discretion of the Board, dividends are typically declared on a monthly basis to common shareholders of record on the last business day of each month. For the three months and year ended December 31, 2013, Cineplex declared dividends totaling $0.3600 and $1.4100 per Share. For the three months and year ended December 31, 2012, Cineplex declared dividends totaling $0.3375 and $1.3300 per Share.

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

Distribution and dividend history	
Effective Date	**Monthly Distribution/Dividend per Unit/Share**
January 2004 (i)	$ 0.0958
May 2007	$ 0.1000
May 2008 (ii)	$ 0.1050
May 2011	$ 0.1075
May 2012	$ 0.1125
May 2013	$ 0.1200

(i) For the 36 day period from November 26, 2003 (the inception of the Fund) to December 31, 2003, the Fund declared a distribution of $0.1118.
(ii) The Fund declared and paid distributions at a rate of $0.1050 per month from May 2008 until December 2010. The Fund converted to a corporation on January 1, 2011, at which time distributions ceased and dividends began at the same rate of $0.1050 per month.

9. SHARE ACTIVITY

Share capital at December 31, 2013 and the transactions during the year is as follows (expressed in thousands of Canadian dollars except Share amounts):

	Shares			Amount				
	Number of common shares issued and outstanding	Number of common shares held by LTIP trust	Common shares, net	Common shares	Equity component of convertible debentures	LTIP common shares	LTIP obligation	Total
Balance-December 31, 2012	62,783,002	(139,727)	62,643,275	$ 847,483	$ —	$ (3,264)	$ 3,016	$ 847,235
Costs of LTIP obligation	—	—	—	—	—	—	248	248
Issuance of shares on exercise of options	151,026	—	151,026	1,457	—	—	—	1,457
Transfer of common shares to LTIP participants	—	139,727	139,727	—	—	3,264	(3,264)	—
Conversion option of convertible debentures, net of $1,695 deferred tax.	—	—	—	—	4,471	—	—	4,471
Balance-December 31, 2013	62,934,028	—	62,934,028	$ 848,940	$ 4,471	$ —	$ —	$ 853,441

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
2013 LTIP award	124,936
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 5,250,000 Shares. All of the options must be exercised over specified periods not to exceed ten years from the date granted (five years for options granted on or before December 31, 2010). As of December 31, 2013, 4,409,608 Share options have been issued under the Share option plan.

A summary of option activities for the year ended December 31, 2013 and 2012 is as follows:

	2013			2012	
	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	8.37	1,460,546	$ 24.38	1,587,538	$ 19.88
Granted		405,834	33.77	474,000	27.33
Canceled		(7,568)	29.69	—	—
Exercised		(399,040)	23.40	(600,992)	14.83
Options outstanding - end of period	7.96	1,459,772	$ 27.23	1,460,546	$ 24.38

During the fourth quarter of 2013, Cineplex issued $107.5 million convertible unsecured subordinated debentures, maturing on December 31, 2018 (the "Maturity Date") and bearing interest at a rate of 4.5% per annum, payable semi-annually in arrears on June 30 and December 31 in each year, commencing on December 31, 2013. At the holder's option, the debentures may be converted into Shares at any time prior to the close of business five days before the earlier of the Maturity Date, the date fixed for redemption by Cineplex, or if called for repurchase in the event of a change in control, the payment date, at a conversion price of $56 per Share. The debentures will not be redeemable by Cineplex prior to December 31, 2016.

On and after December 31, 2016 and prior to December 31, 2017, Cineplex may, at its option, redeem the convertible debentures in whole or in part from time to time, subject to specified market conditions. On or after December 31, 2017, the convertible debentures may be redeemed in whole or in part from time to time at the option of Cineplex at a price equal to their principal amount plus accrued and unpaid interest. Redemptions may be in cash or in the form of Shares, at the option of Cineplex.

During 2012, a prior issue of 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 2011, Cineplex filed for a normal course issuer bid ("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.

10. SEASONALITY AND QUARTERLY RESULTS

Historically, Cineplex's revenues have been seasonal, coinciding with the timing of major film releases by the major distributors. The most marketable motion pictures have traditionally been released during the summer and the late-November through December holiday season. This may cause changes, from quarter to quarter, in attendance levels, theatre staffing levels and reported results. The seasonality of motion picture exhibition attendance has become less pronounced as film studios have expanded the historical summer and holiday release windows and increased the number of heavily marketed films released during traditionally weaker periods. To meet working capital requirements during the traditionally lower-revenue quarters, Cineplex can draw upon the Revolving Facility. As of December 31, 2013, there was $70.0 million drawn on the Revolving Facility.

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

	2013				2012 (i)			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues								
Box office revenues	$ 177,69	$ 168,06	$ 174,38	$ 145,16	$ 170,52	$ 162,13	$ 156,22	$ 149,41
Concession revenues	93,294	91,487	89,693	75,879	86,409	85,924	79,962	77,037
Other revenues	52,221	38,805	37,556	27,026	41,768	33,091	27,486	22,528
	323,207	298,358	301,632	248,070	298,701	281,148	263,674	248,978
Expenses								
Film cost	91,867	88,144	92,973	73,389	87,477	83,632	83,465	76,707
Cost of concessions	19,835	19,411	19,173	16,274	18,077	17,831	16,720	15,770
Depreciation and amortization	19,748	17,317	16,527	17,298	16,968	14,044	14,678	16,473
Loss (gain) on disposal of assets	432	1,564	1,314	1,062	(3,138)	114	727	(55)
Other costs	158,025	134,386	131,875	127,533	136,319	126,253	116,996	115,969
	289,907	260,822	261,862	235,556	255,703	241,874	232,586	224,864
Income from operations	33,300	37,536	39,770	12,514	42,998	39,274	31,088	24,114
Adjusted EBITDA (ii)	54,144	57,896	58,711	31,690	57,507	54,575	47,263	41,139
Net income	$ 20,168	$ 26,030	$ 28,543	$ 8,816	$ 32,704	$ 51,712	$ 20,960	$ 15,108
Basic earnings per Share	$ 0.32	$ 0.41	$ 0.45	$ 0.14	$ 0.53	$ 0.84	$ 0.34	$ 0.26
Diluted earnings per Share (iii)	$ 0.32	$ 0.41	$ 0.45	$ 0.14	$ 0.52	$ 0.83	$ 0.34	$ 0.26
Cash provided by (used in) operating activities	134,455	22,546	74,444	(6,797)	109,445	38,955	25,969	1,124
Cash used in investing activities	(204,563)	(49,102)	(22,695)	(20,865)	(20,097)	(11,482)	(19,693)	(20,536)
Cash provided by (used in) financing activities	102,087	9,929	(37,233)	(6,731)	(42,609)	(41,428)	(576)	(20,693)
Net change in cash	$ 31,979	$ (16,627)	$ 14,516	$ (34,393)	$ 46,739	$ (13,955)	$ 5,700	$ (40,105)
Box office revenue per patron (ii)	$ 9.42	$ 8.84	$ 9.36	$ 8.97	$ 9.18	$ 8.84	$ 9.11	$ 8.72
Concession revenue per patron (ii)	$ 4.94	$ 4.81	$ 4.81	$ 4.69	$ 4.65	$ 4.68	$ 4.66	$ 4.50
Attendance (in thousands of patrons) (ii)	18,872	19,011	18,629	16,191	18,577	18,348	17,146	17,127
Theatre locations (at period end)	161	136	136	136	134	133	130	130
Theatre screens (at period end)	1,630	1,454	1,454	1,455	1,449	1,438	1,359	1,352

(i) Effective January 1, 2013, Cineplex implemented IFRS 11 retrospectively. As a result, certain comparative items presented in this MD&A for 2012 have been revised.
(ii) See Section 17, Non-GAAP measures.
(iii) Excludes the conversion of convertible debentures as such conversion would be anti-dilutive.

Summary of adjusted free cash flow by quarter

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

	2013				2012 (i)			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Cash provided by operating activities	$ 134,455	$ 22,546	$ 74,444	$ (6,797)	$ 109,586	$ 38,955	$ 25,969	$ 1,124
Less: Total capital expenditures net of proceeds on sale of assets	(14,394)	(10,254)	(17,292)	(16,897)	(19,907)	(16,066)	(19,693)	(12,893)
Standardized free cash flow	120,061	12,292	57,152	(23,694)	89,679	22,889	6,276	(11,769)
Add/(Less):								
Changes in operating assets and liabilities	(85,812)	30,609	(20,542)	38,443	(62,706)	3,052	12,154	40,014
Changes in operating assets and liabilities of joint ventures	(549)	317	(1,099)	167	(363)	(160)	(816)	(6,280)
Tenant inducements	(500)	(1,612)	(348)	(2,957)	(1,643)	(727)	(1,948)	(3,297)
Principal component of financing lease obligations	(615)	(571)	(551)	(540)	(531)	(520)	(512)	(541)
New build capital expenditures and other	2,561	5,526	10,890	12,034	8,665	9,925	13,595	9,774
Share of income of joint ventures, net of non-cash depreciation	593	1,391	1,071	800	661	1,114	770	607
Net cash received from (invested in) CDCP	535	(36)	(403)	(146)	(190)	(4)	—	(244)
Adjusted free cash flow	$ 36,274	$ 47,916	$ 46,170	$ 24,107	$ 33,572	$ 35,569	$ 29,519	$ 28,264
Average number of Shares outstanding	62,875,151	62,848,551	62,844,730	62,803,716	62,137,513	61,996,063	61,289,181	58,847,728
Adjusted free cash flow per Share	$ 0.5769	$ 0.7624	$ 0.7347	$ 0.3838	$ 0.5403	$ 0.5737	$ 0.4816	$ 0.4803

(i) Effective January 1, 2013, Cineplex implemented IFRS 11 retrospectively. As a result, certain comparative items presented in this MD&A for 2012 have been revised.

11. RELATED PARTY TRANSACTIONS

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

A member of the Board is the Chief Executive Officer of Riocan Real Estate Investment Trust ("Riocan"). During the three months and year ended December 31, 2013, Cineplex incurred theatre occupancy expenses for theatres under lease commitments with Riocan in the amounts of $12.0 million and $48.0 million, respectively (2012 - $11.4 million and $46.1 million, respectively).

12. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATION UNCERTAINTIES

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

Property, equipment and leaseholds - estimated useful lives

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

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

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

Financial instruments - fair value of earn-out payment

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

Revenue recognition - gift cards and gift certificates

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

Income taxes

The timing of reversal of timing differences and the expected income allocation to various tax jurisdictions within Canada affect the effective income tax rate used to compute the deferred income tax asset.

Management estimates the reversals and income allocation based on historical and budgeted operating results and income tax laws existing at the balance sheet date. In addition, management occasionally estimates the current or future deductibility of certain expenditures, affecting current or deferred income tax balances and expenses.

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

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

Share-based compensation

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

13. ACCOUNTING POLICIES

13.1 ACCOUNTING STANDARDS ADOPTED IN 2013

The following standards and amendments to standards were adopted in the year ended December 31, 2013:

Cineplex has adopted the amendments to IAS 1, *Presentation of Financial Statements*, effective January 1, 2013. These amendments required Cineplex to group other comprehensive income items by those that will be reclassified subsequently to profit or loss and those that will not be reclassified. Cineplex has reclassified comprehensive income items of the comparative period. These changes did not result in any adjustments to other comprehensive income or comprehensive income.

IFRS 10, Consolidated Financial Statements

IFRS 10, *Consolidated Financial Statements*, replaces the guidance on control and consolidation in IAS 27, *Consolidated and Separate Financial Statements*, SIC-12, *Consolidation - Special Purpose Entities.* IFRS10 requires consolidation of an investee only if the investor possesses power over the investee, has exposure to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. Detailed guidance is provided on applying the definition of control. The accounting requirements for consolidation have remained largely consistent with IAS 27. Cineplex assessed its consolidation conclusions on January 1, 2013 and determined that the adoption of IFRS 10 did not result in any change in the consolidation status of any of its subsidiaries and investees.

IFRS 11, Joint Arrangements

IFRS 11, *Joint Arrangements*, supersedes IAS 31, *Interests in Joint Ventures,* and requires joint arrangements to be classified either as joint operations or joint ventures depending on the contractual rights and obligations of each investor that jointly controls the arrangement. For joint operations, a company recognizes its share of assets, liabilities, revenues and expenses of the joint operation. An investment in a joint venture is accounted for using the equity method as set out in IAS 28, *Investments in Associates and Joint Ventures* (amended in 2011). The other amendments to IAS 28 did not affect Cineplex. Cineplex has classified its involvement with SCENE as a joint operation. Cineplex's 50% interest in SCENE previously was accounted for using the equity method of accounting. As a result of the change in accounting, Cineplex now recognizes its share of assets, liabilities, revenues and expenses of SCENE. This change in accounting was adopted retrospectively as at January 1, 2012 by Cineplex derecognizing its deficiency investment in SCENE and recognizing its share of assets and liabilities of SCENE, with no adjustment to net income, comprehensive income, or retained earnings. Subsequent to January 1, 2012, Cineplex has recognized its share of assets, liabilities, revenues and expenses of SCENE.

IFRS 13, Fair Value Measurement

IFRS 13, *Fair Value Measurement*, provides a single framework for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. Cineplex adopted IFRS 13 on January 1, 2013 on a prospective basis. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used to measure fair value and did not result in any measurement adjustments as at January 1, 2013, but requires additional disclosures to be made.

IAS 19, *Employee Benefits* (amended in 2011), amends certain accounting requirements for defined benefit plans and termination benefits. IAS 19 (Revised 2011) requires the net defined benefit liability (asset) to be recognized on the balance sheet without any deferral of actuarial gains and losses and past service costs as previously allowed. Past service costs are recognized in net income when incurred. Expected returns on plan assets are no longer included in post-employment benefits' expense. Instead, post-employment benefits' expense includes the net interest on the net defined benefit liability (asset) calculated using a discount rate based on market yields on high quality bonds. Remeasurements consisting of actuarial gains and losses, the actual return on plan assets (excluding the net interest component) and any change in the asset ceiling are recognized in other comprehensive income. Cineplex continues to immediately recognize in retained earnings all pension adjustments recognized in other comprehensive income.

IAS 19 (amended in 2011) also clarified that benefits are classified as long-term employee benefits if payments are not expected to be made within the next 12 months. Cineplex has reviewed the classification of its benefits and determined that no reclassifications are required.

IAS 36, Impairment of Assets

IAS 36, *Impairment of Assets*, has been amended to address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. Cineplex has early-adopted the amendments in the current year, and there was no 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. The new standard is effective for annual periods beginning on or after January 1, 2015 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 standard:

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 9 was amended In November 2013, to (i) include guidance on hedge accounting, (ii) allow entities to early adopt the requirement to recognize changes in fair value attributable to changes in an entity's own credit risk, from financial liabilities designated under the fair value option, in OCI (without having to adopt the remainder of IFRS 9) and (iii) remove the previous mandatory effective date of January 1, 2015, although the standard is available for early adoption.

International Financial Reporting Interpretations Committee ("IFRIC") 21, Levies

IFRIC 21, *Levies* was issued to clarify that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be recognized before the specified minimum threshold is reached. This is effective for annual periods beginning on or after January 1, 2014 and cannot be early adopted. Cineplex is considering the impact of this standard.

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 digital commerce and expanded media offerings. Nonetheless, Cineplex is highly dependent on film product and film performance, including the number and success of blockbuster films. A reduction in quality or quantity of both 2D and 3D film product or any disruption in the production or release of films, including a strike or threat of a strike, a reduction in the marketing efforts of film studios and distributors or a significant change in film release patterns, would have a negative effect on film attendance and adversely affect Cineplex's business and results of operations.

In 2013, seven major film distributors accounted for approximately 94.1% 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.

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.

Media Risk

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

Technology Risk

Technological advances and the conversion of films into digital formats have made it easier to create, transmit and "share" via downloading over the Internet or unauthorized copying, high quality copies of films in theatrical release. Some consumers may choose to obtain unauthorized copies of films rather than attending 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 other technology options rather than attending a theatre.

To mitigate these risks, Cineplex continues to enhance the out-of-home experience through the addition of new technologies and experiences including 3D, VIP, UltraAVX and digital projection in order to further differentiate the theatrical product from the home product. Approximately 44% of Cineplex's auditoriums are currently equipped to screen 3D content. Cineplex has also diversified its offerings to customers by operating the Cineplex Store which sells DVDs, Blu-ray discs, as well as VoD and DTO movies online in order to participate in the in-home and on-the-go entertainment markets.

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.

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

Customer Risk

Cineplex competes for the public's leisure time and disposable income with other forms of entertainment including home and online consumption of content, sporting events, live music concerts, live theatre and restaurants. 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 auditoriums and XSCAPE entertainment centres in select theatres and by providing alternative programming which appeals to specific demographic groups. In addition, the advent of digital technology has allowed for more niche programming. In the event that consumer preferences change, Cineplex may need to incur further capital expenditures to redevelop existing locations. In consideration of this risk, Cineplex continues to improve the quality of its theatre assets through ongoing theatre upgrades and retrofits.

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

Cineplex continues to pursue other revenue opportunities such as 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.

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

Human Resources Risk

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

Cineplex employs approximately 11,000 people, of whom approximately 90% are hourly workers whose compensation is based on the prevailing provincial minimum wages with incremental adjustments as required to match market conditions. Any increase in these minimum wages will increase employee related costs. Approximately 6% of Cineplex's employees are represented by unions, located primarily in the province of Quebec. Because of the small percentage of employees represented by unions, the 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 continues to be liable for obligations under theatre leases in respect of certain divested theatres. If the transferee of any such theatres fails to satisfy the obligations under such leases, Cineplex may be required to assume the lease obligations.

Integration Risk

While Cineplex has successfully integrated businesses acquired in the past, there can be no assurance that all acquisitions, including those completed in 2013, will be successfully integrated or that Cineplex will be able to realize expected operating and economic efficiencies from the acquisitions.

Financial Markets Risk

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

Cineplex hedges interest rates on the Term Facility, thereby minimizing the impact of significant fluctuations in the market rates. Cineplex's exposure to currency and commodity risk is minimal as the majority of its transactions are in Canadian dollars and commodity costs are not a significant component of the overall cost structure.

Sourcing Risk

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

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

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

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

Health and Safety Risk

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

Business Continuity Risk

Cineplex's primary source of revenue is derived from providing an out-of-home entertainment experience. A terrorist threat or the outbreak of a pandemic may cause people to stay away from public places including movie theatres which would significantly impact business results. Cineplex operates in ten provinces which 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, provincial and municipal laws, rules and regulations related to Cineplex's business could have a material impact on its financial results. Compliance with any proposed changes could also result in significant cost to Cineplex. Failure to fully comply with various laws, rules and regulations may expose Cineplex to proceedings which may materially affect its performance.

To mitigate these risks, Cineplex uses third party tax and legal experts to assist in structuring significant transactions and contracts. Cineplex also has systems and controls that ensure the timely production of financial information in order to meet regulatory requirements and has implemented disclosure controls and internal controls over financial reporting which are tested for effectiveness on an ongoing basis. 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 its business model and reporting on performance. The integrity, reliability and security of information are critical to Cineplex's daily and strategic operations. Inaccurate, incomplete or unavailable information or inappropriate access to information could lead to incorrect financial or operational reporting, poor decisions, privacy breaches or inappropriate disclosure of sensitive information. Cineplex continues to strengthen general information technology controls by developing operating policies and procedures in the areas of change management, computer operations and security access.

15. CONTROLS AND PROCEDURES

15.1 DISCLOSURE CONTROLS AND PROCEDURES

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

Management has evaluated the design and operation of Cineplex's disclosure controls and procedures as of December 31, 2013 and has concluded that such disclosure controls and procedures are effective.

15.2 INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management of Cineplex is responsible for designing and evaluating the effectiveness of internal controls over financial reporting for Cineplex as defined under National Instrument 52-109 issued by the Canadian Securities Administrators. Management has designed such internal controls over financial reporting using the Integrated Control - Integrated Framework developed by the Committee of Sponsoring Organizations of the Treadway Commissions ("COSO") in 1992, or caused them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with GAAP.

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

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

Management has evaluated the design and operation of Cineplex's internal controls over financial reporting as of December 31, 2013, and has concluded that such controls over financial reporting are effective. There are no material weaknesses that have been identified by management in this regard.

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

16. OUTLOOK

The following discussion is qualified in its entirety by the caution regarding forward-looking statements at the beginning of this MD&A and Section 14, Risk management.

THEATRE EXHIBITION

Cineplex reported record attendance, box office revenues and BPP during 2013 due to the expansion of its theatre circuit coast-to-coast with the acquisition of the Atlantic Theatres in the fourth quarter of 2013. Cineplex believes its operating and programming expertise, combined with its merchandising, media, marketing, interactive and SCENE loyalty programs will positively and significantly impact the business of these 24 theatres. Cineplex will invest in each of the locations and may add UltraAVX auditoriums, VIP Cinemas, DBOX seating, expanded food offerings or XSCAPE entertainment centres to one or more of the locations.

The increasing popularity of premium-priced product, which accounted for 38.7% of Cineplex's box office revenues in 2013 compared to 30.9% in 2012, also contributed to the revenue and BPP increases in the current year.

Highly anticipated 3D films to be released in 2014 include *The Amazing Spider-Man 2, Transformers: Age of Extinction, The Lego Movie, X-Men: Days of Futures Past, How to Train Your Dragon 2* and *The Hobbit:*

There and Back Again. Other highly anticipated films to be released in 2014 include *Dawn of the Planet of the Apes, Interstellar* and *The Hunger Games: Mockingjay, Part 1*. 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.

Cineplex plans to open an average of two to three new theatres per year. Cineplex is also focused on providing guests with a variety of premium viewing options through which to enjoy the theatre experience, and will continue to expand premium viewing options throughout its circuit in 2014 and beyond. VIP auditoriums and other premium viewing options are a key component to Cineplex's theatre exhibition strategy, and have been well received by audiences.

Box office revenues are highly dependent on the marketability, quality and appeal of the film product released by major motion picture studios. Cineplex's future box office revenues will be dependent on the quality and availability of the film product released in 2014 and beyond.

MERCHANDISING

Cineplex reported record concession revenues in 2013, due to the 2.1% increase in attendance and the 4.1% increase in CPP during the year. Cineplex has reported CPP growth in each year since the Fund's formation in 2003, with 2013 CPP of $4.82 representing an annual record. Although pricing does impact CPP, Cineplex's core focus is on operational execution, promotions and providing the optimal product mix to provide further growth in this area. As part of this strategy, Cineplex continues to expand its in-house brands *Outtakes* and *Poptopia* across the circuit. Cineplex also continues to roll-out new digital menu boards in its theatres which provide guests with more interactive messaging during visits to the concession stands.

During the fourth quarter of 2013, Cineplex opened its first stand-alone food service business with the opening of *YoYo's Yogurt Café* at the Pergola Commons complex in Guelph, Ontario. Subsequent to the year end, Cineplex announced that it had acquired a 50% ownership in YoYo's Yogurt Café (YYC Franchise Corporation and YYC Wholesale Corporation), a London, Ontario-based self-serve frozen yogurt chain with stores throughout the province. In 2014 and beyond, Cineplex will look at opportunities to incorporate *YoYo's* offerings into Cineplex's existing theatres and other non-theatre stores.

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*, a family entertainment centre located in Mississauga, Ontario.

MEDIA

Cineplex believes that no other medium engages viewers like the cinema experience: engaged moviegoers, sitting in a darkened theatre, ready to be entertained and fully focused on the screen. Research has shown that cinema media advertising reaches the most sought-after demographics, as well as Canada's high-income households and educated populations. Traditional in-theatre media revenues increased $15.9 million in 2013, contributing to the overall 30.0% increase in media revenues for the year.

During the period, Cineplex completed the acquisition of EK3. The acquisition of EK3, subsequently renamed CDN, will allow Cineplex to combine its brand, resources and media sales along with CDN's proprietary technology platform, network management, award-winning creative services and digital merchandise expertise to deliver additional value to current customers as well as provide enticing offerings for prospective new clients. CDN contributed $10.9 million of revenue to Cineplex in 2013.

Cineplex continues to enhance its media offerings outside of the theatre setting through its digital out-of-home media businesses CDM, CDS and CDN. At December 31, 2013, Cineplex's digital out-of-home business operates digital players in 9,179 locations. Cineplex believes that the strengths of CDM, CDS and CDN will make Cineplex a leader in the indoor digital signage industry and provide a platform for significant growth throughout North America.

ALTERNATIVE PROGRAMMING

During 2013, Cineplex offered a wide variety of alternative programming, including the popular Metropolitan Opera live in HD series, ethnic film programming, 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.

The acquisition of the Atlantic Theatres has allowed Cineplex to expand its *Front Row Centre* programming to audiences in Atlantic Canada.

INTERACTIVE

During 2013, Cineplex completed the re-launch of both cineplex.com and the Cineplex Store, providing visitors and customers with an improved user experience by providing a more user-friendly online experience, including simplified search, streamlined purchase and payment functionality and consistency of experience across device types. The Cineplex Store launched Digital Tuesdays, offering select discounts on DVDs, Blu-Ray discs, DTO and VoD movies on Tuesdays.

Cineplex was 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 change the way people watch movies outside of the theatre. 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. SuperTicket, a first-ever bundled offering from multiple studios that allows movie-goers to purchase a movie admission and pre-order the Ultraviolet digital download at the same time, allows for integration of the theatre experience with the UltraViolet digital experience.

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 Ultra Violet in Canada, the introduction of SuperTicket and continued expansion of other offerings. Cineplex will continue to offer promotions to grow Cineplex Store revenues including tie-ins with the SCENE loyalty program, and continues device integration to provide on-the-go content options across a wide range of viewing platforms and devices.

LOYALTY

The SCENE loyalty program continues to grow its membership base, with approximately 5.3 million members at December 31, 2013. As part of the Cineplex Tuesdays program, SCENE members get 10% off all ticket prices on Tuesdays across the circuit, which are already generally discounted.

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

The acquisition of the Atlantic Theatres has allowed Cineplex to provide SCENE earning and redemption opportunities in this area, providing a national theatre presence across Canada for the program and providing the potential for a significant increase in SCENE membership from this area of the country.

In 2014 and beyond, SCENE is focused on growing the member base and continuing to enhance member engagement with the program through various avenues including the addition of partner reward options and promotional programs.

FINANCIAL OUTLOOK

Effective with the May 2013 dividend, the Board announced a monthly dividend increase to $0.1200 per Share. On an annual basis, this represents a total annual dividend of $1.4400, a 6.7% increase from the previous annual rate of $1.3500. During 2013, Cineplex generated adjusted free cash flow per Share of $2.4580, compared to $2.0785 in the prior year. Cineplex declared dividends per Share of $1.4100 and $1.3300, respectively, in each period. The payout ratios for these periods were approximately 57.4% and 64.0%, respectively. The acquisition of AMC Ventures Inc. and its subsequent wind-up into Cineplex resulted in non-capital losses of $147.0 million being made available to offset taxable income earned by Cineplex beginning in 2013, positively impacting adjusted free cash flow per Share and the payout ratios for 2013.

During 2013, Cineplex announced it had entered into the Credit Facilities which mature in October 2018. Under the Credit Facilities, Cineplex has a $150.0 million Term Facility and a $250.0 million Revolving Facility which is available to finance acquisitions, new theatre construction, working capital and dividends. As defined under the Credit Facilities, as at December 31, 2013, Cineplex reported a leverage ratio of 1.13x as compared to a covenant of 3.50x.

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

17. NON-GAAP MEASURES

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

17.1 EBITDA AND ADJUSTED EBITDA

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

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

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

	Year ended December 31, 2013	2012	2011
Net income	**$ 83,557**	**$ 120,484**	**$ 49,260**
Depreciation and amortization	70,890	62,163	68,115
Interest expense	10,743	12,585	24,854
Interest income	(307)	(205)	(898)
Current income tax expense	3,608	31,436	17,493
Deferred income tax expense	29,369	1,189	11,801
EBITDA	**$ 197,860**	**$ 227,652**	**$ 170,625**
Loss (gain) on disposal of assets	4,372	(2,352)	735
(Gain) on acquisition of business	—	(24,752)	—
CDCP equity (income) loss (i)	(2,336)	(2,222)	1,658
Depreciation and amortization - joint ventures (ii)	2,139	1,822	156
Joint venture taxes and interest (ii)	406	336	—
Adjusted EBITDA	**$ 202,441**	**$ 200,484**	**$ 173,1748**

(i) CDCP equity income not included in adjusted EBITDA as CDCP is a limited-life financing vehicle that is funded by virtual print fees collected from distributors.
(ii) Includes the joint ventures with the exception of CDCP (see (i) above).

17.2 ADJUSTED FREE CASH FLOW

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

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

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

	Year ended December 31, 2013	2012	2011
Cash provided by operating activities	$ 224,648	$ 175,634	$ 176,277
Less: Total capital expenditures net of proceeds on sale of assets	(58,837)	(68,559)	(58,666)
Standardized free cash flow	165,811	107,075	117,611
Add/(Less):			
Changes in operating assets and liabilities (i)	(37,302)	(7,486)	(38,294)
Changes in operating assets and liabilities of joint ventures (i)	(1,164)	(7,619)	2,145
Tenant inducements (ii)	(5,417)	(7,615)	(7,150)
Principal component of finance lease obligations	(2,277)	(2,104)	(2,242)
Growth capital expenditures and other (iii)	31,011	41,959	40,769
Share of income of joint ventures, net of non-cash depreciation (iv)	3,855	3,152	1,545
Net cash invested in CDCP (iv)	(50)	(438)	(356)
Adjusted free cash flow	**$ 154,467**	**$ 126,924**	**$ 114,028**
Average number of Shares outstanding	62,843,248	61,065,540	58,009,953
Adjusted free cash flow per Share	**$ 2.4580**	**$ 2.0785**	**$ 1.9657**
Dividends declared	**$ 1.4100**	**$ 1.3300**	**$ 1.2800**
Payout ratio (v)	**57.4%**	**64.0%**	**65.1%**

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

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

(iii) Growth capital expenditures and other represent expenditures on Board approved projects as well as any expenditures for digital equipment that was contributed to CDCP, exclude maintenance capital expenditures, and are net of proceeds on asset sales. The Revolving Facility (discussed above in Section 7.4, Credit Facilities) is available to Cineplex to fund Board approved projects.

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

(v) Payout ratio is calculated as dividends paid per Share divided by adjusted free cash flow per Share.

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,		
	2013	2012	2011
Net income	$ 83,557	$ 120,484	$ 49,260
Adjust for:			
Depreciation and amortization	70,890	62,163	68,115
Loss (gain) on disposal of assets	4,372	(2,352)	735
(Gain) on acquisition of business	—	(24,752)	—
Non-cash interest expense (i)	1,336	2,370	6,423
Share of (income) loss of CDCP (ii)	(2,336)	(2,222)	1,658
Non-cash depreciation of joint ventures	2,139	1,822	156
Deferred income tax expense	29,369	1,189	11,801
Joint venture deferred income tax expense	202	289	—
Maintenance capital expenditures	(27,826)	(26,600)	(17,897)
Principal component of finance lease obligations	(2,277)	(2,104)	(2,242)
Net cash invested in CDCP (ii)	(50)	(438)	(356)
Non-cash items:			
Amortization of tenant inducements, rent averaging liabilities and fair value lease contract assets	(6,735)	(5,033)	(3,955)
Non-cash Share-based compensation	1,826	2,108	330
Adjusted free cash flow	**$ 154,467**	**$ 126,924**	**$ 114,028**

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

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

17.3 OTHER NON-GAAP MEASURES MONITORED BY MANAGEMENT

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

Earnings per Share Metrics
The three months and year ended December 31, 2012 include a gain on the acquisition of the four theatres acquired from AMC of $0.9 million and $24.8 million, respectively. Cineplex has presented basic and diluted earnings per share net of gains on acquisitions to provide a more comparable earnings per share metric between the current and prior year periods. In the non-GAAP measure, earnings is defined as net income less the gain on acquisition of business.

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

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

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

Same store metrics are calculated by removing the results for all theatres that have been opened, acquired, closed or otherwise disposed of during the periods. For the three months ended December 31, 2013, the impact of the 30 locations that have been opened or acquired and the two locations that have been closed or otherwise disposed of have been excluded, resulting in 129 theatres being included in the same store metrics. For the year ended December 31, 2013, the impact of the 35 locations that have been opened or acquired and the four locations that have been closed or otherwise disposed of have been excluded, resulting in 122 theatres being included in the same store metrics.

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

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

Concession cost percentage: Calculated as total concession costs divided by total concession revenues for the period.

MANAGEMENT'S REPORT TO SHAREHOLDERS

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

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

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

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

Ellis Jacob
Chief Executive Officer

Gord Nelson
Chief Financial Officer

Toronto, Ontario

February 10, 2014

February 10, 2014

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, 2013, December 31, 2012 and January 1, 2012 and the consolidated statements of operations, comprehensive income, changes in equity and cash flows for the years ended December 31, 2013 and December 31, 2012, 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, 2013, December 31, 2012 and January 1, 2012 and their financial performance and their cash flows for the years ended December 31, 2013 and December 31, 2012 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

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

Consolidated balance sheets
(expressed in thousands of Canadian dollars)

	December 31, 2013	December 31, 2012 *(note 2)*	January 1, 2012 *(note 2)*
Assets			
Current assets			
Cash and cash equivalents (note 6)	$ 44,140	$ 48,665	$ 50,145
Trade and other receivables (note 7)	100,891	77,278	70,473
Inventories (note 8)	7,234	5,193	4,124
Prepaid expenses and other current assets	6,838	3,047	3,727
	159,103	134,183	128,469
Non-current assets			
Property, equipment and leaseholds (note 9)	459,112	418,498	389,674
Deferred income taxes (note 10)	17,635	53,528	12,052
Fair value of interest rate swap agreements (note 4)	92	—	—
Interests in joint ventures (note 11)	44,359	41,623	26,163
Intangible assets (note 12)	113,601	78,460	84,379
Goodwill (note 13)	797,476	608,929	608,929
	$ 1,591,378	$ 1,335,221	$ 1,249,666

Business acquisitions (note 3)

Commitments, guarantees and contingencies (note 27)

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

Consolidated balance sheets…continued

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

	December 31, 2013	December 31, 2012 *(note 2)*	January 1, 2012 *(note 2)*
Liabilities			
Current liabilities			
Accounts payable and accrued expenses (note 14)	$ 157,333	$ 129,499	$ 115,076
Share-based compensation (note 15)	12,151	—	1,331
Dividends payable (note 16)	7,552	7,063	6,285
Income taxes payable (note 10)	2,656	13,654	17,485
Deferred revenue	136,373	106,253	93,955
Finance lease obligations (note 18)	2,394	2,222	2,411
Fair value of interest rate swap agreements (note 4)	635	513	565
Convertible debentures (note 21)	—	—	76,864
	319,094	259,204	313,972
Non-current liabilities			
Share-based compensation (note 15)	15,622	12,223	9,466
Long-term debt (note 17)	217,151	148,066	167,531
Fair value of interest rate swap agreements (note 4)	—	273	1,199
Finance lease obligations (note 18)	17,722	20,548	26,474
Post-employment benefit obligations (note 19)	6,522	6,274	5,688
Other liabilities (note 20)	170,125	141,319	103,727
Convertible debentures (note 21)	96,870	—	—
	524,012	328,703	314,085
Total liabilities	843,106	587,907	628,057
Equity			
Share capital (note 22)	853,411	847,235	764,801
Deficit	(107,323)	(102,547)	(140,469)
Accumulated other comprehensive loss	(1,715)	(1,142)	(2,723)
Contributed surplus	3,899	3,768	—
	748,272	747,314	621,609
	$ 1,591,378	$ 1,335,221	$ 1,249,666

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, 2013 and 2012
(expressed in thousands of Canadian dollars, except per share amounts)

	2013	2012 *(note 2)*
Revenues		
Box office	$ 665,306	$ 638,296
Concessions	350,353	329,332
Other	155,608	124,873
	1,171,267	1,092,501
Expenses		
Film cost	346,373	331,281
Cost of concessions	74,693	68,398
Depreciation and amortization	70,890	62,163
Loss (gain) on disposal of assets	4,372	(2,352)
(Gain) on acquisition of business (note 3 d)	—	(24,752)
Other costs (note 23)	551,819	495,537
Share of income of joint ventures	(3,850)	(3,263)
Interest expense	10,743	12,585
Interest income	(307)	(205)
	1,054,733	939,392
Income before income taxes	116,534	153,109
Provision for income taxes		
Current (note 10)	3,608	31,436
Deferred (note 10)	29,369	1,189
	32,977	32,625
Net income	$ 83,557	$ 120,484
Basic net income per share (note 24)	$ 1.33	$ 1.98
Diluted net income per share (note 24)	$ 1.32	$ 1.97

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

Consolidated statements of comprehensive income
For the years ended December 31, 2013 and 2012
(expressed in thousands of Canadian dollars)

	2013	2012 *(note 2)*
Net income	$ 83,557	$ 120,484
Other comprehensive (loss) income		
Items that will be reclassified subsequently to net income:		
(Loss) income on hedging instruments (note 4)	(782)	2,486
Associated deferred income taxes recovery (expense)	209	(905)
Items that will not be reclassified to net income:		
Actuarial gains (losses) of post-employment benefit obligations (note 19)	388	(190)
Associated deferred income taxes (expense) recovery	(102)	50
Other comprehensive (loss) income	(287)	1,441
Comprehensive income	$ 83,270	$ 121,925

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

Consolidated statements of changes in equity
For the years ended December 31, 2013 and 2012
(expressed in thousands of Canadian dollars)

	Share capital (note 22)	Contributed surplus (note 15)	Accumulated other comprehensive loss	Deficit	Total
Balance - January 1, 2013	$ 847,235	$ 3,768	$ (1,142)	$ (102,547)	$ 747,314
Net income	—	—	—	83,557	83,557
Other comprehensive income (page 4)	—	—	(573)	286	(287)
Total comprehensive income			**(573)**	**83,843**	**83,270**
Dividends declared (note 16)	—	—	—	(88,619)	(88,619)
Long-term incentive plan obligation	248	—	—	—	248
Issuance of convertible debentures	4,471	—	—	—	4,471
Share option expense	—	1,588	—	—	1,588
Issuance of shares on exercise of options	1,457	(1,457)	—	—	—
Balance - December 31, 2013	$ 853,411	$ 3,899	$ (1,715)	$ (107,323)	$ 748,272
Balance - January 1, 2012	$ 764,801	$ —	$ (2,723)	$ (140,469)	$ 621,609
Share option liabilities reclassified	—	6,850	—	—	6,850
Net income	—	—	—	120,484	120,484
Other comprehensive income (page 4)	—	—	1,581	(140)	1,441
Total comprehensive income			**1,581**	**120,344**	**121,925**
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

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

Consolidated statements of cash flows

For the years ended December 31, 2013 and 2012

(expressed in thousands of Canadian dollars)

	2013	2012 (note 2)
Cash provided by (used in)		
Operating activities		
Net income	$ 83,557	$ 120,484
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization of property, equipment and leaseholds, and intangible assets	70,890	62,163
Amortization of tenant inducements, rent averaging liabilities and fair value lease contract liabilities	(6,735)	(5,033)
Accretion of debt issuance costs and other non-cash interest	2,001	562
Loss (gain) on disposal of assets	4,372	(2,352)
(Gain) on acquisition of business	—	(24,752)
Deferred income taxes	29,369	1,189
Interest rate swap agreements - non-cash interest	(939)	1,485
Non-cash share-based compensation	1,826	2,108
Accretion of convertible debentures	274	323
Net change in interests in joint ventures	(2,686)	4,356
Tenant inducements	5,417	7,615
Changes in operating assets and liabilities (note 26)	37,302	7,486
Net cash provided by operating activities	224,648	175,634
Investing activities		
Proceeds from sale of assets	3,573	3,683
Purchases of property, equipment and leaseholds	(62,410)	(72,242)
Acquisition of business, net of cash acquired (note 3)	(238,338)	(2,811)
Net cash invested in CDCP	(50)	(438)
Net cash used in investing activities	(297,225)	(71,808)
Financing activities		
Dividends paid	(88,130)	(80,794)
Borrowings (repayments) under credit facility, net	70,000	(20,000)
Repayment of debt acquired with business (note 3)	(12,875)	—
Payments under finance leases	(2,277)	(2,104)
Proceeds from issuance of shares	—	501
Net proceeds from issuance of convertible debentures (note 21)	103,469	—
Deferred financing fees (notes 17 and 21)	(2,135)	—
Shares repurchased and cancelled	—	(1,786)
Repayment of convertible debentures at maturity	—	(1,123)
Net cash provided by (used in) financing activities	68,052	(105,306)
Decrease in cash and cash equivalents	(4,525)	(1,480)
Cash and cash equivalents - Beginning of year	48,665	50,145
Cash and cash equivalents - End of year	$ 44,140	$ 48,665
Supplemental information		
Cash paid for interest	$ 9,421	$ 10,293
Cash paid for income taxes	$ 14,148	$ 35,268

Significant non-cash transactions include the derecognition of finance leases and recognition of new fair value equipment obligations (note 18), and the conversion of debentures for shares in 2012 (note 22).

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

1 General information

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

The Board of Directors approved these consolidated financial statements on February 10, 2014.

2 Significant accounting policies, judgments and estimation uncertainty

Significant accounting policies

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

Basis of preparation and measurement

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

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

Consolidation

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

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

Acquisition-related costs are expensed as incurred.

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

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

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

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

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

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

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

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

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

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

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

Cineplex also consolidates a trust administered by a third party that acts as trustee for the long-term incentive plan ("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, 2013, consolidating the LTIP trust did not affect Cineplex, as the LTIP trust has distributed all of its assets (in 2012, consolidation resulted in a $3,264 decrease in assets and share capital and had no impact on the net income of Cineplex).

Investments in joint ventures

Cineplex has applied IFRS 11 to all joint arrangements as of January 1, 2012. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor. Cineplex has assessed the nature of its joint arrangements as disclosed in, "Accounting standards adopted in the current year," later in this note.

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

Unrealised gains on transactions between Cineplex and its joint ventures are eliminated to the extent of Cineplex's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by Cineplex. The change in accounting policy has been applied as from January 1, 2012.

The effects of the change in accounting policies on the balance sheet, comprehensive income and the cash flows of the group at January 1, 2012 and December 31, 2012 are shown in "Accounting standards adopted in the current year" later in this note. The change in accounting policy has had no impact on earnings per share.

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

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.

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

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

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

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

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

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

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

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

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 interest rate swap agreements is recognized in OCI or

OCL until the hedged interest payment is recorded, while the ineffective portion is recognized as interest expense when incurred.

Impairment of financial assets

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

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

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

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

Inventories

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

Impairment of non-financial assets

Property, equipment and leaseholds and intangible assets subject to amortization are tested for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Long-lived assets that are not amortized are subject to an annual impairment test. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows relating to the relevant intangible asset ("cash-generating units" or "CGUs"). Cineplex considers each theatre a CGU. 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 recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Cineplex and the cost can be measured reliably. The carrying value of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to the consolidated statements of operations during the year in which they are incurred.

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

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

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

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

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

Goodwill

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

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

Disposal of long-lived assets and discontinued operations

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

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

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.

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

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

ii. Share-based compensation - options

Cineplex grants stock options to certain employees. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is 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. Cineplex performs evaluations to identify onerous contracts and, where applicable, records provisions for such contracts. Provisions are included in other liabilities on the consolidated balance sheets.

Income taxes

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

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

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

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

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

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

Share capital

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

Dividends

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

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 cards and vouchers

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

Multiple component arrangements

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

Film rental costs

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

Consideration received from vendors

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

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, 2013, property, equipment and leaseholds had a carrying value of $459,112. If the estimated useful lives were 10% different from existing estimates, depreciation expense would increase or decrease by approximately $5,859 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 $543 at December 31, 2013. If interest rates changed 1% from existing estimates throughout the contract period, the carrying value would change to a liability of $4,433 or to an asset of $3,657, primarily affecting OCI.

c) Revenue recognition
Gift cards

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

d) Income taxes

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

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

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

f) 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.

Accounting standards adopted in the current year

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

IFRS 10, *Consolidated Financial Statements*, replaces the guidance on control and consolidation in IAS 27, *Consolidated and Separate Financial Statements*, and SIC-12, *Consolidation - Special Purpose Entities.* IFRS 10 requires consolidation of an investee only if the investor possesses power over the investee, has exposure to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. Detailed guidance is provided on applying the definition of control. The accounting requirements for consolidation have remained largely consistent with IAS 27. Cineplex assessed its consolidation conclusions on January 1, 2013 and determined that the adoption of IFRS 10 did not result in any change in the consolidation status of any of its subsidiaries and investees.

IFRS 13, *Fair Value Measurement*, provides a single framework for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. Cineplex adopted IFRS 13 on January 1, 2013 on a prospective basis. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used to measure fair value and did not result in any measurement adjustments as at January 1, 2013, but requires additional disclosures to be made. Those are provided in note 4 to the consolidated financial statements.

IAS 36, *Impairment of Assets*, has been amended to address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. Cineplex has early-adopted the amendments in the current year, and there was no significant impact on the consolidated financial statements.

Cineplex has adopted the amendments to IAS 1, *Presentation of Financial Statements*, effective January 1, 2013. These amendments required Cineplex to group other comprehensive income items by those that will be reclassified subsequently to profit or loss and those that will not be reclassified. Cineplex has reclassified comprehensive income items of the comparative period. These changes did not result in any adjustments to other comprehensive income or comprehensive income.

IAS 19, *Employee Benefits* (amended in 2011), amends certain accounting requirements for defined benefit plans and termination benefits. IAS 19 (Revised 2011) requires the net defined benefit liability (asset) to be recognized on the balance sheet without any deferral of actuarial gains and losses and past service costs as previously allowed. Past service costs are recognized in net income when incurred. Expected returns on plan assets are no longer included in post-employment benefits' expense. Instead, post-employment benefits' expense includes the net interest on the net defined benefit liability (asset) calculated using a discount rate based on market yields on high quality bonds. Remeasurements consisting of actuarial gains and losses, the actual return on plan assets (excluding the net interest component) and any change in the asset ceiling are recognized in other comprehensive income. Cineplex continues to immediately recognize in retained earnings all pension adjustments recognized in other comprehensive income.

IAS 19 (amended in 2011) also clarified that benefits are classified as long-term employee benefits if payments are not expected to be made within the next 12 months. Cineplex has reviewed the classification of its benefits and determined that no reclassifications are required.

IFRS 11, *Joint Arrangements*, supersedes IAS 31, *Interests in Joint Ventures*, and requires joint arrangements to be classified either as joint operations or joint ventures depending on the contractual rights and obligations of each investor that jointly controls the arrangement. For joint operations, a company recognizes its share of assets, liabilities, revenues and expenses of the joint operation. An investment in a joint venture is accounted for using the equity method as set out in IAS 28, *Investments in Associates and Joint Ventures (amended in 2011)*. The other amendments to IAS 28 did not affect Cineplex. Cineplex has classified its involvement with SCENE LP ("SCENE") as a joint operation. Cineplex's 50% interest in SCENE previously was accounted for using the equity method of accounting. As a result of the change in accounting, Cineplex now recognizes its share of assets, liabilities, revenues and expenses of SCENE. This change in accounting was adopted retrospectively as at January 1, 2012 by Cineplex derecognizing its deficiency investment in SCENE and recognizing its share of assets and liabilities of SCENE, with no adjustment to net income, comprehensive income, or retained earnings. Subsequent to January 1, 2012, Cineplex has recognized its share of assets, liabilities, revenues and expenses of SCENE. The adjustments for each financial statement line are presented in the tables below:

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

Adjustments to unaudited condensed consolidated balance sheets previously reported:

	December 31, 2012			January 1, 2012		
	As published	Adjustment	Revised	As published	Adjustment	Revised
Assets						
Current assets						
Cash and cash equivalents	$ 47,774	$ 891	$ 48,665	$ 48,992	$ 1,153	$ 50,145
Trade and other receivables	70,625	6,653	77,278	67,185	3,288	70,473
Inventories	5,187	6	5,193	4,118	6	4,124
Prepaid expenses and other current assets	3,047	—	3,047	3,727	—	3,727
	126,633	7,550	134,183	124,022	4,447	128,469
Non-current assets						
Property, equipment and leaseholds	418,142	356	418,498	389,532	142	389,674
Deferred income taxes	53,528	—	53,528	12,052	—	12,052
Interests in joint ventures	41,764	(141)	41,623	26,163	—	26,163
Intangible assets	78,460	—	78,460	84,379	—	84,379
Goodwill	608,929	—	608,929	608,929	—	608,929
	$ 1,327,456	$ 7,765	$1,335,221	$ 1,245,077	$ 4,589	$ 1,249,666
Liabilities						
Current liabilities						
Accounts payable and accrued expenses	$ 127,318	$ 2,181	$ 129,499	$ 112,285	$ 2,791	$ 115,076
Share or unit-based compensation	—	—	—	1,331	—	1,331
Dividends or distributions payable	7,063	—	7,063	6,285	—	6,285
Income taxes payable	13,654	—	13,654	17,485	—	17,485
Deferred revenue	94,397	11,856	106,253	83,907	10,048	93,955
Finance lease obligations	2,222	—	2,222	2,411	—	2,411
Fair value of interest rate swap agreements	513	—	513	565	—	565
Convertible debentures	—	—	—	76,864	—	76,864
	245,167	14,037	259,204	301,133	12,839	313,972
Non-current liabilities						
Share or unit-based compensation	12,223	—	12,223	9,466	—	9,466
Long-term debt	148,066	—	148,066	167,531	—	167,531
Fair value of interest rate swap agreements	273	—	273	1,199	—	1,199
Finance lease obligations	20,548	—	20,548	26,474	—	26,474
Post-employment benefit obligations	6,274	—	6,274	5,688	—	5,688
Other liabilities	141,319	—	141,319	103,727	—	103,727
Deficiency interest in joint venture	6,272	(6,272)	—	8,250	(8,250)	—
	334,975	(6,272)	328,703	322,335	(8,250)	314,085
Total liabilities	580,142	7,765	587,907	623,468	4,589	628,057
Equity						
Share capital	847,235	—	847,235	764,801	—	764,801
Deficit	(102,547)	—	(102,547)	(140,469)	—	(140,469)
Accumulated other comprehensive loss	(1,142)	—	(1,142)	(2,723)	—	(2,723)
Contributed surplus	3,768	—	3,768	—	—	—
	747,314	—	747,314	621,609	—	621,609
	$ 1,327,456	$ 7,765	$1,335,221	$ 1,245,077	$ 4,589	$ 1,249,666

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

Adjustments to unaudited condensed consolidated statements of cashflows previously reported:

	Year ended December 31, 2012		
Revenues	**As published**	**Adjustment**	**Revised**
Box office	$ 638,296	$ —	$ 638,296
Concessions	329,332	—	329,332
Other	124,238	635	124,873
	1,091,866	635	1,092,501
Expenses			
Film cost	331,281	—	331,281
Cost of concessions	68,398	—	68,398
Depreciation and amortization	62,058	105	62,163
(Gain) on disposal of assets	(2,352)	—	(2,352)
(Gain) on acquisition of business	(24,752)	—	(24,752)
Other costs	490,369	5,168	495,537
Share of loss of joint ventures	1,375	(4,638)	(3,263)
Interest expense	12,585	—	12,585
Interest income	(205)	—	(205)
	938,757	635	939,392
Income before income taxes	153,109	—	153,109
Provision for income taxes			
Current	31,436	—	31,436
Deferred	1,189	—	1,189
	32,625	—	32,625
Net income	$ 120,484	$ —	$ 120,484

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

Adjustments to unaudited condensed consolidated statements of cash flows previously reported:

	Year ended December 31, 2012		
	As published	**Adjustment**	**Revised**
Cash provided by (used in)			
Operating activities			
Net income	$ 120,484	$ —	$ 120,484
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization of property, equipment and leaseholds, deferred charges and intangible assets	62,058	105	62,163
Amortization of tenant inducements, rent averaging liabilities and fair value lease contract liabilities	(5,033)	—	(5,033)
Accretion of debt issuance costs and other non-cash interest	562	—	562
(Gain) on disposal of assets	(2,352)	—	(2,352)
(Gain) on acquisition of business	(24,752)	—	(24,752)
Deferred income taxes	1,189	—	1,189
Interest rate swap agreements - non-cash interest	1,485	—	1,485
Non-cash share or unit-based compensation	2,108	—	2,108
Accretion of convertible debentures	323	—	323
Net change in interests in joint ventures	5,987	(1,631)	4,356
Tenant inducements	7,615	—	7,615
Changes in operating assets and liabilities	9,653	(2,167)	7,486
Net cash provided by operating activities	179,327	(3,693)	175,634
Investing activities			
Proceeds from sale of assets	3,683	—	3,683
Purchases of property, equipment and leaseholds	(71,923)	(319)	(72,242)
Acquisition of businesses, net of cash acquired	(2,811)	—	(2,811)
Additional equity funding of joint ventures	(4,188)	3,750	(438)
Net cash used in investing activities	(75,239)	3,431	(71,808)
Financing activities			
Dividends paid	(80,794)	—	(80,794)
Borrowings under credit facility, net	(20,000)	—	(20,000)
Payments under finance leases	(2,104)	—	(2,104)
Proceeds from issuance of shares	501	—	501
Purchase of shares for cancellation	(1,786)	—	(1,786)
Repayment of convertible debentures at maturity	(1,123)	—	(1,123)
Net cash used in financing activities	(105,306)	—	(105,306)
Decrease in cash and cash equivalents during the period	(1,218)	(262)	(1,480)
Cash and cash equivalents - Beginning of period	48,992	1,153	50,145
Cash and cash equivalents - End of period	$ 47,774	$ 891	$ 48,665

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 9 was amended In November 2013, to (i) include guidance on hedge accounting, (ii) allow entities to early adopt the requirement to recognize changes in fair value attributable to changes in an entity's own credit risk, from financial liabilities designated under the fair value option, in OCI (without having to adopt the remainder of IFRS 9) and (iii) remove the previous mandatory effective date of January 1, 2015, although the standard is available for early adoption.

IFRIC 21, *Levies* was issued to clarify that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be recognized before the specified minimum threshold is reached. This is effective for annual periods beginning on or after January 1, 2014 and cannot be early adopted. Cineplex is considering the impact of this standard.

3 Business acquisitions and formations

a) Empire Theatres

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

The total cash consideration paid was $196,583. All transaction costs associated with the transaction were expensed as incurred.

(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 $173	$	2,547
Property and equipment, including leaseholds		42,170
Intangible assets - fair value of leases		17,344
Goodwill		139,562
Deferred income taxes		(4,516)
Other liabilities - asset retirement obligation		(356)
Other liabilities - fair value of leases		(168)
Net assets		196,583
Less: Cash from acquisition		(173)
	$	196,410
Consideration given - cash paid	$	196,583
Less: Cash from acquisition		(173)
	$	196,410

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

Since the acquisition, the acquired business had total revenues of $17,450 and net income before taxes of $3,611, including amortization of $1,229.

b) EK3 Technologies Inc.

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

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

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

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

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

Since acquisition, the acquired business had total revenues of $10,914 and net loss before taxes of $202, including amortization of $1,433 relating to the intangible assets acquired.

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

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

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

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

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

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

c) Festival Theatres

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

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

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

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

Cineplex would have been reported revenues of $1,265,893 and net income of $88,025 for the year ended December 31, 2013 if the Empire, EK3 and Festival acquisitions had occurred at January 1, 2013.

d) 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 available to reduce taxable income of Cineplex. A portion of the consideration payable by Cineplex in relation to the non-capital losses was paid on initial determination in 2013, 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, based on estimated losses and the agreed price per dollar of non-capital loss (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. The estimated non-capital losses of $147,034 available to offset taxable income earned are subject to audit by Federal and Provincial taxation authorities. If the non-capital losses were reduced upon audit or other factors by 10%, the deferred consideration would reduce to approximately $1,663, and Cineplex would have approximately $14,703 less non-capital losses available to offset future taxable income.

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

All transaction costs associated with the transaction were expensed as incurred.

From the acquisition date through December 31, 2012, 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.

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)

e) 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.

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

4 Financial Instruments

Fair value of financial instruments

The carrying value and fair value of Cineplex's financial instruments at December 31, 2013 and 2012 are as follows:

			2013		2012
	Input level	Carrying value	Fair value	Carrying value	Fair value
Long-term debt	2	$ 217,151	$ 220,000	$ 148,066	$ 150,000
Convertible debentures	1	96,870	112,338	—	—
Other liabilities - equipment liabilities	2	13,538	13,538	11,777	11,777
Interest rate swap agreements, net	2	543	543	786	786
Deferred consideration - AMC	2	2,929	2,929	2,746	2,746
Deferred consideration - EK3	3	30,577	30,577	---	—

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

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

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

Effective August 24, 2011, Cineplex entered into three interest rate swap agreements. Under these interest rate swap agreements, Cineplex pays a fixed rate of 1.715% per annum, plus an applicable margin, and receives a floating rate of interest equal to the three-month Canadian deposit offering rate set quarterly in advance, with 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.

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.

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

The deferred consideration for AMC and EK3 are recorded at fair value using the effective interest rate method, as discussed in note 3. The change in fair value during the year ended December 31, 2013 is follows:

	2013	
	AMC	EK3
Fair value at beginning of year	$ 2,746	$ —
Fair value upon assumption of liability	—	29,332
Accretion	183	1,245
Fair value at end of year	$ 2,929	$ 30,577

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

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

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

Credit risk

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

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

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

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

The following schedule reflects the balance and age of trade receivables at December 31, 2013 and 2012:

	2013	2012
Trade receivables carrying value	$ 85,211	$ 59,255
Percentage past due	21%	8%
Percentage outstanding more than 120 days	2%	3%

The following schedule reflects the changes in the allowance for trade receivables during the years ended December 31, 2013 and 2012:

	2013	2012
Allowance for trade receivables - Beginning of year	$ 339	$ 73
Additional allowance recorded	70	295
Amounts written off	(232)	(29)
Allowance for trade receivables - End of year	$ 177	$ 339

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:

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

	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	$ —	$ —	$ —
Dividends payable	7,063	7,063	—	—	—
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
Deferred consideration - AMC	3,134	—	—	3,134	—
Total contractual obligations	$ 331,628	$ 140,284	$ 11,317	$164,280	$ 15,747

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

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

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

Currency risk

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

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

Interest rate risk

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

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

Interest expense on the long-term debt is adjusted to include the payments made or received under the interest rate swap agreements. The interest rate swap agreements are recognized in the consolidated balance sheets at their estimated fair value. The effective portion of the change in fair value of the interest rate swap agreements is recognized in OCI until the hedged interest payment is recorded, while the ineffective portion is recognized in the consolidated statements of operations as interest expense when incurred. During the year ended December 31, 2013, Cineplex recorded non-cash interest expense recovery of $939 (2012 - $1,485 expense) relating to the cash flow hedge. Cineplex expects to reclassify $494 from accumulated other comprehensive loss to the consolidated statement of operations in 2014 (2013 - $nil), excluding the impact of income taxes.

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

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, 2013 and 2012 of a 1% change in interest rates management believes is reasonably possible:

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

					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	$ —	$ (1,791)	$ —
Interest rate swap agreements - net	786	(1,500)	(3,542)	1,500	4,025
		$ 292	$ (3,542)	$ (292)	$ 4,025

5 Capital disclosures

Cineplex's objectives when managing capital are to:

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

Cineplex defines its capital as follows:

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

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

Cineplex is subject to certain covenants on its credit facilities agreement, which defines certain non-GAAP terms and measures. The total leverage ratio may not exceed 3.50 to 1 unless an acquisition is undertaken, in which case, the ratio allowance increases to 4.00 to 1 for a 12-month period before reverting automatically to 3.50 to 1. The total leverage ratio is determined by dividing total debt at the period-end (as defined in the credit facilities agreement) by the adjusted earnings before interest, income taxes, depreciation and amortization ("EBITDA") (as defined in the credit facilities agreement) for the past four quarters. Cineplex also must maintain a fixed charge coverage ratio of greater than 1.25 to 1. The fixed charge coverage ratio (as defined in the credit facilities agreement) is computed by dividing the sum of adjusted EBITDA (as defined in the credit facilities agreement) and rent expense for the past four quarters by fixed charges for the same period. Fixed charges include interest expense, scheduled debt repayments, maintenance capital expenditures, rent expense and income taxes paid in the year. Management reviews the covenants on a quarterly basis in conjunction with filing requirements under its credit facilities agreement but also maintains a rolling projection to assess future growth capital commitments. Cineplex has complied with all covenant requirements during the years ended December 31, 2013 and 2012. Management also monitors the annualized payout ratio, calculated as dividends declared divided by adjusted free cash flow. All of these ratios are managed with certain target ranges determined by management to allow for flexibility in considering growth opportunities.

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

Objectives and strategies are reviewed periodically by management. During 2013, Cineplex increased its Revolving Facility and issued convertible debentures, partially funding the acquisition of the Empire theatres, while allowing for greater flexibility and effective use of cash reserves. Through 2012, debenture holders exercised the option requiring Cineplex to issue shares, resulting in lower debt and higher equity.

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

6 Cash and cash equivalents

Cash and cash equivalents comprise the following:

	2013	2012
Cash at bank and on hand, net of outstanding cheques	$ 44,140	$ 48,665

7 Trade and other receivables

Trade and other receivables comprise the following:

	2013	2012
Trade receivables	$ 85,094	$ 59,255
Other receivables	15,797	18,023
	$ 100,891	$ 77,278

8 Inventories

Inventories comprise the following:

	2013	2012
Concession inventories	$ 5,500	$ 4,211
Other inventories, including work-in-progress	1,734	982
	$ 7,234	$ 5,193

The cost of inventories recognized as an expense was $73,974 (2012 - $68,137).

(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 leaseholds improvements under finance lease	Equipment	Equipment under finance lease	Construction in-progress	Total
At January 1, 2012							
Cost	$ 16,344	$ 460,206	$ 26,102	$ 374,203	$ 17,977	$ 11,528	$ 906,360
Accumulated depreciation	—	(202,605)	(8,995)	(288,561)	(16,525)	—	(516,686)
Net book value	$ 16,344	$ 257,601	$ 17,107	$ 85,642	$ 1,452	$ 11,528	$ 389,674
Year ended December 31, 2012							
Opening net book value	$ 16,344	$ 257,601	$ 17,107	$ 85,642	$ 1,452	$ 11,528	$ 389,674
Additions	4,325	37,887	—	54,122	—	(5,547)	90,787
Disposals	(100)	(1,719)	—	(2,968)	(932)	—	(5,719)
Depreciation for the year	—	(26,831)	(2,038)	(26,855)	(520)	—	(56,244)
Closing net book value	$ 20,569	$ 266,938	$ 15,069	$ 109,941	$ —	$ 5,981	$ 418,498
At January 1, 2013							
Cost	$ 20,569	$ 493,543	$ 26,102	$ 388,511	$ 1,931	$ 5,981	$ 936,637
Accumulated depreciation	—	(226,605)	(11,033)	(278,570)	(1,931)	—	(518,139)
Net book value	$ 20,569	$ 266,938	$ 15,069	$ 109,941	$ —	$ 5,981	$ 418,498
Year ended December 31, 2013							
Opening net book value	$ 20,569	$ 266,938	$ 15,069	$ 109,941	$ —	$ 5,981	$ 418,498
Additions	2,867	42,388	—	56,001	222	3,632	105,110
Disposals	(1,150)	(3,561)	—	(1,197)	—	—	(5,908)
Depreciation for the year	—	(29,341)	(2,037)	(27,116)	(94)	—	(58,588)
Closing net book value	$ 22,286	$ 276,424	$ 13,032	$ 137,629	$ 128	$ 9,613	$ 459,112
At December 31, 2013							
Cost	$ 22,286	$ 530,529	$ 26,102	$ 437,481	$ 222	$ 9,613	$ 1,026,233
Accumulated depreciation	—	(254,105)	(13,070)	(299,852)	(94)	—	(567,121)
Net book value	$ 22,286	$ 276,424	$ 13,032	$ 137,629	$ 128	$ 9,613	$ 459,112

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

10 Deferred income taxes

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

	2013	2012
Deferred income tax assets		
Property, equipment and leaseholds and deferred tenant inducements - difference between net carrying value and undepreciated capital cost	$ 25,402	$ 27,967
Accounting provisions not currently deductible	13,893	8,938
Rent averaging liabilities	9,150	8,653
Deferred revenue	184	262
Interest rate swap agreements	626	519
Income tax credits available	2,148	—
Operating losses available for carry-forward	21,081	43,027
Total gross deferred income tax assets	72,484	89,366
Future deferred tax liabilities		
Intangible assets	(19,264)	(9,030)
Goodwill	(27,822)	(23,017)
Other	(7,763)	(3,791)
Total gross deferred income tax liabilities	(54,849)	(35,838)
Net deferred income tax asset	$ 17,635	$ 53,528

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 2014.

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, 2013 and 2012 as follows:

	2013	2012
Income before income taxes	$ 116,534	$ 153,109
Combined Canadian federal and provincial statutory income tax rates for the current year	26.29%	26.17%
Income taxes payable at statutory rate	30,637	40,069
Gain on acquisition not taxable	—	(6,478)
Adjustments relating to prior periods	1,027	(1,051)
Other permanent differences	1,313	85
Provision for income taxes	$ 32,977	$ 32,625

At December 31, 2013, 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:

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

2024	$ 163
2025	3,731
2026	9,307
2027	6,417
2028	8,822
2029	5,122
2030	16,337
2031	29,983
	$ 79,882

At December 31, 2013, Cineplex had not recognized deferred income tax assets associated with $14,263 (2012 - $11,618) 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.

Taxable income earned by Cineplex during 2013 has been offset by the use of loss carryforwards acquired through Cineplex's acquisition of AMC Ventures Inc. in 2012. As a result of the $147,034 non-capital losses acquired in this transaction, Cineplex's cash income taxes in 2013 were substantially reduced. Based on estimated 2013 taxable income, approximately $43,249 non-capital losses remain and are expected to be used to reduce taxable income in 2014. As a result of reducing taxable income through losses, Cineplex is subject to minimum tax in certain jurisdictions which may be credited against income taxes payable on taxable income earned in periods after the losses have been fully used. Those credits, totalling $1,897 through December 31, 2013 have been recorded as deferred income tax assets and a reduction of deferred income tax expense.

11 Interests in joint ventures

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

CDCP is a joint venture formed by Cineplex and Empire Theatres Limited to finance the implementation of digital projectors. Cineplex leases its digital projectors from CDCP.

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

Each of the joint ventures is headquartered in Canada.

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

The net interest in joint ventures is summarized as follows as at December 31, 2013 and 2012:

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

	CDCP	CSI	Theatres	2012
Ownership percentage	78.2%	50%	50%	
Voting percentage	50%	50%	50%	
Interest at beginning of year	$ 26,050	$ —	$ 113	$ 26,163
Initial investment of equipment and cash	—	12,261	—	12,261
Subsequent investments	448	—	—	448
Net change in receivable or payable	(175)	—	(363)	(538)
Share of net income	2,222	932	109	3,263
Share of OCL	26	—	—	26
Net interest in joint ventures	$ 28,571	$ 13,193	$ (141)	$ 41,623

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

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

	CDCP	CSI	Theatres	2013
Assets				
Cash and cash equivalents	$ 440	$ 4,167	$ 239	$ 4,846
Trade and other receivables	5,389	1,778	65	7,232
Inventories	—	5,431	8	5,439
Prepaid expenses and other current assets	495	1,389	7	1,891
	6,324	12,765	319	19,408
Equipment	91,545	13,189	61	104,795
Intangible and other assets, including goodwill	—	1,865	—	1,865
Total assets	$ 97,869	$ 27,819	$ 380	$ 126,068
Liabilities				
Accounts payable and accrued expenses	$ 1,496	$ 3,091	$ 221	$ 4,808
Deferred revenue	155	—	113	268
Fair value of interest rate contracts	133	—	—	133
	1,784	3,091	334	5,209
Long-term debt	55,534	38	—	55,572
Fair value of interest rate contracts	11	—	—	11
Total liabilities	57,329	3,129	334	60,792
Equity	40,540	24,690	46	65,276
Total liabilities and equity	$ 97,869	$ 27,819	$ 380	$ 126,068

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

	CDCP	CSI	Theatres	2012
Assets				
Cash and cash equivalents	$ 2,504	$ 4,477	$ 251	$ 7,232
Trade and other receivables	5,213	1,558	68	6,839
Inventories	—	4,872	8	4,880
Prepaid expenses and other current assets	613	1,276	4	1,893
	8,330	12,183	331	20,844
Equipment	102,036	14,214	44	116,294
Intangible and other assets, including goodwill	—	2,121	—	2,121
Total assets	$110,366	$ 28,518	$ 375	$ 139,259
Liabilities				
Accounts payable and accrued expenses	$ 4,390	$ 2,723	$ 103	$ 7,216
Deferred revenue	152	—	122	274
Fair value of interest rate contracts	119	—	—	119
	4,661	2,723	225	7,609
Long-term debt	69,064	84	—	69,148
Fair value of interest rate contracts	59	—	—	59
Total liabilities	73,784	2,807	225	76,816
Equity	36,582	25,711	150	62,443
Total liabilities and equity	$110,366	$ 28,518	$ 375	$ 139,259

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

The summarized statements of comprehensive income of joint ventures for the years ending December 31, 2013 and 2012 are as follows:

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

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

	CDCP	CSI	Theatres	2012
Revenues	$ 20,811	$ 49,277	$ 4,017	$ 74,105
Depreciation and amortization	11,952	3,682	12	15,646
Interest expense	2,907	—	—	2,907
Income taxes	—	93	—	93
Other expenses	3,110	43,607	3,697	50,414
Total expenses	17,969	47,382	3,709	69,060
Net income	$ 2,842	$ 1,895	$ 308	$ 5,045
Other comprehensive loss	33	—	—	33
Comprehensive income	$ 2,875	$ 1,895	$ 308	$ 5,078

SCENE

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

	2013	2012
Assets		
Cash and cash equivalents	$ 2,601	$ 1,782
Trade and other receivables	7,495	7,679
Inventories	13	13
	10,109	9,474
Equipment	690	712
Total assets	$ 10,799	$ 10,186
Liabilities		
Accounts payable and accrued expenses	$ 11,027	$ 9,986
Deferred revenue	28,807	23,712
Total liabilities	39,834	33,698
Deficiency	(29,035)	(23,512)
	$ 10,799	$ 10,186

The summarized results of operations of SCENE are as follows:

	2013	2012
Revenues	$ 35,190	$ 31,502
Expenses	48,213	40,779
Net (loss)	$ (13,023)	$ (9,277)

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

12 Intangible assets

Intangible assets consist of the following:

	Customer relationships	Fair value of leases-assets	Other	Trademarks and trade names	Total
At January 1, 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
Amortization	(1,743)	(717)	(159)	(3,300)	(5,919)
Closing net book value	$ —	$ 4,718	$ 657	$ 73,085	$ 78,460
At January 1, 2013					
Cost	$ —	$ 9,809	$ 1,832	$ 76,385	$ 88,026
Accumulated amortization	—	(5,091)	(1,175)	(3,300)	(9,566)
Net book value	$ —	$ 4,718	$ 657	$ 73,085	$ 78,460
Year ended December 31, 2013					
Opening net book value	$ —	$ 4,718	$ 657	$ 73,085	$ 78,460
Additions	12,300	17,344	17,800	—	47,444
Amortization for the year	(586)	(1,021)	(1,096)	(9,600)	(12,303)
Closing net book value	$ 11,714	$ 21,041	$ 17,361	$ 63,485	$ 113,601
At December 31, 2013					
Cost	$ 12,300	$ 27,153	$ 19,495	$ 76,385	$ 135,333
Accumulated amortization	(586)	(6,112)	(2,134)	(12,900)	(21,732)
Net book value	$ 11,714	$ 21,041	$ 17,361	$ 63,485	$ 113,601

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 was recognized in 2013 (2012 - $3,300). The trade names are fully amortized.

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:

	2013	2012
Balance - Beginning of year	$ 608,929	608,929
Goodwill acquired (note 3)	188,547	—
Balance - End of year	$ 797,476	$ 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 sepa rate 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% (2012 - 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 2013 and 2012 management used the 2011 recoverable amounts as a component of the 2013 and 2012 good will 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 2013 or 2012 that would indicate an impairment. Based on a quantitative sensitivity analysis performed in 2013 and 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 2013 or 2012.

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

14 Accounts payable and accrued expenses

Accounts payable and accrued expenses consist of:

	2013	2012
Accounts payable - trade	$ 46,178	$ 56,328
Film and advertising payables	59,164	32,124
Accrued salaries and benefits	19,974	17,710
Sales taxes payable	11,409	6,175
Accrued occupancy costs	3,304	3,251
Other payables and accrued expenses	17,304	13,911
	$ 157,333	$ 129,499

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.

Shares options have been granted as follows:

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

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

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

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

Cineplex recorded $1,588 of employee benefits expense with respect to the options during the year ended December 31, 2013 (2012 - $2,071). At December 31, 2013, $3,680 associated with the options is reflected in contributed surplus on the consolidated balance sheets (2012 - $3,549). The intrinsic value of vested share options at December 31, 2013 is $6,067 (2012 - $2,447), based on the market price of $44.06 per share (2012 - $31.83).

A summary of option activities in 2013 and 2012 is as follows:

		2013		2012	
	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	8.37	1,460,546	$ 24.38	1,587,538	$ 19.88
Granted		405,834	33.77	474,000	27.33
Cancelled		(7,568)	29.69	—	—
Exercised		(399,040)	23.40	(600,992)	14.83
Options outstanding, December 31	7.96	1,459,772	$ 27.23	1,460,546	$ 24.38

At December 31, 2013 and 2012, options are vested and exercisable as follows:

	2013	2012
Options vested and exercise at $27.33	92,976	—
Options vested and exercise at $23.12	228,054	244,873
Options vested and exercise at $14.00	—	17,667
	321,030	262,540

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

The fair values of options granted in 2013 and 2012 were determined using the Black-Scholes valuation model using the following significant inputs:

	2013	2012
Number of options granted	385,834	474,000
Share price	$ 33.49	$ 27.33
Exercise price	$ 33.49	$ 27.33
Expected option life (years)	3.0	3.0
Volatility	23%	23%
Dividend yield	4.03%	5.09%
Annual risk-free rate	1.22%	2.41%
Fair value of options granted	$ 3.29	$ 2.48

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

Long-term incentive plan

The LTIP award for three-year service periods consists of a "phantom" stock plan, awarding 124,936 share equivalents in 2013 (2012 - 137,302), 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, 2013, Cineplex recognized $12,258 (2012 - $7,774) 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, 2013, $7,019 (2012 - $3,469) 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:

	2013		2012	
Record date	Amount	Amount per share	Amount	Amount per share
January	$ 7,063	$ 0.1125	$ 6,279	$ 0.1075
February	7,065	0.1125	6,303	0.1075
March	7,070	0.1125	6,558	0.1075
April	7,070	0.1125	6,561	0.1075
May	7,541	0.1200	6,945	0.1125
June	7,542	0.1200	6,955	0.1125
July	7,542	0.1200	6,974	0.1125
August	7,542	0.1200	6,979	0.1125
September	7,542	0.1200	6,982	0.1125
October	7,542	0.1200	6,983	0.1125
November	7,548	0.1200	6,990	0.1125
December	7,552	0.1200	7,063	0.1125

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 2014, Cineplex declared a dividend of $7,552, or $0.1200 per share, payable in February 2014.

17 Long-term debt

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

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

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

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

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

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

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

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

Long-term debt consists of:

	2013	2012
Term Facility	$ 150,000	$ 150,000
Revolving Facility	70,000	—
Deferred financing fees	(2,849)	(1,934)
	$ 217,151	$ 148,066
Letters of credit reserved against Revolving Facility	$ 3,406	$ 2,885
Revolving Facility available	176,594	197,115

At December 31, 2013, Cineplex was subject to a margin of 0.40% (2012 - 0.50%) on the prime rate and 1.40% (2012 - 1.50%) on the bankers' acceptance rate, plus a 0.25% (2012 - 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, 2013 (2012 - 3.2%). Cineplex pays a commitment fee on the daily unadvanced portion of the Revolving Facility, which will vary based on certain financial ratios and was 0.28% at December 31, 2013 (2012 - 0.3375%).

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

18 Finance lease obligations

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

2013	$ 3,779
2014	3,894
2015	3,973
2016	3,961
2017	3,955
Thereafter	5,793
	25,355
Less: Amount representing interest (average rate of 7.3%)	5,239
	20,116
Less: Current portion	2,394
	$ 17,722

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. In the third quarter of 2013, the remaining finance lease was settled through the same agreement.

Interest expense related to finance lease obligations was $1,576 for the year ended December 31, 2013 (2012 - $1,790).

19 Post-employment benefit obligations

Pension and other retirement benefit plans

Cineplex sponsors the Defined Contribution Pension Plan for Employees of Cineplex Entertainment Limited Partnership ("Cineplex Entertainment Plan"), covering substantially all full-time employees. Effective December 31, 2013, the defined contribution plan has been converted to a group registered retirement plan. 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:

	2013	2012
Cineplex Entertainment Plan - defined contribution	$ 1,433	$ 1,361
Cineplex Entertainment Plan - defined benefit	104	86
Famous Players Plans - defined benefit	115	113

At December 31, 2013, 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, 2013.

Reconciliation of the accrued benefit obligations

	2013	2012
Accrued benefit obligations		
Balance - Beginning of year	$ 6,402	$ 5,772
Current service cost	339	322
Past service cost - vested benefits	273	—
Interest cost	243	274
Benefits paid	(115)	(113)
Actuarial (gains) losses	(440)	147
Balance - End of year	$ 6,702	$ 6,402

The accrued benefit obligation in respect of post-retirement health care benefits at the end of 2013 is $792 (2012 - $847).

The aggregate accrued benefit obligations for the individual defined benefit plans that have a deficit is $6,702 (2012 - $6,402) and the fair value of plan assets is $180 at December 31, 2013 (2012 - $128).

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

Reconciliation of the fair value of plan assets:

	2013	2012
Fair value of plan assets		
Balance - Beginning of year	$ 128	$ 84
Actual return on plan assets	(52)	(42)
Employer contributions	219	199
Benefits paid	(115)	(113)
Balance - End of year	$ 180	$ 128

Plan assets consist of:

	Percentage of defined benefit plan assets	
	2013	2012
Asset category		
Equity securities	—	—
Debt securities	—	—
Other	100%	100%
	100%	100%

Reconciliation of the unfunded status of the defined benefit provisions

	2013	2012
Fair value of plan assets	$ 180	$ 128
Accrued benefit obligations	(6,702)	(6,402)
Accrued pension benefit liability	$ (6,522)	$ (6,274)

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

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

	2013	2012
Current service cost - defined benefit provisions	$ 339	$ 322
Interest cost	243	274
Past service costs - vested benefits	273	—
Benefit cost recognized	$ 855	$ 596

In addition, in 2013 actuarial gains of $388 (2012 - $190 losses) were recognized in OCI. The benefit cost in respect of post-retirement health care benefits for 2013 is $27 (2012 - $31).

Significant assumptions

	2013	2012
Accrued benefit obligations at December 31		
Discount rate		
All plans	4.40% - 4.70%	3.30% - 3.75%
Rate of compensation increase	—	—
Benefit cost for the year ended December 31		
Discount rate		
All plans	4.40% - 4.70%	3.30% - 3.75%
Expected long-term rate of return on plan assets	—	—
Rate of compensation increase	—	—
Health care cost trend rates at December 31		
Initial rate	5.50%	6.00%
Ultimate rate	4.00%	4.00%
Year ultimate rate reached	2016	2016

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

Sensitivity analysis

	2013	
	Benefit obligation	Benefit expense
Impact of 1% increase in health care cost trend rate	$ 82	$ 3
Impact of 1% decrease in health care cost trend rate	$ (71)	$ (3)

Defined contribution provision

	2013	2012
Total cost recognized for defined contribution provision	$ 1,433	$ 1,361

20 Other liabilities

Other liabilities consist of the following:

	2013	2012
Deferred tenant inducements	$ 54,712	$ 56,219
Excess of straight-line amortization over lease payments	30,982	27,698
Fair value of leases - liabilities	34,940	39,154
Asset retirement obligations	2,071	2,031
Deferred gain on sale of density rights	1,447	1,563
Licensing obligations - non-current	11,942	10,587
Deferred consideration - AMC business acquisition	2,929	2,746
Deferred consideration - EK3 business acquisition	30,577	—
Other, including provisions	525	1,321
	$ 170,125	$ 141,319

21 Convertible debentures

Convertible debentures consist of the following at December 31, 2013 and 2012:

	2013	2012
Fair value of debentures outstanding	$ 107,500	$ —
Unaccreted deferred financing fees and discount	(10,630)	—
	$ 96,870	$ —

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

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

The prior convertible debentures were issued in 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.

(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 of which none are outstanding. Share capital at December 31, 2013 and 2012 and transactions during the years are as follows:

2013

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

2012

	Shares			Amount				
	Number of common shares issued and outstanding	Number of common shares held by LTIP trust	Common shares, net	Common shares	Equity component of convertible debentures	LTIP common shares	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 conversion	4,087,811	—	4,087,811	91,026	(14,963)	—	—	76,063
Transfer of common shares to LTIP obligation	—	—	—	—	—	—	1,653	1,653
Purchase of LTIP common shares	301,331	—	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, 2013	62,783,002	(139,727)	62,643,275	$ 847,483	$ —	$ (3,264)	$ 3,016	$847,235

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

23 Other costs

	2013	2012 (note 2)
Employee salaries and benefits	$ 191,286	$ 169,304
Rent	127,745	117,840
Realty and occupancy taxes and maintenance fees	61,448	56,212
Utilities	25,423	22,941
Purchased services	41,191	35,225
Other inventories consumed	11,969	11,005
Repairs and maintenance	19,157	17,620
Office and operating supplies	13,026	10,739
Licences and franchise fees	12,937	9,237
Insurance	2,380	2,112
Advertising and promotion	24,256	23,374
Professional and consulting fees	4,088	5,191
Telecommunications and data	4,204	3,801
Bad debts	403	513
Equipment rental	2,569	2,058
Other costs	9,737	8,365
	$ 551,819	$ 495,537

24 Net income per share

Basic

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

	2013	2012
Net income	$ 83,557	$ 120,484
Weighted average number of shares outstanding	62,816,451	60,866,040
Basic EPS	$ 1.33	$ 1.98

(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.

	2013	2012
Net income	$ 83,557	$ 120,484
Weighted average number of shares outstanding	62,816,451	60,866,040
Adjustments for stock options	386,213	241,709
Weighted average number of shares for diluted EPS	63,202,664	61,107,749
Diluted EPS	$ 1.32	$ 1.97

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, 2013 under the above-mentioned operating leases are set forth as follows:

2014	$ 141,669
2015	143,776
2016	144,974
2017	141,601
2018	131,481
Thereafter	708,705
	$ 1,412,206

Minimum rent expense relating to operating leases on a straight-line basis in 2013 was $135,490 (2012 - $123,639). In addition to the minimum rent expense, in 2013 Cineplex incurred percentage rent charges of $2,072 (2012 - $2,455).

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

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

2014	$	1,199
2015		514
2016		262
	$	1,975

26 Changes in operating assets and liabilities

The following summarizes the changes in operating assets and liabilities:

		2013		2012 (note 2)
Trade and other receivables	$	(19,180)	$	(14,335)
Inventories		(356)		(1,070)
Prepaid expenses and other current assets		(1,669)		1,980
Accounts payable and accrued expenses		28,192		4,917
Income taxes payable		(10,998)		(3,831)
Deferred revenue		29,350		12,298
Post-employment benefit obligations		248		586
Share-based compensation		14,110		7,289
Other liabilities		(2,395)		(348)
	$	37,302	$	7,486
Non-cash investing activities:				
Property, equipment and leasehold purchases financed through accounts payable and accrued expenses	$	10,723	$	14,225

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

27 Commitments, guarantees and contingencies

Commitments

As of December 31, 2013, Cineplex has aggregate capital commitments as follows:

Capital commitments for ten theatres to be completed during 2014 - 2016	$	96,566
Other capital commitments		13,582
Letters of credit		3,406

See note 25 for theatre lease commitments.

Guarantees

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

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

Cineplex has assessed the fair value of the lease guarantees and determined that the fair value of these guarantees at December 31, 2013 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.

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

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, 2013, Cineplex provided advertising and media services to third parties and recognized advertising revenues of $5,415 (2012 - $6,458). Cineplex received sponsorship and advertising services in exchange, recording marketing expenses of $5,269 (2012 - $6,708). 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.

Joint ventures

Cineplex leased digital projection systems from CDCP in the amount of $1,437 for the year ended December 31, 2013 (2012 - $1,240). 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, 2013, Cineplex earned revenue of $399 for these services (2012 - $389).

Compensation of key management

Compensation recognized in employee benefits for key management included:

	2013	2012
Salaries and short-term employee benefits	$ 4,387	$ 4,506
Post-employment benefits	889	621
Share-based payments	10,350	6,468
	$ 15,626	$ 11,595

BOARD OF DIRECTORS

Jordan Banks
Global Head of Vertical Strategy and
Managing Director
Facebook Canada
Toronto, ON

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

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

Ian Greenberg (5)
Corporate Director
Montreal, QC

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

Sarabjit (Sabi) Marwah (2)
Vice Chairman &
Chief Operating Officer
Scotiabank
Toronto, ON

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

Edward Sonshine, O.ONT., QC(4)
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
Pat Marshall
Vice President
Communications and Investor Relations
Investor Line: 416 323 6648
Email: pat.marshall@cineplex.com
Address: Cineplex Entertainment
1303 Yonge Street
Toronto, ON
M4T 2Y9

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.canstockta.com

ANNUAL MEETING
Wednesday, May 14, 2014
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 Corporate Governance Committee
(3) Chair of the Audit Committee
(4) Member of the Audit Committee
(5) Member of the Compensation, Nominating and Corporate Governance Committee

MIX
Paper from
responsible sources
FSC® C103348
FSC
www.fsc.org